



2020

PUNJAB AUDIT MANUAL

**PUNJAB GOODS AND
SERVICES TAX ACT, 2017**

DEPARTMENT OF EXCISE AND TAXATION, PUNJAB

PREFACE

The perspective of modern-day tax administration has transformed substantially with the advent of self-assessment. The role of tax authorities is now more focused on post-event audit and less on primary assessment functions. This role will further deepen in the GST regime, making Audit the keystone of Indirect tax compliance monitoring mechanism, with assessment and inspection as its key pillars. GST law seeks to make a paradigm shift in the way tax administration functions by placing trust in the taxpayer for self-compliance, coupled with a strong audit mechanism to ensure compliance. This requires a stark change in the attitude of the tax authorities from one of suspicion, to that of trust.

The highlight of the audit provision is the emphasis on transparency and the manner in which audit is to be conducted by the tax authority. It is said that, “Not only the justice should be done but also seen to be done”. The same perceptive factor applies to the function of the audit as it is important that the audit is conducted in a transparent and equitable manner within a well-defined time period. The essence of timeline for the carrying out of audit gives an insight into the thinking of the Department which is to instill a sense of discipline among the officers and also have an objective time frame for the activities of the taxpayer to be verified.

Guidelines provided herein are intended to ensure that the audit of taxpayers is carried out in a professional, efficient and comprehensive manner while adhering to the stipulated principles and policies and as per best international practices.

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CHAPTER 1 GST AUDIT- BASIC OVERVIEW

1.1 The objective of this manual is to outline the principles and procedures for audit conducted under the Punjab Goods and Services Tax Act, 2017 (hereinafter referred to as, “**PGST Act, 2017**”) and the Rules made there under. In this document registered person selected for audit is referred to as an “**Auditee**”.

1.2 Provisions of PGST Act, 2017 for Audit:

Clause (13) of Section 2 of the PGST Act, 2017, defines ‘Audit’ as “*the examination of records, returns and other documents maintained or furnished by the registered person under this Act or Rules made there under or under any other law for the time being in force to verify, inter alia, 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 rules made there under*”.

Accordingly, ‘Audit’ implies –

- (a) Detailed examination of-
 - (i) records;
 - (ii) returns; and
 - (iii) other documents- maintained / furnished by an auditee, under GST law/any other law or rules;
- (b) For verification of correctness of-
 - (i) Turnover declared;
 - (ii) Taxes paid;
 - (iii) Refund claimed;
 - (iv) Input tax credit availed; and
 - (v) Assessment of compliances with provisions of GST law and rules.

Thus, GST audit is not only for reconciliation of tax liability and payment thereof but also encompasses the verification of compliance of the provisions of the GST Act and rules there under by an auditee.

1.3 Relevant Statutory Provisions:

A) General Audit: Audit by tax authorities (Sec. 65 of PGST Act, 2017)

- 1) The Commissioner or any officer authorized by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed.*
- 2) The officers referred to in sub-section (1) may conduct audit at the place of business of the registered person or in their office.*
- 3) The registered person shall be informed by way of a notice not less than fifteen working days prior to the conduct of audit in such manner as may be prescribed.*
- 4) The audit under sub-section (1) shall be completed within a period of three months*

from the date of commencement of the audit:

Provided that where the Commissioner is satisfied that audit in respect of such registered person cannot be completed within three months, he may, for the reasons to be recorded in writing, extend the period by a further period not exceeding six months.

Explanation. – For the purposes of this sub-Section, the expression commencement of audit' shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later.

- 5) During the course of audit, the authorized officer may require the registered person, —
 - (i) to afford him the necessary facility to verify the books of account or other documents as he may require;*
 - (ii) to furnish such information as he may require and render assistance for timely completion of the audit.**
- 6) On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings.*
- 7) Where the audit conducted under sub-section (1) results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilized, the proper officer may initiate action under section 73 or section 74.*

B) Section 66 - Special audit

- (1) If at any stage of scrutiny, inquiry, investigation or any other proceedings before him, any officer not below the rank of Assistant Commissioner, having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal limits, he may, with the prior approval of the Commissioner, direct such registered person by a communication in writing to get his records including books of account examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.*
- (2) The chartered accountant or cost accountant so nominated shall, within the period of ninety days, submit a report of such audit duly signed and certified by him to the said Assistant Commissioner mentioning therein such other particulars as may be specified:*

Provided that the Assistant Commissioner may, on an application made to him in this behalf by the registered person or the chartered accountant or cost accountant or for any material and sufficient reason, extend the said period by a further period of ninety days.

- (3) *The provisions of sub-section (1) shall have effect notwithstanding that the accounts of the registered person have been audited under any other provisions of this Act or any other law for the time being in force.*
- (4) *The registered person shall be given an opportunity of being heard in respect of any material gathered on the basis of special audit under sub-section (1) which is proposed to be used in any proceedings against him under this Act or the rules made thereunder.*
- (5) *The expenses of the examination and audit of records under sub-section (1), including the remuneration of such chartered accountant or cost accountant, shall be determined and paid by the Commissioner and such determination shall be final.*
- (6) *Where the special audit conducted under sub-section (1) results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised, the proper officer may initiate action under section 73 or section 74.*

C) Section 35 - Accounts and other records

- (1) *Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—*
 - (a) *production or manufacture of goods;*
 - (b) *inward and outward supply of goods or services or both;*
 - (c) *stock of goods;*
 - (d) *input tax credit availed;*
 - (e) *output tax payable and paid; and*
 - (f) *such other particulars as may be prescribed:*
 - Provided that where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business:*
 - Provided further that the registered person may keep and maintain such accounts and other particulars in electronic form in such manner as may be prescribed.*
- (2) *Every owner or operator of warehouse or godown or any other place used for storage of goods and every transporter, irrespective of whether he is a registered person or not, shall maintain records of the consigner, consignee and other relevant details of the goods in such manner as may be prescribed.*
- (3) *The Commissioner may notify a class of taxable persons to maintain additional accounts or documents for such purpose as may be specified therein.*
- (4) *Where the Commissioner considers that any class of taxable person is not in a*

position to keep and maintain accounts in accordance with the provisions of this section, he may, for reasons to be recorded in writing, permit such class of taxable persons to maintain accounts in such manner as may be prescribed.

- (5) *Every registered person whose turnover during a financial year exceeds the prescribed limit shall get his accounts audited by a chartered accountant or a cost accountant and shall submit a copy of the audited annual accounts, the reconciliation statement under sub-section (2) of section 44 and such other documents in such form and manner as may be prescribed.*

Provided that nothing contained in this sub-section shall apply to any department of the Central Government or a State Government or a local authority, whose books of account are subject to audit by the Comptroller and Auditor-General of India or an auditor appointed for auditing the accounts of local authorities under any law for the time being in force.

- (6) *Subject to the provisions of clause (h) of sub-section (5) of section 17, where the registered person fails to account for the goods or services or both in accordance with the provisions of sub-section (1), the proper officer shall determine the amount of tax payable on the goods or services or both that are not accounted for, as if such goods or services or both had been supplied by such person and the provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of such tax.*

D) Section 36 - Period of retention of accounts

Every registered person required to keep and maintain books of account or other records in accordance with the provisions of sub-section (1) of section 35 shall retain them until the expiry of seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records:

Provided that a registered person, who is a party to an appeal or revision or any other proceedings before any Appellate Authority or Revisional Authority or Appellate Tribunal or court, whether filed by him or by the Commissioner, or is under investigation for an offence under Chapter XIX, shall retain the books of account and other records pertaining to the subject matter of such appeal or revision or proceedings or investigation for a period of one year after final disposal of such appeal or revision or proceedings or investigation, or for the period specified above, whichever is later.

1.4 Rules prescribed for Audit:

A) Rule 101 of PGST Rules, 2017:

- 1) The period of audit to be conducted under sub-section (1) of section 65 shall be a financial year or part thereof or multiples thereof.*
- 2) Where it is decided to undertake the audit of a registered person in accordance*

*with the provisions of section 65, the proper officer shall issue a notice in **FORM GST ADT-01** in accordance with the provisions of sub- section (3) of the said section.*

- 3) The proper officer authorized to conduct audit of the records and the books of account of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify the documents on the basis of which the books of account are maintained and the returns and statements furnished under the provisions of the Act and the rules made thereunder, the correctness of the turnover, exemptions and deductions claimed, the rate of tax applied in respect of the supply of goods or services or both ,the input tax credit availed and utilized, refund claimed, and other relevant issues and record the observations in his audit notes.*
- 4) The proper officer may inform the registered person of the discrepancies noticed, if any, as observed in the audit and the said person may file his reply and the proper officer shall finalize the findings of the audit after due consideration of the reply furnished.*
- 5) On conclusion of the audit, the proper officer shall inform the findings of audit to the registered person in accordance with the provisions of sub- section (6) of section 65 in **FORM GST ADT- 02**.*

B) Rule 56 of PGST Rules, 2017: Maintenance of accounts by registered persons-

- (1) Every registered person shall keep and maintain, in addition to the particulars mentioned in sub-section (1) of section 35, a true and correct account of the goods or services imported or exported or of supply attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.*
- (2) Every registered person, other than a person paying tax under section 10, shall maintain the accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.*
- (3) Every registered person shall keep and maintain a separate account of advances received, paid and adjustments made thereto.*
- (4) Every registered person, other than a person paying tax under section 10, shall keep and maintain an account, containing the details of tax payable (including tax payable in accordance with the provisions of sub-section (3) and sub-section (4) of section 9), tax collected and paid, input tax, input tax credit claimed, together with*

a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

- (5) Every registered person shall keep the particulars of -
- a) names and complete addresses of suppliers from whom he has received the goods or services chargeable to tax under the Act;*
 - b) names and complete addresses of the persons to whom he has supplied goods or services, where required under the provisions of this Chapter;*
 - c) the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein.*
- (6) *If any taxable goods are found to be stored at any place(s) other than those declared under sub-rule (5) without the cover of any valid documents, the proper officer shall determine the amount of tax payable on such goods as if such goods have been supplied by the registered person.*
- (7) *Every registered person shall keep the books of account at the principal place of business and books of account relating to additional place of business mentioned in his certificate of registration and such books of account shall include any electronic form of data stored on any electronic device.*
- (8) *Any entry in registers, accounts and documents shall not be erased, effaced or overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter the correct entry shall be recorded and where the registers and other documents are maintained electronically, a log of every entry edited or deleted shall be maintained.*
- (9) *Each volume of books of account maintained manually by the registered person shall be serially numbered.*
- (10) *Unless proved otherwise, if any documents, registers, or any books of account belonging to a registered person are found at any premises other than those mentioned in the certificate of registration, they shall be presumed to be maintained by the said registered person.*
- (11) *Every agent referred to in clause (5) of section 2 shall maintain accounts depicting the,-*
- (a) particulars of authorisation received by him from each principal to receive or supply goods or services on behalf of such principal separately;*
 - (b) particulars including description, value and quantity (wherever applicable) of goods or services received on behalf of every principal;*
 - (c) particulars including description, value and quantity (wherever applicable) of goods or services supplied on behalf of every principal;*
 - (d) details of accounts furnished to every principal; and*
 - (e) tax paid on receipts or on supply of goods or services effected on behalf of every principal.*

- (12) *Every registered person manufacturing goods shall maintain monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.*
- (13) *Every registered person supplying services shall maintain the accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.*
- (14) *Every registered person executing works contract shall keep separate accounts for works contract showing -*
- (a) the names and addresses of the persons on whose behalf the works contract is executed;*
 - (b) description, value and quantity (wherever applicable) of goods or services received for the execution of works contract;*
 - (c) description, value and quantity (wherever applicable) of goods or services utilized in the execution of works contract;*
 - (d) the details of payment received in respect of each works contract; and*
 - (e) the names and addresses of suppliers from whom he received goods or services.*
- (15) *The records under the provisions of this Chapter may be maintained in electronic form and the record so maintained shall be authenticated by means of a digital signature.*
- (16) *Accounts maintained by the registered person together with all the invoices, bills of supply, credit and debit notes, and delivery challans relating to stocks, deliveries, inward supply and outward supply shall be preserved for the period as provided in section 36 and shall, where such accounts and documents are maintained manually, be kept at every related place of business mentioned in the certificate of registration and shall be accessible at every related place of business where such accounts and documents are maintained digitally.*
- (17) *Any person having custody over the goods in the capacity of a carrier or a clearing and forwarding agent for delivery or dispatch thereof to a recipient on behalf of any registered person shall maintain true and correct records in respect of such goods handled by him on behalf of such registered person and shall produce the details thereof as and when required by the proper officer.*
- (18) *Every registered person shall, on demand, produce the books of accounts which he is required to maintain under any law for the time being in force.*

C) Rule 57 of PGST Rules, 2017: Generation and maintenance of electronic records-

- (1) *Proper electronic back-up of records shall be maintained and preserved in such manner that, in the event of destruction of such records due to accidents or natural*

causes, the information can be restored within a reasonable period of time.

(2) The registered person maintaining electronic records shall produce, on demand, the relevant records or documents, duly authenticated by him, in hard copy or in any electronically readable format.

(3) Where the accounts and records are stored electronically by any registered person, he shall, on demand, provide the details of such files, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stored in such files.

D) Rule 58 of PGST Rules, 2017: Records to be maintained by owner or operator of godown or warehouse and transporters-

(1) Every person required to maintain records and accounts in accordance with the provisions of sub-section (2) of section 35, if not already registered under the Act, shall submit the details regarding his business electronically on the common portal in FORM GST ENR-01, either directly or through a Facilitation Centre notified by the Commissioner and, upon validation of the details furnished, a unique enrolment number shall be generated and communicated to the said person.

(1A) For the purposes of Chapter XVI of these rules, a transporter who is registered in more than one State or Union Territory having the same Permanent Account Number, he may apply for a unique common enrolment number by submitting the details in FORM GST ENR-02 using any one of his Goods and Services Tax Identification Numbers, and upon validation of the details furnished, a unique common enrolment number shall be generated and communicated to the said transporter:

Provided that where the said transporter has obtained a unique common enrolment number, he shall not be eligible to use any of the Goods and Services Tax Identification Numbers for the purposes of the said Chapter XVI.

(2) The person enrolled under sub-rule (1) as aforesaid in any other State or Union territory shall be deemed to be enrolled in the State or Union territory.

(3) Every person who is enrolled under sub-rule (1) shall, where required, amend the details furnished in FORM GST ENR-01 electronically on the common portal either directly or through a Facilitation Centre notified by the Commissioner.

(4) Subject to the provisions of rule 56,-

(a) any person engaged in the business of transporting goods shall maintain records of goods transported, delivered and goods stored in transit by him along with the Goods and Services Tax Identification Number of the registered consigner and consignee for each of his branches.

(b) every owner or operator of a warehouse or godown shall maintain books of accounts with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt and

disposal of such goods.

(5) The owner or the operator of the godown shall store the goods in such manner that they can be identified item-wise and owner-wise and shall facilitate any physical verification or inspection by the proper officer on demand.

E) Rule 102. Special Audit. -

*(1) Where special audit is required to be conducted in accordance with the provisions of section 66, the officer referred to in the said section shall issue a direction in **FORM GSTADT-03** to the registered person to get his records audited by a chartered accountant or a cost accountant specified in the said direction.*

*(2) On conclusion of the special audit, the registered person shall be informed of the findings of the special audit in **FORM GST ADT-04**.*

1.5 GST AUDIT

1.5.1 The statutory power to the GST officers for carrying out the function of audit has been laid down in Section 65 of the PGST Act, 2017. The power is to be exercised by the Commissioner or any officer authorized by him and is to audit the business transactions of any registered person over a particular period. The function of audit can be carried out at the business premises of the auditee or at the office of tax authority. Intimation to the registered person, not less than 15 days prior to the conduct of the audit is mandated. This is significant as this will enable the taxpayer to be prepared for the tax audit and will also help the tax authority to take prior informed decisions.

1.5.2 Further, it has been provided that the audit has to be carried out within a period of **three months** from the “**commencement of audit**” which can be extended by the Commissioner, by a further period not exceeding **six months**, for the reasons to be recorded in writing. The crucial question here is that when this time period is going to start from. When we can say that the audit has started and it has to be completed within a defined time frame? To answer this question an explanation has been provided in the section which states that “**commencement of audit**” shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later. The essence of timeline for the carrying out of audit is to instill a sense of discipline among the tax authorities and to provide an objective time frame for the activities of the taxpayer to be verified.

1.5.3 In order to enable and facilitate the effective discharge of audit function by tax authorities it has been laid down that they can seek necessary facility from the auditee for verifying his books of account or other documents as well ask him to furnish such information as may be required and also render such assistance as maybe essential for the timely completion of the audit. As for the obligations of the tax authorities it has been provided that on conclusion of audit, the proper officer shall without delay inform the auditee, whose records are audited, of the findings, his rights and obligations and the reasons for the findings. If the audit results in detection of tax not paid or short paid or erroneously

refunded, or input tax credit erroneously availed, the proper officer may initiate action under section 73 or section 74, as the case may be.

1.5.4 It goes without saying that the powers of the officers are corollary with the obligation of the taxpayer to assist the tax authorities in the conduct of the audit. It is important to mention here that the function of audit is primarily based upon the accounts and records maintained by the taxpayer and the returns furnished under the Act. Elaborate provisions have been laid down in the PGST Act read with rules thereunder for the maintenance of accounts and records by the taxpayer.

