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To
Shri M. Ajit Kumar, IRS
Chairman
Central Board of Indirect Taxes and Customs

Subject: Request for inclusion of services of cost accountants in Desk Review system of GST Audit

Respected Sir,

Greetings from The Institute of Cost Accountants of India, Tax Research Department....

The Institute of Cost Accountants of India is a Statutory Body set up under an Act of Parliament in the year 1959 and is headquartered in Kolkata. The Institute has an extensive reach all across the country comprising of, 4 Regional Councils, 106 Chapters, 10 Overseas Centres, 4 Centre of Excellence and many more ROCCs extension Centres and Support Centres and is a Founder Member of IFAC, CAPA and SAFA.

The Institute has been putting in sustained efforts to support the Government in smooth implementation of GST by providing suggestions, creating awareness and dispersing the knowledge about GST among various stakeholders through the conduct of Courses, Webinars, Corporate Trainings, Seminars, publication of Tax Bulletins and handbooks on various Topics of Taxation, both Direct and Indirect, among many others since the implementation of GST.

With reference to the Representation Letter *Suggestions on "GST Audit Manual 2019" from The Institute of Cost Accountants of India* (TRD/20-21/GAM-1 dated 10.06.2020) we are submitting another representation for utilizing the analytical efficiency of CMAs in various spheres of Desk Review (**Annexure is attached**)

We would be highly obliged if an opportunity would be given to be a part of Desk Review Team of CBIC

We look forward to a favorable response. We shall be glad to provide input and support in Desk Review as may be required and your office may reach us at trd@icmai.in

Thank you.

Yours Sincerely,

CMA Niranjan Mishra
Chairman- Indirect Taxation Committee
The Institute of Cost Accountants of India

Subject: Inclusion of services of cost accountants in desk review system of GST Audit

Section 65 of the CGST Act has empowered the department officials to conduct the audit of any registered person. Central Board of Indirect Taxes and Customs has published Goods and Services Tax Manual 2019 (GSTAM 2019) wherein the detailed procedure of audit including audit plan, audit working papers, various annexure including documents required for desk review are given.

Desk review procedure is the very basic criteria for conducting audit under Goods & Services Tax by the department officials. The desk review performed by the department with an object of accumulating data about the registered person, his operations, nature of supply of goods & services, business practices and an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation after GST Audit under section 35(5) to determine any speculative or inconclusive or suspicious areas which may result revenue loss of Govt.

Gathering of information about assessee and properly analyzing those information will reduce duration of field visit in Assessee's Office and social distancing can be maintained to prevent from COVID 19.

In order to carry out the effective analysis of the business operations of auditees' including evaluation of its internal control system on various activities ranging from procurement of goods and services to distribution channel, following information shall be collected from assessee-

- a. Trial Balance;**
- b. Bank Statement;**
- c. Export Import Documents;**
- d. Work Orders;**
- e. TDS Certificates issued by customers;**
- f. Cost and Financial Records;**
- g. Annual Audit Report with Notes to Account and Board Report;**
- h. Cost Audit Report;**
- i. Tax Audit Report;**
- j. Voucher of substantial amount of transaction;**
- k. Any other relevant documents, as the case may be.**

The Government may take the assistance of the Cost Accountants (CMA) or engage Cost Accountants (CMA) to carry out the analysis of the above documents at desk review stage. Further, detailed information about day to day business operation as well as overall picture of business can be traced out on evaluation of the above documents and if there is any doubtful case, that might be scrutinized in detailed. Proper compliance of accounting rules and tax rules shall also be verified from the above documents. CMAs are well versed with accounts and taxation laws including the cost management also.

CBIC may take help of CMAs to analysis the availment of input tax credit and other major issues in desk review process which are as follows:

- **Documents related to Input Tax Credit, Exempted and Zero rated supply**

In most of the cases the possibility of revenue leakage arises through mis-utilisation of input tax credit, non compliance of provision in case of zero rated and exempted supply. In addition with the above the proportionate reversal of input tax credit is required where the taxable person is dealing with both supply of taxable and exempted goods or services. Proper scrutiny of the foreign purchase order and corresponding foreign payment shall also be verified from books and relevant ledgers of the registered person. Verification of all export related documents like shipping bill/ bill of export, bill of lading, certificate of origin, RCMC certificates is necessary to determine the genuineness of the foreign transaction. CMA shall provide the valuable services to the Government in these areas also

GST ITC 01-If the ITC claim is more than INR 2 lakh, then **certificate of CMA/CA** must be uploaded

GST ITC 02 - the transferor entity must submit and upload a copy of certificate issued by CMA/CA, certifying that sale / merger / amalgamation / lease or transfer of business has been done with specific provision for the transfer of liabilities.

So CMAs may play an active role to GST officials in desk review using their practical exposure.

- **Cost Audit Report**

Proper analysis of cost audit will help to understand the value of transaction with related parties which is one of the important parts in GST valuation. Further, the cost of goods or services supplied to customer can also be verified from cost audit report to determine the proper valuation of supply made. Proper HSN code of the goods supplied can also be verified from cost audit report as the preparation of cost audit is based on the product and its HSN code.

- **Stock Audit Report**

Stock Valuation is also a necessary part of GST Audit. There is also possibility of revenue leakage by doing improper stock valuation.

In GSTR 10 CMA can certify in case of Inputs held in stock or inputs as contained in semi-finished /finished goods held in stock (where invoice is not available) as well as CMAs are also authorized for Stock Audit.

- **Ratio Analysis**

Business Trend of assessee can be determined through utilizing various formulas of ratio analysis from various reports like cost audit report. Trend analysis will help CBIC to scrutinize ambiguous matters in business transaction. Financial and other ratios are also a part of the cost audit report.

CMAs are well expert in analytical factors like working capital analysis, Consumption analysis, Standard costing, Budget, profitability analysis etc. which help in business growth and sustainability.

- **Any Litigation or Notices issued to Assessee**

Creditability of assessee can be determined through litigation history of assessee.

Section 116: *Cost Accountants are recognized as Authorized Representative to appear before an officer appointed under the Act, or the Appellate Authority or the Appellate Tribunal in connection with any proceedings under the Act. So CMAs can assist to CBIC in the mentioned topic.*

- **Internal Control System**

The company having proper internal control system can be believed that there is proper compliance of Accounting and Taxation Laws. So CBIC should check during Desk Review whether there is proper internal control system exists or not.

CMAs play an effective role as Internal Auditor. CMAs' are also authorized for internal audit under the companies act, 2013. Therefore CBIC may utilize efficiency of CMAs in checking Internal Control System of assessee(s).

CMAs are good planner. For financial growth of business in competitive market, time to time strategy making is necessary and in this era CMAs play a crucial role using their dynamic managerial capability. So in Desk Review, CMAs can also be a good assistant to CBIC and can guide to Govt. Officials which documents are necessary to scrutiny and review properly before field visit according to nature of business which in result will prevent revenue leakage of Govt.