



STATE TAX OF UTTRAKHAND

GOODS AND SERVICES TAX AUDIT MANUAL 2020

GSTAM-2020

**Department of State Tax
Ministry of Finance
Government of Uttarakhand**

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FOREWORD

The implementation of Goods and Services Tax is a revolutionary tax reform introduced in Independent India, which introduced a simplified and uniform tax system throughout the entire country. The basic objective of this tax system is to introduce uniform and transparent tax system along with ensuring ease of doing business by minimizing administrative interference. Under the G.S.T. Act, in order to reduce administrative interference the regular tax assessment of any taxpayer is not to be done by the department. Under the act each registered taxpayer has been made responsible to self assess the tax payable and file the return for each tax period. These provisions make it clear that the responsibility of compliance with the provisions of the act and the proper payment of the tax liability is entirely that of the taxpayer however, in case of non compliance by the taxpayer or non-payment of appropriate tax liability they may be identified through audit and appropriate procedures may be adopted. These provisions clearly indicate the crucial importance of role of audit under the GST. In order to make the process of audit transparent and effective, it is essential that a comprehensive, detailed and a simplified departmental manual is made available to the officials for the purpose of guidance and procedural uniformity for the audit team.

Taking cognizance of the departmental need, an audit manual committee was constituted consisting of senior departmental officials. The audit manual committee has prepared a manual for departmental use under the active guidance of senior officials.

The manual not only provides clear and transparent process for selection a taxpayer for audit but also includes clear instructions for enabling and making effective audit process. I am of firm belief that through this manual based audit process better tax compliance from taxpayer selected for audit would be ensured.

Dehradun,
october 2020

Dr. Ahmed Iqbal (IAS)
Commissioner, State tax,
Dehradun.

CHAPTER 1

INTRODUCTION & LEGAL AUTHORITY

1-Purpose:

- 1.1** The purpose of this manual is to outline the principles and policies of audits conducted under the UTTARAKHAND SGST ACT, 2017 and the Rules made thereunder. Guidelines provided herein are intended to ensure that the audit of taxpayers is carried out in a uniform, efficient and comprehensive manner, adhering to the stipulated principles and policies and as per best practices. Commissioner may amend this manual according to the departmental and functional requirements.

1.2 Provisions of the UTTARAKHAND SGST Act, 2017 for Audit:-

Section 2(13) of the SGST 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 thereunder 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 thereunder”.

Accordingly, ‘Audit’ implies –

(A) Detailed examination of

- i. records,
- ii. returns and
- iii. other documents -

Maintained / furnished by a registered person, 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, it also encompasses the verification of compliance of the provisions of the GST Acts, laws etc. by a registered person.

Relevant Statutory Provisions:

A) General Audit: Audit by tax authorities Sec. 65 of the UTTARAKHAND SGST 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 authorised 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 working 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 utilised, the proper officer may initiate action under section 73 or section 74.*

C) Provision for access to business premises and records of taxpayer for Audit:
Sec. 71 of the UTTARAKHAND SGST Act, 2017

- (1) *Any officer under this Act, authorized by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programs, computer software whether reinstalled in a computer or otherwise and such other things as he may require and which may be available at such place, for the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.*
- (2) *Every person in charge of place referred to in sub-section(1) shall, on demand, make available to the officer authorized under sub-section(1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66—*
- i. such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;*
 - ii. Trial balance or its equivalent;*
 - iii. statements of annual financial accounts, duly audited, wherever required;*
 - iv. cost audit report, if any, under section 148 of the Companies Act, 2013;*
 - v. the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961; and*
 - vi. Any other relevant record.*

For the scrutiny by the officer or audit party or the chartered accountant or cost accountant within a period not exceeding fifteen working days from the day when such demand is made, or such further period as may be allowed by the said officer or the audit party or the chartered accountant or cost accountant.

D) Prescribed Rules for Audit:

Rule 101 of the uttarakhand State Goods and Service Tax 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 authorised 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 utilised, 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 finalise 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.

E) Maintenance of Accounts and Records: Section 35 of the UTTARAKHAND SGST Act, 2017 read with Rule 56 of SGST Rules 2017 provides for maintenance of accounts and records by registered person. Further Section 36 of SGST Act and Rules 57 and 58 of SGST Rules may also be referred in this regard.

1.3 Calling for documents from the Registered Taxpayer:

The auditor shall intimate the date of conduct of audit by writing a letter 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. In case the Registered Person does not respond to the letter, a reminder should be issued within reasonable time. In case the registered person is not volunteering to submit the same on the basis of letters issued by the auditor, another letter should be issued giving details of penal provisions contained in Section 122, 123 and 125 of the

UTTARAKHAND SGST Act, of not complying with the request of the department to facilitate conduct of Audit. However, in case the Registered Person fails to comply then action under above sections of the UTTARAKHAND SGST Act may be taken and a self-contained note may be sent to the Joint commissioner (Executive) for taking appropriate/necessary action against the Registered Person. Further the details of such registered persons should be forwarded to the additional Commissioner (Audit) and Joint Commissioner (Data analysis and risk management) for inclusion 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 downgrade his GST compliance ratings.

CHAPTER 2

OBJECTIVES & PRINCIPLES OF AUDIT

2.1 The objective of audit of taxpayers is to measure the level of compliance of the taxpayer in the light of the provisions of the UTTARAKHAND SGST 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 preventive and deterrent effects. The deterrent effect is the extent to which audit actions discover and stop taxpayers from continuing to under-declare or manipulate their tax liability. The preventive effect is the extent to which registered persons decide 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 Principles of audit:

The basic principles of audit are -

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

2.3 General Guidelines for Auditor:

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 registered person operates. Therefore, the auditor should take a balanced and rational approach while conducting the audit. Besides, the auditor is expected to play a key role in promoting voluntary compliance by the registered persons. During the course of the audit, if certain technical infractions, without any revenue implications, arising due to bona fide oversight or ignorance of the registered person, are noticed, the registered person should be guided for immediate correction. Such cases should also be mentioned in working papers. An auditor is responsible for conduct of audit and should endeavour to take a final view on all issues raised by him during the audit. 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.

Verification of records mandated by the statute is necessary to check the correctness of assessment and payment of tax by the registered person in the present era of self-assessment. In keeping with the principles of audit outlined above, audit has to be conducted in a transparent and systematic manner with focus on business record

2.4 Confidentiality should be maintained in respect of sensitive and confidential information furnished to an auditor during the course of audit.

All records submitted to the audit parties in an electronic or manual format, should be used only for verification of levy of GST or for verification of the tax compliance. These shall not be used for any other purposes without the written consent of the registered person. Maintaining the confidentiality is necessary to secure the trust and co-operation of the registered person.

2.5 Period to be covered during audit

The period to be covered under audit is prescribed in Rule 101 (1) of The Uttarakhand State Goods and Service Tax 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 UTTARAKHAND SGST Act, 2017.

2.6 Duration of audit

2.6.1 Efforts should be made to complete each audit within the following general time limits:-

The indicative duration for conduct of Audit that is inclusive of desk review, preparation and approval of audit plan, actual audit and preparation of draft audit report wherever necessary, for each category would be as under:

- i. Large taxpayers –8 to 10 working days.
- ii. Medium taxpayers –5 to 7 working days.
- iii. Small taxpayers –3 to 5 working days including audit of the Deductors, who fall under the provisions of Section 51 of the UTTARAKHAND SGST Act, 2017 {who pay TDS} and operators who collect tax at source as per provisions of Section 52 of the UTTARAKHAND SGST Act, 2017)

The categorisation of the taxpayer i.e. large taxpayers (such taxpayers whose turnover is either 25 crore or more than that) , Medium taxpayers (such taxpayers whose turnover is more than 2 crore but less than 25 crore) and small taxpayers (such taxpayers whose turnover is up to 2 crore). The monetary limit for the categorisation of large, medium and small taxpayers may be changed by the commissioner through circular from time to time.

The above mentioned working days are indicative and applicable for conduct of GST audit covering one year period. In case the audit coverage is for five years, the number of working days may be increased to maximum of 20/14/10 working days for Large, Medium and Small taxpayers respectively. In other words the number of working days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage.

The duration, as above, covers the effective number of working days spent by the audit group for the audit of a particular registered person from desk review to preparation of audit report (DAR) (i.e. working days spent in office as well as at the premises of the registered person). In exceptional cases, the aforesaid period may be extended with the approval of **Joint Commissioner (Audit)**. Further, in accordance with the requirements of the audit of a particular registered person such duration can suitably be reduced with the express, prior concurrence of the Additional/Joint Commissioner (Audit), provided the verification as per the audit plan has been completed in the prescribed manner

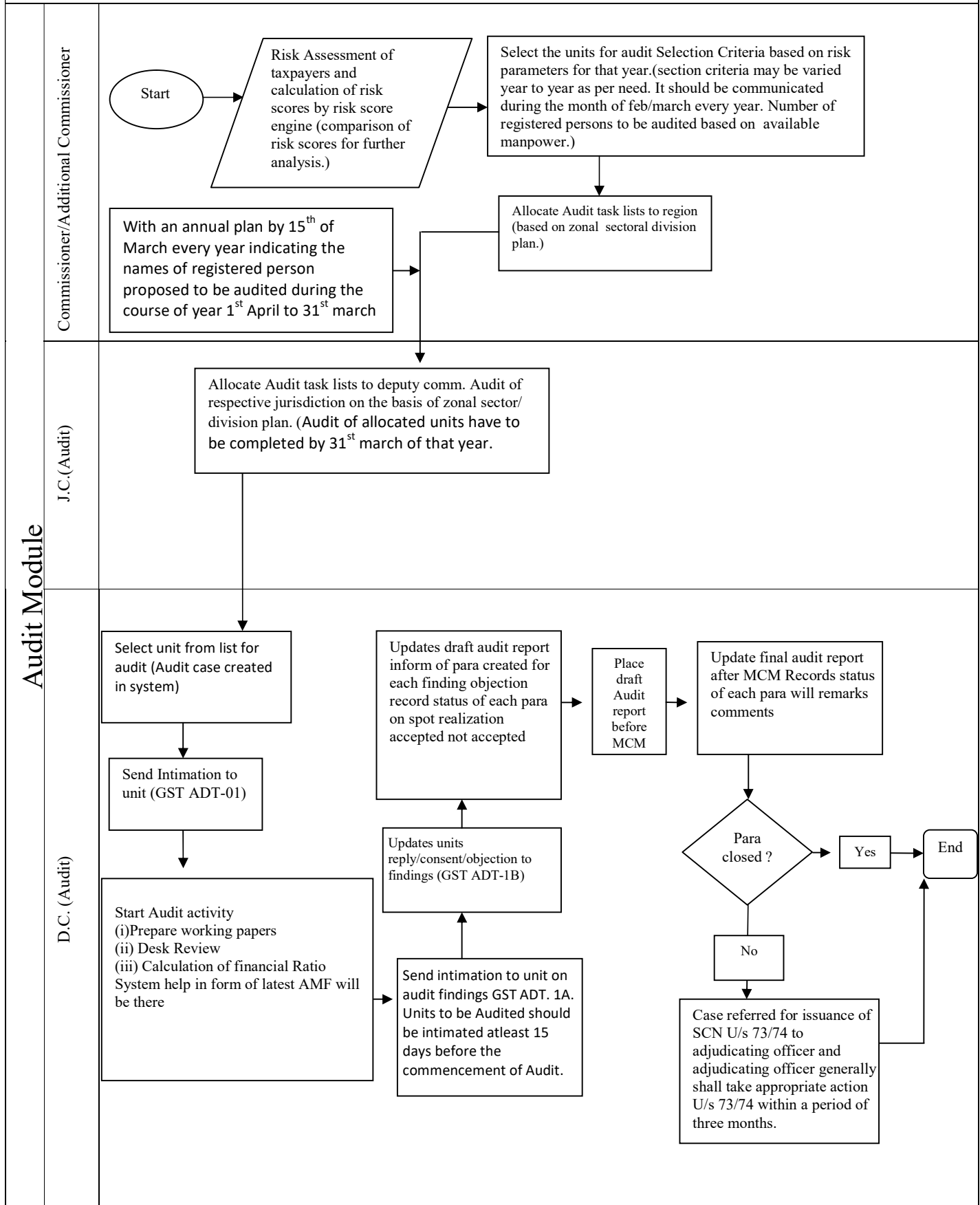
2.7 Stage wise action for audit

The processes involved in conducting GST audit are enumerated below for the ease of the officers involved in the auditing.

- i. Creation of Audit teams.
- ii. Preparation of schedule on the basis of the risk assessment list provided by Commissioner/Additional Commissioner. The same is divided into annual and quarterly audit schedules.
- iii. Allotment of taxpayers to the audit groups.
- iv. Intimation to the Registered Person (GST ADT-01).
- v. Reviewing the taxpayer data - Tax Payer at a Glance (TAG), Registration, Returns, Payments, Dispute Resolution, Audit Report Utility, E-way bills & Third Party data if available.
- vi. Conducting desk review in offline / online mode (wherever available) and uploading the result of desk review.
- vii. Preparing the audit plan in offline / online mode (wherever available) and uploading the audit plan.
- viii. Carrying out verification and uploading the verification report, within twenty four hours of completion of audit.
- ix. Uploading the draft audit report (DAR) for the MCM, within 12-15 working days.**
- x. Examining the audit paras in MCM.
- xi. Uploading the minutes of the monitoring committee meetings (MCM), within three working days of the meeting.
- xii. Uploading final audit report, within thirty working days of the Meeting.
- xiii. Communicating the audit report to taxpayer (ADT-02).
- xiv. Communicating to the Registered Person the future course of action in case of contested paras.
- xv. Wherever in this manual it has been prescribed to execute audit process online, in this regard Commissioner may prescribe for offline execution of such Audit process by means of notification on the basis of available resources and requirement.

A Process Flow Diagram for the above mentioned processes is as under:

Process Flow-



01)

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GST Audit :: Related Act & Rules at a glance

Sections

Section 2(13)	:	Definition of Audit.
Section 35	:	Maintenance of Accounts & Records by registered Person.
Section 65	:	Audit by Tax officer/ Authorities.
Section 66	:	Special Audit by Chartered Accountant or Cost accountant on Government Directions.
Section 71	:	Provision for Access to Business Premises and records of taxpayer for Audit.
Section 73/74	:	Tax short paid detected during Audit/special Audit proper officer to initiate demand and recovery under section 73/74
Section 122	:	Penalty for Certain offences.
Section 125	:	General Penalty.

Rules

Rule 101	:	Audit by Tax officer.
GST ADT- 01	:	Letter of Intimation/Notice to the registered person for conduct of Audit Under Section 65 (3).
GST ADT- 02	:	Communicating the final Audit report to the registered person Under Section 65 (6).
Rule 102	:	Special Audit.
GST ADT- 03	:	Communication/Notice to the registered person for conduct of special Audit Under Section 66.
GST ADT- 04	:	Communicating the findings of the Special Audit to the registered person Under Section 66.

Important time limits for Audit Work

Audit Period:- From 1st April to 31 March.

ADT- 01:- 15 days prior to the conduct of Audit.

Audit shall be Completed:- Within three months.
(Commissioner may extend a further period not exceeding six month.)

ADT-02:- within thirty working days on conclusion of audit.

From Desk review to Draft audit report time limit -

- 1- Large taxpayers : 8 to 10 working days.
- 2- Medium taxpayer : 4 to 6 working days.
- 3- Small taxpayers : 3 to 5 working days.

(Time may extend with permission of Additional Commissioner/ Joint Commissioner (Audit). (Working days includes office work with premise of taxpayer) Number of working day maximum 20\12\10 respectively for five years (with an increase of 25% of working days for every additional year)

Upload DAR for MCM:- within 12 to 15 working days.

Upload MCM meeting minutes:- within three working days of the meeting.

Upload Final Audit Report:- within thirty working days of the Meeting.

ADT -02:- Communicating the audit report to taxpayer.

MCM meeting Minutes response:- within 15 working days of the receipt of MCM meeting minutes, joint commissioner executive shall respond with his agreement\disagreement.

Points of difference:- If any points of difference arise in MCM meeting, further 15 working days for final decision rests with additional Commissioner (Audit)

Adjudicating Authority:- within three months after receiving the audit report.

CHAPTER 3

MANAGEMENT OF GST AUDIT

Audit management requires planning and effective execution of the audit process. Structurally and functionally, this is to be undertaken at two levels – Apex level and Local level. In order to monitor, co-ordinate and guide the effective implementation of the audit system, the Government of Uttarakhand has set up the Commissioner/Additional Commissioner of Audit will function as the nodal agency. At the local level, management of audit is entrusted to Joint commissioner (Audit), which are supervised by Additional Commissioner.

3.1 Management at Apex level

The Commissioner/Additional Commissioner of Audit, Dehradun (headed by commissioner) with its two Zonal Units at Dehradun, and Rudrapur (each headed by a Joint commissioner) is required to ensure *the efficient and effective implementation of the audit system* and also to evolve and improve audit techniques and procedures through a periodic review. With the help of its Zonal units, the Audit section of Commissioner/Additional commissioner Audit regularly monitors GST audits supervised by the each Joint commissioner (Audit) to ensure that the coverage of the registered persons is adequate in number and is reflective of their risk profile and to ensure that these audits are conducted in accordance with provisions of law by following the procedure enunciated in this manual. To achieve this, the Commissioner/Additional commissioner(Audit) needs to interact closely with Joint commissioner (audit) to eliminate the deficiencies and to improve the performance of the each field audit units.