TABLE 1: RELEVANT PROVISIONS OF ACT FACILITATING CONDUCT OF AUDIT

| SR. NO. | PROVISION | PARTICULARS |
|----------------|--|--|
| 1. | Assessment | <p>As per clause (11) of section 2 of the PGST Act, 2017, “assessment” means determination of tax liability under this Act and includes:</p> <ul style="list-style-type: none"> ➤ Self-assessment; ➤ Re-assessment; ➤ Provisional assessment; ➤ Summary assessment; and ➤ Best judgment assessment. <p>Thus, assessment is the process of determination of tax liability of a tax payer. Self-assessment is to be undertaken by the assessee before the audit comes into picture.</p> |
| 2. | Requirement for Invoice | <p>Sub-section (1) and (2) of Section 31 of the PGST Act, 2017 lays down the requirements and conditions related to issuance of tax invoice for supply of taxable goods or services. Clause(c) of sub-section (3) of Section 31 specifies that for the supply of exempted goods or services by a registered person or for supply of goods or specified service by a registered person paying tax under Section 10 (Composition), a bill of supply shall be issued instead of a tax invoice.</p> |
| 3. | Requirement for maintenance of books of account and records | <p>Section 35 of the PGST Act, 2017 specifies the requirements for maintenance of accounts and records of business. Sub-section(6) of said section empowers the proper officer to determine amount of tax payable on the goods or services or both that are not accounted for, as if such goods or services or both had been supplied by such person in accordance with provisions of section 73 or section 74. Further, the said section enables the taxpayer to keep or maintain or retain the records in electronic form.</p> |

| | | |
|----|--|--|
| 4. | Power for Determination/Adjudication of Tax | <p>Section 73 empowers that the proper officer to determine the tax not paid or short paid or erroneously refunded or ITC wrongly availed or utilized for any reason other than fraud or any willful mis-statement or suppression of facts. The officer is required to issue a SCN specifying the amount of tax payable along with the interest thereon under section 50 and a penalty leviable as per the provisions of PGST/CGST/IGST Act(s).</p> <p>Section 74 empowers the proper officer to determine the tax not paid or short paid or erroneously refunded or ITC wrongly availed or utilized by the reasons of fraud or any willful mis-statement or suppression of facts. The officer will issue a SCN specifying the amount of tax payable along with the interest thereon under section 50 and a penalty equivalent to tax specified in the notice.</p> |
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1.6 Types of audit under GST

Under GST Act, the following two types of audit has been envisaged:

1.6.1 Audit by tax authorities: Section 65 of PGST Act, 2017 lays down detailed provisions regarding GST audit to be conducted by the Tax authorities. This audit is exclusively done as per the orders of the Commissioner in terms of the provisions stated below-

TABLE 2: PROVISIONS OF SECTION 65 OF PGST ACT, 2017

| SECTION | PROVISION | DESCRIPTION |
|-----------|---------------------------|---|
| Sec 65(1) | Audit by Tax Authorities | <ul style="list-style-type: none">• Commissioner, or• any officer authorized by him |
| Sec 65(2) | Place of Conduct of Audit | <ul style="list-style-type: none">• At the place of business of the registered person or in the office of tax authority. |
| Sec 65(3) | Intimation | <ul style="list-style-type: none">• by way of a notice not less than fifteen working days prior to the conduct of audit |
| Sec 65(4) | Period of Completion | <ul style="list-style-type: none">• within a period of three months from the date of commencement of the audit. |
| | Extension of time | <ul style="list-style-type: none">• Reasons for extension— Completion in 3 months not possible as per satisfaction of Commissioner• Period of Extension— Further period not exceeding six months |
| Sec 65(5) | Obligation of Auditee | Facilities to be provided to the auditor by the taxpayer <ul style="list-style-type: none">• for verifying the books/ documents• furnishing information as required• rendering assistance for timely completion of audit |
| Sec 65(6) | Audit Report | <ul style="list-style-type: none">• Within 30 days of the conclusion of audit (finalisation of Final Audit Report)• Information about— findings, rights, obligations and reasons for such findings• Conclusion/culmination of audit |
| Sec 65(7) | Consequences | <ul style="list-style-type: none">• Results based: Where the audit conducted results in detection of:<ul style="list-style-type: none">• tax not paid or• tax short paid or• erroneously refunded, or• ITC wrongly availed or utilized, <p>the proper officer may initiate action under Section 73 or 74 of the PGST Act,2017.</p> |

1.6.2 Special Audit: Special audit is tax audit where tax administration directs the auditee to get the records, including books of accounts, examined and audited by a nominated Chartered Accountant (hereinafter referred to as, “CA”) or Cost Accountant. As per Section 66 of the PGST Act, 2017 such a power can be exercised during any stage of scrutiny, enquiry, investigation, where an officer not below the rank of Assistant Commissioner, having regard to the nature and complexity of the case and the interest of revenue, feels that the value has not been correctly declared or the input tax credit (hereinafter referred to as, “ITC”) availed is not within the normal limits, he may, with the prior approval of the Commissioner, ask the taxpayer to get his accounts audited by a CA or a cost accountant as may be nominated by the Commissioner. This power of special audit is over and above the power of audit with the tax authority and is to take care of special contingencies and circumstances where the tax authorities feel constrained in carrying out thorough audit of a particular taxpayer either due to the complexity or nature of the activity being carried out by that particular taxpayer. This special audit has to be carried out within a period of 90 days which can be extended by further period of 90 days. The audit report submitted by the auditor will serve as a relevant material for any proceeding under this Act, provided that the auditee has been given an opportunity of being heard on this matter. The expense for the carrying out of the special audit including the remuneration of the auditor will be paid by the tax authority. If the conduct of special audit results in detection of tax not paid or short paid or erroneously refunded, or input tax credit erroneously availed, the proper officer may initiate action under section 73 or section 74, as the case may be.

1.6.2 To order a special audit, the proper officer must ensure-

- a) that a scrutiny/investigation/inquiry or any proceeding is being carried out;
- b) he is of the opinion that:
 - value declared by the auditee has not been correctly declared; or
 - the input tax credit availed is not within normal limits.
- c) prior approval of Commissioner has been obtained.

1.7 Coverage and scope of audit u/s 65 of PGST Act 2017;

1.7.1 Coverage:

- a) The Act empowers the officers to conduct audit only of registered persons. Un-registered persons cannot be subjected to audit under Section 65 of PGST Act, 2017. As per clause (94) of section 2 of the PGST Act, 2017, a registered person is defined as *“a person who is registered under section 25 but does not include a person having unique identity number”*. Thus, a registered person is the one who has obtained registration under section 25 of the PGST Act, 2017. On referring section 22 and 24 of PGST Act, 2017, a list of persons who are required to be registered under the Act, either on the basis of their turnover or those who must obtain registration irrespective of their turnover, can be identified. A person otherwise liable to be registered, if anyway remains unregistered is not a registered person and therefore cannot be subjected to audit. However, a person, who has been granted registration by proper officer under sub-section (8) of section 25 shall be registered person and can be subjected to audit

provisions.

- b) By virtue of cross empowerment of PGST and CGST officers (under Section 6 of respective Acts), any audit undertaken and assigned to Officer of State Tax (PGST) will cover the audit for PGST, CGST, IGST and Compensation Cess Act. It is important to mention that Section 20 of the IGST Act, 2017 (IGST) adopts the provisions relating to audit in the CGST Act, 2017.
- c) The period of audit to be conducted under sub section (1) of section 65 shall be a financial year or multiple year or part thereof (Sub-rule 1 of Rule 101). However, an audit of tax period for which demand under Section 73 or 74 becomes barred by time should not be undertaken.

1.7.2 Scope:

The scope of tax audit under PGST Act, 2017 covers -

- a) mandatorily, pre-intimation of at-least 15 working days prior to conduct of audit in prescribed form (GST ADT 01);
- b) audit of all records, documents, books of accounts including electronic records relating to or incidental to business of the auditee;
- c) verification of the documents based on which the books of accounts are maintained;
- d) verification of the returns and statements furnished;
- e) examination of correctness of the turnover, exemptions availed, rate of tax applied in respect of supply of goods or services or both;
- f) verification of ITC availed and utilized and refund(s) claimed;
- g) computation of output tax liability;
- h) examination of such other records and documents as may be required to determine the actual tax liability of the auditee.

1.7.3 Rule 101 of the PGST Rules, 2017, envisages that audit shall be conducted by the proper officer, authorized to conduct audit with the assistance of a team of officers and officials. The team shall verify-

- a) documents based on which the books of accounts are maintained;
- b) books of accounts based on which the returns or statements have been furnished;
- c) correctness of turnover;
- d) correctness of exemptions claimed and ITC availed;
- e) appropriateness of rate of tax applied in respect of supply of goods or services or both;

- f) refund claimed; and
- g) other relevant issues.

1.7.4 It may be noted that examination of accounts and records pertaining to the period which are not covered under audit is not provided. Financial statements may be asked for ratio analysis and comparison. Search of the premise of auditee or seizure of document, records or anything under sub-section (2) of Section 67 of the PGST Act, 2017 is not covered in scope of audit.

1.8 ACCOUNTS AND RECORDS

1.8.1 As per **Section 35** of the PGST Act, 2017, the books of account shall be kept at the principal place of business and at every related place(s) of business mentioned in the certificate of registration and such books of account shall include any electronic form of data stored on any electronic devices. The data so stored shall be authenticated by way of digital signature. Unless proved otherwise, if any documents, registers, or any books of account belonging to an auditee are found at any premises other than those mentioned in the certificate of registration, they shall be presumed to be maintained by the said auditee. If any taxable goods are found to be stored at any place(s) other than those declared without the cover of any valid documents, the proper officer shall determine the amount of tax payable on such goods as if such goods have been supplied by the Auditee.

1.8.2 Further, as per Section 36 of the PGST Act, 2017 all accounts maintained together with all invoices, bills of supply, credit and debit notes, and delivery challans relating to stocks, deliveries, inward supply and outward supply shall be preserved for **seventy-two months (six years)** from the due date of furnishing of annual return for the year pertaining to such accounts and records and shall be kept at every related place of business mentioned in the certificate of registration. However, an auditee, who is a party to an appeal or revision or any other proceedings whether filed by him or by the department, or is under investigation for an offence, has to retain the records pertaining to the subject matter of such appeal or revision or proceedings or investigation for a period of one year after final disposal of such appeal or revision or proceedings or investigation, or for the period specified above (seventy- two months), whichever is later.

1.8.3 Further, as per Rule 56 of the PGST Rules, 2017 any entry in registers, accounts and documents shall not be erased, effaced or overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter correct entry shall be recorded, and where the registers and other documents are maintained electronically, a log of every entry edited or deleted shall be maintained. Further each volume of books of account maintained manually by the auditee shall be serially numbered.

1.8.4 Recognizing the importance of electronic maintenance of accounts and records the Act also provides for maintenance of records in electronic form. Rule 57 of the PGST Rules, 2017 provides that the taxpayer will maintain proper electronic back-up of records in such manner that, in the event of destruction of such records due to accidents or natural causes, the information can be restored within a reasonable period of time. Further, it has been provided that the same may be produced, on demand, duly authenticated, in hard copy or in any electronically readable format. Moreover, where the accounts and records are stored electronically by any auditee, he shall, on demand, provide the details of such files, passwords

of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stored in such files.

1.8.5 Rule 58 of the PGST Rules, 2017 provides for elaborate provisions for records to be maintained by owner or operator of godown or warehouse and transporters. Every person engaged in the business of transporting goods shall maintain records of goods transported, delivered and goods stored in transit by him and for each of his branches. Every owner or operator of a warehouse or godown shall maintain books of accounts, with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt, and disposal of such goods. The goods shall be stored in such manner that they can be identified item wise and owner wise and shall facilitate any physical verification or inspection, if required at any time.

CHAPTER 2 OBJECTIVE AND PRINCIPLES OF AUDIT

2.1 The objective of audit of taxpayers is to measure the level of compliance of the tax payer in the light of the provisions of the PGST Act 2017 and the rules made thereunder.

2.1.1 Audit examines the declarations of taxpayers to not only test the accuracy of the declaration and the accounting systems that produce the declared liability, but also evaluate the credibility of the declared or assessed tax liability. The taxpayer's anticipation of such actions has deterrent and preventive effects. The deterrent effect is the extent to which audit discovers and deters a tax payer from continuing to under-declare or manipulate their tax liability. The preventive effect is the extent to which auditee decides not to evade tax, because they are aware of audit activity and fear of detection by the tax auditors.

2.1.2 An effective audit program generally results in the discovery of under-declared liabilities either by omission, error or deliberate deception. The amount of additional revenue raised depends not only on the level of compliance by the taxpayers, but also on the effectiveness of the auditors and the audit planning and implementation. An efficient and effective audit system will assist the government in its pursuit of increasing taxpayer's voluntary compliance and facilitate the tax administration's aim of getting "the right tax at the right time."

2.2 Role of audit:

The effect of a successful audit programme is not limited to the direct effects of each individual action (in terms of additional revenue, interest or penalties, and enforced compliance). There are clear, and in many ways more important, indirect effects from audit programme in terms of maintaining levels of compliance. These effects are described as:

- a. Corrective effect — influencing auditee's behavior and persuading to move further towards the compliance.
- b. Deterrent effect — persuading other taxpayers that it is in their interest to be more compliant.
- c. Preventive effect — the perceived deterrent effect that audit has on others.

2.3 Principles of audit:

The basic principles of audit are -

- a) Conducting audit in a systematic and comprehensive manner;
- b) Emphasis on the identified risk areas and scrutinizing the records maintained in the normal course of business;
- c) Applying audit techniques on the basis of materiality i.e. degree of scrutiny and application of an audit tool depends upon the identified nature of risk factors;
- d) Proper recording of all checks and findings made during the entire audit;
- e) Identifying the unexplored compliance verification parameters;
- f) Educating the taxpayer for voluntary compliance.

2.4 General Guidelines for Auditor:

- a) While conducting audit, the auditors are required to keep in view, the prevalent trade practices, the economic realities as also the industry and business environment in which the auditee operates. Therefore, the auditor should take a balanced and rational approach while conducting the audit;
- b) The auditor is expected to play a key role in promoting voluntary compliance by the auditees;
- c) During the course of the audit, if certain technical infractions, without any revenue implications, arising due to bona fide oversight or ignorance of the auditee, are noticed, the auditee should be guided for immediate correction. Such cases should also be mentioned in working papers;
- d) An auditor is responsible for conduct of audit in a professional manner and should endeavor to take a final view on all issues raised by him during the audit;
- e) The working papers for each of the step of audit should be filled in as soon as that step is completed. They should be **‘speaking documents’** that clearly explain why a particular area was included in the audit plan as well as the basis for arriving at every objection that goes into the draft audit report after audit verification. The documentary evidence which has been relied upon in arriving at certain conclusion should invariably be cited and included;
- f) The documents/records obtained during the conduct of audit shall enjoy the confidentiality envisaged under Section 158 of the GST Act 2017;
- g) Verification of records mandated by the statute is necessary to check the correctness of assessment and payment of tax by the Auditee in the present era of self-assessment.
- h) Audit to be conducted in a transparent and systematic manner with focus on business records of the Auditee and according to the audit plan for each Auditee.

2.5 Period to be covered during audit

The period to be covered under audit is prescribed in Rule 101 (1) of the PGST Rules, 2017 as financial year, or part thereof or multiples thereof to cover the retrospective period up to the previous audit or the limitation period specified in Section 73 or 74 of the PGST Act, 2017.

2.6 Time line of Audit

It has been provided in section 65 of the PGST Act, 2017 that the audit has to be carried out within a period of three months from the **“commencement of audit”** which can be extended by the Commissioner, by a further period not exceeding six months, for the reasons to be recorded in writing. The crucial question here is that when this time period is going to start from. When we can say that the audit has started and it has to be completed within a defined time frame? To answer this question an explanation has been provided in the said section which states that **“commencement of audit”** shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever

is later.

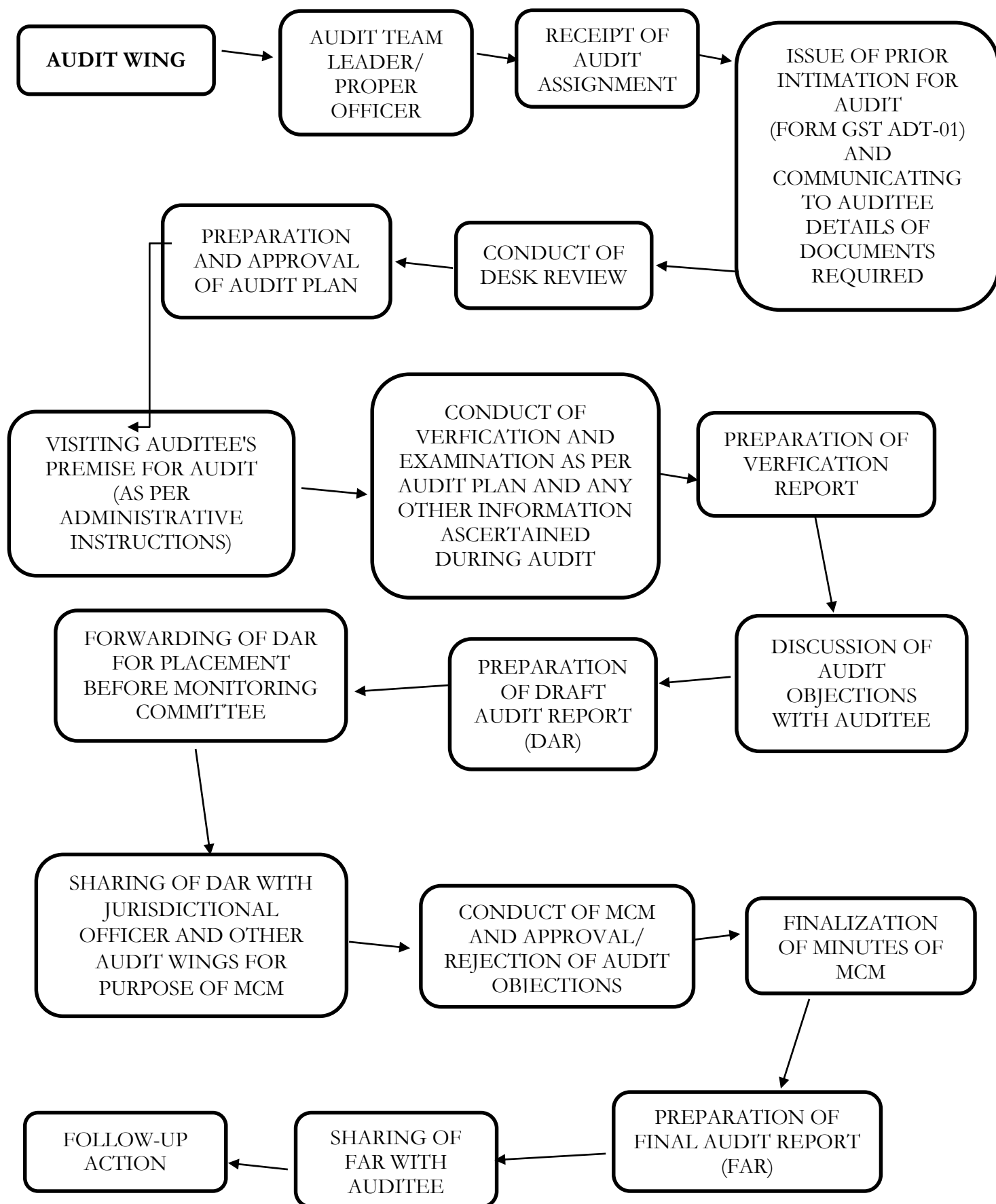
2.7 Schedule of audit

Once the units are identified for audit, the audit wing may prepare and release the audit schedule to constantly monitor conduct of audits in order to ensure that at the end of the year audit of all the units allocated is completed. Changes in such schedule with reference to conduct of audit of any unit by allowing preponing/postponing from one month to another month/from one quarter to another quarter may be effected with the approval of competent authority. However, it may be ensured that audit of all the units allocated by the Head Office are completed by 31st March of the financial year so that no single unit is left uncovered. In case the audit of certain units could not be carried out in the said period, the reasons may be examined, and further course of action should be decided with approval of competent authority.

