



GARV & AFFILIATES



GST Audit by Department: Are you prepared?

India has completed 3 years of GST regime. GST has been one of the landmark tax reforms in the country and though it has stabilized to a large extent, the business entities are still grappling with some issues and compliances required to be carried out.

It has been quite a time since GST was introduced and in recent times we have seen issue of notices by tax authorities for past periods including notices for conduct of GST Audit.



Business entities are set to face their first ever audit by tax authorities. The GST authorities have begun issuing notices for their audit exercise, which involves detailed scrutiny of the accounts and records for the period July 2017 to March 2018.

Since it was the first year of GST implementation, there could be some areas of non-compliance or lapse due to the ignorance of the newly introduced law. This write up covers the basic framework and process of GST Audit by Tax Authorities.

IN THIS ISSUE

- Types of GST Audit
- Audit by Tax Authorities
- Audit Process
- Special Audit

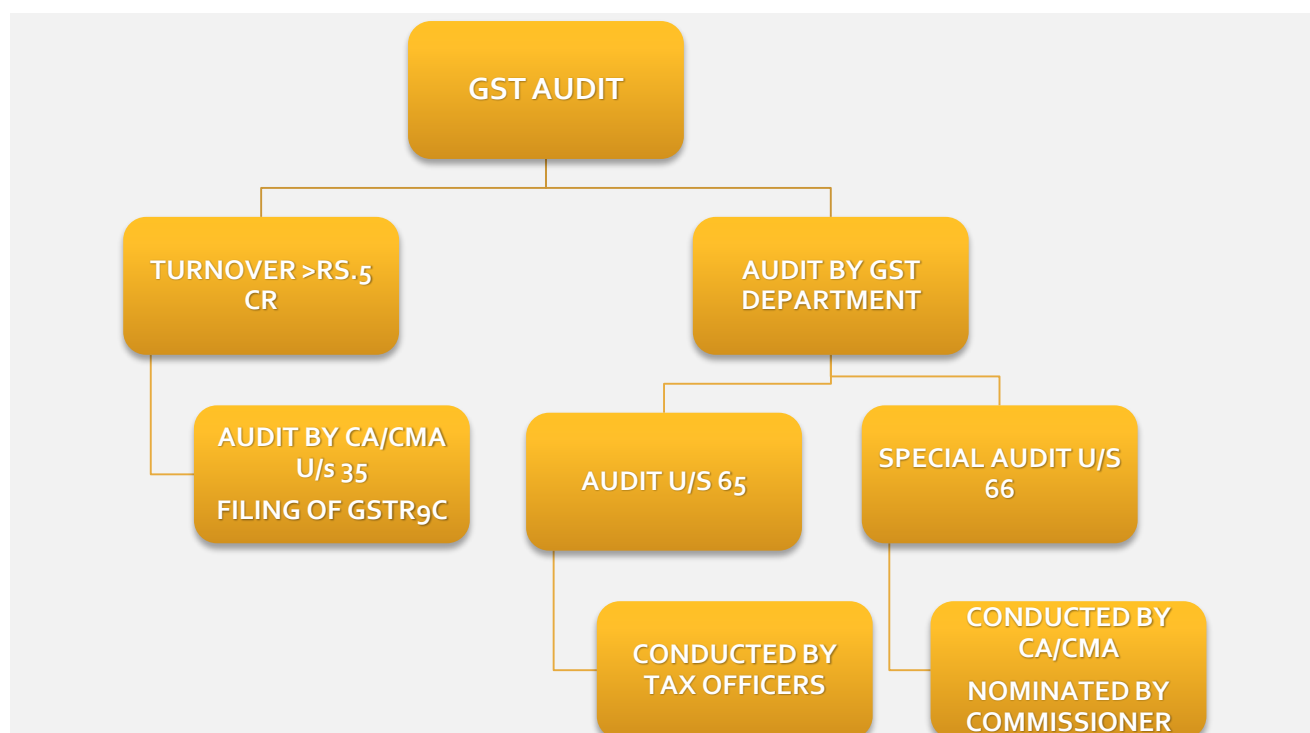
FOR MORE INFORMATION

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GST Audit

Section 2(13) of the CGST Act, 2017 (hereinafter referred to as the 'Act') defines "Audit" as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the rules made thereunder

There are **different categories of GST Audit under the Act** – Audit required to be done by the registered person u/s 35, Audit by Tax authorities u/s section 65 and Special audit u/s 66 of the Act. In this newsletter, we will discuss about the Audits undertaken by GST department.



Audit by Tax Authorities u/s 65

Notice for Audit

The Commissioner or any authorised officer may issue notice for audit.

15 days' prior notice is required to be given in Form GST ADT-01, to the registered person before commencing the GST audit. The notice contains the period of audit, date of visit by officers, documents required to be submitted for initial desk review and seeking the information about designated person for co-ordination with the department on behalf of the registered person.

Period covered under audit

The period of audit can be a financial year or part or multiples thereof.