3.1.1 As an advisor to the Commissioner/Additional commissioner, the Joint commissioner (Audit) is required to suggest measures for enhanced tax compliance, to gauge the level of audit standards and to ascertain the views of the registered persons on the existing audit system. It should also interact with selected registered persons to take a holistic view of the internal audit and to formulate proposals to remove bottlenecks and obviate the scope of irregularities.

3.1.2 The selection of registered persons would be done based on the risk evaluation method prescribed by the Commissioner/Additional commissioner. The risk evaluation method would be separately communicated to the each Joint commissioner (audit) during the month of February/ March of every year. The risk assessment function will be handled by the commissioner /Additional commissioner (Audit) in consultation with joint commissioner (Data Analytics and Risk Management). It helps the Additional commissioner (Audit)/ Joint Commissioner (Audit) in Selection of units for audit during the audit year.

3.2 Role of senior officers of the UTTARAKHAND SGST Audit:

3.2.1 Commissioner / Additional Commissioner (Audit)

- i. To ensure selection of assesses/taxpayers, to be audited during the year, on the basis of risk assessment. To also ensure that 20% of the taxpayers to be audited are selected based on local risk factors and approval of the Commissioner.
- ii. To approve the Desk Review and Audit Plan, in respect of top 5 assesses/taxpayers of each audit zone mentioned in the Annual Plan for audit coverage, after ensuring that all the steps have been completed and review few draft plans approved by the J.C.(Audit) to ensure quality of audit.
- iii. To ensure that MCM is held by using the offline Audit Report Utility and no paper based audit report is prepared. Also to ensure that after the MCM, each Audit Report Utility is uploaded in the Systems.
- iv. To liaise with Commissioner to ensure that EDW/ADVAIT data and GST data is available to the auditors.
- v. To ensure that requisite follow-up action i.e. recovery, issue of show cause notice is taken.
- vi. To review audit performance and to take steps for improvement.
- vii. To take remedial measures based on the report of audit group on performance appraisal and quality assurance.
- viii. To review the performance and participation of the. Joint commissioner, Deputy Commissioner, Assistant Commissioner and State Tax Officer of audit.
- ix. To interact with the major assesses/trade associations, to obtain feedback on the audit system.
- x. To assess the training needs of the auditors and organize training programmes.
- xi. To submit periodical reports to various formations as prescribed from time to time.
- xii. To send a list containing details of draft show cause notices issued within the jurisdiction of joint commissioner(audit), during the month.
- xiii. In cases where further investigation is required, the matter may be forwarded to the Joint commissioner (executive) with a self-contained note for

further investigation and necessary action like recording statements under summons etc.,

xiv. Collection, compilation and analysis of the data received from Joint Commissioner(DA&RM) communication of the same to Joint Commissioner (audit).

xv. Review of performance of the Joint Commissioner (Audit)/Joint Commissioner(DA&RM).

xvi. Dissemination of information pertaining to audit to the joint commissioner (audit).

xvii. Ensuring implementation of guidelines, issued by the Commissioner, as pertaining to the joint commissioner(audit)/joint commissioner (DA&RM).

xviii. Assisting and providing information to the officers of the commissioner regularly examining the conduct of audits and results thereof.

xix. Allocating the officers with requisite experience and expertise in conducting audits/analysing financial statements, to the joint commissioner.

xx. To take a final decision in cases. Other than finalisation of audit objection, where there is difference of opinion between Joint Commissioner(audit) and Joint Commissioner(executive)

xxi. Selection of theme, planning and execution of Theme based Audit.

xxii. To organize training programmes for auditors.

3.2.2 Role of Zonal Additional Commissioner, State Tax:

The office of the Additional Commissioner is not an operational formation for the conduct of audit, but it provides an important link between the Commissioner/Additional commissioner (Audit) and the Joint commissioner (audit) of the zone. The role of this office in the overall management of audit is as follows:

- i. To facilitate and provide necessary support to the audit teams at field/local level to conduct hassle free audit.
- ii. Resolving problems in implementation of audit system and conducting of audit at local level and providing feedback to the Commissioner/Additional commissioner (audit).

- iii. Co-ordinate and Monitor the training for auditors and the officers of the audit and risk management in techniques of GST audit and accountancy with help of headquarter.
- iv. To organize training programmes for auditors with help of headquarter.

3.2.3 Joint Commissioner (Audit)

- i. Co-ordination, planning and overall management of the audit sections and sectors including supervision of work relating to theme based audit, etc.
- ii. To approve the desk review and audit plan, in respect of all units, other than the top 5 units of each audit zone that are to be approved by the Additional Commissioner(Audit), after ensuring that all the steps have been completed.
- iii. to approve SCNs which are to be adjudicated by DC/AC/STO as per the monetary limits prescribed by Commissioner from time to time, on receipt of DSCN and other documents from audit team,
- iv. To review the follow-up action.
- v. To ensure selection of units for audit as per the risk-based list received from Commissioner and to provide justification for tweaking the lists.
- vi. joint commissioner audit should provide list of the firms to be audited in a financial year to deputy commissioner audit.
- vii. To hold either audit Unit-wise (or any number of audit units together as deemed necessary), Monitoring Committee Meeting (MCM), at least once a month to take decision about the acceptability of all audit objections and to determine as to whether larger period is invocable in respect of the accepted objections.
- viii. To ensure that the Audit Report Utility is used in MCM and the reports are uploaded in system and no paper based audit reports are prepared.
- ix. To ensure scrutiny of NIL DARs files received from audit circles.

3.2.4 Deputy/Assistant Commissioners in-charge of Audit wing of Additional Commissioner (Audit) Office.

To supervise the work relating to the office of the additional Commissioner (Audit) viz., Planning and Co-ordination Section, Administration, Personnel and Vigilance Section, Technical Section and Risk Management and Quality Assurance Section and theme based audit. To ensure that the Audit Report

Utility is used for uploading of Audit reports finalised in MCM and no paper based audit reports are prepared.

3.2.5 Deputy/Assistant Commissioners in-charge of Audit team:

- i. Co-ordination, planning and overall management of the team.
- ii. To monitor maintenance of Registered person's master files and registers.
- iii. Deputy commissioners audit shall be responsible for audit of firms allocated to his unit and have option either to conduct by himself or by the members of the team.
- iv. To interact with registered persons at the time of audit in order to share major audit findings and compliance issues.
- v. To approve and issue draft audit reports before placing the same in MCM.
- vi. As in-charge of audit team, to attend MCM and to represent the team in case of all DARs taken up for discussion during MCM.
- vii. To issue final audit reports after approval in the MCM meeting.
- viii. To issue draft show cause notices falling under his purview as per monetary limits fixed by Commissioner from time to time both under Section 73 and 74 of the Uttarakhand SGST Act.
- ix. To ensure timely preparation and forwarding of DSCNs along-with relevant documents to the Joint commissioner (audit), which are falling within the monetary limits for SCN and adjudication by DC/AC/STO.
- x. Deputy commissioner audit may assign work/task to any member of his team/unit.

3.3 Role of Joint commissioner (executive):

- i. To represent in MCM;
- ii. To respond to the draft audit objections, within 7 working days of receipt from Joint commissioner (audit);
- iii. To provide detailed comments with a justification on the disputed audit paras including the details of Circulars, case laws (if any) or any point of law;
- iv. To attend to the litigation after adjudication proceedings and to defend the order before the appellate fora – viz., Additional Commissioner/Joint commissioner (Appeals)/ Tribunals/ Courts, with the help of inputs from Joint commissioner (audit), wherever required;

- v. To attend to the work related to pre-audit, post audit of refunds, rebates;
- vi. To pursue recovery of amounts in respect of pending paras admitted by the party (in writing), based on the reference received from the **J.C.(Audit)**.
- vii. To ensure immediate intimation to the jurisdictional Joint commissioner (audit) regarding any cases booked/investigation carried out by Anti-Evasion wing of the Joint commissioner (SIB) or by Commissioner.
- viii. To ensure timely adjudication of show-cause notices issued by the DC/AC/STO.

To carry out investigation and necessary action like recording statements under summons etc. in respect of cases forwarded by Joint commissioner (audit).

3.4 Staffing norms for Joint commissioner (audit):

- i. The supervising officer of the rank of joint commissioner (audit)/deputy commissioner(audit) must frequently (especially in important and sensitive units) associate with the actual audit and attend to the areas of risks identified during desk-review.
- ii .Each audit team shall be headed by a Deputy or an Assistant Commissioner.
- iii. Deputy/Asst. Commissioner of the team should be associated with all major audits. Senior Officers of the cadre of Additional /Joint Commissioners should interact with the senior management of large units after conducting audit.
- iv. Audit team comprises of one stationary audit group (MIS) to look after the work relating to planning and co-ordination section of Hqrs. Office, such as MCM, maintenance of registered person's Master Files, attending to follow up work etc. and deployment of audit groups for conduct of audit.
- v. The Audit Groups deployed for audit of units may comprise of Inspectors and Clerical staff according their requirements.

3.5 Auditors' Profile:

Profile of each of the auditor posted in the groups should be available in the Audit Planning and Coordination Cell of team, in the following proforma;

- i. Name of the officer.
- ii. Designation.

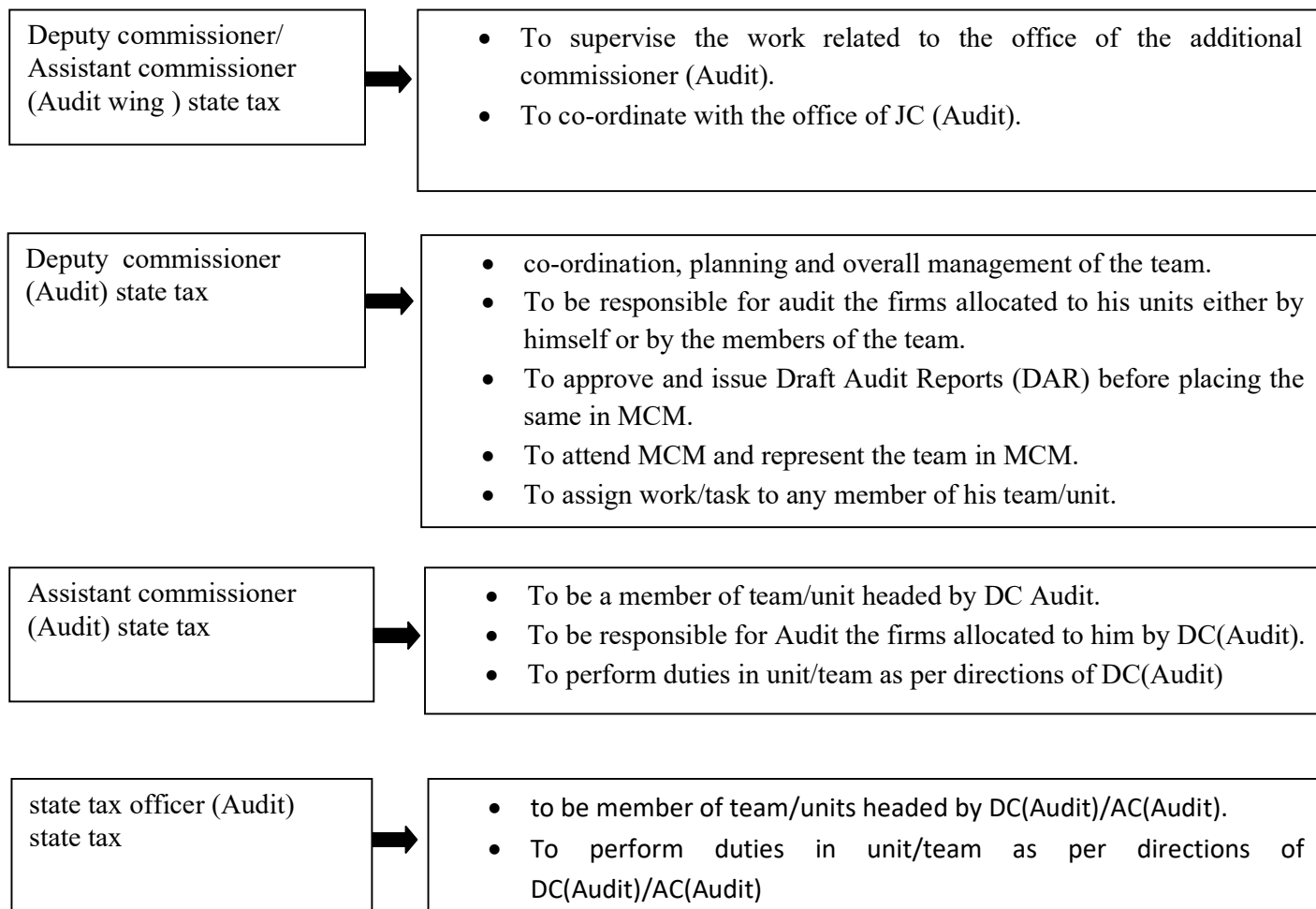
- iii. Experience in VAT regime (in years).
- iv. Professional qualification, if any.
- v. Experience in State goods and service tax (in years).
- vi. Whether undergone training in audit.
- vii. Experience in audit wing.
- viii. Number of major audit points raised by him on his own (to be taken from working papers) in his career. Amounts involved in such cases.
- ix. Any commendation/awards, rewards, etc. received.

3.6.1 Each auditor should furnish a self-appraising resume containing the above information immediately upon joining the audit section, which should be updated on yearly basis so long as the officer continues to be posted in the Audit Groups. Auditor's profile facilitates effective deployment of auditors to units by considering appropriate skill levels, training, educational background of the auditor etc.

3.6.2 The formation of audit groups is a critical component of audit management. Joint commissioner (audit) shall ensure that the officers with the requisite skill and experience are posted to for audit works depending on the availability and other administrative constraints. DC (audit) should ensure that the skill and experience available is evenly distributed across the audit groups. As far as possible there should be at least one officer with commerce or accounts background in each party. It is also useful to assign officers with computer skills to each party to deal with units that keep computerized accounts. For efficient functioning of the MIS section of teams, officers with computer skills and some prior audit experience are required. Similarly, the skill sets and experience available with an audit group should govern the size and complexity of audits that it handles. For optimal results, there should be matching of these two factors.

3.6.3 Officers, when posted to the Audit for the first time, should invariably be sent for training in GST Audit process and financial accounting so that they have the basic skills to handle audit work. Compulsory in-house training programmes should also be organized for the benefit of new entrants soon after the annual transfers. Officers, who have worked in audit sections earlier, should also be imparted with refresher course on the latest techniques of audit and changes in the statutory provisions, if any.

<u>Designation of officer</u>	<u>Role assigned in audit work</u>
Commissioner/Additional Commissioner (audit) State tax	• Selection of taxpayer to be audited during the year on the basis of risk assessment. • To approve the desk review and audit plan in the respect of top 05 taxpayer of each audit zone. • To mention that requirement follow-up action i.e issue of SCN recovery is taken • To take a final decision in cases where the is difference of opinion b/w JC (Audit) and JC (executive) • To view the performance and participation of the JC, DC, AC and STO of audit • Selection of theme planning and execution of theme based Audit.
Additional Commissioner (Zone) State tax	• To facilitate and provided necessary support to the audit teams at local level to conduct audit. • To organize training programme for auditors with help of headquarter.
Joint commissioner (Audit) state tax	• Co-ordination, planning and overall management of the audit sections and sector. • To approve the desk review and Audit Plan, in respect of all units, other than Top-5 units of each Audit Zone. • To approve DSCN of Audit team and SCNS which are to be adjudicated by DC/AC/STO. • To provide list of the firms to be audited to DC(Audit). • To hold MCM (Monitoring Committee Meeting) at least once in a month.
Joint commissioner (executive) State tax	• To represent in MCM. • To attend to the litigation after adjudication proceedings and to defend the order before the appellate fora, wherever required. • To pursue recovery of amounts in respect of pending paras admitted by the taxpayer. • To respond to the draft Audit objections within prescribed time limit. • To ensure timely adjudication of SCNS issued by the DC/AC/STO.



CHAPTER 4

SELECTION OF REGISTERED PERSONS FOR AUDIT

4.1 Objective:

Selection of registered persons for audit means selection of registered persons to be audited during a specified period, taking the available resources into account. Given the large number of registered persons under GST, it is impossible to subject every registered person to audit each year with the available resources. Further, emphasis placed merely on coverage of more number of registered persons would dilute the quality of Audit. Selection of units for audit in a scientific manner is extremely important as it permits the efficient use of audit resources viz. manpower and skills for achieving effective audit results. Selection of units for audit based on revenue risk leads to deployment of audit resources where they are most needed, i.e., in the audit of less compliant units. Such selection is finally subject to the availability of administrative resources. These registered persons should be selected on the basis of assessment of the risk to revenue. This process, which is an essential feature of audit selection, is known as 'Risk Assessment'. It involves the ranking of registered persons according to a quantitative indicator of risk known as a 'risk parameter'.