2.8 Stage wise conduct of audit

The processes involved in conduct of GST audit are enumerated hereunder:

- a) Issuance of prior intimation to the auditee for the conduct of audit (GSTADT-01) and asking for information and other documents required for the purpose of audit;
- b) Conduct of desk review in offline / online mode (wherever available) including review of the taxpayer data - Tax Payer at a Glance (TAG), Registration, Returns, Payments, E-way bills and Third Party data, if available, and documenting the result of the same;
- c) Preparation and approval of the audit plan in offline / online mode (wherever available) and document the same;
- d) Visit the premises of the auditee for the conduct of audit as per the extant administrative instructions;
- e) Carry out verification and prepare the verification report including documentation of the working papers;
- f) Discussion of the audit objections with the auditee;
- g) Preparation of the draft audit report (hereinafter referred to as, “**DAR**”) within forty-eight hours of the conclusion of verification and submit the same for approval of the higher authority;
- h) Forwarding the DAR for placement of the same before the monitoring committee;
- i) Examining the audit paras in the Monitoring Committee Meetings (hereinafter referred to as, “**MCM**”);
- j) Finalizing the minutes of the monthly MCM, within forty-eight hours of the meeting;
- k) Preparation of the final audit report (hereinafter referred to as, “**FAR**”), within thirty days of the Meeting – Conclusion of the audit;
- l) Communication of the FAR to the auditee (ADT-02);
- m) Follow-up action, wherever required.



CHAPTER 3 AUDIT - PREPARATION

3.1 Profiling of Auditee:

3.1.1 Audit requires a strong database for profiling each auditee so that risk-factors relevant to an auditee may be identified in a scientific manner and audit is planned and executed accordingly. Some of the relevant data has to be collected from the auditee during the course of audit, while the rest is to be extracted from registration documents and returns filed by the auditee including:

- Annual returns,
- E-way Bills,
- Reports/returns submitted to regulatory authorities or other agencies,
- Income Tax returns,
- Contracts with his clients etc;
- Reports deduced from SAS tool;
- BIFA intelligence data.

3.1.2 A comprehensive data base about an auditee to be audited is an essential pre-requisite for selection of units as well as for undertaking preliminary desk review and effective conduct of audit. A substantial amount of data is already available on GSTN. Some of the data like those contained in annual financial statements keeps changing every year.

3.2 Reviewing the taxpayer data: The first step towards an effective audit is to review all relevant information about the auditee. **Annexure GSTAM – I** contain details of all the relevant data required for review.

3.2.1 The audit team conducting the audit should first review the data already available. The audit team may collect the information which is not available and same may be updated in the Master database of taxpayer.

3.2.2. The auditor may seek information, not available about the auditee, from the Head Quarter.

3.2.3 The information about each auditee should be updated periodically after completion of each audit. The audit working papers, audit report, duly approved during the MCM, along with the latest documents should be filed properly in a file of the auditee.

3.3 Allocation of auditee amongst Audit Teams:

Once the units selected for audit have been allocated to the Audit Wings, an audit schedule detailing the timing and sequencing of the audit to be carried out shall be prepared. The audit schedule should mention the details of the members of the audit team to conduct audit of a particular unit. It must be ensured that the group members of the audit party are fully trained for conducting audit in accordance with the guidelines in this manual.

3.4 Action to be taken by the Audit Team:

3.4.1 Once the audit schedule, with audit team allocation, is finalized, the action shifts to audit teams. The audit team should have adequate time to complete the preparation for audits to be conducted as per the audit schedule.

3.4.2 Calling for documents from the Registered Person: The auditor shall intimate the date of conduct of audit by issuing a notice in **FORM GST ADT01** (Annexure II) at least fifteen working days prior to the conduct of audit and also request for providing records/ documents which are necessary for conducting audit. It may be noted that till the time the audit module on GSTN is not operationalized the tax authority may deploy the modes envisaged under Section 169 of the PGST Act, 2017 for issuing of the notice. In case the auditee does not respond to the notice, a reminder should be issued within a reasonable time period. Where the auditee does not volunteer to submit the same on the basis of notices issued by the auditor, another notice should be issued giving details of penal provisions contained in Section 122, 123 and 125 of the PGST Act, 2017. Thereafter, if the auditee still fails to comply, then a self- contained note may be sent to the Head Quarter. Further, the details of such auditee should be included in the Risk Parameters, so that in future the said person may be identified for audit on priority. Details of said person may also be provided to the concerned authorities to down grade his GST compliance ratings.

3.5 Desk Review

3.5.1 Objective:

The desk review lays emphasis on gathering data about the auditee, his operations, business practices and an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation and run tests to evaluate the vulnerable areas. The preliminary review assists in development of a logical audit plan and focus on potential issues.

3.5.2 This is the first phase of the audit programme done in the office. The idea is to gather as much relevant information about the Auditee and its operations, as is possible, before visiting the unit. A good desk review under the supervision of senior officers is critical to the drawing up of good audit plan. The auditor should refer to the information of the Registered Taxpayer (**Annexure- GSTAM- I**). Study of the information could throw up important points, which may merit inclusion in the audit plan. In addition, the auditor should also obtain the latest Trial Balance, Tax Audit Report, Annual Financial Statement, Cost Audit Report or any such document prepared or published after the last updating of information. From the scrutiny of these documents, certain points may further emerge for inclusion in the audit plan. The auditor should also incorporate the result of any parameters brought to light by risk analysis into the desk review for pin pointing specific issues for examination during audit. An illustrative list of examination of important documents from the audit perspective is given at **Annexure– GSTAM-III**.

3.5.3 All receipts of the taxpayer need to be tested for GST liability. Analysis of exports turnover, turnover of non-taxable and exempted goods and services gives a clear picture of the amounts which were not considered for tax payment. It also helps to conclude whether such

exemptions claimed are proper or not. The auditor should reconcile the ITC credit availed as shown in **FORM GSTR-3B** with that shown in **FORM GSTR- 2A** and **FORM GSTR- 2B** and identify any gaps in the ITC availment. This gap should be mentioned in the Audit Plan for verification at the time of audit.

3.5.4 Cost Accounting Records/ Cost Audit:

As per Companies Act, 2013 (as on 31st October, 2020), cost audit is expected to be carried out in respect of:

- a) regulated sectors like Telecommunication, Electricity, petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar with either turnover of Rs 50 crores for all products and services or Rs 25 crores for individual product and services.
- b) non-regulated sectors -The threshold is Rs100 crores and Rs. 35 crores respectively.

For latest amendments and existing norms, the Companies (Cost Records and Audit) Rules, 2014 may be referred to. These records may be studied in order to correlate the data furnished therein with the information in the GST returns.

3.5.5 From the Trial Balance and Annual Financial Statements (Profit & Loss Account and Balance Sheet) it is possible to work out important financial ratios. The said ratios should be compared with the ratios of earlier year and wherever significant variation is noticed, these areas may be selected for audit verification. It may be kept in mind that any adverse ratio is only an indicator for verification of such an area and there may be valid reasons for the same. Therefore, an adverse ratio may require further examination and verification in order to ascertain the reason for the same. An illustrative list of important ratios is given at **Annexure-GSTAM-IV**.

3.5.6 Reconciliation of data: GST payment shown in the annual return in **FORM GSTR-9** can be reconciled with the information in the financial accounts. Further, from the reconciled figure of GST payment, value of the supply can be worked out. This can then be compared with the sales figure shown in financial records. The difference, if any, must be analyzed. The assessable value of the auditee can be compared with that of another taxpayer supplying the same goods or services. This would give an idea whether the valuation and determination of the tax by the auditee is a high/low risk area. A comparative chart of items from financial statement to be drawn for reconciling the data is annexed as **Annexure GSTAM-V**. The auditor should check the data available in the annual return in **FORM GSTR-9** with other documents such as Trial Balance, Income Tax Returns, Annual Audited accounts, Income Tax Audit report etc. and carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped GST.

3.5.7 Revenue Risk Analysis:

Risk Analysis is a method of identifying potential revenue risk areas by employing modern techniques. It can be carried out by:

- a) reconciling various specific financial data, comparing it with different business accounts/documents;
- b) deriving certain data and comparing with the actual figures of the financial documents; and
- c) comparing the key data figures of the unit with the average of all industry figure of similar kind (if available) or past figures of the same auditee.

The result of such analysis should be filled in the relevant column of working papers.

3.5.8 Trend Analysis:

Trend analysis is a type of computational support that enables planning by analyzing historical data and working out future projections. Historical data is analyzed to discover patterns or relations that would be useful in projecting the future production, clearances and values etc.

3.5.9 For audit purposes, either absolute values or certain ratios are studied over a period of time to see the trend and the extent of deviation from the average values during any particular period. The analysis of trends as mentioned in the relevant table of working papers may be carried out. (refer Annexure –GSTAM-VIII)

3.5.10 For audit of Traders, a check list is provided in **Annexure XII**. For audit of tax payers under composition scheme, a check list is provided in **Annexure XIII**.

3.6 Audit Plan:

3.6.1 The significance of preparing an audit plan is to outline a logical series of review and examination steps that would enable the achievement of the objectives of audit in an efficient and effective manner.

3.6.2 Audit Plan is the most important stage of audit. All the previous steps are actually aimed at preparation of a purposeful Audit Plan. Therefore, it is important that all previous steps are completed and the relevant Working Paper of each of the steps is filled up before commencing preparation of an audit plan. By now, the auditor should be in a position to take a reasonable view regarding the vulnerable areas, the weak points in the systems, abnormal trends and unusual occurrences that warrant detailed verification. Certain unanswered or inadequately answered queries about the affairs of the auditee may also be added to this list.

3.6.3 Audit plan should be a detailed plan of action, preferably in a standard format. The audit plan should be consistent with the complexity of the audits (**Annexure–GSTAM-VII**).

3.6.4 The summary results of desk review, along with the completed Working Papers, should be submitted to the head of the audit team for approval and guidance, if any.

3.6.5 The audit plan should be finalized after approval of the competent authority as per the extant instructions of the Department. The audit team should put up draft audit plan along with documents received, filled in questionnaire and working papers in the prescribed Performa, related to such auditees to the competent authority. The audit team is expected to carry out preliminary reconciliation, identify discrepancies, if any, and conduct a detailed examination of the records and information (including that already captured in the Master File of auditee) before preparing and submitting audit plan for consideration by higher authorities.

3.7 Objectives of Audit Verification

The objective of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate for audit objectives identified in the audit plan. It is important that in an audit, the objections that are raised are technically correct and stand up against scrutiny or challenge. Law being open to

interpretation; it may be difficult to test the technical correctness of all objections. However, it should be correct to the extent that any professional auditor, working with and having access to the same research material would likely to come to the same conclusion. It also means that the auditor must demonstrate, in writing, the research and reasoning used to base her application of legislation, policies and jurisprudence.

3.7.1 Audit verification involves verification of data and actual verification of documents submitted at the time of desk review, verification of points mentioned in the audit plan.

3.7.2 Evaluation of the Internal Controls: The objective of review of internal controls is to assess whether the auditee has reliable systems and controls in place that would produce reliable accounting/business records.

- a) Most medium to large companies have ERP systems in place, which account for all transactions from entry of raw material to clearance of final products.
- b) Auditors must have a look at these systems and determine whether software being used exclusively for the transactions related to GST matters is integrated to the main ERP system or is running parallel to the main ERP.
- c) This assessment would be useful for the auditor to decide on the extent of verification required and to focus on areas with unreliable or missing controls.
- d) It should be noted that this review must be commensurate with the size of operations.
- e) If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the auditee. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable.
- f) Audit should evaluate the soundness of internal control of sub-systems/areas like sales, purchase tax, accounting etc., and grade them as good, acceptable and poor (**refer Annexure-VIII**).

3.7.3 In this regard, an auditor should normally examine the following:

- a) Characteristics of the company's business and its activities;
- b) System of maintenance of records and accounts;
- c) Identifying the persons handling records for accounting purposes;
- d) Allocation of responsibilities at different levels;
- e) System of internal checks;
- f) Inter-departmental linkages of documents and information;
- g) System of internal audit.

3.7.4 Techniques for evaluation of the Internal Controls.

A. Interviewing the Auditee:

The purpose of interviewing the auditee is to obtain information about his business and accounting records. The discussions with the auditee should not be dealt with as a formality to be completed. The discussions should not be rushed as more can be gained by talking to the auditee than looking at the records and understanding how the business works. The accounts will only show the auditor what the auditee wants him to see and what has been declared. Any abnormalities will get highlighted in the discussions/interview. The following

aspects need to be kept in mind:

- a) Interviews and discussions should be conducted with the person or persons that are knowledgeable about the business and related tax matters. In small to medium sized audits, the interviews will usually be with the auditee himself;
- b) In situations where the auditee's representative is interviewed, the appropriate authorization from the auditee for such representative must be obtained and kept in the audit file;
- c) It needs to be ensured that appropriate questions are asked, and auditee is provided with an assurance that audit will be conducted in a professional manner;
- d) The information received during the interview should be subject to confidentiality envisaged under section 158 of the PGST Act, 2017.

Information may be solicited on following aspects:

- a) Business stakeholders;
- b) Business banking;
- c) Business history;
- d) The extent and type of books and records maintained;
- e) Non-business history.

It may be noted that a good interview will establish the "Normal" and question the "abnormal."

B. Touring: Tour the business premises/ factory/ warehouse etc. to establish the equipment/ capital goods in use and the outputs produced by the auditee.

C. Walk-through: This is a process by which the auditor elects any transaction by sampling method and traces its movement from the beginning through various sub systems to the end. The auditor verifies this transaction in the same sequence as it had moved. By this method the auditor can get a feel of the various processes and their inter linkages. It is also a useful method to evaluate the internal control system of an auditee. The auditor can undertake walk through process of sales, purchase, account adjustment systems etc. Certain model 'Walk- through' routes are given in **Annexure-GSTAM-VI**. Similarly, key controls may be examined for recording of all cash transactions: these controls may include scrutiny of numbered cash transaction invoices, daily reconciliation of cash invoices, separation of taxes etc. Undertaking a 'walk- through' and conducting ABC analysis during this process would help the auditor in evaluating the system of internal controls in a scientific manner.

D. ABC Analysis: It is a known fact that in any field of activity, enormous data is generated but all may not be equally important. In order to filter out relevant or relatively insignificant data, various techniques are applied. The ABC Analysis is one of such data management techniques. This technique is particularly useful where auditor is required to scrutinize and examine a large volume of data/documents within a limited time period. In ABC analysis the whole data population is classified into three categories (i.e. A, B and C categories) based on the importance, as given below:

- A-category is the class of data that is the most important from the point of view of managing and controlling the same.
- B-category is the class of data, which should invariably be controlled, but the

degree of control is not as intense as for A-category.

- C-category is the class of data, which has far less revenue- implications and can be controlled by suitable test-checks.

The auditor can apply ABC Analysis especially where the quantum of data/ information to be analyzed is voluminous. In such a case, the auditor can classify them according to their tendency towards potential risk into A, B and C categories. To give an example, transactions with top five customers/clients of a Auditee may alone be taken up for detailed examination by auditors. Similarly, while verifying credit utilization by the auditee, documents relating to the receipt/procurement of major inputs may be examined. The technique of ABC analysis can also be suitably applied for evaluating the systems of internal controls while carrying out verification.

The above steps viz., tour/study or evaluation of internal controls/walk through etc., are required to be carried out during the stage of actual audit verification.

3.7.5 The auditor should invariably record the findings of the above steps, in the Working Paper (**Annexure–GSTAM-VIII**).

3.7.6 Verification of points mentioned in the audit plan: While conducting the verification, the auditor is expected to take into account the following aspects:

- a) Verification to be conducted in a systematic manner, following the sequence of steps envisaged in the working papers;
- b) While conducting audit verification, special care should be taken to examine all those issues pointed out in the audit plan;
- c) The auditor should try to determine whether the apparent weaknesses in the internal control system of the auditee have led to any loss of revenue;
- d) He should also identify the procedural infractions on part of the auditee, which are recurrent in nature and which may obscure a significant fact;
- e) During the process, he must cross check the entries made by the Auditee in various records and note discrepancies, if any;
- f) In all cases involving discrepancies, the auditor should make detailed enquiries regarding the cause of the discrepancies and their revenue implication.

Third Party information: The auditor should also examine the documents submitted to various Government Departments/ Regulatory Authorities such as Customs, Income Tax, Banks, etc. by the auditee. This should be used in cross verification of the information filed by the auditee for the assessment of GST. **Annexure GSTAM-IX** gives utility of some of the documents/ registers of the Auditee that can be deployed by the auditor during the course of verification. Extensive use of information available with open sources such as electronic and print media, internet etc. may also be resorted to for verification of information furnished by the auditee.

3.7.8. The audit verification gives maximum opportunity to the auditor to go through the auditee's records in his unit. Therefore, auditor may come across a new set of information or documents, not earlier known, during any of the earlier stages. Further, while examining an issue, the auditor may come across a fresh issue also requiring detailed examination. In such a situation, the auditor should go beyond the verification envisaged under the Audit Plan and

record the reasons for doing so. Despite audit verification being a structured process, it is flexible enough to accommodate needs on the spot. At the end of each entry in working papers, auditor must indicate the findings. If any of the planned verifications is not conducted, the reasons for the same must also be recorded. While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below.