Time limit of completion

The audit is required to be completed within a period of **3 months from the date of commencement** of the audit, which may be extended by the Commissioner for further period of 6 months.

Verification of Books of Accounts, Records and Documents

The authorised officer shall conduct audit of the books of account, records and verify the documents on the basis of which the books of account are maintained, carry out reconciliation with the filed returns and statements, verify turnover, exemptions and deductions claimed, tax rates, input tax credit availed and utilised, refund claimed, other relevant issues and record the observations in his audit notes.

Illustrative List of Records and Documents that may be examined

It is imperative to note that as per GST law following important accounts and records are required to be maintained. Such records are required to be maintained for a period of 72 months from due date of furnishing Annual Return GSTR-9 for the relevant financial year

- Complete Books of accounts
- Tax Invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.
- Stock Register reflecting opening balance, receipt, supply, and goods lost, stolen, destroyed, and the closing balance
- Production records including break up of raw materials, finished goods, scrap and wastage.
- Detail of Advances received, paid and adjusted.
- Names and complete addresses of the Suppliers and Customers
- Records pertaining to Input tax credit availed and utilised
- In case of electronic records, log of all entries modified or deleted

- Apart from the above, the verification of following documents may be carried out and reconciled with the GST returns and statements filed for the relevant period (as applicable)
 - Audited financial statements including directors' and audit report
 - Trial Balance
 - Tax and Cost Audit Report
 - Income Tax Return
 - Form 26AS
 - Fixed Asset Register
 - Job Work Register
 - E-way bill details
 - Any other relevant information as required by the law.

Conclusion of Audit

The officer shall inform the discrepancies noticed, if any, and require the registered person to file his reply. The officer shall inform about his final observations and findings with reasons, to the registered person in Form GST ADT-02 within 30 days from conclusion of audit.

Show Cause Notice and Limitation Period: Section 73 and Section 74

In case of any detection of non/short payment of taxes, erroneous refunds, wrong availment or utilisation of input tax credit, or any other non-compliance, communicated to the registered person and not accepted by him, the officer may initiate action under section 73 or 74 of the Act.

As per section 73 of the Act the time period to issue show cause notice is 3 years from the due date for furnishing of annual return (GSTR-9) for the relevant financial year. However in case of fraud, wilful-misstatement or suppression of facts the aforesaid time limit to issue notice extends to 5 years as per section 74 of CGST Act, 2017.

Risk Parameter for Selection of audit

Some of the important risk parameters that could be considered during selection of audit by Audit Commissionerate are as under:-

- Size of the Taxpayer's refund;
- Size of the Taxpayer's turnover / net profit
- Size of Exemptions
- Change in the Taxpayer's turnover/net profit from the previous year;
- Financial ratio analysis and major variations
- Multitude of the Taxpayer's legal relationships with other entities;
- Higher incidence of supplies without issuance of e-way Bills.
- Taxpayer who does not file periodical return but issues e-way bill regularly.
- Taxpayer has multiple branches or activities.
- Taxpayer who has requested waivers or is bankrupt
- Taxpayer who has not been audited in the pre-GST era for a long period such as 4 – 5 years
- Taxpayer categorized as High Risk
- Taxpayer's return was previously investigated for evasion
- Specific information received from other Government authorities like Income Tax, ROC, RBI, etc.

Basic Process Flow of Audit



Special Audit u/s 66

Any officer not below the rank of Assistant Commissioner may initiate the special audit, considering the nature and complexity of the case and interest of revenue, if he is of the opinion during any stage of **scrutiny/ inquiry/investigation** that the value has not been correctly declared or the wrong credit has been availed.

A special audit can be conducted even if registered person's books has been audited under GST law or any other law.

The Assistant Commissioner, with the prior approval of the Commissioner (in writing) can issue notice for special audit. The special audit will be carried out by a Chartered Accountant or a Cost Accountant nominated by the Commissioner.

Notice for Audit

Officer shall issue direction in **Form GST ADT-03** to the registered person to get his records audited.

Time limit of completion

CA/CMA nominated by Commissioner shall submit their audit report to the Assistant Commissioner within 90 days, which may be extended further by 90 days.

Conclusion of Audit

The officer shall inform the findings of the audit to the registered person in **Form GST ADT-04**.

Show Cause Notice

In case of any detection of non/short payment of taxes, erroneous refunds, wrong availment or utilisation of input tax credit, or any other non-compliance, communicated to the registered person and not accepted by him, the officer may initiate action under section 73 or 74 of the Act.

Concluding Remarks

Considering the detailed verification that can be conducted by the tax authorities, it is imperative that one remains GST compliant by filing timely and correct GST returns and statements, ensuring reconciled details are submitted across all the government departments, and maintain all relevant records, registers, invoices and other documents.

Apart from the above, it is essential that the registered person must act vigilantly and reply in time to the notices and communications received from tax authorities and ensure that the relevant information and documents required by them during the course of GST Audit is provided on time.

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