4.2 Method of selection based on risk assessment:

The selection of registered persons would be done based on the risk evaluation method prescribed by the Commissioner in consultation with the Additional commissioner (Audit)/Joint commissioner of Analytics and Risk Management. The risk evaluation method would be separately communicated to the Joint commissioner (audit) during the month of January/February of every year. The risk assessment function will be jointly handled by the Commissioner and Additional commissioner Risk Management. The Risk Management section would ensure availability of registered person-wise data, which would facilitate risk assessment and preparation of the list of registered persons to be audited in the year.

4.2.1 Based on the risk methodology, a list of units will be communicated to the, Joint commissioner (audit) for the purpose of conducting audit for the audit year. The list will contain the name of the registered person and the risk indicator along with the action points for decision support so that the auditor is aware of the area to focus while conducting audit. The Joint commissioner (audit) may select the units to be audited in a particular year after reviewing the list received by, in the context of local risk perceptions and parameters. including local intelligence or serious complains from public, taxpayers dealing in evasion prone commodities showing less growth by 10% from average growth rate. Joint commissioner (audit) may also select a registered person with low risk score compared to another registered person with relatively high-risk score, based on Local Risk Factors (Illustrative list of

Local Risk Factors is given in GSTAM Annexure XII). It should be ensured that 20% of the taxpayers to be audited are selected based on local risk factors after obtaining the approval of the Commissioner.

4.2.2 However, the reasons for such selection should be indicated which would be used as a feedback by the Commissioner for further improvisation of risk factors in future.

4.2.3 The Joint commissioner (audit) may also select a few units at random or based on local risk perception in each category of large, medium and small units after obtaining the approval of Commissioner. Feedback on such random selection and results of audit thereof would help in evaluation of parameters used for the process of selection. The Joint commissioner (audit) may also select some registered persons registered in terms of Section 51 and Section 52 of the SGST Act, 2017 for checking the correctness of TDS and TCS. Feedback on such selected persons and results achieved may be provided to the Commissioner.

4.3 Preparation of audit schedule:

4.3.1 Annual plan for Audit Coverage (Audit year being – 1st April to 31st March):

I- The Joint commissioner (audit) would release an Annual plan by 15th March, indicating the names of registered persons proposed to be audited during the course of the year (period from **1st April to 31st March** of the next year) and the probable month in which the Audit officers would visit the units for verification of records. The Audit coverage (i.e. number of units selected for Audit in a year) may be calibrated with the manpower available. The working strength of officers in Audit would be taken as the basis for calibration. After release of Annual plan by the Joint commissioner (audit), concerned DC/AC In-charge of teams may issue quarterly schedules and to constantly monitor conduct of audits to ensure that at the end of the year audit of all the units allocated is completed. DC/AC can permit changes with reference to conduct of audit of any unit by allowing prepone / postpone from one month to another month/ from one quarter to another quarter. However, it shall be ensured that audit of all the units allocated by the Commissioner/Joint commissioner (audit) are completed by 31st March so that no single unit is left uncovered.

II- In order to ensure adequate coverage, the registered persons shall be categorized into three categories namely large, medium and small units. Given the past experience in detection of non-compliance and recovery of Tax through audits, it is suggested that Audit Groups may be deployed to cover large, medium and small units.

III- The criteria for categorizing a registered person as large, medium or small would be the total annual value of outward supplies (including export and exempt supplies). The threshold limits of value of outward supplies for

categorizing the units into large, medium and small would be dependent upon (i) the available manpower in the Audit and (ii) the total no. of registered persons and turnover of each registered person in the jurisdiction of the Joint commissioner (audit). The categorization of Registered Taxpayers would be done by the Commissioner/Additional Commissioner(Audit). The methodology for categorization along with threshold limits would be communicated to the Joint commissioner (audit) by Commissioner during the month of January/February.

IV- The scheduling can be reviewed half yearly for necessary adjustments, if any. The Commissioner will also periodically review and revise, wherever necessary, the criteria for categorizing the units into large, medium and small within each Zone / Region, manpower deployment in each category, composition of Audit Group and number of working days required for audit in each category. The review/revision would be done in consultation with the Joint commissioner (audit) so as to ensure that Audit coverage by officers is made optimal.

V- Commissioner / Additional Commissioner may allow temporary reallocation / diversion of officers amongst the Joint commissioner (audit) to ensure adequate Audit coverage of all categories of registered persons falling under the jurisdiction of the zone/Region.

4.4 Theme based coordinated audits

4.4.1 Theme based co-ordinated audits at all over State level would be conducted by the concerned Joint commissioner (audit) in a coordinated manner. The theme would be selected by the Commissioner/Additional Commissioner(Audit), based on a systematic and methodical risk analysis of internal data of registered person (from Joint Commissioner(DA&RM)) economic indicators, third party information from tax and other regulatory authorities and other relevant sources of data. The Commissioner/Additional Commissioner(Audit) would also consult trade, industry and suppliers from time to time, wherever necessary. The theme would be intimated well in advance, say four to six months, to the field formations. The number of such audits will be one or at best two in a year. The selection of theme/issue, coordination and dissemination would be done by the Commissioner in consultation with the field formations.

4.4.2 The theme based coordinated Audits would also be carried out at the Zonal/Region level. The theme for the audit, which could be a sensitive commodity, would be selected at the zonal/Region level and simultaneous and coordinated audit would be carried out within the zone. The number of such audits will again be one or two in a year. The theme for the Audit would be selected based on analysis of data provided by Additional commissioner (Risk/Data) and relevant third-party information identified from time to time.

The Commissioner / Additional Commissioner may involve the zonal/Regional units of in selection of theme, planning and execution of theme-based Audit.

4.5 Accredited status for deferring frequency of audit

- 4.6** A segment of registered person, could be given an “accredited” status, based on their proven track record of compliance with tax laws and procedures. Such identified registered person need not be subjected to Audit in every cycle. It has been decided that such units should normally be audited only after 3 years from the date of last audit. The procedure and criteria for accreditation would be communicated separately.

CHAPTER 5

AUDIT - PREPARATION AND VERIFICATION

5.1 Profiling of registered person:

5.1.1 Audit requires a strong database for profiling each registered person so that risk-factors relevant to a registered person 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 registered person during the course of audit, while the rest is to be extracted from the, application for registration, registration documents and returns filed by the registered person as well as from his annual return, E-way Bills, reports/returns submitted to regulatory authorities or other agencies, Income Tax returns, contracts with his clients, audit reports of earlier periods as well as audits conducted by other agencies, like office of C&AG, etc. most of which will be available in GSTN.

5.1.2 A comprehensive data base about a registered person 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 in GSTN. Some of the data like those contained in annual financial statements keeps changing every year. Utility named Taxpayer at a Glance (TAG) containing all the available information of the registered person will be accessible to the auditor.

5.2 Reviewing the taxpayer data: The first step towards an effective audit is to review all relevant information about the registered person. **Annexure GSTAM-I** contains details of all the relevant data required for review.

5.2.1 Whenever GST audit of a registered person is taken up, the audit team conducting the audit should review the data already available and the data that is not available and collect the information not available and update the data of the registered person.

5.2.2 The audit section of the Additional commissioner (Audit) shall make available all the information of the registered person selected for audit to the respective audit group as per the said Annexure GSTAM I

5.2.3 The information of each registered person should be updated periodically after completion of each audit. The audit working papers, audit report, duly approved during the audit monitoring meeting, along with the latest documents should be filed properly in a file of the registered person.

5.3 Allocation of audits amongst the audit parties:

The audit schedule should also mention the Group No. of the audit groups 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.

5.4 Action to be taken by the Audit Group:

Once the audit schedule, with Group allocation, is finalised, the action shifts to audit groups. The group should have adequate time to complete the preparation for audits to be conducted as per the audit schedule. All units listed to be audited should be intimated at least 15 working days before the commencement of audit verification in their premises. A format of the letter (**ADT – 01**) intimating the registered person about the audit and the records/documents to be provided to the auditors has been notified under SGST Rules, 2017 provided in **Annexure - GSTAM-II** of this manual.

5.5 Desk Review

5.5.1 Objective:

The desk review lays emphasis on gathering data about the registered person, 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.

5.5.2 This is the first phase of the audit programme done in the office. The idea is to gather as much relevant information about the registered person 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.

5.5.3 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 Sheet, 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 scrutiny during audit. An illustrative list of scrutiny of important documents from the audit angle is given at **Annexure –GSTAM-III**).

5.5.4 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. (Part III (I) of Working papers in Part B {for services} of GSTAM-VIII refers). The auditor should reconcile the ITC credit availed as shown in GSTR-3B with that shown in GSTR 2A and identify any gaps in the ITC availment. This gap should be mentioned in the Audit Plan for verification at the time of audit.

5.5.5 Cost Accounting Records/Cost Audit:

(i) In respect of Regulated sectors like Telecommunication, Electricity, petroleum and Gas, Drugs and Pharma, fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of Rs 50crores. for all products and services and Rs 25Crores. for individual product and services.

(ii) In respect of Non-Regulated sectors - The threshold is Rs 100 Crores and 35 crores respectively.

For latest amendments and existing norms the Companies (Cost Records and Audit) Rules 2014 may be referred to.

5.5.6 From the RPMF, 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, only on the basis of such an adverse ratio, a point for verification can be selected. An illustrative list of important ratios is given at **Annexure-GSTAM-IV**.

5.5.7 Reconciliation of data with third party information: GST payment shown in the GSTR-9 returns can be reconciled with that shown in the financial accounts. Further, from the reconciled figure of GST payment, value of the sales can be worked out. This can then be compared with the sales figure shown in financial records. The difference, if any, must be analysed. The unit assessable value of the registered person can be compared with that of another registered person supplying the same supply. This method would give an idea whether the valuation and tax calculation system of the registered person 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 GSTR-9 returns with other documents such as gross trial balance, Income Tax Returns, Annual Audited accounts, Income Tax Audit report etc. and to carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped GST.

5.5.8 Revenue Risk Analysis:

Risk Analysis is a method of identifying potential revenue risk areas by employing modern techniques. It can be carried out by (i) reconciling various specific financial data, comparing it with different business accounts/documents, (ii) deriving certain data and comparing with the actual figures of the financial documents & (iii) 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 registered person. The result of Revenue Risk Analysis should be filled in the relevant column of working papers.

5.5.9 Trend Analysis:

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

5.5.10 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 III (9) of Annexure –GSTAM-VIII Part A & III C of Part B of GSTAM-VIII).

5.5.11 for audit of Traders, a check list is provided in **Annexure XIII**. For audit of Composite Dealers, a check list is provided in **Annexure XIV**.

5.6 Audit Plan

5.6.1 The objective of preparing an audit plan is to outline a logical series of review and examination steps that would meet the goals and standards of an audit in an efficient and effective manner.

5.6.2 Audit Plan is the most important stage before conduct 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 is 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 registered person may also be added to this list.

5.6.3 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**).

5.6.4 The summary results of desk review, along with the completed Working Papers, should be submitted to the Joint Commissioner (Audit) for approval and guidance, if any.

5.6.5 The audit plan must be discussed with the Deputy Commissioner of the team and should be finalised after approval by the Commissioner/ Additional/ Joint Commissioner as the case may be.

5.6.6 The audit group should put up documents received, along with filled in Questionnaire and working papers in the prescribed proforma, related to top five units of each audit region mentioned in the Annual Plan for audit coverage to the Commissioner/Additional commissioner(Audit) and the rest to the Joint Commissioner through Deputy / Assistant Commissioner in-charge of region, for approval of the audit plan, after carrying out preliminary reconciliation, identifying discrepancies, if any, and carrying out detailed examination of the records and information (including that already captured in the Master File of registered person).

5.7 Audit Verification

5.7.1 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 his/her application of legislation, policies and jurisprudence.

5.7.2 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.

5.7.3 Gathering of information of the registered person - This may be carried out as per the activity of the taxpayer as found out during the Desk Review. The task mentioned herein below may not be relevant in case of all taxpayers. The auditor should evaluate the necessity of carrying out these tasks and mention the relevance in the Working Paper for carrying out or not carrying out the same.

5.7.4 Evaluation of the Internal Controls.

The objective of review of internal controls is to assess whether the registered person has reliable systems and controls in place that would produce reliable accounting/business records. 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. Auditors must have a look at these systems and more relevantly determine whether software being used exclusively for the transactions related to Goods and Service Tax matters is integrated to the main ERP system or is running parallel to the main ERP. This assessment would be used by the auditor to decide on the extent of verification required and to focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations. A small registered person might have little in terms of internal controls where as a large registered person would have sophisticated internal controls in place. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the registered person. 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. 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 Part D of working papers).

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

- i. Characteristics of the company's business and its activities.
- ii. System of maintenance of records and accounts.
- iii. Identifying the persons handling records for accounting purposes. Allocation of responsibilities at different levels.
- iv. System of internal checks.
- v. System of movement of documents having relation to duty/tax assessment.
- vi. Inter-departmental linkages of documents and information.
- vii. System of own internal audit.

5.7.5 Techniques for evaluation of the Internal Controls.

(a) Walk-through: This is a process by which the auditor selects 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 a registered person. The auditor can undertake walk through process of sales, purchase, GST, 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.

(b) ABC Analysis: It is a known fact that in any field of activity an enormous data is generated and all data is not equally important. In order to filter out the irrelevant or relatively insignificant data, various techniques are applied. The ABC Analysis is one of such data management techniques. This technique is particularly useful when auditors are required to scrutinise and examine a large volume of data/documents within a limited time. 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 analysed 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 registered person may alone be taken up for detailed examination by auditors. Similarly, while verifying credit utilization by the registered person, 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.

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

5.7.7 Verification of points mentioned in the audit plan:

In view of emphasis on trade facilitation, intelligent enforcement and providing non-intrusive environment to taxpayers, it has been decided to move from the present system of premises based audit to desk-based (office) audit in case of small category of taxpayers. Such desk based audit may be carried out on the basis of information / data made available to them. However in case of non-cooperation by the taxpayers, premises based audit may be carried out after approval by the Commissioner. Further in cases where it is felt at any stage of audit that there are inherent weaknesses in the internal control system of the taxpayers, the officers may switch to premises based audit with the approval of the Commissioner. However, in respect of Large Category of taxpayers, the premises based audit has to be conducted.

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

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

5.7.9 The audit verification gives maximum opportunity to the auditor to go through the registered person'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, after obtaining the approval of his Joint Commissioner(Audit) go beyond the scrutiny 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:

5.8 Physical Verification of Documents: A detailed scrutiny of the financial records of the registered person becomes imperative, if any issue is noticed at the time 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, 26AS Statement, Invoices and E-way bills. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the registered person is maintaining the statutory records as required under various statutes especially under the Companies Act, 2013.

5.8.1 Audit objections raised must be fully supported by documentary and legal evidences. This will greatly help in explaining and discussing the objections with the registered person and other follow up action. It needs to be ensured that all audit documentation is complete, accurate and of professional quality. Working Papers are a synopsis of audit operations conducted by the Audit Group. Entry of all items mentioned in the audit plan must be made in the working papers, during Audit Verification.

5.8.2 The provisions of Section 9(4) of the SGST Act, 2017 specify a class of registered person who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both. As such during the course of Audit, the auditors may examine the details of procurements from such un-registered persons.

5.8.3 For verifying the gap in ITC availment as identified in para 5.5.4, the auditor should carry out a test check of the invoices of such suppliers whose details are not figuring in GSTR 2A and identify some of such suppliers with high tax value and get the particulars of tax payment verified at the supplier's end.

5.8.4 In order to verify the correctness of TDS payments, the auditor should check the reconciliation statement showing purchases and prepare a list of all suppliers who have not paid GST. Some of these suppliers may either be unregistered or registered. In case of unregistered suppliers, details of payment of GST in terms of Section 51 of SGST Act, 2017 may be verified and in case of registered suppliers the reasons for non-payment of GST may be ascertained in test cases.

5.9 Working Papers (Annexure – GSTAM-VIII):

- i. The working papers form the basis of audit objection. They also 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.
- ii. 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. The working papers should be filled in by the auditors themselves and in no case should be handed over to the registered person for filling them up.
- iii. The completed working papers must be submitted by the Audit Group with the draft audit report.
- iv. 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.

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

- i. Be clear, concise, legible, organized, indexed, and cross-referenced;
- ii. Disclose the audit trail and techniques used in the examination of each significant item;
- iii. Support the conclusions reached and cover all queries raised;
- iv. Include audit evidence (e g., copy of a financial statement, an invoice, a contract, a bank statement, etc.) to support the assessment;
- v. 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;
- vi. See that audit reports are clear and disclose all material and relevant information; and Take follow up action.

5.11 Apparently, the financial and other documents maintained by the registered person 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 information about the registered person and the system followed by him’, and go through them during ‘Audit Verification’.

5.12 In case it is not possible to conduct Audit within three months period as prescribed under Section 65 of SGST Act, DC/AC (Audit) is to submit proposals for extension of time limit for completion of audit well in advance preferably at-least one week in advance to the Commissioner explaining the circumstances under which the Audit could not be completed within three months period. In case extension of time period for completion of audit is granted by Commissioner, the fact of such grant of extension by Commissioner is to be intimated to the registered person.

5.13 Apprising the registered person of irregularities noticed and ascertaining his view point

It is important that the auditor discusses all the objections with the registered person before preparing draft audit report. The registered person 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.