3.8 Physical Verification of Documents: A detailed scrutiny of the financial records of the auditee is an essential exercise to be carried out at the stage of Desk Review. The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet and Profit & Loss Account. If necessary, the auditor must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine Trial Balance, Ledgers, Journal Vouchers, 26 AS Statement, Invoices and E-way bills. The auditor may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. The auditor should also check whether the auditee is maintaining the statutory records as required under various statutes especially those under the Companies Act, 2013.

3.9 Working Papers (Annexure –GSTAM-VIII):

- a) The working papers form the basis of audit objection. They show the detailed steps undertaken by the auditor during the preparation and conduct of the audit. Therefore, they should be filled carefully, giving observations and conclusions of the auditor duly supported by evidences/documents, wherever required.
- b) Each part of the working papers should be filled up on completion of the relevant audit step. The date on which such part is completed and working paper filled in should be mentioned.
- c) The working papers should be filled in by the auditors themselves and in no case should be handed over to the Auditee for filling them up.
- d) The completed working papers must be submitted by the Audit team with the draft audit report.
- e) Copies of supporting documents/records/evidences referred to in the working papers must be annexed at the end. Each copy should have a cross-reference to the relevant entry in the working paper.

3.10 Working papers should support the audit effort and results. They should:

- a) be clear, concise, legible, organized, indexed, and cross-referenced;
- b) disclose the audit trail and techniques used in the examination of each significant item;
- c) support the conclusions reached and cover all queries raised;
- d) include audit evidence (eg., copy of a financial statement, an invoice, a contract, a bank statement, etc.) to support the assessment; and
- e) link results to supporting working papers e.g. the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report.

3.11 Apparently, the financial and other documents maintained by the auditee for his private use and in compliance of other statutes are of great importance which may reveal substantial short/non-payments of tax. **Annexure-GSTAM-IX** provides an illustrative list of

such records/documents, as also the relevant information that can be gathered from them. The auditor may take note of the same during gathering of information about the auditee and the system followed by him and go through them during ‘Audit Verification’.

3.12 Apprising the Auditee of irregularities noticed and ascertaining his view point: It is important that the auditor explain and discusses all the objections with the auditee before preparing DAR. The auditee should have the opportunity to know the objections and to offer clarifications with supporting documents. This process will resolve potential disputes at an early stage and avoid unnecessary litigation.

3.13 All the audit objections noticed by the Audit team are to be conveyed to the Auditee with a view to ascertain his point of view before preparing the DAR. Accordingly, the audit objections should be intimated in writing to the auditee, clearly stating that the same is not in the nature of any show cause notice and is only a part of participative and fact-finding audit scheme under which even the preliminary and tentative audit observations are being shared with the Auditee for ascertaining his point of view. Where satisfactory explanation or evidence is submitted to the auditor, the findings should be revised as necessary after obtaining competent authority's approval. However, if a response from the auditee is not forthcoming, draft audit paras should be prepared on the basis of available records after citing the lack of cooperation on part of the auditee in the Audit Report. It is also the auditor's responsibility to make sure that the higher authorities are made aware of potential disagreement and the position taken by the auditee.

3.14. Suggestions to Auditee for future compliance

3.14.1. Before leaving the auditee's premises, the auditor must discuss future compliance issues with the senior management of the auditee. The auditor should also discuss the steps that management can take to reduce specific errors detected during the audit and to improve compliance by suggesting improvements in the accounting systems etc. Written or verbal assurances as given by auditee should be recorded in the Audit Report.

CHAPTER-4 AUDIT - VERIFICATION

4.1 Audit would ideally require checking the following parameters:

- a) Outward supply turnover;
 - Taxable supply;
 - Exempt supply;
 - Zero-Rated supply.
- b) Rate wise (HSN/SAC wise) bifurcation of the taxable turnover;
- c) Inward supply subject to reverse charge;
- d) ITC-availment and eligibility;
- e) Refund claims, basis thereof, verification of support documents/records, validating granted refunds;
- f) Interest for late payments.

4.1.1 Audit of outward supply: Audit of outward supply would comprise of following verification:

- a) Declaration of aggregate turnover in return for the period (for each tax period);
- b) Correctness of classification of supply;
- c) Correctness of tax rate applied;
- d) Correctness of exemption claimed;
- e) Correct calculation of Output Tax Liability.

4.1.2 Supply:

Supply includes the following:

- f) all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;
- g) import of services for a consideration whether or not in the course or furtherance of business;
- h) the activities specified in Schedule I, made or agreed to be made without a consideration.

4.1.3 Verification of supply against cash:

The auditor must follow the auditee's system from the supply of goods or services to the receipt of the money and accounting in cash book of the same. The auditor may be required to check the following aspects:

- a) Whether banking is daily or weekly and that all the days in the sample period are accounted for;
- b) Check the accuracy of the entries transferred from daybook to supply book;

- c) Match the day book to supply book to ensure that entries are correct;
- d) Total the day book for the entire tax period to ensure that the gross supply is mathematically correct.

4.1.4 Verification of supply against credit:

- a) Understand the auditee's system of recording supply made against credit.
- b) Ensure that the records in support of such supply are in place.
- c) Identifying the credit period being extended to various kinds of customers;
- d) Ascertaining whether the payment for such supply has been made by customers within time period.
- e) Where interest or late fee or penalty has been charged by the auditee for any delay in payment, examine whether applicable GST has been charged on that amount?

4.1.5 Verification of supply against payment through Credit Card:

Where the auditee accepts credit card as payments, the auditor should check that the full value of the supply has been shown in returns. Some credit card companies only return the net value of the transaction after deducting their commission and the auditee may show only the net amount received in their supply.

Example-A registered person supply goods for the value of Rs 20,000/- and accepts credit card as payment. Registered person then files claim to the credit card company for payment, which is received less for the credit card company's commission (say, 5%)

Supply – Rs 20,000/-

Net received from credit company (-5%) –Rs 19,000/-

Registered person may incorrectly account for supply amounting to Rs 19,000/- in his return. The correct amount of supply would be Rs 20,000/- and same needs to be reflected in the return.

4.1.6 Lease transactions:

Any lease charge received or receivable for the tax period will be part of gross supply. Auditor should be alert in identifying such receipts and to see that output tax, where payable, has been calculated and paid on such value.

4.1.7 Hire purchase transactions:

In relation to delivery of goods on hire purchase or any other system of payment in instalments, value of supply would include the consideration payable to a person for such delivery including hire charges, interest and other charges incidental to such transaction. Output tax liability arises when the hire purchase agreement is entered into and the auditee has to account for output tax in the period in which the agreement is entered into.

In hire purchase transactions, the title of the goods remains with the supplier or the finance company that has the right to repossess those goods, should the customer default in making their payments. Normally, the re-possessor will re-supply those goods to recover the outstanding debt with the customer. Such re-supply is liable to GST and the re-possessor will have to account for output tax liability on such re-supply.

4.1.8 Exchange transactions:

As per Rule 27 of PGST Rules, 2017, in such transactions, there are offers made by the

manufacturer or stores to exchange the old item if customer chooses to buy a new item. Usually, discount for the old item is determined as a reasonable price for the used old item. In such cases, the value of supply for output tax liability will be the actual price of product had it not been supplied under exchange and not the reduced price. The value would not be reduced by what has been discounted to customer as price of old item at the time of exchange. The old item received under exchange would be treated as inward supply from an Un-registered person.

For example, a LED TV manufacturer comes out with a scheme for exchange of old CRT Televisions, whether working or not, against buying of new LED TV. The new TV is offered at Rs 25,000 without exchange while it's offered at Rs 20,000 along with exchange of old TV. The supply value of new TV would remain Rs 25,000 despite the discount in price owing to exchange of old TV.

4.1.9 Discounts:

A bare perusal of Section 15 (3) of the PGST Act, 2017 reveals that, only discounts allowed before or at the time of supply, (if such discount has been duly recorded in the invoice issued in respect of such supply) and shown separately in bill/invoice would be deductible from the transaction value.

For example, a discount of Rs 2,000 **mentioned in a tax invoice** of Rs 10,000 is deductible from the taxable value.

However, the discounts provided **after** the supply can be excluded while determining the taxable value provided the following conditions are met, namely –

- (a) Discount is established in terms of a pre-supply agreement between the supplier and the recipient;
- (b) such discount is linked to relevant invoices; and
- (b) Input tax credit attributable to such discount has been reversed by the recipient.

4.1.10 Goods/services for own use (Section 17(5)(d)):

Taxpayer will not be entitled for ITC in relation to goods or services availed by him from his business for personal use.

4.1.11 Outward supply to Related/Distinct Persons:

As per Rule 28 of the PGST Rules, 2017 where the goods or services are supplied at a value less than its market value to a related/distinct person, they should be valued at the open market value of such goods or services for output tax liability. However, it may be noted that where the recipient is entitled to avail full ITC for such supply, valuation by supplier need not be questioned.

4.1.12 Damaged goods:

As per Section 17(5)(h), goods purchased that have subsequently been damaged or destroyed in accident/calamity or looted or stolen and cannot be further supplied are to be treated in a way that ITC on such goods, if any, would not be allowed.

4.1.13 By-products:

In any process of manufacture or processing or mining some by-products, in addition to main products may be obtained. The prevailing industry norms on by-products may be checked for cross-verification of the declared share of by-products. In certain trades like food and beverages, the notifications and circulars issued by the relevant government department may also be referred to. If there is significant deviation, it should be recorded in writing. Supply of such by-products, if not exempt, shall attract rate applicable to description of such by-product and not applicable to main product. However, where such by-product(s) are exempt, the claim of ITC on inputs or input services or capital goods used in such manufacture to be proportionately reversed.

While auditing a business engaged in manufacture, audit team should visit/inspect the process at every stage, from initial stage to final output stage, to take stock of any such generation (of by-product) at some stage(s) of production. Ascertain from the disposal of such by-product -

- i) Whether such by-product has been supplied; If yes, whether it has been supplied intra-State or inter-State or exported;
- j) Whether correct valuation has been applied to such supply;
- k) Whether value of supply has been duly accounted for;
- l) Whether output tax liability has been declared and due tax is quantified and paid.

It should also be checked if there is some disposal of such by-product (partly or fully) by the following means:

- a) given away free of consideration;
- b) exchanged for other material/ cost of service(s);
- c) consumed/used in non-business activity;
- d) disposal in any other manner not amounting to supply.

4.1.14 Waste products and scrap:

In any process of manufacture or processing or mining, some waste-products as also scrap, in addition to main products and by-products may be obtained. Supply of such waste-products or scrap, if not exempt, shall attract output tax liability at the output tax rate applicable to description of such waste-product or scrap and not that which is applicable to the main-product. They would be accorded same treatment as that of by-products.

4.1.15 Supply of capital goods:

Where some capital goods of the business, new or used, are supplied during a tax period, such supply would be subject to tax. The audit team should verify from fixed assets/depreciation chart, the disposal of capital goods. Such disposal may be due to supply of such good(s) or parting away for some compensation or loyalty-acknowledgement.

Usually, the value of supply of such capital goods should not be less than the current book value (value net of depreciation) of the same and in case such supply is declared to be of a lesser value than book value, audit must ask for explanation(s)/reason(s) for the same. There may be a case where auditee has deliberately declared less value to reduce output tax liability and is receiving extra money underhand. Further it may be noted that as per Section 18, on disposal of capital goods, taxpayer is liable to pay either tax on transaction value or tax equal to ITC (proportionate), whichever is higher.

Sometimes, organizations felicitate their senior employees on superannuation or retirement by allowing possession/ownership of the capital goods of concern, like cars, refrigerators, air- conditioners, furniture etc. which were being used by such senior employees, at token price or free of cost. Such disposals should also be examined during audit for output tax liability or reversal of ITC.

Further, where discarded machineries are exchanged for new machineries, the exchange value will attract output tax liability.

While auditing, the audit team should tour the premises to ascertain that all the assets, as per assets chart/depreciation chart, really exist in the premises. Items not found to exist may lead to the conclusion of their disposal by supply, unless otherwise is not established. There may be a case, where on verification, new installations of plant/machineries are discovered. Audit team should verify whether the receipt of such Plant & Machinery is recorded in accounts or not. If not, production out of such Plant & Machinery may also have not been declared. Audit team should trace such production and output tax liability on the same, together with input requirements.

4.1.16 Unserviceable infrastructure goods:

Apart from plant and machinery, other scrap material(s), worn-out machinery spares/accessories, furniture, office equipment etc. may have been generated which may have been supplied during the tax period under audit. Supply of furniture and office equipment can be traced from fixed assets depreciation chart. If the office equipment was supplied, it shall attract tax. It may be noted that even disposal of those assets against which ITC has not been availed would be subject to output tax liability on disposal.

4.2 Audit of deductions

4.2.1 Exempt supply:

Exempt supply may be classified into following categories:

- a) Supply of goods or services which are taxed at nil rate;
- b) Supply of good or services which have been notified as exempt in exercise of power under section 11 of PGST Act, 2017;
- c) Non-taxable supply;
- d) Supply declared as exempt supply under sub-section (3) of Section 17 of PGST Act, 2017.

To audit exempt supply, the bills of supply issued may be examined in order to verify that:

- a) the description and HSN/SAC of supply is same as that mentioned in rate or exemption notification;
- b) no output tax has been charged on such supply from the recipient;
- c) the auditee normally deals in such goods/services and it is not a standalone transaction. A standalone transaction should always be viewed with suspicion and extra care should be taken while examining such transaction.

It may be noted that exemption notification should be strictly construed and the burden of proof for claiming exemption is upon the auditee.

4.2.2 Zero-rated supply:

To verify the correctness of the refunds claimed, the audit team may examine the following:

- a) a statement containing the number and date of shipping bills or bills of export and the number and date of relevant export invoices;
- b) a statement containing the number and date of invoices and the relevant Bank Realization Certificates or Foreign Inward Remittance Certificates, as the case may be;
- c) a statement containing the number and date of invoices as prescribed in the rules, along with the evidence regarding endorsement specified in the third proviso to sub-rule(1) of Rule 89 of PGST Rules, 2017 in case of supply of goods made to a SEZ unit or a SEZ developer;
- d) a statement containing the number and date of invoices, the evidence regarding endorsement specified in the fourth proviso to sub-rule (1) of Rule 89 of PGST Rules, 2017 and the details of payment, along with proof thereof, made by the recipient to the supplier for authorized operations as defined under the SEZ Act, 2005, in a case where the refund is on account of supply of services made to a SEZ unit or a SEZ developer:

In order to verify the correctness or otherwise of the refund claims, the audit team may examine the following documents:

- a) Invoices issued;
- b) Recipient's order(s);
- c) Delivery documents;
- d) Custom's documentation;
- e) Letter of credit (LC);
- f) Bill of lading;
- g) Insurance documents;
- h) Correspondence with the recipients;
- i) Banking records;
- j) Any other documents that the auditor may deem necessary.

In case of direct export, invoices should be raised to a person who is non-resident of India. There must be a purchase order from purchaser. Normally, there must be an LC issued against supply. Verify from banking records that payment has been received from the same person to whom supply has been declared in invoice.

4.2.3 ITC claim(s):

ITC is another important aspect of GST which requires auditing with utmost skill, caution and expertise.

4.2.4 Important components for auditing ITC claims -

- a) Claimant is entitled;
- b) Claim is as per entitlement;

- c) Inward supply is not put or subjected to a use or consumption which restricts ITC;
- d) Goods or services for which ITC have been availed were received by the claimant;
- e) Payment for value of inward supply including GST was made within 180 days of receipt;
- f) Auditing apportionment and reversals of ITC;
- g) Tracing inward supply from unregistered persons.

4.2.5 Inward supply:

The focus while conducting audit of inward supply of an auditee should be on-

- a) Gross inward supply of inputs, input services and capital goods;
- b) Gross inward supply of inputs or input services liable to reverse charge;
- c) Receipts of inputs from an unregistered supplier or otherwise which is liable to reverse charge;
- d) Inward supply from related/distinct persons;
- e) Inward Imports (direct import from outside India);
- f) Own acquired materials such as mined out minerals/material(s).

CHAPTER 5 PREPARATION OF AUDIT REPORT AND FOLLOW-UP

5.1 Preparation of Draft Audit Report (DAR) and submission of same to Higher Authority

5.1.1 After completion of audit verification, the auditor should prepare the verification report in the prescribed Performa as mentioned in **GSTAM-VIII** for each issue of the approved Audit Plan. This document should record the results of verification conducted as per the audit plan. Any additional issue (not mentioned in the original plan) verified/ point noticed should also be mentioned. The auditor would then discuss each of such issues with the auditee pointing out either non-payment or procedural infractions. The initial views of auditee must be recorded in the verification document. The auditor should also apprise the auditee of the provisions relating to voluntary compliance and encourage him to take advantage of those provisions in order to avoid disputes and litigation.

5.1.2 Where the auditee agrees with the short levy, as noticed, the auditor should explain the benefit available under **Section 73(6) / 74 (6)** as the case may be and use persuasion as a measure of recovery of dues along with interest, if any, promptly. Details of spot recoveries and willingness of the auditee to pay short levy should also be recorded. This document would then become the basis for preparation of the draft audit report.

5.1.3 The DAR for the audit conducted by an audit team headed by the ACST shall be approved by DCST and of that headed by STO shall be approved by ACST. The Audit wings shall bring the NIL DARs to the notice of the higher authority for review, who has to record his findings in audit file based on Desk Review.

5.1.4 The narrative of the objections in the audit report should be concise, to the point and self-contained and should convey the gist of objection raised. Telegraphic narration should be avoided. Where the objections are backed by any circulars or clarifications issued by the Department, they should be suitably cited. Cases, in which certain specified conditions are not fulfilled, giving rise to objections, should be clearly brought out. Similarly, where objections are backed by interpretations as decided by the court judgments, decisions of Appellate authorities or supported by technical literature, those should be cited.

5.1.5 The draft audit report may be prepared, preferably within 45 days of the commencement of the audit, and placed before the Monitoring Committee for decision.

5.2 Monitoring Committee Meetings (MCM)

5.2.1 The auditor should submit the DAR to the head of the Audit wing for approval and after approval of DAR the same is to be considered for placing before Monitoring Committee.

5.2.2 MCM should be convened by the competent authority, at least once a month, to which the jurisdiction tax officer as well as the audit wings shall be invited to attend. This will not only facilitate prompt decision making but will also ensure that there is uniformity in raising of audit objections. During the MCM each of the audit objections/ observations would be examined for its sustainability. The MCM should also decide as to whether the extended period of limitation

can be invoked or not and also on the applicability of the provisions relating to waiver of SCN in respect of each para (refer Section 73(5) & 73(6)/ 74(5) & 74(6) of PGST Act, 2017). The minutes of each such meeting should be drawn, pointing out the decision on each audit objection regarding its sustainability and directions for future action. The objections rejected by the MCM will be treated as closed. Any un-reconciled objection that could not be finalized during MCM on account of any reason may be taken up with higher authority.

5.3. Final Audit Report (FAR)

Based on the decision of the MCM, the FAR should be finalized within thirty days from the date of the meeting. Once the FAR is prepared, it will be treated as conclusion of the audit. As per sub-section (6) of Section 65 of the PGST Act, 2017, the auditor is obligated to share the FAR with the auditee. Accordingly, a copy of the FAR, even if it is a NIL report, should be shared with the auditee and necessary records confirming such action should be kept in auditee's Master File.

5.4 Follow up action

An audit objection should be closed after requisite follow up action i.e., either recovery of amounts due or issuance of SCN, has been taken on it. After the issuance of FAR, wherever further action such as issue of SCN is required, same should be taken in accordance with the administrative instructions issued by the Commissioner of State Tax from time to time.

5.4.1 Each audit report should be examined by the head of the audit wing for any objection with major revenue implication, objection specific to a particular issue or any objection describing novel modus operandi. The same should be selected for issuance of Modus operandi circular within the Department.

CHAPTER 6 SPECIAL AUDIT

Legal provisions:

Section 66. Special Audit. -

- (1) If at any stage of scrutiny, inquiry, investigation or any other proceedings before him, any officer not below the rank of Assistant Commissioner, having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal limits, he may, with the prior approval of the Commissioner, direct such registered person by a communication in writing to get his records including books of account examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.*
- (2) The chartered accountant or cost accountant so nominated shall, within the period of ninety days, submit a report of such audit duly signed and certified by him to the said Assistant Commissioner mentioning therein such other particulars as may be specified:*

Provided that the Assistant Commissioner may, on an application made to him in this behalf by the registered person or the chartered accountant or cost accountant or for any material and sufficient reason, extend the said period by a further period of ninety days.
- (3) The provisions of sub-section (1) shall have effect notwithstanding that the accounts of the registered person have been audited under any other provisions of this Act or any other law for the time being in force.*
- (4) The registered person shall be given an opportunity of being heard in respect of any material gathered on the basis of special audit under sub-section (1) which is proposed to be used in any proceedings against him under this Act or the rules made thereunder.*
- (5) The expenses of the examination and audit of records under sub-section (1), including the remuneration of such chartered accountant or cost accountant, shall be determined and paid by the Commissioner and such determination shall be final.*
- (6) Where the special audit conducted under sub-section (1) results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilized, the proper officer may initiate action under section 73 or section 74.*

Rule 102. Special Audit. -

- (1) *Where special audit is required to be conducted in accordance with the provisions of section 66, the officer referred to in the said section shall issue a direction in **FORM GSTADT-03** to the registered person to get his records audited by a chartered accountant or a cost accountant specified in the said direction.*
- (2) *On conclusion of the special audit, the registered person shall be informed of the findings of the special audit in **FORM GST ADT-04**.*

Following detailed provisions have been laid down in the PGST Act, 2017 regarding the GST Audit to be conducted under special circumstances. This audit is to be exclusively done by CA/ CMA appointed by the Tax authorities.

TABLE 4: PROVISIONS RELATING TO SPECIAL AUDIT

| SECTION | DESCRIPTION |
|----------------|--|
| Sec 66(1) | Special audit on direction of Tax Authorities. |
| Sec 66(2) | Period of Completion |
| Sec 66(3) | Effective notwithstanding that the accounts of the registered person have been audited under any other provision of this Act or any other law for the time being in force. |
| Sec 66(4) | Opportunity of being heard to auditee |
| Sec 66(5) | Expenses of the Audit & Submission of Audit Report |
| Sec 66(6) | Consequences |

When will be conducted?

During any scrutiny / investigation/inquiry/ any other proceedings, if the ACST feels that the taxable *value has not been correctly declared or wrong credit has been availed*, then he may direct a Special Audit to be carried out by a CA or a Cost Accountant with the prior approval of the Commissioner.

Table 5: Special Audit

| SECTION | DESCRIPTION |
|----------------------------|--|
| Sec 66(1) | Audit by Tax Authorities |
| Who can exercise the Power | - any officer not below the rank of Assistant Commissioner with prior permission of Commissioner |

| | |
|----------------------------|--|
| When can this be Exercised | <ul style="list-style-type: none"> - Depending upon the nature and complexity of the case - In the interest of revenue |
| Triggers | <ul style="list-style-type: none"> - the value has not been correctly declared or - the credit availed is not within the normal limits |

| | |
|-----------------------|---|
| Intimation to Assesse | - a communication in writing to get his records including books of account examined and audited |
| Audited by | - by a CA or a Cost Accountant nominated by the Commissioner |

| | |
|-----------|--|
| Sec 66(2) | <p>Period of completion</p> <ul style="list-style-type: none"> ➤ 90 days <p>Extension in period by Assistant Commissioner</p> <ul style="list-style-type: none"> ➤ Further period of 90 days <p>Submission of report by CA/ CMA appointed</p> <ul style="list-style-type: none"> ➤ within the period of ninety days of start <p>Report to whom</p> <ul style="list-style-type: none"> ➤ Assistant Commissioner (who ordered for special audit) |
| Sec 66(3) | - Effective notwithstanding that the accounts of the Registered person have been audited under any other provision of this Act or any other law for the time being in force. |
| Sec 66(4) | - Opportunity of being heard to auditee after completion of audit |
| Sec 66(5) | <p>- Expenses of Audit and submission of Audit Report</p> <ul style="list-style-type: none"> • All incidental expenses of conducting audit • All direct expenses of conducting audit • Remuneration of auditors <p>Determined & Paid by– Commissioner</p> |
| Sec 66(6) | <p>Consequences -Results based consequences</p> <p>– Where the audit conducted results in detection of</p> <ul style="list-style-type: none"> • tax not paid or • such short paid or • erroneously refunded, or • ITC wrongly availed or utilized, the proper officer may initiate action under Section 73 or 74 |

Documentation/ Records to be reviewed while conducting Special audit

Records to be kept by the registered person who is required to get his accounts audited by a CA or Cost Accountant under Section 66 are detailed here under:

- a) Account of Production or manufacture of goods;
- b) Details of inward supply and outwards supply of goods and services;
- c) Records of stock of goods;
- d) Account of ITC availed;
- e) Details of Output Tax Payable and paid.

Requirement of situation for invoking provisions of special audit:**(i) There must be a proceeding pending in respect of auditee, of-**

- a) Scrutiny;
- b) Inquiry;
- c) Investigation; or
- d) Any other proceedings.

(ii) There must be an observation by ACST that such auditee-

- a) has not correctly declared value; or
- b) has not availed credit within the normal limits;

(iii) Prior approval of Commissioner has been obtained.

‘Any other proceedings’ used for initiating special audit is wide enough. However, there must be observation for need of special audit. Specific issues on which audit of accounts is to be carried out should be listed and communicated to CA or Cost Accountant authorized to carry out Special Audit. Such audit is to be completed in prescribed time.

(Auditee's Master file – RPMF to be updated on regular intervals) Part

1) Name of the Registered person (Legal Name and Trade Name)

[illegible]

| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|
| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|

(i) Name of Principal place of business

[illegible][illegible][illegible][illegible][illegible][illegible][illegible]

[illegible]

(xi) E-mail Address

[illegible]

Web address of the company:

[illegible][illegible]

goods/services

[illegible]

8) Details of Additional Place of Business

Part II- Other information

1) Constitution of Business (Please Select the Appropriate)

| | | | | | |
|------|---|--|------|---------------------------------------|--|
| SrNo | Proprietorship | | ix | Unlimited Company | |
| i | Partnership | | x | Limited Liability Partnership | |
| ii | Hindu Undivided Family | | xi | Local Authority | |
| iii | Private Limited Company | | xii | Statutory Body | |
| iv | Public Limited Company | | xiii | Foreign Limited Liability Partnership | |
| v | Society/Club/Trust/Association of Persons | | xiv | Foreign Company Registered (in India) | |

| | | | |
|------|--------------------|-------|-----------------------|
| (vi) | Town/City/District | (vii) | State/Union Territory |
|------|--------------------|-------|-----------------------|

| | | |
|--------|-----|-------------|
| (viii) | PIN | Post office |
|--------|-----|-------------|

(ix) Telephone Nos.:

| | |
|------------|---------------|
| (a) office | (b) residence |
|------------|---------------|

[illegible]

In case of more names, please provide the information in the above format.

| | | | | | | | |
|--------------------|--|--|--|--|--|--|--|
| | | | | | | | |
| Name of the branch | | | | | | | |

4) Details of the Bank accounts used for business transaction with name of the bank, its specific branch and account number.

(a) Account1

(i) Name of the bank

(ii) Name of the branch[illegible]

(c) GST Services code-wise details of value of services supplied and ITC paid (for 3years).

| Period | Description and SAC of service | Taxable Value of the services | GST payable/paid | Total credit utilized | | | | Net GST paid in cash (GST-PMT-06) | | | |
|--------|--------------------------------|-------------------------------|------------------|-----------------------|---------------|------|------|-----------------------------------|---------------|------|------|
| Year 1 | | | | CGST | SGST/U TST | IGST | Cess | CGST | SGST/U TST | IGST | Cess |
| Year 2 | | | | | | | | | | | |
| Year 3 | | | | | | | | | | | |

(c) Details of Zero rated supply and Deemed Exports made Rs. In thousands

| | Description of goods/services | HSN | Quantity | Value |
|--|-------------------------------|-----|----------|-------|
| Exports | | | | |
| Supply made to SEZ unit or SEZ developer | | | | |
| Deemed Exports | | | | |

Note: Wherever, it is possible, the data may be deduced from the returns furnished by the auditee while preparing the Master file.

ANNEXURE II
FORM GST ADT - 01

[See rule 101(2)]

Reference No.:

Date:

To,

GSTIN.....

Name..... Address.....

Period - F.Y.(s) -

Notice for conducting audit

Whereas it has been decided to undertake audit of your books of account and records for the financial year(s).....to.....in accordance with the provisions of section 65. I propose to conduct the said audit at my office/at your place of business on -----

And whereas you are required to:-

- (i) afford the undersigned the necessary facility to verify the books of account and records or other documents as may be required in this context, and
- (ii) furnish such information as may be required and render assistance for timely Completion of the audit.

You are hereby directed to attend in person or through an authorised representative on(date)at.....(place) before the undersigned and to produce your books of account and records for the aforesaid financial year(s) as required for audit.

In case of failure to comply with this notice, it would be presumed that you are not in possession of such books of account and proceedings as deemed fit may be initiated as per the provisions of the Act and the rules made thereunder against you without making any further correspondence in this regard.

Signature

Name

Designation

ANNEXURE – GSTAM – III
ILLUSTRATIVE LIST OF IMPORTANT DOCUMENTS FOR SCRUTINY AT DESK REVIEW STAGE

I. Documents to be checked during Desk Review–

| Sr. No. | Name of the Record/Document and nature of verification to be carried out |
|---------|--|
| 1. | Annual Report & Director's Report |
| | <p>The Annual Report prepared by a company <i>inter alia</i> contains the following:</p> <p>a) Director's Report: This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc. reported in the report may be useful to the auditor. It may contain certain details such as:</p> <ul style="list-style-type: none"> ➤ Foreign Exchange earned during the year; ➤ Foreign Exchange paid during the year, e.g. may be on account of taxable services received by the Auditee where he is liable to pay GST under reverse charge mechanism. ➤ Information on the operations carried out by the Auditee during the year under report. This may help in finding the exact nature of services provided by the Auditee. <p>b) Auditor's Report: These may be reports of Statutory auditor or Internal auditor or C & AG Audit. In the case of statutory audit, a separate report under CARO (Companies Auditor's Report Order, 2003/2015) is required to be given. The same should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. For example, Auditor may report that goods meant for outward supply, available in stock were not reconciled or provision for obsolete items have not been made during the year. Tax auditor may like to examine such opinion in detail.</p> <p>c) Company Auditor's Report Order (CARO) may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of inward supply and goods meant for outward supply was</p> |

| | |
|--|--|
| | <p>under taken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods. It also shows disputed tax liabilities separately for Customs, Income Tax, GST etc. Cases booked under Income Tax may be examined to find out any implication on GST.</p> <p>d) In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined.</p> |
|--|--|

| | |
|----|---|
| 2. | Profit & Loss Account |
| | <p>Nature of the Account:</p> <p>The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during desk review to find out the overall working of the unit. In the main body of the Profit&Loss Account, only major heads of expenditure and income are given and the constituents of these headings are given in a separate annexure. The said annexure should be studied in detail.</p> <p>Nature of verification:</p> <ol style="list-style-type: none"> Scrutiny of supply: Supply may include inter-state supply, intra-state supply, Zero-rated supply including supply to SEZ. Study of the pattern of supply will give an idea about the volume of indigenous/ internal market for the Auditee's supply. Other incomes like scrap, insurance claims receipt, profit on sale of fixed assets, commission received, erection and commissioning, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation or whether these are liable for GST. They should carefully study the nature of business income – some of which may have accrued from the supply of taxable services and the balance from the supply of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or contracts. On the expenditure side, value of inward supply on which GST is pay able under Reverse Charge-Section 9(3) should be examined in detail. For this purpose, the relevant ledger account may be scrutinized as discussed under the head General Ledger. Ratios like i) inputs consumed to inputs purchased, ii) ITC availed on inputs to outward supply, raw material purchased and ITC taken on inputs etc. may be worked out. Further, out of pocket expenses for which deductions have been claimed from value of taxable supply need to be examined. Correlation between expenditure head such as fuel expenses and value of taxable service in case of tour operators can be verified. Notes given along with the said schedule should be studied carefully to find out cases of use of material for non-production activities. The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations. |
| 3. | Balance Sheet |

| | |
|-----------|--|
| | <p>Nature of document: Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of an auditee can be determined from the study of a Balance sheet.</p> <p>Nature of verification:</p> <ul style="list-style-type: none"> a) Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are supply between holding company and subsidiary & vice versa, valuation aspect needs to be examined in the light of PGST Rules. b) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate GST has been paid. |
| 4. | Notes to the Accounts |
| | <p>Nature of document: These notes are part of the Profit&Loss Account and Balance Sheet. These notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax auditor as these reveal important transactions or the important accounting policies followed by the unit.</p> <p>Nature of verification:</p> <ul style="list-style-type: none"> a) Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue recognition or determination of obsolete stock. b) Notes on quantitative information on inward and outward supply may reveal number of interesting aspects. Cases of use of inputs for other purposes (not in the course of business or furtherance of business) may also be noticed from the study of such information. Adjustment for shortages, losses etc. may also be reported in the said information. c) Any important transaction/happening during the year like non-reconciliation of accounts of inputs lying with job worker, major expenditure on research and development, destruction of record and reconstruction of duplicate records may also be noticed from the study of such notes. d) As per the Accounting Standard issued by the Institute of Chartered Accountant of India, the specified companies are required to disclose transactions with the related parties under Notes to the Accounts. The said information gives all types |

| | |
|-----------|---|
| | of transactions, payments made or payments received from various related parties. Such information is very useful to find out the details of the related parties and the type of transactions made by them. |
| 5. | Trial Balance |
| | <p>Nature of Document: Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by an auditee. The final accounts, namely, Profit & Loss account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet.</p> <p>Nature of verification:</p> <ol style="list-style-type: none"> Familiarization with account coding system and understanding the grouping of sub account under main accounts for the purpose of summarization into Profit & Loss Accounts and Balance Sheet. Main purpose is to select the accounts for further scrutiny as a part of audit plan. Accounts which have a prima facie relevance for GST payment or availment of ITC need to be identified during Desk review. There might be some of the ledger accounts whose exact nature may not be clear on reading of Trial Balance and these accounts may also be identified for further inquiry during the further course of audit. Unusual ledger accounts like Loss of inputs or unusual income accounts may also be noticed in the Trial Balance. However, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny. Various income accounts (credit balances) available in the Trial Balance like Job Work Income Account, Erection and Commissioning Income Account, Commission Account, Recovery of Freight/Advertisement Charges Account Technical Consultation Income Account etc. should be selected to verify whether these income can be added to the assessable value for payment of GST or whether these are liable for payment of GST. |
| 6. | Cost Audit Report |
| | <p>Nature of Document: Cost Audit Report provides quantitative and financial details regarding production, clearance, capacity utilization, input-output ratio, related party transaction, valuation of production along with reconciliation of annual turnover with taxable value of Goods produced as per the GST returns. The Cost Auditor in his report gives the information/details on the cost data for the company as a whole as well as in the</p> |

| | | |
|-----------|---|--|
| | respect of each plant/unit of the company located at different locations, thus study of the report helps the audit officer in comparison of various information/details across the plants and units. In case Auditee is not covered under the cost audit, the Audit Officer may examine the Cost Accounting records maintained by them on the lines of Cost Audit Report. The auditor may examine the following aspects from the Cost Audit report. | |
| | S. No. in Annexure to the Cost Audit Report and subject | What is to be seen |
| | 1, 2 & 3 - General Information | Auditors may use this information at the time of Desk Review. |
| | 4 - Quantitative details | It contains details of: ➤ Total available quantity ➤ Samples/ Quantity Captively consumed. ➤ Outward supply - with break-up of Export & domestic clearance Auditors should reconcile this data with GST Return and major variation (if noticed) should be looked into. |
| | 5 - Cost Statements/ Cost of Production statement | Separate cost statements would be available in respect of each product/activity group. Auditors may utilize the same for valuation aspects. It also helps to compute taxable value under Cost Construction method under Rule 30 of PGST Rules, 2017. |
| | 6 - Operating ratio analysis. | Auditors may use the same for comparison of operating costs of each group, over a period of time. |
| | 10 – Related party transactions. | Auditors may use this information with regard to valuation of related party transactions under Rule 28 of PGST Rules, 2017. |
| | | |
| 7. | Tax Audit Report | |
| | a) Clause 18 provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of ITC availed on capital goods. b) Clause 21(b) gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure | |

| | |
|-----------|--|
| | <p>that GST on such supply is paid on these amounts as per the provisions of Time of supply under PGST Act.</p> <ul style="list-style-type: none"> c) Clause 27(a) gives the details of ITC claimed. It also provides the details of ITC availed and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the GST returns with the information provided in terms of this clause. d) Clause 38 provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. e) Clause 40 of the Tax Audit Report provides the important accounting ratios. |
| 8. | TDS Certificate under Income Tax |
| | <p>The total receipts can be verified from TDS certificates in the following manner:</p> <ul style="list-style-type: none"> a) By deducting the amount of GST from the value on which tax has been deducted at source, the receipts appearing in the books of accounts can be reconciled. b) The nature of supply can also be confirmed from these certificates and in case of any discrepancy in the categorization of services under proper head, elaborate checks need to be carried out by the Auditor. c) Details of TDS credit claimed in the Income Tax Return may also be examined. |