5.14 The ultimate aim of conducting an audit is to increase the level of tax compliance of registered person. Therefore, no audit can be considered to be complete unless the auditor has made all efforts to ensure maximum recovery of short levy before leaving the premises of the registered person. As the Audit system adopts a transparent methodology, it is necessary that all the audit objections noticed by the Audit Group are conveyed to the registered person with a view to ascertain his point of view before preparing the Draft Audit Report. Accordingly, the audit objections should be intimated in writing to the registered person, 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 registered person for ascertaining his point of view. Where satisfactory explanation or evidence is submitted to the auditor, the findings should be revised as necessary after placing the same before JC/DC and obtaining his approval. However, if a response from the registered person 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 registered person, in the Audit Report.

5.15 It is the auditor's responsibility to explain all the objections to the registered person and to make all attempts to resolve any disagreements before those are finalised. It is also the auditor's responsibility to make sure that the senior officers are aware of potential disagreement and the position taken by the registered person.

5.16 Suggestions to Registered person for future compliance

5.16.1 Before leaving the registered person's premises, the auditor must discuss future compliance issues with the senior management of the registered

person. 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 registered person should be recorded in the Audit Report.

- 5.17** If, in any way, the department can assist the registered person to reduce errors and improve compliance, such offer of assistance should be made.

CHAPTER 6

PREPARATION OF AUDIT REPORT AND FOLLOW UP

6.1 Preparation of Draft Audit Report and submission to senior officers

6.1.1 After completion of audit verification, the auditor should prepare the verification report in the prescribed Proforma as mentioned in Part VI of **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 **registered person** pointing out either non-payment or procedural infractions. The initial views of taxpayer must be recorded in the verification document. The auditor should also apprise the **registered person** of the provisions relating to voluntary compliance and encourage him to take advantage of those provisions in order to avoid disputes and litigation.

6.1.2 Where the **registered person 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 **registered person** to pay short levy should also be recorded. This document would then become the basis for preparation of the draft audit report.

6.1.3 The Draft Audit Report shall be prepared in consultation with the Deputy/Assistant Commissioner of Audit. The audit teams shall bring the NIL DARs to the notice of concerned Addl. / Jt. Commissioner for review, who has to record his findings in audit file based on Desk Review.

6.1.4 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 based on any circulars or clarifications issued by the Commissioner, they should be quoted. 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 judgements, decisions of Appellate authorities or supported by technical literature, those should be cited.

6.1.5 The draft audit report should be finalised within the shortest time span possible i.e. within 10 – 15 working days of the commencement of the audit in the **registered person's** place and placed before the MCM for decision.

6.2 Monitoring Committee Meetings

6.2.1 The auditor should submit the draft audit report to the Joint Commissioner(Audit)/Deputy Commissioner(Audit) of the Audit **for approval and after approval of DAR the same is to be considered for placing before** Monitoring Committee Meeting.

6.2.2 Monitoring Committee Meeting (MCM) should be convened by the Joint commissioner (audit), to which the Joint commissioner (executive) or his representative shall be invited to attend. The decision taken by the Joint commissioner (audit), with regard to settlement of audit objections after recovery of all dues or dropping of the unsustainable audit objections, shall be final. Approved audit objections, including those in which show-cause notices are proposed to be issued, should be conveyed to the Joint commissioner (executive) in the form of Minutes of the MCMs, who shall respond to these objections conveying his agreement/disagreement within 15 working days of the receipt of the minutes of the MCM.

6.2.3 On points of difference, further consultations may be held for a period of 15 working days. If the difference persists, the final decision rests with the Additional commissioner (audit).

6.2.4 The Planning and Co-ordination section of the Joint commissioner (audit) should organise Joint commissioner (executive) wise / team-wise Monitoring Committee Meetings (MCM), at least at a monthly interval under the chairmanship of the Joint commissioner (audit), under intimation to the Joint commissioner (executive). During the MCM each of the audit objections/ observations would be examined for its sustainability. The Committee (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 show cause notice in respect of each para (**refer Section 73(5) & 73(6)/ 74(5) & 74(6) of SGST Act, 2017**). To facilitate prompt decision, the Additional/Joint Commissioners (audit) and all the DC/ACs of the Audit region should attend these meetings to offer their views on the spot, to ensure that uniformity in raising objections is maintained. 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 meeting will be treated as closed.

6.2.5 The Planning and Co-ordination Sections of Joint commissioner (audit) and the DC/AC of the Audit should make prompt entries in the Registers of Audit Planning and Audit Follow-up, at every stage, until the closure of the audit point either by issue of a show cause notice or by recovery of amounts due or by closure on merits/reconsideration.

6.3 Final Audit Report

Based on the decision of the MCM, the draft audit report should be finalised within thirty working days from the date of the meeting. The Planning and Co-ordination Sections of Joint commissioner (audit) shall upload the FAR using Audit Report Utility and issue FAR. A copy of the FAR, even if it is a NIL report, should be sent to the **registered person**, by e-mail through system and necessary records confirming such action should be kept in **registered person's** Master File.

6.4 Follow up action and issue of show cause notice

6.4.1 An audit objection should be closed after requisite action i.e., either recovery of amounts due or issuance of show cause notice, has been taken on it. After the issuance of Final Audit Report, wherever further action such as issue of Show Cause Notice is required, the Audit Group should prepare the Draft Show Cause Notice. The Show Cause Notice should be issued by the Jurisdictional DC/AC/STO of the same shall be answerable to the adjudicating authority. It is the responsibility of the JC/DC/AC (Audit) to pursue / persuade the taxpayer for payment of tax dues, especially on the paras admitted by the Registered Person. However, for any pending action i.e., recovery, especially on paras admitted in writing by the Registered Person, can be taken up with the jurisdictional Joint commissioner (executive), for follow up. The issues relating to paras orally admitted should not be referred to the Joint commissioner (executive). In case, new facts, necessitating reconsideration of findings in an audit report, come to the knowledge of officers who are required to take action on an objection, they should send their report along with supporting material to the JC/DC/AC (Audit) for reconsideration. But this action must be taken most expeditiously, say within one month of receipt of the Audit Report. In exceptional cases involving cogent grounds, the views taken in the Monitoring Meetings shall be taken up for review/re-consideration by the MCM only. The Joint commissioner (audit) should send a list containing details of Draft Show Cause Notices issued during the month, by the audit team, on monthly basis to Joint commissioner (executive).

Where after an audit it is found that any tax has not been paid or short paid or erroneously refunded or input tax credit has been wrongly availed or utilised by the taxpayer, the copy of audit report regarding above with supporting/relevant evidences shall be sent to the adjudicating officers. Adjudicating officer after receiving the audit report, as far as possible within the period of three month shall take appropriate action under section-73 or section-74 of Uttrakhand SGST Act. 2017 and shall pass an order and copy of such order shall be sent to additional commissioner (Audit) in case of top five large taxpayers and to joint commissioner(Audit) in case of remaining large and medium taxpayers and to Deputy Commissioner(Audit) in case of small taxpayers.

6.4.2 The results of action arising after preparation of final audit report should be filled up in the follow up report utility and uploaded in the **system**, as per the necessary facilities available for the same.

6.4.3 Each audit report should be examined by the JC/DC/AC (Audit). Any objection with major revenue implication, objection specific to a particular issue or any objection describing a novel modus operandi, should be selected for (i) issue of Modus operandi circular within the region, (ii) for communicating the same to the Commissioner for circulation within the State.

6.4.4 On completion of the above procedure the planning section shall place the documents in the registered person's Master file and also update the electronic file of the registered person.

(Registered person's Master file – RPMF to be updated on regular intervals)

1) Name of the Registered person

[illegible]

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(i) Name of Principal place of business

[illegible][illegible][illegible][illegible][illegible](vii) State/Union Territory (*Please see instruction No. 6(a)*)[illegible]

Post office

[illegible][illegible]

(xi) E-mail Address						

[illegible]

5) Web address of the company:

[illegible][illegible][illegible]

8) Details of Additional Place of Business

Part II - Other information

1) Constitution of Business (Please Select the Appropriate)

Sl No	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	Government Department		xv	Others (Please specify)	
vii	Public Sector Undertaking				

Details of proprietor / partner / CEO / Chairman / Managing Director (as applicable).

Details of Proprietor/Partners/CEO/Chairman /Managing Director/Member etc.

(a) Name

[illegible][illegible][illegible]

(c) Residential address

(i) Name of Premises/Building

[illegible]

(ii) Flat/Door/Block No.

[illegible]

(iii)	Road/Street/Lane						

[illegible]

(iv) Village/Area/Locality

[illegible]

(v) Block/Taluka/Sub-Division

[illegible]

(vi)	Town/City/District
------	--------------------

(vii) State/Union Territory

[illegible]

(viii)	PIN
--------	-----

Post office			

[illegible]

(ix) Telephone Nos.:

(b) residence

[illegible][illegible]

(issued by the Income Tax Department)

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

48

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

49

Year 3											
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(c) Details of Zero rated supplies and Deemed Exports made

Rs. In thousands

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

Note: Wherever, it is possible, the data may be downloaded from GSTIN while preparing the Master file.

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

**ILLUSTRATIVE LIST OF IMPORTANT DOCUMENTS FOR SCRUTINY AT
DESK REVIEW STAGE**

PART-A (FOR GOODS)

I. Check of Documents during Desk Review –

Sr. No.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	Annual Report & Director's Report	
	The Annual Report prepared by a company <i>inter alia</i> contains the following: i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any. <u>Director's Report</u>: 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. <u>Auditor's Report</u>: 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. <u>Nature of verification</u>: (i) The Auditor's Report 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. ii) 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 supplies and goods meant for outward supply was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods. iii) CARO 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. iv) In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined.	
2.	Profit & Loss Account	
	<u>Nature of the Account</u>: 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. <u>Types of verification:</u> (i) Scrutiny of supplies: Supplies may include inter-state supplies, intra-state supplies, Zero rated supplies including supplies to SEZ. Study of the pattern of supplies will give an idea about the volume of indigenous/ internal market for the registered person's supplies. (ii) 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 (iii) On the expenditure side, value of inward supplies on which GST is payable under Reverse Charge - Section 9(3) & 9(4) 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 supplies, raw material purchased and ITC taken on inputs etc. may be worked out. (iv) Notes given along with the said schedule should be studied carefully to find out cases of use of material for non-production activities. (v) 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
	<u>Nature of document :</u> Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet. <u>Types of verification</u> (i) 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 supplies between holding company and subsidiary & vice versa, valuation aspects needs to be examined in the light of SGST Rules. (ii) 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
	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. <u>Nature of verification:</u> (i) 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. (ii) Notes on quantitative information on inward and outward supplies 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. (iii) 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. (iv) 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 the Companies Act as part of the 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. However, the related parties as per the Companies Act may not be considered as 'related person' under the GST Law.
5.	Trial Balance
	<u>Nature of Document :-</u> 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 Taxable person. 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. <u>Types of verification :-</u> i) 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. ii) 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. iii) 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. iv) 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												
	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 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. The details of relevant paras useful for GST Audit are given in the table below: In case Registered person 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. <table border="1"> <thead> <tr> <th>S. No. in Annexure to the Cost Audit Report and subject</th><th>What is to be seen</th></tr> </thead> <tbody> <tr> <td>1,2&3- General Information</td><td>Auditors may use this information at the time of Desk Review.</td></tr> <tr> <td>4 - Quantitative details</td><td> It contains details of: • Total available quantity • Samples/ Quantity Captively consumed. • Outward supplies - with break-up of Export & domestic clearance Auditors should reconcile this data with GST Return and major variation (if noticed) should be looked into. </td></tr> <tr> <td>5 - Cost Statements/ Cost of production statement</td><td>Separate cost statements would be available in respect of each product/ activity group. Auditors may utilise the same for valuation aspects. It also helps to compute taxable value under cost Construction method under Rule 30 of SGST Rules, 2017.</td></tr> <tr> <td>6 - Operating ratio analysis.</td><td>Auditors may use the same for comparison of operating costs of each group, over a period of time.</td></tr> <tr> <td>10 - Related party transactions.</td><td>Auditors may use this information with regard to valuation of related party transactions under Rule 28 of SGST Rules, 2017.</td></tr> </tbody> </table>	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 supplies - 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 utilise the same for valuation aspects. It also helps to compute taxable value under cost Construction method under Rule 30 of SGST 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 SGST Rules, 2017.
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10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions under Rule 28 of SGST Rules, 2017.												

8	Scrutiny of the Tax Audit Report
	i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of ITC availed on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of ITC claimed. It also provides the details of credit available 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. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that GST on such supplies is paid on these amounts as per the provisions of Time of supply under SGST Act. iv. Clause 38 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios.

PART-B (FOR SERVICES)

Sr. No.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	Annual Report & Director's Report	
	The Annual Report prepared by a company <i>inter alia</i> contains the following: i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any. <u>Director's Report:</u> Director's report may, inter alia, contain information about- a) Foreign Exchange earned during the year. b) Foreign Exchange paid during the year, e.g. may be on account of taxable services provided by the Registered person/Taxpayer where he is liable to pay GST under reverse charge mechanism. c) Information on the operations carried out by the Registered person/Tax payer during the year under report. This may help in finding the exact nature of services provided by the Registered person/Tax payer. d) The facts stated in Director's Report should be reconciled with the GST Returns. <u>Auditor's Report:</u> It is the most important report contained in the Annual Accounts of a Company. The statutory auditor certifies as to whether the books of account of the company are properly maintained or not and also whether internal control mechanism is commensurate with the size and extent of business of the company. Any adverse noting of the Statutory Auditor has to be replied by the management of the Company <u>Nature of verification:</u> (i) The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. ii) CARO Report may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of capital goods was undertaken and whether any discrepancies were noticed on such verification or whether	

	i. everse charge mechanism- under this mechanism, the recipient of services is liable to pay GST (e.g. GTA Services, services received from abroad, Services notified under Section 9(3) & 9(4) of SGST Act.). Therefore, nothing appears on the credit side of the P&L a/c. However, GST has to be calculated on the amount paid towards taxable services received. Reimbursement- unless the concept of 'pure agent' is applicable as stipulated under Rule 33 of SGST Rules, 2017, reimbursements are includible in the value of Taxable supplies. Reconciliation should cover all receivables including reimbursements, supply of goods etc a) Income Accounts: Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately.
	To begin with, auditors should call for the groupings of business income shown in the Profit and Loss Account. The said groupings would show the different heads under which the incomes have been accounted for. 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. In doing so, auditors need to be guided by the nomenclature (used for each service) in the Trial Balance or Annexures to the Profit and Loss Account. It is possible that the true nature of the service may be obscured or disguised by using a nomenclature that is either non-taxable or exempted.
	Other incomes like insurance claims receipt, sale of capital goods, commission received, erection and commissioning income, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these are liable for GST and have any bearing on ITC utilisation.

the company has maintained proper records for unserviceable or damaged capital goods or not.

iii) CARO Report also shows disputed tax liabilities separately for Customs, and Income Tax. Cases booked under Income Tax Act may be examined to find out any implication on the GST.

iv) In the case of Public Sector unit, C&AG report and comment of the company available in the Annual Report should be examined.

2. Profit & Loss Account

Nature of the Account: 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 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. 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.

Nature of Verification: The auditor is required to examine income and expenditure accounts in the Profit and Loss Account:

Auditor should analyse both debit and credit side of the profit & loss a/c, trial balance, ledgers etc. because it is a myth that while ascertaining the tax liability, one has to look only at the credit side of P&L A/c. Debit side is equally important or rather more prone to frauds and errors. Therefore, the auditor needs to pay attention towards debit side also. Debit side is important because of–

b) Expense Accounts: Scrutiny of expense accounts would enable the Auditor to identify major expenditure heads. In specific terms, such scrutiny may be useful in the following manner:

- Useful for verification of out of pocket expenses where deductions for these have been claimed from the value of taxable supplies.
- ii. Correlation between expenditure head and value of taxable supplies e.g. fuel expenses and the value of taxable service in the case of tour operators.

3. Balance Sheet

Nature of document :

Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet.

Types of verification

- (i) 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 transactions with the holding/subsidiary company, in that case, the valuation of such supplies needs to be examined in the light of Valuation Rules.
- (ii) 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 was paid, if the ITC was availed in the past.

4. Notes to the Accounts

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.

Nature of verification:

In case of debtors, notes indicate debtors which are outstanding for a period exceeding 6 months. Foreign Exchange related transactions are also given in the notes on accounts. Management can use these figures to show book profit to suit their requirements. Netting of amounts of revenue or expenditure can also be resorted to by the management although as per accounting standards it is mandatory to specify the figures separately.