ANNEXURE – GSTAM – IV

RATIO ANALYSIS OF DATABASE

| Sr. No. | Nature of Ratio / Method of calculation | Utility of Ratios | Source Document |
|---------|--|--|--|
| 1. | ITC availed (A) : Total tax paid (B) = (A)/(B) | a) To identify wrong availment of input tax credit b) To identify under valuation of goods as value- addition should involve adequate difference between the two. c) To identify removal of goods without payment of duty. d) To identify claiming of input tax credit on inputs used in exempted products. | Annual or Monthly GST returns (As applicable) |
| 2. | Total inward supply cost: Total outward supply value | a) This ratio shows the part of outward supply value represented by inward supply cost. The balance outward supply value represents the value addition on account of non-taxable elements like wages, overheads, depreciation, interest. b) Theoretically, this ratio should have a bearing on the ratio of Input tax credit: Total tax payment (Sl.No.1). c) If this ratio is lower than ratio at Sl.No.1 or more than previous year's ratio, it may be on account of the following: <ul style="list-style-type: none"> ➤ Wrong availment of credit like cases of availing value of goods as credit or availment of credit of basic custom duties in case of import or double credit on same document. ➤ Fraudulent availment of credit like availment of credit without receipt/actual use of input. ➤ Rejection/return/clearances of inputs without reversal of credit ➤ Receipt of inputs and availment of | Annual or Monthly GST returns (As applicable) Trial Balance, Profit & Loss Account and Notes to the Accounts. |

| | | | |
|----|--|---|--------------------------------------|
| | | <p>credit but clearances of finished goods without payment of duty.</p> <p>➤ Under valuation of finished goods.</p> | |
| 3. | ITC availed on Capital Goods purchased during the year : Addition to Capital Goods | Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet. | Balance Sheet & GST Returns. |
| 4. | Value of exempted outward supply: value of total outward supply made | <p>a) To identify outward supply made in the guise of exempted supply.</p> <p>b) To identify supply of essential parts of outward supply as exempted supply.</p> <p>c) To identify under valuation of outward supply by overvaluing exempted outward supply</p> | GST Returns & Profit & Loss Account. |
| 5 | Value of Zero rated supply: Total supply | <p>a) To identify outward supply made in the guise of zero rated supply.</p> <p>b) To identify under valuation of outward supply by overvaluing zero rated supply outward supply</p> | GST Returns & Profit & Loss Account. |
| 6. | ITC Reversed: Total ITC availed | <p>a) ITC reversal on account of business/non-business purpose.</p> <p>b) ITC reversal on account of exempt/taxable supply.</p> <p>c) This ratio to correspond with ratio at Sr.No.4.</p> | GST Returns & Profit & Loss Account. |

ANNEXURE V

Only for those registrants who are required to file Annual return u/s 44 of the PGST Act. Part-A-Goods
COMPARATIVE CHART OF ITEMS FROM FINANCIAL STATEMENTS/ RETURNS

| Sl. No. | Item | Records/Registers/Accounts maintained U/S 35 PGST Act read with rule 56 of PGST Rules(+) | GSTR-9(++) | Cost Audit Report (Annual) # | Income Tax Audit Report (Annual) ## | Trial Balance (Annual) | Annual Report (Including Balance Sheet & P & L Account) (Annual) @ | ITR 6 (Annual) @@ |
|---------|-----------------------|--|--------------------|------------------------------|-------------------------------------|------------------------|--|-------------------|
| 1 | Quantity Manufactured | Production/manufacture account | | | 28 b B (iii) | | Schedule to Balance Sheet | Part A-QD (c) (5) |
| 2 | Goods Cleared | | | | | | | |
| | i) Quantity | inward & outward supply account of goods | 17(3)+18(3) | Sl. No. 4 (8) Of Annexure | 28 b B (iv) | | Schedule to Balance Sheet | Part A-QD (c) (6) |
| | ii) Value | Do | 17(4)+18(4) | Sl. No.8(1) Of Annexure | | | Schedule to Balance Sheet | |
| 3 | GST Paid | | 9 | | | | | |
| | (a) cash | | 9(3) | | | | | |

| | | | | | | | | |
|--|----------------|--|-------------------|--|--|--|--|--|
| | (b) ITC | | 9(4+5+6+7) | | | | | |
|--|----------------|--|-------------------|--|--|--|--|--|

| | | | | | | | | |
|---|-------------------------------|--|-----------------------------|---------------------------------|-------|--|--|--|
| | Credit Register | | | Sl. No. 11 of Annexure | 22(a) | | | |
| | II) Cash Register | | | Sl. No. 11 of Annexure | | | | |
| | Total GST Paid | | 9(3)+9(4+5+ 6+7) | | | | | |
| 4 | Exports (Value & Quantity) | | 4(C+D+E) +5 (M) | Sl. No. 4 (8) Of Annexure | | | | |
| | a) Under Bond | | | | | | | |

| | | | | | | | | |
|---|--|--|---------------|--|--|--|---|--|
| | I) Quantity | | | | | | | |
| | b) Value | | | | | | Schedule to Balance Sheet "(Earnings in Foreign Exchange- f.o.b of Exports)" | |
| | On payment of GST | | | | | | | |
| | (a) quantity | | | | | | | |
| | (b) value | | 4(C+D) | | | | | |
| 5 | Details of ITC taken and utilised | | | | | | | |

| | | | | | | | | |
|----|-----------------|--|--|--|--|--|--|--|
| a) | Opening Balance | | | | | | | |
|----|-----------------|--|--|--|--|--|--|--|

| | | | | | | | | |
|----|---|--|-------------------|--|-------|--|--|--|
| a) | ITC Taken | | 6(O) | | 22(a) | | | |
| b) | ITC Utilised | | 9(4+5+6+7) | | 22(a) | | | |
| c) | I) Payment of duty of goods | | | | | | | |
| d) | II) Payment of duty on Services | | | | | | | |
| e) | III) Removal of Inputs & Capital Goods as such | | | | | | | |
| 6 | Consumption of major Raw material in manufacture | | | | | | | |

| | | | | | | | | |
|--|-------------|--|--|--|---------------|--|------------------------------|------------------------------|
| | a) Quantity | | | | 28(b)(A)(iii) | | Schedule to Balance Sheet | Part A - QD (b) (4) |
|--|-------------|--|--|--|---------------|--|------------------------------|------------------------------|

| | | | | | | | | |
|----|----------------------------------|--|--|--|--|--|--|--|
| | b) Value | | | | | | Schedule to Balance Sheet Schedules to P & L Account | |
| 7 | Sale of Waste & Scrap | | | | | | | |
| a) | Quantity | | | | | | | |

| | | | | | | | | |
|----|-------------------------|------------------------------|--|--|---------------------------------|--|--|--|
| b) | Value | | | | 28(b)(A)VII I 28(b)(B) VI | Under Head "Other Income" | | |
| 8 | Power & Fuel | | | | | Under Expenditu re- Power & Fuel | Annexure to Director's Report Schedules to P & L Account | |
| 9 | Written off stocks | Account of stock of goods | | | 28(b)(A)VII I 28(b)(B) VI | Expenses for write off | Obsolete | |

Note: Numbers mentioned in the blocks above denote S. No. of respective return/ financial statement

- Specified assessee among the notified industries under Cost Accounting Record Rules, under Section 233B of Companies Act, 1956. ## - Units whose turnover is more than Rs.40 Lakhs, return under Section 44AB of the Income Tax Act, 1961 @ - Under Section 211 of the Companies Act, 1956.

@@ - Companies other than the companies claiming exemption under Section 11 of the IT Act, 1961

(+) Auditor to obtain the information from the auditee while forwarding GST ADT-01

(++) Annual Return to be filed by the Registered person under Rule 80 of PGST Rules other than an Input Service Distributor, other than an Input Service Distributor, a person paying tax as TDS/TCS, a casual registered person and a non-resident registered person,

Note: Wherever it is possible, the data may be downloaded from GSTN Portal

ANNEXURE – GSTAM- VI

**QUESTIONNAIRE FOR REVIEW OF INTERNAL CONTROL SYSTEM
AND WALK THROUGH.**

PURCHASES – INWARD SUPPLY

- a) Whether all purchases are centralized or de-centralized. If all purchases are authorized by few key persons like owner or Managing Director etc., it may require in-depth study of purchases.
- b) Whether all the purchases are made only by issue of purchase order and whether different series of purchase order are issued. Also, the issuance of series of purchase order is centralized in the purchase section. Are there any cases where purchases have been made without issue of purchase order?
- c) Whether there is a system of authorized Vendor List. If not, what is the system of approving particular vendor? Are there instances where substantial purchases have been made through unauthorized vendors?
- d) Whether rejected inward supply are stored separately. What is the system of accounting for the rejected inward supply/short quantity?
- e) Whether for purchase returns, debit notes are issued?
- f) At what stage ITC is availed, i.e. either before testing for rejection or after testing for rejection?
- g) On the inward supply rejected or short quantity received, whether the ITC reversal is done on each invoice basis or on monthly basis.

OUTWARD SUPPLY

- a) What is marketing pattern- is it through depot, stockist, C&F agent related person or directly by the Auditee?
- b) How many series of outward supply /GST invoices are generated? For example, there can be different series for outward supply, export supply, scrap, other items and job work
- c) Whether all different series of invoices of out ward supply are entered in one outward supply account or in different outward supply account.
- d) Who authorises for despatch of outward supply?
- e) Whether any charges for erection/commissioning collected?
- f) Whether Tax invoices are issued for composite supply of both goods and erection & Commissioning (which involves applicability of rate of tax of principal supply, viz., goods)?
- g) Whether any materials supplied to the recipients at free of cost?
- h) Any amount for marketing expenses, Advertisement, Royalty, Handling Charges, Packing Charges, Warranty, after sales service and Insurance received from recipient in any manner?
- i) Whether commercial invoices and outward supply invoices (Tax Invoices under

GST) are same or different?

- j) Who is authorized to fix the price of outward supply and whether any printed price circulars are issued?
- k) Who is authorized to make supplementary outward supply invoices or debit note for price variation/additional recoveries (advertisement, after sales service, additional packing, insurance, freight, depot charges)?
- l) Whether outward supply figures mentioned in GSTR1 are tallying with the records maintained by the Auditee?
- m) Whether any goods were received for repair etc. on return by the recipients?
- n) Types of discounts given and how are they accounted for in relevant records.
- o) Whether recipients' accounts are debited with the net amount of invoice or gross amount?

STORES

- a) Whether receipt in the stores record are shown only after inspection of inward supply or before inspection.
- b) What is the frequency of stock taking of all the items? How difference is accounted for and what reports are prepared.
- c) What is the frequency of physical inventory for high value items (A category in ABC analysis) whether a report is prepared for stock verification and put-up to management and what is the frequency of reporting?
- d) For inward supply covered by insurance claim what is the procedure for filing the claim. Whether such inward supply are entered in the store register or these are shown in separate account. Whether any register or report is prepared for all such claims.
- e) What are the records maintained for inward supply sent out for Job Work? Whether scrap is received back or job work price is adjusted.
- f) How the defective/damaged in ward supply are reflected in the books of accounts?

TAX ACCOUNTING

- a) Whether GST paid on inward supply are shown separately in purchase account?
- b) Whether GST payable on outward supply made and shown separately in outward supply account?
- c) In case of capital goods whether full value including GST is debited in the books or net value is shown in the capital goods account.
- d) In case of capital goods fully written off whether GST deducted from such expenditure account or not?
- e) What is the system to check GST liability (payment through Electronic Cash ledger

/ Electronic Credit Ledger) as shown in the financial records with the GST records? Whether any reconciliation is made for the differences?

JOB WORK

- a) Whether any input/output ratio has been determined for sending the input for job work.
- b) What are the records maintained for sending inputs for job work (either directly from the supplier of inputs/ from the place of business of the Auditee) and whether the records show quantity of inputs sent, quantity of final product to be received, actually received and variation?
- c) Whether any monthly or periodic statements are prepared for each job work and at what level the statements are verified for taking corrective action?
- d) What is the system of treatment of scrap generated at job worker? Whether it is brought back to the Auditee's premises or allowed to be disposed off by job worker?
- e) Whether the finished goods after job-work are being supplied from job-worker's premises.
- f) When the inputs sent for job work are not received back from the job worker in time (one year), what action is taken by the auditee and what accounting treatment is done for the same?
- g) When the capital goods sent for job work are not received back from the job worker in time (three years), what action is taken by the auditee and what accounting treatment is done for the same?
- h) Whether the processed inward supply after conversion into outward supply are sold by the principal directly from the premises of Job-worker?
- i) Whether outward supply are made after transferring the same to any other place from the job-worker's premises?

WALK THROUGH

Flow chart showing movement of transactions; same route can be followed for walk through process. (Consider only such part of flow chart as applicable in case the supplier being manufacturer or directly supplying goods procured as such)

I. Purchases

Vendor Development / Supplier identification



Quantification of requirements - Technical literature



Tender Document



Hire purchase -- Leasing agreements-- Project reports



Purchase Order (Register of purchase Order)



Credit notes - Vouchers - Cheque book -- Bills payable



Debit notes (for purchase return)



Purchase book



Purchase Return Book



Waste Register

II - INPUT TAXCREDIT

Gate Register



Weighment register/slips



Material receipt -- Loss in Transit /Rejects



Lab tests ----- Rejects/ return / debit note



Return of reject / rejected inputs – Tax Invoice/ debit note
inward supply Leased.



inward supply written off –



Capital goods fixed Asset register –Depreciation-I.T. return



Annual report -- Fixed Asset schedules / Depreciation schedules



Credit notes from suppliers



Tax Invoices for supply of inputs as Outward supply (as such) / transfer 'assets'.

III. Outward supply

Tender files



Outward supply/ sales order Book—Scrap Register



Marketing files



Price lists



Dealers agreement -- Distributor Agreements



Delivery note – Invoices



Dispatch advice



Invoices register

Part B- SUPPLY OF SERVICES

QUESTIONNAIRE FOR REVIEW OF INTERNAL CONTROLS

A. Flow Chart showing manner of verification of transactions and documents during Walk Through and Audit.

1. Verification of Supply of Services and Income:

- File of correspondences with the client/customer
- Quotation/Tender files
- Cost sheet to work out approximate cost of service (eg. cost of A.M.C., Advertisement cost)
- Price List (in cases where price of services are fixed as in case of Insurance Premiums, Cable Operators, Coaching Centres).
- Booking Register (eg. in case of Mandap keeper, Convention Centre, tour operators).
- Service Agreement/Contract like Agreement for Technical consultancy.
- Job cards/work statements (eg. In case of AMC or repair of vehicle, job card may show value of services and material used)
- Invoices/Receipts
- Income Register/ Debit Notes
- Customer's ledger Account (to verify total amount billed, by way of invoice, debit note, payment received, credit note issued) ➤ GST returns.

2. Receipt of Inputs (including goods and services – Inward supply) and availment of ITC there on

- Vendor/Supplier list
- Correspondence with vendor/supplier
- Tender/Quotation documents
- Purchase Order
- Purchase invoices/bills
- Debit Notes (for return of input services)
- Purchase Register
- Ledger Accounts of inward suppliers (to verify the date of payments for inputs)
- Bank Account/ Cash Account (to verify random cases for payments in respect of inward supply)
- Verify use of inputs (eg. use of telephone for output services or for non- taxable work, insurance for property used for output services)
- Verify ITC register maintained if any
- Verify relevant GSTR 3Bs and GSTR9/ GSTR9C

3. Accounts and records:

- Whether accounts are prepared on mercantile basis or cash basis?
- Whether the Accounts are maintained electronically? If yes, the name of accounting packages/computer software installed for maintaining accounts in the units like Tally, FAS etc.
- Whether accounting software was switched over to some other software during the audit coverage period.
- Whether any changes have been made in the accounting policies affecting GST liability relating to reimbursement of expenses, timing of payment of GST and treatment of payments in foreign currency?
- Whether accounts are audited by Statutory Auditor? If so, name and address of the auditor?
- Whether Cost Accounting records as prescribed under Section 148 of the Companies Act, 2013 are required to be maintained?
- Whether Cost Audit is conducted and if yes report thereof is prepared? ☐ Whether there is any system of Internal Auditing?

4. MIS

- What is the organization structure?
- Who is responsible for billing and outward supply?
- What reports are given to his seniors on the daily, weekly, monthly sales? Give sample copies?

AUDIT PLAN**Part-A for Goods**

Note: This is only an illustrative Audit Plan for M/s ABC Paper Mills.

Plan for each unit should be prepared based on the specific requirement.

Guidelines for filling in the Audit Plan:

| Sl. No. | Subject | Specific Issue | Source Document | Back-up Document(Records /Registers/Accounts maintained U/S 35 PGST Actread with rule 56 of PGST Rules) | Coverage Period | Selection Criteria |
|---------|----------------------|---|----------------------|---|---------------------|--|
| 1 | Classification (HSN) | Availing exemption by claiming a specific heading/conditional exemption | Invoice/ GST returns | 1. R M Procurement Register 2. Production Control sheets/register 3. Labreports. | For months: | All documents |
| 2 | Valuation | Turnover Discounts | GST Invoice | 1. Commercial invoice 2. General ledger 3. Credit/ Debit notes | Entire Audit period | All invoice serial numbers ending with5. |

| | | | | | | |
|---|-----------|---|---|---|------------------------------|--|
| 3 | Valuation | Sale to related person | (In case goods are subsequently sold by related party) 1. GST Invoices issued by manufacturer/supplier of goods to related persons 2. Invoices issued by the related person to the customers. | 1. Agreements relating to sales 2. Party ledgers | Second quarter audit year(s) | All invoices pertaining to related buyer |
| 4 | ITC | Receipt of actual quantity vis-à-vis quantity on which credit taken | 1 Input invoices Credit availment register | 1. Material receipt note/register 2. Insurance claim documents for transit losses Stores ledger | Entire Audit period | All invoice |

1. Subject: - For example classification, valuation, ITC etc.
2. Specific Issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject. For Example Discounts passed on to the buyer, Utilization of inputs for repair/re-processing, etc.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of GST, to be verified. For example GST Invoice showing a particular discount.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example Commercial invoice, party ledger, discount policy documents, price circulars, etc. reflecting the said discount.
5. Period of coverage: - Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.

Selection Criteria: - In case, the volume of documents for verification is large, the auditor may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The

sample should be chosen in such a way that it represents the whole, uniformly.

Part-B (Services) Note: This is only an illustrative Audit Plan.

Guidelines for filling in the Audit Plan:

| Sl. No. | Subject | Specific Issue | Source Document | Back-up Document(Records/Registers/Accounts maintained U/S 35 of PGST Act read with rule 56 of PGST Rules) | Coverage Period | Selection Criteria |
|---------|---------|----------------|-----------------|--|-----------------|--------------------|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |

1. Subject:- For example classification, valuation, ITC etc.
2. Specific Issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of service tax, to be verified. For example, GST Invoice showing a particular value.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example, Commercial invoice, party ledger, discount policy documents, Agreement/MOU etc. Reflecting the value mentioned in the source document.
5. Period of coverage:- Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.
6. Selection Criteria:-In case, the volume of documents for verification is large, the audit or may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The sample should be chosen in such a way that it represents the whole, uniformly.

ANNEXURE VIII: WORKING PAPERS

Date of Preparation _____

W/PNo.

I. DETAILS OF AUDIT

1. GSTIN:
2. Address:
3. Principal place of business:
4. Period covered in Present Audit:
5. Date of audit :
6. Date of submission of audit report :
7. Draft audit report No. : 8. DETAILS OF THE AUDIT TEAM :

| S. No. | Name of the officer | Designation |
|--------|---------------------|-------------|
| | | |
| | | |
| | | |

9. Major audit objections in earlier audit reports :

II. NATURE OF BUSINESS OPERATION OF THE AUDITEE

1. Brief description of the main goods or services being supplied in the proforma given below:

| Sl. No. | Principal outward supply | HSN/SAC | Rate of tax | Exemption Notification availed (If any) |
|---------|--------------------------|---------|-------------|---|
| | | | | |

2. Details of principal inputs/input services/capital goods used by the auditee.

| Details of Principal* Inputs/Input services/Capital Goods | | | |
|---|--------------------------------------|---------|-------------|
| Sl. No. | Input/ Input services/ Capital Goods | HSN/SAC | Rate of GST |
| | | | |

3. Brief details of the revenue for the last three financial years in the proforma:-
Given below

| Year | Output Tax Liability | | | | | Total GST payment (in Rs.) | |
|---------|----------------------|------|------|------|------|----------------------------|------------|
| | Turnover | CGST | SGST | IGST | Cess | Cash | ITC credit |
| 2017-18 | | | | | | | |

| | | | | | | | |
|---------|--|--|--|--|--|--|--|
| 2018-19 | | | | | | | |
| 2019-20 | | | | | | | |

*Principal: that which contributes 10% of the inputs/input services/capital goods used.

III. **DESK REVIEW AND AUDIT PLAN:** **(PROCEDURE / FORMATS SEPARATE FOR GOODS AND SERVICES)**

PART –A: GOODS

Date of Preparation

1. The auditor should check whether the Master File of the auditee is available in MIS Section and whether the same is complete. If not the auditor should complete the same as far as possible from the information available in the office.

Go through the information available in Auditee's Master File. Identify and mention (with justifications), the areas or issues which merit inclusion in the Audit Plan.

-
2. Obtain and study other documents specified for **Desk Review** and conduct examinations. List out the documents studied.

| Sl No. | Name of the document/report * | Perio * | | Remarks |
|--------|-------------------------------|---------|----|---------|
| | | From | To | |
| | | | | |
| | | | | |

3. **RATIO ANALYSIS OF DATA BASE:**

Work out some of the important financial ratios. Mention the important indicators, which require to be included in the Audit Plan.

The results of Ratio analysis may be summarized in the following table.

| | RATIO | 2017-18 | 2018-19 | 2019-20 |
|--|--------------|---------|---------|---------|
|--|--------------|---------|---------|---------|

| | | | | |
|-----|---|--|--|--|
| (a) | Current assets: current liabilities | | | |
| (b) | Total turnover: total taxable turnover | | | |
| (c) | Total turnover: non-taxable turnover | | | |
| (d) | Zero rated turnover: Total turnover Ratio | | | |
| (e) | ITC: Turnover ratio | | | |
| (f) | ITC : Total Tax paid ratio | | | |
| (g) | ITC availed: Tran 1 credit | | | |
| (h) | ITC availed: Tran 2 credit | | | |
| (i) | Inward supply value: outward supply value | | | |
| (j) | ITC availed on capital goods: Total ITC availed | | | |
| (k) | Cost of Power/ fuel: total turnover ratio | | | |
| (l) | Gross profit: Total Outward supply | | | |
| (m) | Scrap: production of goods | | | |
| (n) | Quantity of Actual production to installed capacity | | | |

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

| S. No. | Analysis Description | Results of Analysis Performed | Auditor's Remarks |
|--------|----------------------|-------------------------------|-------------------|
| | | | |
| | | | |
| | | | |
| | | | |

Mention changes in the law and rates of tax pertaining to the outward supply and inward supply since previous audit.

4.

5. Mention details of Anti-evasion cases booked in recent past or are in progress and past audit objections, which have not been settled so far, by way of auditee acceptance, adjudication, appeals etc.

6. Give details of important areas (pertaining to the goods supplied, rate of tax, exemption notification and ITC availment on inward supply to be included in the Audit Plan with reasons thereof.

| 7. TREND ANALYSIS: Manufacturing:- Year | 2017-18 | 2018-19 | 2019-20 |
|---|------------|------------|------------|
| Major Finished goods (Description of items) | | | |
| Quantity of Major Finished goods | | | |
| Value of Major Finished goods | | | |
| Cost of production of major finished Goods (as per cost record) * | A B C ---- | A B C ---- | A B C ---- |
| Quantity of inputs consumed in the production of Finished Goods * | | | |
| Value of inputs consumed in the production of Finished Goods * | | | |

| | | | |
|---|--|--|--|
| Production of finished goods/outward supply* | | | |
| Production of scrap/ Production of finished goods | | | |

| | | | |
|--|--|--|--|
| Value of outward supply made to related/distinct person vis-a-vis total value of supply. | | | |
|--|--|--|--|

Trading:

| Year | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|
| Total Outward Supply | | | |
| Total Inward Supply | | | |
| Taxable Outward | | | |
| Exempt Outward | | | |
| RCM | | | |
| Zero-rated | | | |
| Gross profit Vis-a-vis total outward supply | | | |
| Zero Rated supply/total outward supply | | | |
| Total Inward supply/Total outward supply | | | |
| Value of outward supply made to related/distinct person vis-a-vis total value of supply. | | | |

Services:

| Year | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|
| Total Outward Supply | | | |
| Total Inward Supply | | | |
| Taxable Outward | | | |
| Exempt Outward | | | |
| RCM | | | |
| Zero-rated | | | |
| Value of Outward supply | | | |
| Gross profit Vis-a-vis total outward supply | | | |
| Zero Rated supply/total outward supply | | | |
| Value of outward supply made to related/distinct person vis-a-vis total value of supply. | | | |

Job Work:

| Year | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|
| Inward Supply from Principal | | | |
| Outward Supply to Principal | | | |
| Own Account supply | | | |
| Value of Outward supply | | | |
| Gross profit Vis-a-vis total outward supply | | | |
| Production of scrap/ Production of finished goods | | | |
| Zero Rated supply/total outward supply | | | |
| Value of outward supply made to related/distinct person vis-a-vis total value of supply. | | | |

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

| S.No. | Analysis Description | Results of Analysis Performed | Auditor's Remarks |
|-------|----------------------|-------------------------------|-------------------|
| | | | |
| | | | |
| | | | |
| | | | |

8. STREAM OF FINANCIAL AND TAX ACCOUNTING INFORMATION:

- Major Income:
- Major Expenditure (any RCM):
- Any import of Services:
- Foreign Remittances:
- Securities /Land/Building: ☐ Advances:

GATHERING INFORMATION ABOUT AUDITEE AND THE SYSTEM FOLLOWED BY HIM

Date of Preparation _____

INTERVIEWS

- i. _____ Person(s) Interviewed, their designation and dates of interview.

Give the gist of interviews especially in respect of

- i. related ventures, business with these ventures and annual volume of such transactions,
- ii. relationships with the unit and its owners /share holders,
- iii. the head office / registered office of the unit, location of its operations and location of its accounting records
- iv. whether auditee is an ancillary unit or independent unit of production v. internal controls in the unit.
- vi. Any organizational or systemic changes that has occurred since last audit. Mention issues to be included in the Audit Plan

EVALUATION OF INTERNAL CONTROLS

Date of Preparation _____

-
- i. Perform a walk through of the process of compiling GST return for one month, tracing from the tax return amounts backwards through to their sources. Check supply as per outward supply Account in ledger with value shown in monthly return. Mention any new area need to be included in the

Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

- ii. Evaluate the soundness of level of Internal Control of each of the following areas/sub-systems and grade them **as good, acceptable or poor** in the following format:

In case quantum of data/information to be analysed is **voluminous**, apply **ABC** analysis.

| Name of area/sub system | Grade (good/acceptable/poor) | Problem areas if any |
|---|------------------------------|----------------------|
| Outward supply | | |
| Inward supply | | |
| Tax Accounting. | | |
| Posting to General Ledger and Journals (especially of high value transactions). | | |
| Recording of invoice. | | |

- iii. Any other relevant information gathered by the audit or during the course of Evaluation of Internal Control. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

AUDIT PLAN:

Date of Preparation

Audit Plan approved by

- i. The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit.

IV. AUDIT VERIFICATION AT THE UNIT: A.

OUTWARD SUPPLY INFORMATION:

Date of Preparation

- i. Indicate marketing / clearance pattern in the following proforma:

| Sr. No. | Nature of Sale/Transfer etc | Yes | No | If yes, description of product (s) | *Practice of valuation followed by auditee |
|---------|-----------------------------|-----|----|------------------------------------|--|
| | | | | | |

| | | | | | |
|----|--|--|--|--|--|
| 1. | Direct Supply by the RP | | | | |
| 2. | Supply through agents | | | | |
| 3 | Outward supply made from Job-worker's premises directly to the customers | | | | |

- ii. Cross Check some invoices with customer account (also check debit and credit notes).

- iii. Identify other revenues as reported in the financial statements (Incomes other than from sales).
Mention such other revenues which may form part of the assessable value

B. INWARD SUPPLY (INPUTS)/INPUT SERVICES INFORMATION:

Date of Preparation

a. Goods

- i. List major suppliers, inward supply of goods purchased and indicate annual volume in Rupees.
Whether there are inward supply purchased from related units?

- ii. Examine selected creditor's account (supplier) for each major input to find

out any purchase returns, short supply, rejection of goods etc. and its impact

on ITC availment.

iii. Study the purchase details of major capital goods acquired and in the course of or furtherance of business.

b. Services

i. List major input services on which credit has been availed and their supply

ii. Examine selected 'credit accounts' for each major input services to verify whether payment has been made for the services procured within 180 days.

iii. Examine whether any input services may have been used in the exempted supply.

-
- iv. Examine whether any taxable services have been received from a service provider located outside India and verify whether GST due on such transactions if any, has been paid.
-
-

C. OTHER INFORMATION:

Date of Preparation

- i. Study whether any goods have been sent for job work or have been received for job work. Study the valuation and ITC availment in such cases Mention issues to be included in the Audit Plan.
-
-

V. VERIFICATION AS PER AUDIT PLAN:

The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy/audit point. The verification reports in respect of issues verified which was not part of original Audit Plan but verified later should also be mentioned at the end.

Proforma of a Verification Report

V. P.NO DATE

- i. Name of the auditor verifying the issue:
ii. Issue involved in brief:
iii. Documents verified:
iv. Brief account of the process and extent of verification:
v. Auditor's observation and conclusion in brief:

- vi. Quantification of revenue involved, if any (also give the calculation sheet):
- vii. Documents relied upon to support the conclusion:
- viii. Party's agreement : Yes/No ix. If yes : In writing/Oral
- x. Amount of recovery, if any:

Supervisor's remarks and signature.

Signature of the auditor

VI. POSTVERIFICATION

(to be filled up before leaving the registered person's unit)

Date of Preparation

- A. Indicate information provided and specific actions suggested to the registered person to improve future compliance.

- B. SUMMARY OF AUDIT RESULTS/MAJOR FINDINGS

IV. ON CONCLUSION FINAL AUDIT REPORT IS REQUIRED TO BE SENT IN GST ADT - 02 TO THE AUDITEE WITHIN 30 DAYS

**VERIFICATION OF RECORDS/REGISTERS DURING THE COURSE OF AUDIT
VERIFICATION**

- I. Records to be verified in the marketing and outward supply department**
 - a) Purchase Orders
 - b) Price Circulars
 - c) Delivery Challans
 - d) Material Transfer note
 - e) Sales/Outward supply Book

- II. Records to be verified in the stores department (Where applicable)-**
 - a) Stores Ledger
 - b) Goods Receipt Note (GRN)/Material Receipt Note/Inspection Cum Receipt Report(ICRR)
 - c) Material Return Note
 - d) Waste Register
 - e) Physical Stock Verification Statement
 - f) Job work Register

- III. Finance & Accounts related records-**
 - a) Ledgers
 - b) Debit Note
 - c) Credit Note
 - d) Journal Voucher
 - e) Internal Audit Reports
 - f) Purchase Book
 - g) Purchase Return Book
 - h) Fixed Assets Register
 - i) Monthly Stock Statement to Bank

I. Records to be verified in the marketing and outward supply departments–

| Sr. No. | Nature of the document and nature of verification to be carried out |
|----------------|---|
| 1. | Purchase order placed by Customers |
| | <p>Nature of Document: This document denotes the price and other conditions laid for purchase of goods/services by the customers.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none">a) To verify the terms and conditions especially with respect to price revision, supply of any material/component by the customer, erection and commissioning charges. The total price charged in the Purchase Order may be compared with the Taxable value invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note.b) To verify whether GST invoice is raised for full amount as per the Purchase Order.c) Taxability of outward supply of samples may be verified. |
| 2. | Price Circular |

| | |
|-----------|---|
| 3. | Delivery Challan |
| | <p>Nature of Document: Delivery Challan is the document used for movement of goods where such movement is not in the nature of supply. It indicates the description of goods, quantity cleared and recipient of goods.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none">a) Check how many series of DCs are issued and which sections are preparing these.b) D.C. Register should be verified to ascertain whether materials sent for job work has been received back within the stipulated time, if not, whether appropriate duty has been paid or not.c) Verify whether GST has been paid on scrap cleared under DC.d) Replacements/Samples may have been cleared under the cover of DC without invoice. |
| 4. | Material Transfer Note |

| | |
|-----------|---|
| | <p>Nature of Document: This document is used for inter-unit transfer of materials & for inter-branch transfers within a unit.</p> <p>Nature of Verification: Valuation and taxability to be ascertained where inter-branch transfer take place between two branches or units that are separately registered under GST.</p> |
| 5. | <p>Sales/outward supply Book</p> <p>Nature of Document: This document is used for recording all outward supply of goods.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none"> (a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined. (b) Verify how many series of invoices are used for outward supply of goods. (c) Whether Debit Notes/Journal Vouchers are also entered in the outward supply register. If yes, whether taxable value duty is payable on additional considerations received through such Debit Notes/JVs. (d) Outward supply register normally shows taxable value and duty separately. Verify the cases where taxable value and duty has not been shown and find out the reasons there of. |

II. Records to be verified in the stores department (where applicable)-

| Sr. No. | Nature of the document and nature of verification to be carried out |
|----------------|---|
| 1. | Stores Ledger |
| | <p>Nature of Document: It contains details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and its write off etc.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none">a) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records.b) Compare the purchase as per ITC documents with receipt in the store records.c) Verify whether any shortage found on physical verification as per store records.d) Verify whether any item written off due to obsolescence.e) Verify whether any input cleared as such and whether proper tax is paid or not. |
| 2. | Materials Receipt Note/Goods Receipt Note (GRN)/Inspection cum Receipt Report (ICRR) |

| | |
|-----------|---|
| | <p>Nature of Document: The MRN/GRN is prepared by the Stores Department for all goods received in the unit. It shows the details like actual quantity received, quantity as per challan/invoice, quantity short received. The ICRR is prepared by the quality control department and it shows the quantity accepted, quantity rejected and the reasons for rejection.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none">a) Check the cases of short receipt and rejected goods and verify whether ITC has been reversed.b) Verify in random cases, whether for ITC availed invoices, corresponding GRNs are available or not. |
| 3. | Material Return Note |

| | |
|-----------|--|
| | <p>Nature of Document: This document is raised by various departments of the unit to return the material to stores. Similarly, this document is prepared by the Stores Department for returning the goods back to the supplier.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) In case ITC availed materials are returned to supplier whether ITC availed on the same has been reversed or whether appropriate GST has been discharged. b) In case MRN is raised by shop floor for rejection of raw material, the ITC treatment may be examined. |
| 4. | Waste Register |
| | <p>Nature of Document: This document details the raw material or components are not in useful condition and they are transferred to Bad Bins. These goods are also known as obsolete items.</p> <p>Nature of Verification: The Auditor should verify the concerned records seeking reversal of ITC on such unusable inputs.</p> |
| 5. | Physical Stock Verification Statement |

| | |
|-----------|---|
| | <p>Nature of document: The companies undertake periodic stock verification where book stock is compared with physical stock. The statement showing book stock, physical stock and variation is prepared on each such stock verification. Most of the companies undertake quarterly, half-yearly and annual stock verification.</p> <p>Nature of verification:</p> <ul style="list-style-type: none"> a) Stock verification statement should be examined to find out the cases of shortages or excesses. In case discrepancies are not explained, action may be taken either for demanding reversal of ITC or demanding GST. This statement may also be available in the Cost Audit Report. b) On the basis of such statement, stock adjustments are made in the financial records by passing a Journal Voucher. The said JV may also be examined for the adjustments carried out by the unit. |
| 6. | Job Work Register |

Nature of Document:

This register indicates activity sub-contracted outside i.e. including goods sent for job-work.