Scrutiny of Notes will also reveal as to whether there was any change in the system of accounting. For example- a Taxable person changes from cash system of accounting to mercantile system. The notes also indicate the impact of accounting

	Policies on various liabilities including the tax liability of the Taxable person. Therefore, the auditor must read the notes carefully.					
5.	Trial Balance					
	<u>Nature of Document</u> :- 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 a Taxable person. 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. The perusal of the Trial Balance could achieve the following: - Familiarization with chart of accounts/account code and understand as to what extent the information is detailed and integrated with other subsystems; few samples Journal Vouchers may also be seen to understand the information mentioned therein. - Understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet. - Identification of accounts, which have a prima facie relevance for GST payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes; - Understand the tax accounting system in so far as it pertains to Tax payment and treatment of credit of GST on input services; During the study of the Trial Balance/ Profit and Loss Account all income accounts should be studied in detail. The most important use of Gross Trial Balance is that it contains balances of individual accounts whereas in Balance Sheet and P&L A/c many accounts are grouped together, e.g., - In the P&L A/c, all the incomes are clubbed together under the head 'Gross Receipts', 'Sales' as the case may be. However, Trial Balance shows income earned under each category of revenue separately. - Not only the Trial Balance is important in relation to income side, but it is very important in relation to expenditure side also. For instance, Payment made towards Sponsorship services may be clubbed in the category of Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance. - Similarly, freight paid may be clubbed with Purchases or Fixed Assets.					
6.	Cost Audit Report					
	Cost Audit Report provides quantitative and financial details regarding related party transaction, valuation of services rendered as per GSTR 9/ Periodical return under GST. The auditor may examine the following aspects from the Cost Audit report. <table><tr><td>S. No. in Annexure to the Cost Audit</td><td>What is to be seen</td></tr><tr><td></td><td></td></tr></table>		S. No. in Annexure to the Cost Audit	What is to be seen		
S. No. in Annexure to the Cost Audit	What is to be seen					

	Report and subject	
	1&3- General Information	Auditors may use this information at time of Desk Review.
	5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the Taxable person under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance on Royalty & Technical Know-how.
	10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.
7	Scrutiny of the Tax Audit Report	
	i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of ITC availed by the service providers on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of ITC claimed. It also provides the details of credit available 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. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that GST is paid on these amounts in case they are subject to GST. iv. Clause 39 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios.	
8	Scrutiny of Tax Deducted at Source (Income Tax TDS) Certificates	
	The total receipts can be verified from TDS certificates in the following manner:- i. 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. ii. The nature of supplies 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. iii. Details of TDS credit claimed in the Income Tax Return may also be examined.	

RATIO ANALYSIS OF DATABASE**(PROCEDURE/FORMATS SEPARATE FOR GOODS AND SERVICES)****PART –A: GOODS**

S. No.	Nature of Ratio / Method of calculation	Utility of the Ratios	Source Document
1.	Input Tax Credit availed (A) : Total tax paid through (Electronic cash ledger + Input Tax Credit) (B) = (A)/(B)	i) To identify wrong availment of input tax credit ii) To identify under valuation of goods as value-addition should involve adequate difference between the two. iii) To identify removal of goods without payment of tax. iv) 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	i) 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. ii) Theoretically, this ratio should have a bearing on the ratio of Input tax credit: Total tax payment (Sl.No.1). iii) 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: a) 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. b) Fraudulent availment of credit like availment of credit without receipt/actual use of input. c) Rejection/return/clearances of inputs without reversal of credit d) Receipt of inputs and availment of credit but clearances of finished goods without payment of tax. e) Under valuation of finished goods. <u>Important points to be considered:</u> i) Only taxable goods sales value should be considered.	Annual or Monthly GST returns (As applicable) Trial Balance, Profit & Loss Account and Notes to the Accounts.

		ii) Export value to be excluded from sales value, if export is under bond (if export was on payment of tax, in that case, export value should be included). iii) Exclude the GST from sales value, if details are available.	
3.	Input tax credit availed on Capital Goods purchased during the year : Addition to Capital Goods	i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet.	Balance Sheet & GST Returns.
4.	Other Income: Sales	i) If this ratio is higher than previous period, it may be on account of the following: a) Under valuation of finished goods by non-inclusion of other incomes like recovery of Advertisement expenses, Packing and Forwarding Expenses in the assessable value. b) Non-payment of tax on scrap/rejects/job work. ii) GST liability on Other Income may also be examined.	Profit & Loss Account.
5	Outward supply of Scrap: Total outward supplies made	If ratio in the current year is lower, it may be on account of the following: i) outward supply of scrap made without payment of tax ii) Non receipt of scrap from job worker.	Profit & Loss Account/Trial Balance.
6	Value of exempted outward supply: value of total outward supplies made	i) To identify outward supplies made in the guise of exempted supplies. ii) To identify supply of essential parts of outward supply as exempted supplies. iii) To identify under valuation of outward supplies by overvaluing exempted outward supply	Profit & Loss Account.
7	Input tax credit availed on inputs: Purchase price of inward supplies	i) Non reversal of credit/payment of tax on inputs rejected/short received/cleared to other units/cleared as spare during warranty period.	Annual or Monthly GST returns (As applicable)

8	Value of Zero rated supply : Total supply	i) To identify outward supplies made in the guise of zero rated supplies. ii) To identify under valuation of outward supplies by overvaluing zero rated supply outward supply	Profit & Loss account
9.	Non-GST Supply : Total supply	i) To identify outward supplies made in the guise of non-GST supplies. ii) To identify supply of essential parts of outward supply as non-GST supplies. iii) To identify under valuation of outward supplies by overvaluing Non-GST outward supply	Profit & Loss Account

PART-B FOR SERVICES RATIO ANALYSIS OF DATABASE

<u>Source Documents</u>	<u>Utility of the Ratios in GST Audit and manner of use</u>	<u>Nature of Ratio / Method of calculation</u>
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non-profit organisations like clubs); and 3. GST return	Compare the ratio over a period of 3-4 years. If the ratio is increasing there is possibility of the following irregularities:- i) Rendering of unaccounted outward supply. ii) Undervaluation of outward supply. iii) Diversion of outward supply income into non-taxable income. Compare this ratio (A) with (B) If ratio B is greater than ratio A, then there is a possibility of wrong availment of credit either due to calculation mistake or availment of credit on inward supply being not used properly in outward supply.	Total cost of inputs received (both Goods & Services) : Value of Taxable outward supply (say A) Credit availed: Total GST payable (say B)
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non-profit organisations like clubs); and 3. GST return	Compare the ratio over a period of 3-4 years or with the Taxable person rendering the same services. If the ratio is increasing over a period of time or it is more when compared to other suppliers, then there is a possibility of under valuation by showing outward supply income as non-taxable / exempted income.	Other incomes not charged to GST : Value of taxable outward supply
Balance Sheet	A comparison of this ratio with the rate of growth of the value of taxable outward supply during the year may be useful in verifying whether the value of taxable outward supply has been correctly declared. It is particularly to be checked in cases where the additions to plant & machinery / fixed assets directly impact the volume of outward supplies.	Additions to plant and machinery / fixed assets during the year : Total value of assets at the beginning of the year
GST returns	Compare the ratio over a period of 3-4 years. If the ratio is increasing there is the possibility of the following irregularities:- (a) Rendering of unaccounted outward supply; (b) Under valuation of outward supply; (c) Showing outward supply income as non-taxable outward supply income. (d) Inflation of inward supply credit.	Amount of input tax credit availed on inward supply : Total tax liability on outward supply
GST returns	i) To identify wrong availment of input tax credit ii) To identify under valuation of outward supply as value-addition should involve adequate difference between the two.	Input Tax Credit (A) : Total Tax paid through (Electronic cash ledger + Input Tax Credit) (B) = (A)/(B)

	iii) To identify outward supplies made without payment of GST. iv) To identify claiming of input tax credit on inward supplies used in exempted outward supplies.	
Balance Sheet & GST return	i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet.	Input tax credit availed on Capital Goods purchased during the year : Addition to Plant & Machinery
Profit & Loss Account.	If this ratio is higher than previous period, it may be on account of the following: a) Under valuation of outward supply by non-inclusion of other incomes b) GST liability on Other Income	Other Income: Outward supplies

ANNEXURE V

Only for those registrants who are required to file Annual return u/s 44 of the SGST Act .

Part-A-Goods

COMPARATIVE CHART OF ITEMS FROM FINANCIAL STATEMENTS/ RETURNS

Sl. No.	Item	Records/Registers/Acco unts maintained U/S 35 SGST Act read with rule 56 of SGST 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 Regigster			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 tax of goods							
d)	II) Payment of tax 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)VIII 28(b)(B) VI	Under Head "Other Income"		
8	Power & Fuel					Under Expendit ure- Power & Fuel	Annexure to Director's Report Schedules to P & L Account	
9	Written off stocks	Account of stock of goods			28(b)(A)VIII 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

@@@ - Units manufacturing Bulk Drugs & Formulations under Drugs (Prices Control) Order 2013

(+) 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 SGST Rules other than an Input Service Distributor, other than an Input Service Distributor, a person paying tax as TDS/TCS, a casual taxable person and a non-resident taxable person, Note: Wherever it is possible, the data may be downloaded from GSTIN Portal

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

PURCHASES – INWARD SUPPLIES

1. Whether all purchases are Stateised or de-Stateised. If all purchases are authorised by few key persons like owner or Managing Director etc, it may require in-depth study of purchases.
2. 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 Stateised in the purchase section. Are there any cases where purchases have been made without issue of purchase order?
3. Whether there is a system of authorised Vendor List. If not, what is the system of approving particular vendor? Are there instances where substantial purchases have been made through unauthorised vendors?
4. Whether rejected inward supplies are stored separately. What is the system of accounting for the rejected inward supplies/short quantity?
5. Whether for purchase returns, debit notes are issued?
6. Whether for rejected inward supplies any set procedure is followed.
7. At what stage ITC is availed, i.e. either before testing for rejection or after testing for rejection?
8. On the inward supplies rejected or short quantity received, whether the ITC reversal is done on each invoice basis or on monthly basis.
9. Whether any item supplied free of cost by the customer.

OUTWARD SUPPLIES

1. What is marketing pattern - is it through depot, stockist, C&F agent related person or directly by the registered person?
2. How many series of outward supply /GST invoices are generated? For example, there can be different series for outward supplies, export supplies, scrap, other items and job work.

3. Whether all different series of invoices of outward supplies are entered in one outward supply account or in different outward supply account.
4. Who authorises for despatch of outward supplies?
5. Whether any charges for erection/commissioning collected?
6. 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)?
7. Whether any materials supplied to the recipients at free of cost?
8. Any amount for marketing expenses, Advertisement, Royalty, Handling Charges, Packing Charges, Warranty, after sales service and Insurance received from recipient in any manner?
9. Whether commercial invoices and outward supply invoices (Tax Invoices under GST) are same or different?
10. Who is authorised to fix the price of outward supplies and whether any printed price circulars are issued?
11. Who is authorised to make supplementary outward supply invoices or debit note for price variation/additional recoveries (advertisement, after sales service, additional packing, insurance, freight, depot charges)?
12. Whether outward supply figures mentioned in GSTR1 are tallying with the records maintained by the registered person?
13. Whether any goods were received for repair etc. on return by the recipients?
14. Types of discounts given and how are they accounted for in relevant records.
15. Whether recipients' accounts are debited with the net amount of invoice or gross amount?

STORES

1. Whether receipt in the stores record are shown only after inspection of inward supplies or before inspection.
2. What is the frequency of stock taking of all the items? How difference is accounted for and what reports are prepared.
3. 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?
4. For inward supplies covered by insurance claim what is the procedure for filing the claim. Whether such inward supplies are entered in the store register or these are shown in separate account. Whether any register or report is prepared for all such claims.

5. What are the records maintained for inward supplies sent out for Job Work?
Whether scrap is received back or job work price is adjusted.
6. How the defective/ damaged inward supplies are reflected in the books of accounts?

TAX ACCOUNTING

1. Whether GST paid on inward supplies are shown separately in purchase account?
2. Whether all inward supply invoices are entered for full value and thereafter for rejected/stock quantity, credit note or sales return invoice is prepared.
3. Whether GST payable on outward supplies made and shown separately in outward supply account?
4. 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.
5. In case of capital goods fully written off whether GST deducted from such expenditure account or not?
6. 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

1. Whether any input/output ratio has been determined for sending the input for job work.
2. 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 registered person) and whether the records show quantity of inputs sent, quantity of final product to be received, actually received and variation?
3. Whether any monthly or periodic statements are prepared for each job work and at what level the statements are verified for taking corrective action?
4. What is the system of treatment of scrap generated at job worker? Whether it is brought back to the registered person's premises or allowed to be disposed off by job worker?
5. Whether the finished goods after job-work are being supplied from job-worker's premises.
6. When the finished goods are not received back from the job worker in time (180 days), what action is taken by the company and what accounting treatment is done for the same?

7. Whether the processed inward supplies after conversion into outward supplies are sold by the principal directly from the premises of Job-worker?
8. Whether outward supplies 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 TAX CREDIT

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 supplies Leased.



inward supplies written off –



Capital goods --- fixed Asset register – Depreciation



I.T. return

Annual report -- Fixed Asset schedules / Depreciation schedules



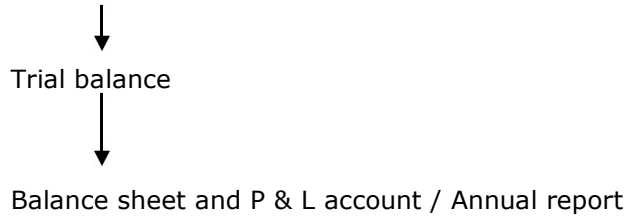
Credit notes from suppliers



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

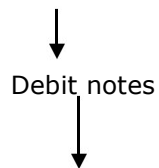
III Costing.

cost audit report – cost register – Process chart

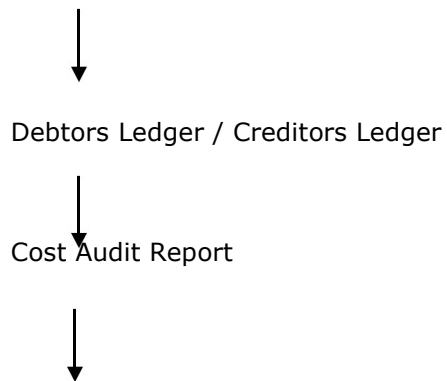


IV Price determination (Transaction Value)

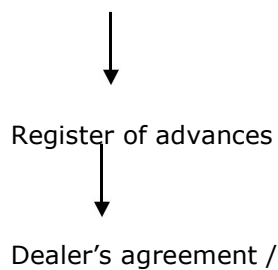
Invoices

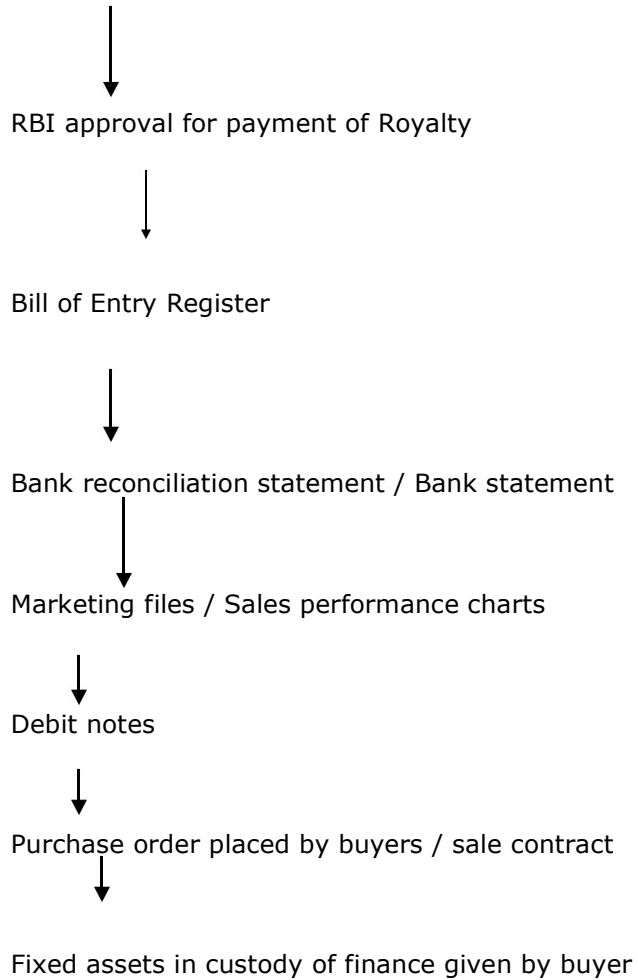


Other income in Annual Report



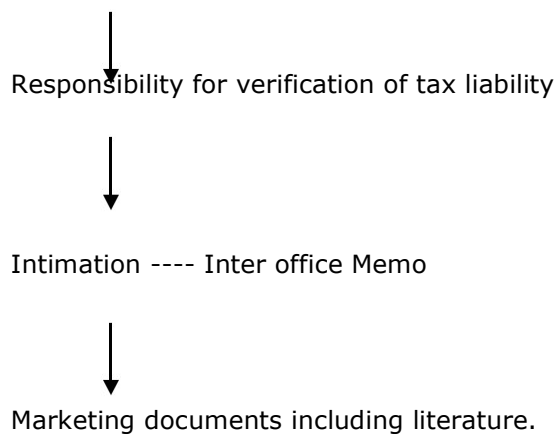
Register for inter Corporate Loan





V. Classification (where applicable)

Research Development --- Product Development – Product lab



VI. Outward supply

Tender files



Outward supplies/ sales order Book -- Scrap Register



Marketing files



Price lists



Dealers agreement -- Distributor consignment Agents C & F Agents



Delivery note – Invoices



Despatch advice



Invoices register

VII. outward supply return

outward supply return book Bank Reconciliation Statement



Non moving stock register



Credit notes --- Job card / work order



Debit notes

IX Non Taxable items

Name of the Non-taxable item



ITC availment



Reversal of ITC

Part B- SUPPLY OF SERVICES

QUESTIONNAIRE FOR REVIEW OF INTERNAL CONTROLS (Information to be filled in by the Auditor before filling up the information in the working papers)

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 supplies) and availment of ITC thereon

- 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 supplies)

- 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/ GSTR 9C

3. Financial Record Scrutiny

- Trial Balance
- Check all Income Accounts (showing credit balances) in Trial Balance.
- Compare value of Income Accounts with value of taxable services shown in relevant GST returns.
- Verify invoices/bills/other documents of Income Accounts on which GST is not paid.
- Verify major expenses accounts to confirm whether any recoveries made from customer/client are adjusted in the expenditure account.
- Check Journal Vouchers/Debit Notes to verify recoveries from Customer/clients on which GST is not paid.

4. Use of Inputs/ Input Services in Exempted Services:

- Check details of Input Services on which ITC was availed
- Check, if any, record maintained for quantifying inward supplies used for exempted outward supply services or non-taxable activity.
- Verify use of inward supplies by verifying documents
- Check costing of outward supply (prepared for submitting quotation or prepared for calculation of cost of output services)
- Check job card/work statement to find out exact quantum of use of input services.

B. Questionnaire for gathering information:

1. General:

1.	Name & address of the registered person.	
2.	Name and contact number of the 'Authorised person' for Audit.	
3.	GSTIN	
4	Whether the taxable person is also registered as an Input Service Distributor?	
5	Whether the taxable person is a Proprietary, Partnership firm, Limited liability Partnership firm (LLP), Pvt. Ltd Company, Public Limited Company?	

6	Details of transactions with Associated Enterprise.	
7	Details of Taxable Supplies made	
8.	Details of Taxable inward supplies received for which tax has to be paid under reverse charge. (under Section 9(3)/ 9(4))	
9.	Details of exempted Services supplied, if any, & Notification No.	
10.	If both Taxable and Exempted Services are provided, whether ITC is being reversed as per the prescribed method	
11	Details of Exports	
12	Whether any periodical report/statement is furnished to any State / State Government / Authority / Regulatory bodies? If yes, details thereof.	
13	Whether any offence case is booked in respect of GST, Income Tax, VAT/ Sales Tax. If so, details thereof.	
14	Whether any service is sub-contracted partially or wholly? If so, details thereof.	
15	Whether ITC on input services availed? If so, indicate details of major input services.	
16	Whether ITC on Capital Goods availed? If so, details of such Capital goods, along with their HSN	
17	Whether entire consideration payable to the supplier was paid to them within 180 days on inputs received? If not, whether reversal of ITC/ interest thereof was done?	
18	In case the registered person is an Input service distributor (ISD), whether he is having any unit supplying only exempted outward supplies? If yes, whether he is distributing the credit in respect of services related to that unit also?	
19.	Whether any amount payable/ paid to the supplier has been adjusted against the receipt/ receivable and net income shown in the P&L Account.	
20	Whether any advance payment is received towards outward supplies? If yes, whether GST is paid on such receipts?	
21.	Is there any expenditure to any entity abroad which has been made but on which taxable person is not required to pay GST under reverse charge mechanism? If yes, details thereof.	

22	Whether GST is paid on the gross value received including TDS amount deducted by the service recipients?	
23	Whether PF/ ESI or any other charges of the personnel of the service provider are being directly paid by the service recipients? If so whether GST is paid on such amount.	
24	Details of agreements entered into by the registered person for supplying / receiving services	
25.	Details of expenditure in foreign currency on which GST has neither been charged by the registered person nor it is payable under reverse charge mechanism	

2. Invoicing pattern

01.	Is invoice issued in respect of all transactions? If not, reasons for not issuing invoice.	
02.	How many series of invoices are being used?	
03.	If more than one series is used, give details of each such series.	
04.	If there are more than one series of invoices, is GST paid on all the series of invoices?	
05.	If not, then the reasons for not paying GST on such series of invoices (e.g. exempted / exports / non-taxable services). Give details.	
06.	Whether the invoice contains the GSTIN?	
07.	Is invoice issued on the date of supply of service or before or later?	
08.	List the different heads under which amounts are billed in invoices and their corresponding heads in the Trial Balance.	
09.	Name the heads in the invoice on which GST is not paid.	
10	Are there any reimbursements billed in the invoice?	
11.1	Are there any debit/ credit notes issued for claiming reimbursements?	
12.	If yes, is GST paid on these reimbursements? If not, reasons thereof.	
13	Whether invoices are generated on Computer. If yes, then whether the Invoice Numbers are generated automatically or is fed manually. What safe guards are provided in the system for data security? Give the name and designation of the person having the authority to cancel an invoice.	

14.	Whether any amount is recovered by issue of debit note and whether it is included in the gross value of services?	
15	Give a brief on sale pattern of services liable to GST.	
16	Are any goods or services supplied by the service receiver free of cost or at subsidized price?	

3. Accounts and records

01.	Whether accounts are prepared on mercantile basis or cash basis?	
02.	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:	
03.	Whether accounting software was switched over to some other software during the audit coverage period.	
04.	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?	
05.	Whether accounts are audited by Statutory Auditor? If so, name and address of the auditor.	
06.	Whether Cost Accounting records as prescribed under Section 148 of the Companies Act, 2013 are required to be maintained?	
07.	Whether Cost Audit is conducted and if yes report thereof is prepared?	
08	Whether there is any system of Internal Auditing?	

4. Making of GST return

1	List the ledger/ accounts from where the monthly gross amount received is taken for taxable service.	
2	List the ledger/accounts from where the amount received towards gross monthly amount of Exports is taken.	
3	List the ledger/accounts from where the amount received towards gross monthly amount of exempted service is taken.	
4	List the ledger/accounts from where the gross monthly amount of amount received as pure agent is taken.	

5	List the ledger/ accounts from where the gross monthly amount billed is taken.	
---	--	--

5. Place of supply

1	Whether place of supply is correctly determined in case of supplies so as to identify supplies as whether inter-state or intra state supplies	
2	ZERO RATED SUPPLIES - Value of services exported if any, on which no GST has been paid?	
3	If so whether all such supplies are eligible to be treated as such ZERO RATED SUPPLIES	
4	Is the payment for services exported received by the service provider in convertible foreign currency? If not, list those transactions where amounts are not received in foreign currency.	
5	Is the payment for services exported received by the service provider in convertible foreign currency within the time limit prescribed by RBI? If not, give details.	
6	Whether any services has been exported to "Associated Enterprises". If yes, mention the value thereof.	

6. VALUATION OF SERVICES

1	Is there any outward supply of goods involved in the course of providing service or otherwise?	
2	Is the value of goods supplied as mentioned in Point (1) above included in the gross amount charged as declared in GST	
3	"Gross Amount Charged" includes reimbursements billed for the purpose of determining value of supplies and in turn the tax liability?	
4	Is there any, Value of reimbursements on which GST is not charged	

7. AMOUNTS TO BE INCLUDED IN TAXABLE VALUE

1	Whether any Goods / Services provided free of cost by the recipient	
2	Whether reimbursements received from recipient	
3	Whether any other expenditure borne by the recipient, which are + otherwise to be borne by the supplier?	

8. MIS

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

Note: After obtaining the above information, the auditors may physically examine the concerned ledgers/ documents which may be relevant for verification of the issues mentioned in the audit plan as well as any new additional issues that may be identified during the time of gathering of the information

ANNEXURE – GSTAM - VII

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 SGST Act read with rule 56 of SGST 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. Lab reports.	For the 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 with 5.
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 2 Credit availment register	1. Material receipt note/ register 2. Insurance claim documents for transit losses 3. 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, Utilisation 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 SGST Act read with rule 56 of SGST 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, tax on services 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 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.

ANNEXURE – GSTAM – VIII**WORKING PAPERS**

Date of Preparation_____

W/P No._____

I. DETAILS OF AUDIT

1. Name of the Principal place of business :
2. Address :
3. GSTIN.
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 GROUP :

S. No.	Name of the officer	Designation

9. Major audit objections in earlier IAD reports :

10. Major CERA Observations in the past :

II. NATURE OF BUSINESS OPERATION OF THE TAXABLE PERSON

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

Sl. No.	Description of outward supplies	HSN	Exemption Notification availed	Rate of tax

2. Details of principal inputs and capital goods used by the taxable person.

Details of Principal Inputs/Capital Goods				
Sl. No.	Input Materials/ Capital Goods	HSN	Exemption Notification	Rate of GST

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

Year	Total ITC credit availed (in Rs.)				Total GST payment (in Rs.)	
	SGST	SGST	IGST	Cess	Cash	ITC credit

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 Taxable person Master File 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 Taxable person Master File. Identify and mention (with justifications), the areas or issues which merit inclusion in the Audit Plan.

2. Obtain and study other documents mentioned in **Annexure-GSTAM-III** and conduct examinations as illustrated therein. List out the documents studied.

Sl No.	Name of the document/report *	Period *		Remarks
		From	To	

3. RATIO ANALYSIS OF DATA BASE:

Work out some of the important financial ratios as mentioned in **Para 5.6.6** and **Annexure IV**. Mention the important indicators, which require to be included in the Audit Plan.

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

	RATIO	FY 1	FY 2	FY 3
(a)	ITC : Total GST payment			
(b)	Inward supply value : outward supply value as per P&L Account			
(c)	ITC availed on capital goods purchased during the years : addition to capital goods			
(d)	Other income : outward supplies as per P&L Account			
(e)	Power consumption/fuel consumption (Qty) : production quantity as per P&L Account			
(f)	Gross profit : Gross sales as per P & L account			
(g)	Production of Goods : Scrap			
(h)	Input-output ratio as per norms			
(i)	ITC on inward supply to Total inward supply			
(m)	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 supplies made and inward supplies 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 taxable person 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 supplies to be included in the Audit Plan with reasons thereof.

7. REVENUE RISK ANALYSIS:

Date of Preparation _____

a. Perform the Revenue risk analysis, covering a period of at least one year or a minimum of one return, for GST payable and paid. The GST payable may be derived by determining the taxable outward supplies from Profit and Loss Account and other supporting documents and reconciling with taxable persons records. The existing GST rate may be applied to this to arrive at GST payable. This may be compared with total GST paid as per monthly return. Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

b. Perform the revenue risk analysis, covering a period of at least one year for ITC utilization and availment and record your conclusions as to the potential revenue loss. Value of inward supplies purchased as per the expenditure statement in the Profit and Loss account and other records as prescribed under section 35 (1) may be used for working out ITC available and compare it with ITC available in ITC credit Ledger (ITC PMT-01). Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

8. TREND ANALYSIS:

Undertake analysis of trends as illustrated in **Para 5.6.9** or other trends as deemed relevant. Mention issues to be included in the Audit Plan. The results of Trend analysis may be summarised in the following table.

(Ratios marked with * are to be determined only in case the registered person is into manufacture)

Year	2017-18	2018-19	2019-20
Cost of production of major finished Goods (as per cost record) *	A B C ----	A B C ----	ABC----
Quantity of inputs consumed in the production of Finished Goods *			
Value of inputs consumed in the production of Finished Goods *			
Value of Outward supplies			
Difference in ITC taken & ITC available on purchase of raw materials			
Job work income as per P&L Account or Trial balance			
Inter unit transfers /sales to related party as per Balance Sheet			
Gross operating profit Vis-a-vis sales			
GST paid by debit in Electronic Credit ledger vis-à-vis GST paid by debit in Electronic Credit Ledger			
GST paid by debit in Electronic Credit ledger vis-à-vis Total GST paid			
Production of finished goods/outward supplies *			
Production of scrap/ Production of finished goods			
Production of taxable outward supplies / vis-a-vis exempted supplies *			
Outward supplies made for home consumption vs export supplies			
Value of outward supplies made to related person vis-a-vis total value of supplies.			
Movement of inward supplies vis-a-vis total production*			
Movement of inward supplies/goods manufactured on job-work vis-a-vis total production*			
Input output ratio as per norms			

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

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

9. FINANCIAL AND TAX ACCOUNTING INFORMATION:

Date of Preparation_____

- a. Obtain audited Balance sheet and Profit and Loss Account and trial balance. Review any notes in the Balance sheet / profit and loss account. If unit is a division of a company, check if internal financial statements are prepared for the unit before consolidation with other related units. Work out purchase value of inward supplies to value of outward supplies ratio and compare with ITC ratio. Obtain a copy of last two reports. Mention issues to be included in the Audit Plan.

-
- b. Identify all business activities like supply of goods/ supply of services like repair, service activities and major source of 'Other Income'. Mention issues to be included in the Audit Plan.

-
- c. Compare total turnover as per profit and loss account with the corresponding figures submitted to the department in the returns for three years. Mention discrepancies to be included in the Audit Plan.

**GATHERING INFORMATION ABOUT TAXABLE PERSON AND THE SYSTEM
FOLLOWED BY HIM**

Date of Preparation_____

i. INTERVIEWS

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

Give the gist of interviews specially in respect of

- related ventures, business with these ventures and annual volume of such transactions,
- relationships with the unit and its owners / shareholders,
- the head office / registered office of the unit, location of its operations and location of its accounting records
- whether Company 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

(Please refer Para 5.7.1, 5.7.2 and Annexure VI).

Date of Preparation _____

- i. Perform a walkthrough for the Sales / Records maintained. Trace a sample of transactions (all types, including those on Credit) from source documents through the GST account. 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. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits, from source documents through the GST account. Examine specifically system for purchase, rejection, short supply etc. 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

- iii. Perform a walkthrough of any other system (eg. Stores Journal Entries, ITC accounting etc.) Trace a sample of transactions of all types from source documents through to the GST Account. 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.

- iv. Perform a walkthrough of the process of compiling GST return for one month, tracing from the tax return amounts backwards through to their sources. Check supplies 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.

- v. 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 (please refer para 5.7.2)**

Name of area/sub system	Grade (good/acceptable/poor)	Problem areas if any
Sales.		
Purchase.		
Tax Accounting.		
Posting to General Ledger and Journals (specially of high value transactions).		
Recording of invoice.		

Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and avilment of ITC.		
Accounting of scrap/wastes.		
Account adjustments.		
Others		

- vi. Any other relevant information gathered by the auditor 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:

(Please see para 5.8 and Annexure VII).

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 and must be specific in the following format (**also given in Annexure VII**):

Sl. No.	Subject	Specific Issue	Records Document Code /	Coverage Period	Selection Criteria

IV. AUDIT VERIFICATION AT THE UNIT:

A. OUTWARD SUPPLY/ SALES 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 the taxable person.
1.	Direct Supply by the registered person				
2.	Supply through the depot/distributors / consignment agents / Marketing intermediaries.				
3.	Inter Unit transfers (not amounting to supply)				
4.	Inter Unit transfers (amounting to supply)				
5.	Self (Captive) consumption				

6	supply to U.N. and other aided projects				
7	Inward supplies received and job work done				
8	Inward supplies /semi-processed material sent for job work outside.				
9	Outward supplies made from Job-worker's premises directly to the customers				

- ii. Examine selected recipient's ledger (customer) to find out any amounts other than those shown in Tax invoices are realised (Check Debit Note and Journal Vouchers also).

- 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)/PURCHASE 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 supplies 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
- ii. Examine selected 'credit accounts' for each major input services to verify whether payment has been made prior to availment of credit.
- iii. Examine whether any input services may have been used in the exempted supplies.

-
-
- 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 are captively consumed. Mention issues to be included in the Audit Plan.
-
-
- ii. Study whether any supplies are made to distinct persons, inputs/ partially processed intermediates sent for job work or received for job work. Study the valuation and ITC availment in such cases Mention issues to be included in the Audit Plan.
-
-
- iii. Any other relevant information gathered by the auditor during the course of Gathering information about taxable person, and systems followed by him and study of financial documents. Mention issues to be included in the Audit Plan.
-
-

V. VERIFICATION AS PER AUDIT PLAN:

(Please see Chapter 5)

- A. Carry out 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

	<u>V.P. NO</u>	<u>DATE</u>
i.	Name of the auditor verifying the issue:	
ii.	Issue involved in brief:	
iii.	Ref. No. of the Audit Plan:	
iv.	Documents verified:	
v.	Brief account of the process and extent of verification:	
vi.	Auditor's observation and conclusion in brief:	
vii.	Quantification of revenue involved, if any (also give the calculation sheet):	
viii.	Documents relied upon to support the conclusion:	
ix.	Party's agreement	: Yes/No

- x. If yes : In writing/Oral
xi. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

VII POST VERIFICATION

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

Date of Preparation _____

- A. Indicate information provided and specific actions suggested to the taxable person to improve future compliance. Where the taxable person is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the taxable person is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

B. SUMMARY OF AUDIT RESULTS

Provide an outline of all objections, which involve short/non levy of tax, amounts (say under Sec. 76 of SGST Act), irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue/credit/interests/amounts should also be mentioned. Indicate whether the taxable person has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

ON CONCLUSION FAR IS REQUIRED TO BE SENT IN PROFROMA GST ADT -02 TO THE AUDITEE WITHIN 30 DAYS

(Auditor)
Name/Designation
Group No:

Place: _____

Date: _____

PART-B
SUPPLY OF SERVICES

I. RECORDS EXAMINED:

A standard list of records have been called for from the taxable person vide letter dated: _____ (**FORM ADT-01**) The following are the list of records received and examined:

- a)
- b)
- c)

II. RATIO ANALYSIS:

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

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

	RATIO	2017-18	2018-19	2018-19
(a)	Cost of Major input: Value of outward supplies			
(b)	Total Credit availed: Total GST payable			
©	Other incomes charged to GST: Value of taxable services			
(d)	Additions to plant and machinery/ fixed assets during the year : Total value of assets at the beginning of the year			
(e)	Amount of credit availed on inputs: Total GST liability			
(f)	Consumables value: Value of taxable services.			