Nature of Verification:

- (a) To study whether all materials sent outside for job work have been received back within the time stipulated.
- (b) In case the job worker discharges GST, then valuation of such goods should be examined as to inclusion of any freely supplied material in the value.
- (c) Receipt of scrap generated at job workers premises should be verified.

III. Finance & Accounts related records –

| Sr. No. | Nature of the document and nature of verification to be carried out |
|----------------|--|
| 1. | Ledger |
| | <p>Nature of document: Ledger is a book where transactions of same nature are grouped together in the form of an account. Ledgers are of three types:</p> <p>1. Debtor's Ledger: This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of outward supply invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account.</p> |

| | |
|--|---|
| | <p>Nature of verification:</p> <ul style="list-style-type: none"> a) Ledger account of the major customers should be scrutinized and it should be verified as to what are the documents used for recording the outward supply of the goods. These documents may be outward supply invoices or debit notes or JVs. If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether on the taxable value GST has been paid or not. b) If substantial amount of advances is recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balances showing receipt of advance payment. The same should be examined as to whether GST has been discharged on such advances received. |
|--|---|

2 Creditor's Ledger: This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared by the unit for rejection of purchase material or for short receipt of purchase material.

Nature of verification:

- a) If the supplier's account shows details of debit note or JV, the reasons thereof may be inquired into and whether ITC has been reversed or not may be verified.
- b) Check whether the payment for the supply received has been discharged within the period of 180 days. If not, it needs to be verified whether ITC for the same has been reversed with interest.

3 General Ledger: This Ledger contains all accounts of assets, liabilities, Incomes and expenses. Scrutiny of this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of GST on the taxable value. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below:

- a) Credit entries in raw material purchase account
- b) Credit entries in expenses account.
- c) Income accounts.
- d) Unusual account.

| | |
|----|---|
| | <p>Nature of verification:</p> <ul style="list-style-type: none"> a) All the important input purchase accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether ITC has been reversed or not. b) Raw material consumption account may also be verified to find out with regard to writing off obsolete material or cases of shortages noticed during physical stock verification. c) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Outward supply Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. d) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such income's accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the GST liability. e) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized so as to find out the exact nature of such accounts. f) The tax audit or may also verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of GST on the taxable value has been paid or not may be inquired into by the tax auditor. |
| 2. | Debit Note |

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| | <p>Nature of Document:</p> <p>Debit note is an accounting document that is usually issued by the person who is eligible to receive any amount from the addressee. Debit Note may be issued for various reasons like return/short receipt of goods purchased, increase in the rate/quantity of the goods sold, recovery of packing charges, warranty charges, after- outward supply service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker.</p> |
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| | <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) Since the number of Debit Notes issued by a unit are generally not very large, therefore all Debit Notes must be studied by a Tax Auditor. b) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore, such documents should be studied in detail. c) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note. The taxation aspect of the same to be examined. Where the debit note has been issued for additional recoveries from the customer it needs to be verified whether GST has been discharged on the same. Where the Debit note has been issued for the rejection or short receipt of inputs or and deficiency in input services, the corresponding ITC reversal needs to be examined. |
| 3. | Credit Note |

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| | <p>Nature of Document:</p> <p>Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reason like return of goods by the customer (outward supply's return) etc.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) Since the number of Credit Notes issued by a unit are generally not very large and issuance of same will result in reduction of tax liability for the unit, therefore all Credit Notes must be studied by a Tax Auditor. b) The Credit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Credit Note. Therefore, such documents should be studied in detail. |
| 4. | Journal Voucher (JV) |
| | <p>Nature of Document:</p> <p>JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of royalty.</p> |

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| | <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half year ending month or year ending (September and March in the case of units following April to March as accounting year) must be verified. b) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts. c) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centers may account for consumption of raw material for each center on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of ITC for entire year as only one JV is required to be examined for each month. d) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is e) passed. f) Sometimes additional consideration may be collected from customer by issuing a simple notice to the customer (without issuing any debit note or outward supply invoice). In such cases these transactions are accounted for through JVs. g) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV. |
| 5. | Internal Audit Report |

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| | <p>Nature of Document: This is the report submitted by internal auditors appointed by the company which looks in today-to-day activities and the systems followed by the unit.</p> <p>Nature of verification: a) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of ITC, collection of additional consideration</p> |
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| | <p>b) Verify whether any system changes have been advised and followed by the registered person. Also examine the implications on the past period for any short payment or non-payment of tax.</p> <p>c) Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs to be examined.</p> |
| 6. | Purchase Book |
| | <p>Nature of Document: This document shows credit purchase of raw materials and other inputs.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) To find out major suppliers and to examine their contracts. b) It may also show taxable value and GST separately. In that case taxable value and GST recorded in the purchase register may be reconciled with credit availed as per ITC return. |
| 7. | Purchase Return Book |
| | <p>Nature of Document: This book gives details of goods returned to suppliers.</p> <p>Nature of Verification: Verify whether ITC, if availed, on such goods has been reversed or they have been cleared on payment of GST.</p> |
| 8. | Fixed Assets Register |
| | <p>Nature of Document: This register contains the details of purchase invoice, date of installation, place of installation, addition/deletion to the asset and depreciation charged.</p> <p>Nature of Verification:</p> <ul style="list-style-type: none"> a) Deletion of Assets – Payment of GST on clearance needs to be verified. b) For physical verification, the location may be found out from this register. |
| 9. | Monthly stock statement to bank. |
| | <p>Nature of Document: Companies are required to file a stock statement every month to the banks when the stock is hypothecated for loans.</p> <p>Nature of verification: In such cases, verify the stock position as per statement given to the</p> |

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| | bank and the stock position as per company's private and financial records. |
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ANNEXURE – GSTAM- X

DRAFT OF THE notice TO BE WRITTEN BY THE AUDITEE UNDER SECTION 73(6) OF THE PGST ACT, 2017,

To,
The Assistant Commissioner
GST Audit wing

Sir, *Subject: notice given for waiver of show cause notice in terms of Section 73(5) of the PGST Act, 2017– reg.*

I/We M/s_____, address Falling under the jurisdiction of Range And Division_do hereby state and request as under:

a) As per the provisions of Section 73(5) of the PGST Act, 2017, where any GST has not been levied or paid or has been short levied or short paid or erroneously refunded, the person, chargeable with the GST, may pay the amount of such duty before service of notice on him under subsection(1) of Section 73 and inform the GST officer in writing in terms of sub section (5) of section 73, who, on receipt of such information shall not serve any notice in respect of the amount so paid;

b) During the course of verification of our records/returns, by the Audit team from the office of Audit wing, it is observed that there is a short payment / non levy / non - payment of GST / wrong availment of ITC on account of reasons mentioned as per the Annexure enclosed hereto. We have agreed to the points raised during verification / scrutiny and have paid the said amounts of duty and / or reversed the ITC of Rs._____vide PMT-06 Challan No./ ITC credit Register Entry No._dated_. We have also discharged the applicable interest liability.

c) In terms of the provisions of Section 73(6) of the PGST Act, 2017, we request that show cause notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non-payment / wrong availment of ITC are not intentional on our part.

d) We request that the above issues may be treated as closed with this notice since we have complied with the provisions of the GST law. It is hereby confirmed that this amount is paid voluntarily, and no appeal will be filed against such payment or we will not claim any refund in future.

Your faithfully

Date: _____

Place: _____

Signature CEO / Director / Authorised Signatory
(Name & Designation)

ANNEXURE GSTAM XI**Form GST ADT – 02***[See rule 101(5)]*

Reference No.:

Date:

To,

GSTIN

Name..... Address.....

Audit Report No..... dated.....

Audit Report under section 65(6)

Your books of account and records for the F.Y has been examined and this Audit Report is prepared on the basis of information available / documents furnished by you and the findings are as under:

| Short payment of Tax | Integrated tax | Central tax | State /UT tax | CESS |
|----------------------|----------------|-------------|---------------|------|
| Interest | | | | |
| Any other amount | | | | |

[Upload pdf file containing audit observation]

You are directed to discharge your statutory liabilities in this regard as per the provisions of the Act and the rules made there under, failing which proceedings as deemed fit may be initiated against you under the provisions of the Act.

Signature

.....

Name

.....

... Designation

.....

GSTAM ANNEXURE - XII

CHECK LIST FOR AUDIT OF TRADERS

1. INVOICING PATTERN:

- a) Whether the invoice issued contains all the information prescribed in Rule 46 of PGST Rules and is being numbered accordingly
- b) Whether invoice has been prepared in triplicate in the case of supply of goods as per Rule 48(1) of PGST Rules.
- c) Whether the receipt voucher issued for advance receipt has been made as per Rule 50 of the PGST Rules.
- d) Whether the payment voucher issued for advance payment has been made as per Rule 52 of the PGST Rules.
- e) Whether revised invoice or credit note or debit note issued contains all the information prescribed in Rule 53 of PGST Rules
- f) Whether the export invoice is being endorsed with the words “supply meant for export on payment of integrated tax or supply meant for export under bond or notice of undertaking without payment of integrated tax”

2. RETURNS:

- a) Check the details of outward supply furnished in **FORM GSTR-1** and compare it with the sales account maintained.
- b) Check whether Nil rated, exempted and non GST outward supply shown in **FORM GSTR-1** is proper.
- c) Check whether proper rate of tax was applied to outward supply shown in **FORM GSTR-1**.
- d) Identify Zero rated supply from **FORM GSTR-1** and compare it with the records maintained by the trader.
- e) Check whether returns have been furnished within the time specified under Section 39 of PGST Act.
- f) Cross-check the details furnished in **FORM GSTR-1** with those furnished in **FORM GSTR 3B** of the corresponding month.

3. INPUT TAX CREDIT AVAILMENT:

- a) Check whether the trader possesses all the invoices on which ITC was availed.
- b) Check whether ITC was claimed on any negative list of goods or services mentioned in Section 17(5) of PGST Act
- c) Check whether ITC has been availed in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, wilful

misstatement or suppression of facts which is not eligible in terms of Rule 36(3) of PGST Rules.

- d) Check whether the calculation for reversal of tax where the input / input services are partly used for business/non-business purpose or for exempt/taxable supply was done properly in terms of Rule 42 of PGST Rules.
- e) Check whether the calculation for reversal of tax when the capital goods are partly used for business/non-business purpose or for exempt/taxable supply was done properly in terms of Rule 43 of PGST Rules.
- f) Check items on which ITC availed from **FORM GSTR-2A** with purchase account maintained to ensure that the ITC was taken on the items actually purchased.
- g) Check whether depreciation has been claimed on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961 and availed the input tax credit on the said tax component which cannot be allowed in terms of Section 16(3) of PGST Act.
- h) Check whether payment has been made for value of supply to the supplier within 180 days from the of issue of invoice by the supplier in terms of Section 16(2)(d) of PGST Act to ensure that ITC was not taken in cases where consideration was not paid within the stipulated time.
- i) Check whether ITC was taken within the time limit stipulated in Section 16(4) of PGST Act.
- j) Detailed TRAN-1 and TRAN-2 Verification
 - a) To cross-check the veracity of information furnished under TRAN-1 vis-a-vis the books of account and last returns filed under the repealed Acts.
 - b) To check whether ITC has been properly claimed on Capital Goods as per the existing provisions of the State VAT Act.
 - c) Whether Inputs/Semi-finished goods/Capital Goods have been returned back to the Principal Place of business which were sent to Job Worker within the prescribed time as per Section 143.
 - d) To check proper availment of credit on transactions where trader has not submitted statutory forms under the PGST Act within the prescribed time.
 - e) Check whether the ITC taken after filing GST Tran-1 / Tran- 2 is proper

4. TIME OF SUPPLY AND VALUATION

- a) Whether “Time of supply of goods” was properly determined in terms of Section 12 (2) of PGST Act while discharging the tax payable.
- b) Whether time of supply of goods was properly determined in terms of Section 12(3) of PGST Act in case of payment under reverse charge and tax liability was discharged properly.

- c) Whether the discounts allowed are in accordance with regular practice of the dealer and the purchaser has paid the sum originally charged less the discount.
- d) Whether any amount, that the supplier is liable to pay but incurred by the purchaser, has been included in the value of supply
- e) Check whether interest or late fee or penalty for delayed payment of any consideration for any supply collected from the purchaser is included in the value of supply
- f) To check the time of supply of goods in cases where there is change in rate of tax U/s 14 of PGST Act.
- g) Whether the time of supply in case of Composite and Mixed Supply has been correctly determined.
- h) Check whether transactions have been made between related/distinct persons. If so, check whether there is significant variation in the value in compare is on to similar transactions with unrelated buyers.
- i) Whether the value has been determined in accordance with the Valuation Rules from Rule 27 to 35 of the PGST Rules2017.

5. PLACE OFSUPPLY

- a) Whether place of supply of goods has been properly determined in terms of Section 10 and 11 of IGST Act and tax has been paid accordingly.
- b) Whether place of supply of services has been properly determined in terms of Section12 and 13 of IGST Act and tax has been paid accordingly.

6. STOCKVERIFICATION

- a) Check the physical stock of taxable and risk-prone commodities which can be quantified.
- b) Check whether the stock-in-trade found at the time of Audit Visit tallies with the books of accounts maintained.

7. OTHER CHECKS

- a) Total taxable turnover as per GST Return vis-à-vis turnover as per financial accounts.
- b) Ratio between net purchases vis-à-vis Net Sales (Net Purchase=O.B.+ Purchases - C.B.)
- c) Value of Closing Stock vis-à-vis ITC balance.
- d) Value addition percentage vis-à-vis cash payment of GST to total liability
- e) Turnover before GST introduction to check suppression in value.

GSTAM ANNEXURE - XIII
CHECKS FOR COMPOSITE DEALER

| SR. NO | Source Documents | Manner of Ratio Calculation/ Study | Utilization of the Ratios/Study in Audit |
|---------------|--|--|--|
| 1 | GSTR 9 A as well as Profit & Loss account | Reconciliation | To check whether turnover is under the specified limit as per the Act |
| 2 | GSTR 9 A & Profit & Loss Account/ Income & Expenditure Account | Break up of Sales/Revenue from operations | Break up is to be checked with regard to income from Supply of Goods or Services with regard to study of exclusion as provided under Section 10 of PGST Act, 2017 |
| 3 | Balance Sheet & GSTR-9 A Return | ITC availed | As Composition taxpayer is not entitled to availment of ITC it needs to be verified. |
| 4 | GSTR-9 A Return | ITC reversal | ITC reversal is required while opting in composition scheme from regular tax regime. |
| 5 | Profit & Loss Account and GSTR 9A Return | Expenditure incurred on inward supply vis a vis tax paid under RCM | The expenditure incurred on inward supply (on which tax is liable to be paid under RCM) as provided in expenditure side of P& L Account can be matched with the value of such inward supply as mentioned in GSTR 9A, if any discrepancy found, checks can be performed in details during audit. |
| 6 | Profit & Loss Account and GSTR 9A Return | Amount of GST shown on expenditure side | As per Section 10 (4) of PGST Act, 2017, a composition dealer cannot recover tax from his customers on outward supply and tax is supposed to be borne by him from his own pocket. In other words Tax amount should be a part of the cost and should reflects in the expense side of P&L account. This can be verified and also reconciled with GSTR-9 Are turn |
| 7 | Profit & Loss Account/Trial Balance. | Scrap Sales: Sales | If ratio in the current year is lower, it may be on account of the clearance of scrap without payment of Tax |

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| 8 | Director's Report in Annual Report and Quantitative details of production from Profit & Loss Account | Power Consumption/Fuel consumption(Qty): Production Quantity | To identify suppression of production resulting into supply of unaccounted Goods without payment of Tax |
| 9 | Annual Report and documents pertaining to installed machinery. | Quantity of actual production (Nos./Kgs./Lt) : installed capacity | If the ratio is decreasing, there is a possibility of suppression of production and subsequent supply of Goods without payment of Tax |
| 10 | Schedule of Quantitative details of tax Audit Report as required under Section 44AB of Income Tax Act, 1961 | Study of Quantitative details of raw Material as well as Finished Goods | Along-with the Profit & Loss Account, quantitative details of the consumption of major raw materials is also required to be given. Such quantitative details show the quantity of major raw material consumed and Production thereof. Such information may be helpful in working out the input-out ratio which can indicate suppression of production of goods and supply thereof without payment of Tax. |
| 11 | Balance Sheet | Schedule of Current Liabilities | From the grouping of this schedule, Advance received from Buyers can be noticed. If any advance is received, then payment of Tax in the light of "time of supply of services" can be verified. |
| 12 | Trial Balance | Study of Income Accounts | Unusual income accounts may also be noticed in the Trial Balance. However, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny. |
| 13 | Trial Balance | Study of Expenditure Accounts | Some of the expenditure accounts on which RCM is applicable should also be selected to find out whether Taxpayer has paid Tax or not. For instance, Payment made towards Sponsorship services may be clubbed in the category of |

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| | | | Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance. |
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