III. TREND ANALYSIS:

Work out trends of the following over a period of five years.

	TREND	2017-18	2018-19	2018-19
(a)	GST collection			
(b)	GST of a particular service vis-a-vis overall growth of that industry.			
(c)	Trend in proportion of value of exempted services to the total value of services.			
(d)	Value of outward supplies			
(e)	Gross Operating Profit			
(f)	Value of Exports			
(g)	Value of Services undertaken on sub-contract			
(h)	Total GST paid			

IV. INPUT TAX CREDIT(ITC) ANALYSIS : (Rs in lakhs) for the last THREE years

Subject/ Year	2017-18	2018-19	2018-19
---------------	---------	---------	---------

Opening Balance			
Credit availed			
Credit utilised for payment of tax (Debits in Electronic credit ledger)			
Credit utilised for reversal under the provisions of Rule 42 of SGST Rules			
Closing Balance			

v. ANNUAL TURNOVER VIS-A-VIS GST PAID:

Brief details of the annual turnover and the GST paid for the last five years and the current year (Only Income side to be mentioned, and as regards Value and Taxes, they refer to only output services- Reverse charge taxes not to be mentioned) (Rs in lakhs):

Year	Turnover as per P&L A/c or Trial Balance	Income on interest/FDs etc.	Value of Taxable Services	Total GST paid	GST Paid (by debit in Electronic Cash ledger)	GST paid –(by debit in electronic credit ledger)	% of ITC over Total GST

ASSOCIATE OF ENTERPRISES:

I	Does the taxable person have an associated Enterprise as defined in Section 2 of SGST Act 2017				
ii	If yes, then provide details				
S. No.	Name	PAN	Address	Type of relationship	Details of transaction , if any

vi. ANNUAL EXPENDITURE (IN INDIAN RUPEES) VIS-A-VIS GST PAID UNDER REVERSE CHARGE:

Brief details of the annual expenditure and the GST paid for the last five years and the current year (Only Expenditure to be mentioned, and as regards Value and Taxes, they refer to only taxes payable under reverse charge - except in case of import of services) [Rs in lakhs]

Year	Expenditure as per P/L statement pertaining to reverse charge items	Value of Taxable Services	Total GST paid	GST Payable-Cash

vii. ANNUAL EXPENDITURE OF FOREIGN CURRENCY VIS-A-VIS GST PAID UNDER REVERSE CHARGE:

Brief details of the expenditure in foreign currency and the GST paid for the last five years and the current year (Only Expenditure to be mentioned in relation to import of services) [Rs in lakhs]

Year	Expenditure as per P/L statement and Notes Accounts(Foreign currency) and connected to Services only	Value of Taxable Services	Total GST payable	GST Payable-Cash

- VIII.** Brief details of Service Wise Exports (zero rated), turnover of non-taxable services and exempted services for the last THREE years:

Year	Description of Service	Value of Exports	Exempted services.	
			Value	Details of exemption Notification

- IX.** Brief details of Service Wise Pure Agent Benefit Claimed for the last Three years: [Rs in lakhs]

Year	SAC of Service	Taxable Value	Amount claimed as Pure Agent	% of Pure agent amount claimed	Auditor's comments on the eligibility.

- x.** In case the unit is registered as ISD, give the details of ITC availed and distributed: [Rs in lakhs]

Year	Credit taken	Credit not eligible for distribution	Credit distributed	Closing Balance of credit

- XI.** Analysis of data of GST Returns filed.
Observations of the group (for each year of the audit period) particularly whether the amount of GST calculated and paid correctly, Delay in filing of returns, Late payment of tax etc.

(Rs in lakhs)

Year	Total Tax payable	Paid by Cash	Paid using ITC	Total Tax paid	Tax short paid	Auditor's observations on delayed filing of returns, late payment of tax etc.

XII. RISK LOSS ANALYSIS

1. Sales Income and GST payment:

(a). Estimated sales value calculated from GST payment particulars

= (b). Estimated value of sales as per Sales Account =

(c) Estimated sales value as per 3CD =

(d) Difference if any

2. Purchase of Input Services and ITC availment:

Estimate taxable input services from purchase account and apply the rate of tax to determine the ITC that should have been availed on inward supply and compare it with ITC availment reported in GST return

3. Expenditure Account: Whether recoveries are made under various expenditure heads. If so, indicate the nature of such recoveries.

4. Whether services have any third party regulator. If so, name the regulator. Enclose copy of return submitted to third party regulator.

XIII. AUDIT PLAN:

Date of Preparation _____

Audit Plan approved by _____

The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific and may be in the following format (may be included any other specific issues also that may emerge from Desk Review):

Sr. No.	Subject	Specific Issue	Source document	Field Document	Coverage Period	Selection Criteria
1	Scrutiny of Returns	Timely filing of returns				
		Timely payment of Tax				
		Any short payment of tax as per declaration made in the returns				
2	Classification	Whether HSN of the service and minor code mentioned in GSTPMT-06 Challan is appropriate?	Important contracts, invoices, purchase orders issued by the clients			
		Exempted supply of Services – Check eligibility to Notifications	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Non Taxable services	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Any receipts claimed as not a "Service" at all ?	Relevant invoices, purchase orders placed by the client, JVs			
3	Valuation	Issue relating to Reimbursements, FOC, etc.				
4	Place of supply of services	Payment of GST at the time of receipt of Advances				
		Transactions with Associated Enterprises				
5	Reverse Charge	Import of Services				
		Domestic (Partial) Reverse Charge				
6	ITC	Eligibility as input service ?				
		ITC admissibility and Rule 42 of SGST Rules 2017				
		Short receipt/removal of inward supplies				
7	Other issues	Admissibility of coverage under Works Contract Services				
		Reconciliation between GST Returns and P&L A/C / TB				
		Any Other issue				

XIV. CONDUCT OF AUDIT:

A. Gathering of information about the tax payer:

While visiting the business premises of the taxable person, the auditor shall invariably gather the information as detailed in **the Annexure –VI** and the results thereof and any fresh/ additional points identified for verification be recorded hereunder:

B. Evaluation of internal controls (Walkthrough and ABC analysis):

- i. Perform a walkthrough for the Records maintained. Trace a sample of transactions (all types, including those on Credit) from source documents through the GST account.

-
- ii. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits. Examine specifically system for purchase, rejection, short supply etc.

-
- iii. Perform a walkthrough of any other system (eg. Stores Journal Entries, ITC accounting etc.) Trace a sample of transactions of all types.

-
- iv. Perform a walkthrough of the process of compiling GST return, tracing from the tax return amounts backwards through their sources. Check services provided as per relevant account in ledger with value shown in the return.

-
- v. 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
Services / supplies		
Tax Accounting.		
Posting to General Ledger and Journals (especially of high value transactions).		
Recording of invoice.		
Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and availment of ITC.		
Account adjustments.		
Others		

C. Carry out 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.R. NO _____

DATE _____

- i. Name of the auditor verifying the issue:
- ii. Issue involved in brief:
- iii. Ref. No. of the Audit Plan:
- iv. Documents verified:
- v. Brief account of the process and extent of verification:
- vi. Auditor's observation and conclusion in brief:
- vii. Quantification of revenue involved, if any (also give the calculation sheet):

- viii. Documents relied upon to support the conclusion:
 - ix. Party's agreement : Yes/No
 - x. If yes : In writing/Oral
 - xi. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

- xii. POST VERIFICATION
(to be filled up before leaving the tax payer's premises)

Date of Preparation _____

- A. Indicate information provided and specific actions suggested to the taxable person to improve future compliance. Where the taxable person is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the taxable person is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

SUMMARY OF AUDIT RESULTS

- B. Provide an outline of all objections, which involve short/non levy of tax, amounts, irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue / credit / interests / amounts should also be mentioned. Indicate whether the taxpayer has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

ON CONCLUSION FAR IS REQUIRED TO BE SENT IN PROFROMA GST ADT -02 TO THE AUDITEE WITHIN 30 DAYS

Place: _____ (Auditor) Name and designation, Group No.
Date: _____

ANNEXURE – GSTAM – IX

VERIFICATION OF RECORDS/REGISTERS DURING THE COURSE OF AUDIT VERIFICATION

(PROCEDURE / FORMATS SEPARATE FOR GOODS AND SERVICES)

PATR –I : GOODS

I. Records to be verified in the marketing and outward supplies department

1. Purchase Orders
2. Price Circulars
3. Delivery Challans
4. Material transfer note
5. Sales Book
6. outward supply book

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

1. Stores Ledger
2. Goods Receipt Note (GRN)/Material Receipt Note/Inspection Cum Receipt Report (ICRR)
3. Material Return Note
4. Rejected Goods Register
5. Waste Register
6. Physical Stock Verification Statement
7. Job work/Sub-contract Register

III. Finance & Accounts related records -

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return
10. Fixed Assets Register
11. Monthly Stock Statement to Bank

I. Records to be verified in the marketing and outward supplies departments -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Purchase order	
	<u>Nature of Document:</u> This document denotes the price and other conditions laid for purchase of goods/outward sale of goods. <u>Nature of Verification:</u> <u>Purchase order placed by Customers:</u> (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
	<u>Nature of Document:-</u> Most companies issues price circular periodically explaining various conditions of sales/ outward supplies like various types of discounts, conditions for providing the discount, recovery of freight, packing charges, interest and other charges. <u>Type of verification:-</u> - Study the various elements to be recovered from the customers and whether these are required to be added to the transaction value or not like packing charges, freight charges, handling charges. - If any discount is given to a class of buyer, the exact nature of such discount may be studied in detail to find out whether the discount is admissible or not. - Verify whether any item or benefit is supplied free of cost by the buyer. - In case of cum tax prices, the various component forming part of value needs to be studied from price circular.
3.	Delivery Challan
	Delivery Challan indicates the description of goods, quantity cleared and receiver of goods. D.Cs may be of two varieties viz. returnable D.C. & Non-Returnable D.C. <u>Nature of Verification:</u> - Check how many series of DCs are issued and which sections are preparing these. - Returnable D.Cs are used for movement of job-work materials. 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 tax has been paid or not. - Non-Returnable D.Cs are used for clearance of goods, which are not to be received back. Normally it is the practice in the industry to raise D.Cs for outward supplies made and it accompanies the Outward supply Invoices. Inter unit movement of goods are sometime done through non-returnable D.Cs without any invoices resulting in clearance without payment of tax. - Verify whether GST has been paid on scrap cleared under N.R.D.C. - Replacements/Samples may also be cleared under the cover of NRDC's without invoices.
4.	Material Transfer Note
	<u>Nature of Document:</u> This document is used for inter unit transfer of materials & for inter branches transfers within a unit. <u>Nature of Verification:</u> Valuation adopted for such inter unit transfers need to be checked and whether tax has been paid on such transfers be ascertained.
5.	Sales/outward supplies Book
	<u>Nature of Document:</u> This is used for recording all credit sale/ outward supply of goods. <u>Nature of Verification:</u> - Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined. - Verify how many series of invoices are used for outward supply of goods. - Whether Debit Notes/Journal Vouchers are also entered in the outward supplies register. If yes, whether taxable value tax is payable on additional considerations received through such Debit Notes/JVs.

	(d) Outward supply register normally shows taxable value and tax separately. Verify the cases where taxable value and tax has not been shown and find out the reasons thereof.
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II. Records to be verified in the stores department (where applicable) -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Stores Ledger	
	<u>Nature of Document :-</u> It contains the 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 it write off etc. Nowadays most of the companies maintains stock records on computer. <u>Types of Verification:-</u> i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records. ii) Compare the purchase as per ITC documents with a receipt in the store records. iii) Verify whether any shortage found on physical verification as per store records. iv) Verify whether any item written off due to obsolesce. v) 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)	
	<u>Nature of Document :</u> The MRN/GRN is prepared for all goods received in the factory. It shows the details like actual quantity received, quantity as per challan/invoice, quantity short received. It is prepared by the Stores Department. The ICRR is prepared by the quality control department and it shows the quantity accepted, quantity rejected and the reasons for rejection. A number of times these reports may not be physically available as these are maintained in computer systems. But statements may be generated on the request of Auditors for cases where goods have been short received or rejected. <u>Nature of Verification:</u> (i) Check the cases of short receipt and rejected goods and verify whether ITC has been reversed. (ii) Verify in random cases, whether for ITC availed invoices, corresponding GRNs are available or not.	
3.	Material Return Note	
	<u>Nature of Document:</u> This document is raised by various departments to return the material to stores or to suppliers. <u>Nature of Verification:</u> (i) In case ITC availed materials are returned to supplier whether appropriate GST has been discharged. (ii) In case MRN is raised by shop floor for rejection of raw material, the ITC treatment may be examined. (iii) In case MRN is raised by shop floor for rejection of partially processed material, such material should be cleared on payment of GST.	
4.	Material Requisition Note (MRN) and Material Issue Note (MIN)	
	<u>Nature of Document:</u> MRN is used by various sections in the factory for requisition of material from stores department. In turn, stores department issue the material on MIN. The MRN & MIN contain code no. of receiving sections, description of material and code no. of material issued, and quantity of material. <u>Nature of verification:</u>	

	(i) MIN may also be used for adjustment of shortages, stock verification discrepancies, stock issued as scrap, obsolete items etc. There may be separate code no. for such adjustments. ITC treatment on such goods may be verified. (ii) For inputs cleared as such for outward supply, inter unit transfer, warranty period supply, MIN may be prepared showing different codes. All such clearances may be examined to verify payment of taxable value GST.
5.	Waste Register
	Where the raw material or components are not in useful condition, they are transferred to Bad Bins. The Auditor should verify the concerned records seeking reversal of credit on such unusable inputs. These goods are also known as obsolete items.
6.	Physical Stock Verification Statement
	<u>Nature of document:</u> 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. <u>Nature of verification:</u> (i) 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. (ii) 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.
7.	Sub-contract Register / Job Work Register
	<u>Nature of Document :</u> This register indicates activity sub-contracted outside. (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.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Ledger	
	<u>Nature of document:</u> Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to taxable value GST payment may be entered in Taxable value GST Payment Account. Ledgers are of three types: 1. <u>Debtor's Ledger:</u> 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. <u>Types of verification:</u> (i) Ledger account of the major customers should be scrutinized. In the Customer's account 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.	

	(ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment. 2. <u>Creditor's Ledger</u>: 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 for rejection of purchase material or for short receipt of purchase material. <u>Types of verification</u>: (i) If the customer'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. 3. <u>General Ledger</u>: 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. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below : (i) Credit entries in raw material purchase account (ii) Credit entries in expenses account. (iii) Income accounts. (iv) Unusual account. (i) 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. (ii) 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. (iii) 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. (iv) 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. (v) 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. (vi) The tax auditor 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. (vii) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the taxable person or from the Income Tax Audit Report (3 CD report).
2.	Debit Notes
	<u>Nature of Documents</u>: Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the

	person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the 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. <u>Types of Verification:</u> (i) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor. (ii) 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. (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.
3.	Credit Note
	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.
4.	Journal Voucher (JV)
	<u>Nature of Document:-</u> 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. <u>Types of Verification:</u> (i) 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. (ii) 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. (iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre 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. (iv) 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 passed. (v) Sometimes additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or outward supply invoice). In such cases these transactions are accounted for through JVs. (vi) 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
	<u>Nature of Document:-</u>

	This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is a mandatory also. <u>Types of verification :-</u> i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of ITC, collection of additional consideration ii) Verify whether any system changes have been advised and followed by the taxable person. Also examine the implications on the past period for any short payment or non-payment of tax. iii) Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs to be examined.
6.	Purchase Book
	<u>Nature of Document:</u> This shows credit purchase of raw materials and other inputs. <u>Nature of Verification:</u> (a) To find out major suppliers (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
	<u>Nature of Document:</u> This book gives details of goods returned to suppliers. <u>Nature of Verification:</u> Verify whether ITC has been expunged / such goods cleared on payment of GST.
8.	Tax Audit Report
	<u>Nature of document:</u> The Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the taxable person. <u>Nature of verification:</u> Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of ITC on capital goods. (i) As per Clause 27(a) of the said report, amount of ITC availed or utilized during the year and its treatment in the Profit & Loss Account and treatment of outstanding ITC in the account is required to be given. Tax Auditor may compare the said information with the information as per taxable value records. (ii) As per clause 35(a) to 35(c), details like opening stock, purchases, outward supply and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, outward supply, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether GST has been paid on the outward supply of raw material as reported in the tax audit report may be inquired into.
9.	Income Tax Returns
	<u>Nature of document:</u> This return is filed by the taxable person with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and along-with the return a statement namely computation of income is enclosed. <u>Nature of verification:</u>

	In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of ITC availed by the taxable person or not.
10.	Fixed Assets Register
	<u>Nature of Document</u> : This register contains the details of purchase invoice, date of installation, place of installation, addition/deletion to the asset and depreciation charged. <u>Nature of Verification:</u> (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.
11.	Monthly stock statement to
	bank. <u>Types of verification:-</u> Companies are required to file a stock statement every month to the banks when the stock is hypothecated for loans. In such cases, verify the stock position as per statement given to the bank and the stock position as per company's private and financial records.

PART-II –SUPPLY OF SERVICES

A. RECORDS TO BE VERIFIED

I Marketing and sales department -

1. Purchase Orders/Agreements/MOUs
2. Outward supply book

II. Stores department -

1. Stores Ledger
2. Job work/Sub-contract Register

III. Finance & Accounts related records -

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return

B. AREAS TO BE COVERED IN THE TAXPAYERS/UNITS AVAILING EXPORT PROMOTION SCHEMES:

II. Records to be verified in the marketing and sales departments -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Purchase order/Agreements/MOUs	
	<u>Nature of Document :</u> This document denotes the price and other conditions laid for purchase and sale of goods and services. <u>Nature of Verification:</u> <u>Purchase order placed by Customers, Agreement/MOU with the Customers:</u> (a) To verify the terms and conditions specially 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 GST invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note. (b) To verify whether the invoice is raised for full amount as per the Purchase Order/Agreement/MOU (c) Tax structure agreed upon in the purchase order should be checked with invoices raised for provision of services. In case the unit raises a separate commercial invoice, such invoices should be checked for the basic price, taxes, etc. actually collected.	
2.	Sales / outward supply	
	Book <u>Nature of Document:</u> This is used for recording all services provided. <u>Nature of Verification:</u> (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 sales invoices are used for provision of services. Whether GST invoice series and commercial invoice no. series are different. (c) Whether Debit Notes/Journal Vouchers are also entered in the sales register. If yes, whether GST is payable on additional considerations received through such Debit Notes/JVs. (d) Sales register normally show GST separately. Verify the cases where GST has not been paid and find out the reasons thereof.	

II. Records to be verified in the stores department -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Stores Ledger	
	<u>Nature of Document :-</u> It contains the 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. Now a days most of the companies maintains stock records on computer. <u>Types of Verification :-</u> i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records. ii) Compare the purchase as per ITC documents with a receipt in the store records. iii) Verify whether any item written off due to obsolesce.	
2.	Sub contract Register / Job Work Register	
	<u>Nature of Document :-</u> This register indicates activity sub-contracted outside. <u>Nature of Verification :-</u> (a) In case the job worker/sub-contractor discharges tax, then valuation of such goods/services should be examined for the inclusion of any freely supplied material in the value.	

III. Finance & Accounts related records -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Ledger	
	<u>Nature of document:</u> Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to GST payment may be entered in GST Payment Account. Ledgers are of three types: 1. <u>Debtor's Ledger</u> : This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of sales invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account. <u>Types of verification:</u> (i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the sales of the goods/services. These documents may be sales invoices or debit notes or Journal Vouchers (JV). 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 GST has been paid or not. (ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment. 2. <u>Creditor's Ledger</u> : 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 for rejection of purchase material or for short receipt of purchase material or for short receipt of services. <u>Types of verification:</u> (i) If the customer'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. 3. <u>General Ledger</u> : 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. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below : (i) Credit entries in expenses account. (ii) Income accounts. (iii) Unusual account. (i) All the important input purchase/inward supply 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. (ii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Sales Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. (iii) 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. (iv) 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. (v) The auditor may 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 tax has been paid or not may be inquired into. (vi) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the assessee or from the Income Tax Audit Report.
2.	Debit Notes
	<u>Nature of Documents:</u> Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the 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 outward supply of goods made /services rendered, recovery of packing charges, warranty charges, after-sales 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. <u>Types of Verification:</u> (i) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor. (ii) 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. (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.
3.	Credit Note

	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 (sales return) etc.
4.	Journal Voucher (JV)
	<u>Nature of Document</u> :- 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. <u>Types of Verification</u>:- (i) 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 yearly period or yearly period (month of September or March in the case of units following April to March as accounting year) must be verified. (ii) 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. (iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre 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. (iv) 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 passed. (v) Sometimes additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or sales invoice). In such cases these transactions are accounted for through JVs. (vi) 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
	<u>Nature of Document</u>:- This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is mandatory also. <u>Types of verification</u>:- i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of ITC, collection of additional consideration ii) Verify whether any system changes have been advised and followed by the assessee. In that case for the past period any implication on Excise payment due to a week internal control needs to be examined. iii) Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs to be examined.
6.	Purchase/Inward supply
	Book <u>Nature of Document</u>: This shows credit purchase of raw materials and other inputs. <u>Nature of Verification</u>: (a) To find out major suppliers

	(b) It may also show GST separately. In that case GST recorded in the purchase register may be reconciled with credit availed as per Electronic credit Register GSTPMT-01
7.	Purchase Return Book
	<u>Nature of Document:</u> This book gives details of goods returned to suppliers. <u>Nature of Verification:</u> Verify whether ITC has been expunged / such goods cleared on payment of tax.
8.	Tax Audit Report
	<u>Nature of document:</u> The Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the assessee. <u>Nature of verification:</u> Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of ITC on capital goods. (i) As per Clause 27(a) of the said report, amount of ITC availed or utilized during the year and its treatment in the Profit & Loss Account and treatment of outstanding ITC in the account is required to be given. Tax Auditor may compare the said information with the information as per excise records. (ii) As per clause 35(a) to 35(c), details like opening stock, purchases, sales and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, sales, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether tax has been paid on the sale of raw material as reported in the tax audit report may be inquired into.
9.	Income Tax Returns
	<u>Nature of document:</u> This return is filed by the assessee with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and along-with the return a statement namely computation of income is enclosed. <u>Nature of verification:</u> In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of ITC availed by the tax payer or not.

ANNEXURE – GSTAM- X

**DRAFT OF THE LETTER TO BE WRITTEN BY THE REGISTERED PERSON
UNDER SECTION 73(6) OF THE SGST ACT, 2017.**

To,
The Additional Commissioner(Audit)
State Tax, Uttararakhand

Sir,

*Subject: Letter given for waiver of show cause notice in terms of Section
73(5) of the SGST 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 SGST 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 tax before service of notice on him under sub section
(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 Joint Commissioner/DC/AC (Audit)
_____, 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 tax 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.

4. In terms of the provisions of Section 73(6) of the SGST Act, 2017,
we request that the demand 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.

5. We request that the above issues may be treated as closed with this
letter 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.

Yours faithfully

Date: _____

Place: _____

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

M/s _____

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	IGST	CGST	SGST/UTGST	CESS
Tax				
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 thereunder, failing which proceedings as deemed fit may be
initiated against you under the provisions of the Act.

Signature

.....

Name

.....

Designation

.....

Local Risk Parameters

The following are example of local risk parameters criteria that may be considered during selection of units for audit. The planning section, Hqrs of Commissioner/Additional commissioner (Audit) may consider all or some of the below criteria, depending on available data and resources, and may also use additional criteria not listed below.

- i. The Taxpayer did not provide or delayed in providing documents sought by the Audit Team
- ii. The Taxpayer was not previously audited;
- iii. The Taxpayer is newly registered;
- iv. Length of time since last audit;
- v. The Taxpayer had / did not have substantial assessment during previous audits;
- vi. The size of the Taxpayer's turnover / net profit;
- vii. The size of the Taxpayer's loss, if any;
- viii. The size of the Taxpayer's refund, if any;
- ix. The size of change in the Taxpayer's turnover/net profit from the previous year;
- x. The size of the impact detected mistakes had on the Taxpayer's turnover / net profit;
- xi. The ratio of expenses/turnover;
- xii. The ratio of turnover/total assets;
- xiii. The ratio of loans/total assets;
- xiv. The size of income from high risk activities (e.g., real estate income);
- xv. The size of exemptions, if any;
- xvi. The percent of the net profit in comparison to the activity average;
- xvii. The percent of the total profit compared to the activity average;
- xviii. The Taxpayer requested waivers or is bankrupt;
- xix. The Taxpayers files inconsistently;
- xx. The Taxpayer is currently involved in legal disputes;
- xxi. The Taxpayer's return was previously investigated for evasion;
- xxii. The Taxpayer received notices from other governmental entities;
- xxiii. The quality of the Taxpayer's books and records (manual / automated; not well-kept);

- xxiv. The Taxpayer's returns is prepared by questionable accountants;
- xxv. The specific sector, in which the Taxpayer operates (e.g., typical high-risk activities include restaurants and hotels, apartment rentals, professionals, car rental, spare parts for vehicles, chemicals, telecommunications, retail, works contract, construction/real estate, edible oil, cement, iron and steel, mentha oil, bricks, timber, stone and grit, marble, pan masala and tobacco and other sensitive goods notified by the commissioner),
- xxvi. The form of the legal entity (e.g., corporation / partnership);
- xxvii. The multitude of the Taxpayer's legal relationships with other entities;
- xxviii. The Taxpayer has multiple branches;
- xxix. The Taxpayer has multiple activities;
- xxx. Audit differences (past audit assessments).
- xxxi. The Taxpayer has supplied goods on which there has been reduction in rate of tax, in order to examine the possibility of profiteering under Section 171 of the SGST Act, 2017
- xxxii. The Taxpayer has stopped filing GST returns.
- xxxiii. The Taxpayer has applied for surrender of its registration.
- xxxiv. Where there is increase in ratio of Exempted Supplies / Total supplies of a Taxpayer over time.
- xxxv. Where higher incidence of supplies without issuance of e-way Bills have been noticed.
- xxxvi. The Taxpayer who does not file periodical return but issues e-way bill regularly.
- xxxvii. The Taxpayer who was not audited in the pre-GST era for the last 4 – 5 years.
- xxxviii. The Taxpayer whose turnover increased substantially after enactment of GST.
- xxxix. The Taxpayer who is not filing GSTR – 3B but in their electronic cash ledger, amount of TDS is reflected.

- xl. The taxpayer whose registration has been cancelled by office due to one or other reasons.
- xli. The taxpayer maintaining excess ITC continuously during the financial year.
- xlii. The taxpayer showing fall in taxable turnover in spite of increase in purchase continuously for two consecutive return periods.
- xliii. The taxpayer declaring substantial quantities of closing stock in proportion to purchase and sale.

GSTAM ANNEXURE - XIII
Check list for Audit of Traders

1. INVOICING PATTERN:

1. Whether the invoice issued contains all the information prescribed in Rule 46 of SGST Rules and is being numbered accordingly
2. Whether revised invoice or credit note or debit note issued contains all the information prescribed in Rule 53 of SGST Rules
3. 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 letter of undertaking without payment of integrated tax"
4. Whether the payment voucher issued for advance payment has been made as per Rule 52 of the SGST Rules.
5. Whether the receipt voucher issued for advance receipt has been made as per Rule 50 of the SGST Rules.
6. In case of a composition dealer U/s 10 of the SGST/SGST Act, whether bill of supply has been issued U/r 49 of SGST Rules.
7. Whether invoice has been prepared in triplicate in the case of supply of goods as per Rule 48(1) of SGST Rules.

N.B. – Significant omission/commission in the invoice should only be taken into consideration for taking action U/s 73 or 74 of the SGST Act.

2. RETURNS:

1. Check the outward supplies made from GSTR-1 and compare it with the sales account maintained.
2. Check whether claim under Nil rated, exempted and non GST outward supplies shown in GSTR-1 is proper.
3. Check whether proper rate of tax was applied to outward supplies shown in GSTR-1
4. Identify Zero rated supplies from the GSTR -1 and compare it with the records maintained by the trader.
5. Check the total taxable supplies from GSTR-1 and compare it with the sales account maintained to identify any suppression of sales.
6. Check whether the trader is filing returns within the time prescribed in Section 39 of SGST Act.
7. Cross-check the GSTR 1/2/3 with GSTR 3B of the corresponding month

3. INPUT TAX CREDIT AVAILMENT:

1. Check whether the trader possesses all the invoices on which ITC was availed.
2. Check whether input tax credit was claimed on any negative list of goods mentioned in Section 17(5) of SGST Act
3. Check whether input tax credit availed by the trader is 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 SGST Rules
4. Check whether the calculation for reversal of tax when the input / input services are partly used for the purposes of business and partly for other purposes was done properly in terms of Rule 42 of SGST Rules.
5. Check whether the calculation for reversal of tax when the capital goods are partly used for the purposes of business and partly for other purposes was done properly in terms of Rule 43 of SGST Rules.
6. Check items on which ITC availed from GSTR-2 with purchase account maintained to ensure that the ITC was taken on the items actually purchased.
7. Check whether the trader has claimed depreciation 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 SGST Act.
8. Check whether the trader has paid the 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 SGST Act to ensure that ITC was not taken in cases where consideration was not paid within the stipulated time.
9. Check whether ITC was taken within the time limit stipulated in Section 16(4) of SGST Act.
10. Detailed TRAN-1 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 SGST Act within the prescribed time.
- e) Check whether the ITC taken after filing GST Tran-1 / Tran-2 is proper

4. VALUATION

1. Whether "Time of supply of goods" was properly determined in terms of Section 12 (2) of SGST Act while discharging the tax payable.
2. Whether time of supply of goods was properly determined in terms of Section 12(3) of SGST Act in case of payment under reverse charge and tax liability was discharged properly.
3. Check 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.
4. Check whether any amount, that the supplier is liable to pay but incurred by the purchaser has been included in the value of supply
5. 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
6. Check whether there are supporting documents for the credit notes issued for the sales made
7. Check whether there are supporting documents for the debit notes issued for the sales made
8. To check the time of supply of goods in cases where there is change in rate of tax U/s 14 of SGST Act.
9. Whether the time of supply in case of Composite and Mixed Supply has been correctly made as per Section 8 of the SGST Act.
10. Check whether transactions have been made between related persons. If so, check whether there is significant variation in the value in comparison to similar transactions with unrelated buyers. If there is significant variation in the value of goods or services, market value of the goods/services should be taken by rejecting the value disclosed between the related persons.
11. Whether the value has been made in accordance with the Valuation Rules from Rule 27 to 35 of the SGST Rules 2017.

N.B. - Debit Note and Credit Note should have direct link to a transaction having implication on tax liability. Debit Note and

Credit Note if not linked to implication of tax liability should be ignored.

5. PLACE OF SUPPLY

1. In respect of interstate supplies & Imports, check whether place of supply of goods has been properly determined in terms of Section 10 & 11 of IGST Act and IGST has been paid accordingly
2. To check whether place of supply of services has been properly determined in terms of Section 12 of IGST Act and IGST has been paid accordingly.

6. STOCK VERIFICATION

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

8. OTHER CHECKS

1. Total taxable turnover as per GST Return vis-à-vis turnover as per financial accounts.
2. Ratio between net purchases vis-à-vis Net Sales (Net Purchase = O.B. + Purchases - C.B.)
3. Value of Closing Stock vis-à-vis ITC balance.
4. Value addition percentage vis-à-vis cash payment of GST to total liability
5. Any other registrant in the name of family member just on paper.
6. Turnover before GST introduction to check suppression in value.
7. Refund related issues such as refund due to inverted tax structure, excess balance in case ledger, amount of refund withhold etc.
8. E- Waybill related issues such as number and amount of E-waybills in relation to inward/outward supplies, number and amount of cancelled E-waybills etc.
9. Red flag reports.
10. Other details which are expected for audit.

GSTAM ANNEXURE - XIV
CHECKS FOR COMPOSITION DEALER

	Source Documents	Manner of Ratio Calculation/ Study	Utilisation of the Ratios/Study in Audit
1	GSTR 9 A as well as Profit & Loss account	Reconciliation of Turnover	To check whether turnover is under prescribed limit or not as P & L account provide turnover of all business related to a PAN
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 SGST Act, 2017
3	Balance Sheet & GSTR-9 A Return	ITC availed	Availment of ITC can be checked with regard to study of exclusion as provided under Section 10 of SGST Act, 2017
4	GSTR-9 A Return	ITC reversal	ITC reversal is required while opting in composition scheme
5	Profit & Loss Account and GSTR 9A Return	Expenditure incurred on inward supplies vis a vis tax paid under RCM	The expenditure incurred on inward supplies (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 supplies 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 in expense side	As per Section 10 (4) of SGST 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-9A return
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
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	Notes on Accounts	Study of Notes on Accounts	Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue Recognition
13	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.
14	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 Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance. Similarly, freight paid may be clubbed with Purchases or Fixed Assets.

Bibliography

ADVAIT -	Advanced Analytics in Indirect Taxation.
CDR -	Corporate Debt Restructuring.
CERA -	Central Excise Revenue Audit.
CGST -	Center Goods and Service Tax.
DAR -	Draft Audit Report.
DSR -	Demand Signal Repository/Data Set Ready.
EDW -	Enterprise Data Warehouse.
GSTAM -	Goods and Service Tax Manual.
MCM -	Monitoring Committee Meeting.
SCN -	Show Cause Notice.
SGST -	State Goods and Service Tax.
TAG -	Tax Payer at a Glance.
TDS -	Tax Deduction at Source.