

## SCREENSHOT OF APPEAL MODULE

NEW	ADMIT	REJECT	ORDER	NOTICE	REPLY OFFICE	REPLY TAXPAYER	SUBMIT RECTIFICATION
APN		GSTIN		Appeal Status		Date of Filing	
AD29032100000120		29AEXPH0250P120		Get the data for appeal filed		09-09-2021	

Application		Log	Action
Sl. No	Field Name	Value	Documents
01	CIN of the Appeal Application	AD29032100000120	
02	GSTIN of the Taxpayer	29AEXPH0250P120	
03	Date of Filing	09/09/2021	
04	Details of the Demand Appeal Application		
Application Order type		DSWDR	
Application Order No		2029032100000000	
Application Order Date		09/09/2021	
Application Demand of		2029032100000000	
Payment reference Number		PS09032100000000	

## SCREENSHOT OF AUDIT OFFICERS LOGIN PAGE FOR RECORDING ACTION ON TAXPAYES'S RECTIFICATION REQUEST POST-AUDIT

APN No: AD29032100000120		Name: E-Calls	Type: APL	Submitted on: 09/09/2021	Home		
Application		Log	Action				
Application Action		SUBMIT RECTIFICA					
Date of the Order *		09/09/2021					
Rectification Request *		Error/omission arising from accidental mistake due to slip of facts					
Submit		Edit					
Period of dispute							
From Date	01/12/2020						
To Date	31/12/2020						
Disputed Amount Details							
Amount Type	CST	Tax	Interest	Penalty	Fees	Others	Total
Disputed amount	SGST	90	0	100	0	0	190
	CGST	0	0	0	0	0	0
	IGST	0	0	0	0	0	0
	CESS	0	0	0	0	0	0
Initial amount	SGST	100	0	100	0	0	200
	CGST	0	0	0	0	0	0
	IGST	0	0	0	0	0	0
	CESS	0	0	0	0	0	0
Paid amount	SGST	95	0	0	0	0	95
	CGST	0	0	0	0	0	0
	IGST	0	0	0	0	0	0
	CESS	0	0	0	0	0	0
Payable amount	SGST	0	0	0	0	0	0
	CGST	0	0	0	0	0	0

# Model All India GST Audit Manual 2022

Prepared by:  
The Committee of  
Officers on GST Audits

## PREFACE

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## List of abbreviations used in the Manual

Abbreviation	Definition
CoO	Committee of Officers
GST	Goods and Service Tax
CGST	Central Goods and Service Tax
SGST	State Goods and Service Tax
GSTN	Goods and Service Tax Network
CBIC	Central Board of Indirect Taxes & Customs
DGARM	Directorate General of Analytics & Risk Management
DGA	Directorate General of Audit
RPMF	Registered Person Master File
ISD	Input Service Distributor
ITC	Input Tax Credit
RTP	Registered Taxpayer
DAR	Draft Audit Report
FAR	Final Audit Report
MCM	Monitoring Committee Meeting
TAG	Taxpayer at a Glance
ToR	Term(s) of Reference
SEZ	Special Economic Zone
HSN	Harmonized System of Nomenclature
SAC	Service Accounting Code
POS	Point of Supply
OIDAR	Online Information Database Access and Retrieval

services

RCM	Reverse Charge Mechanism
GSTAM	GST Audit Manual
AAR	Authority for Advance Ruling
AAAR	Appellate Authority for Advance Ruling

## FOREWORD

Goods and Services Tax in India has stepped towards the completion of five years. One of the main objectives of introduction of GST was to create one common market in the country by totally removing the wide disparities and compliance complexities of various laws of taxation of the States and Centre. In taxation of goods and services (not as “activities”, per se, but as “objects” or “events”), that had led to not only tax inefficiency but had also interfered in investment decisions of businesses. GST has provided a uniform structure in taxation of goods and services throughout the country. There is total uniformity in terms of the taxable event, tax rates, point of levy, provisions for registration, return filing, tax payment, refunds, audit, adjudication, appeals etc. In fact, the CGST and SGST laws are almost mirror images. GSTN, as an enabling organisation, has created the necessary digital backbone to ensure seamless uniformity in the process and procedures relating to registration of taxpayers, return filing, tax payment, refunds etc.

Self-assessment/self-compliance of the taxpayers is the edifice upon which the GST eco-system is built. Though it provides for audit of taxpayers, it does not make it mandatory in all cases. Audit is an important compliance verification tool that complements anti-evasion action and constructive taxpayer engagement to improve tax compliance. Unless the processes and procedures of selection of cases for audit and the consequent proceedings are grounded in sound principles of neutrality, transparency, accountability and sustainability, and proper analysis and appreciation of audit, the purpose of audit would not be served. Uniform adoption of tried and tested best practices of audit procedures and processes by all the States as well as the Centre would enable consolidation of the outcomes of the individual States and Central authorities and their analysis for any consequential policy decisions sub-serves the primary objectives of GST and ensures stable revenues to the States as also to the Centre. Experience and knowledge gained through audit can be efficiently and gainfully shared among the States and replicated only if the procedures and processes adopted converge toward commonly agreed norms. Such convergence can lead to efficient deployment of limited human resources by the States in focused and productive activities.



Audit is also a specialized exercise which requires not only sound knowledge in law but also demands adequate skill. To facilitate all the States and the Centre in respect of audit in GST a task of preparation of a comprehensive All India Model GST Audit Manual was allotted to the Committee of Officers on GST Audit. For this purpose, a sub-committee of officers was constituted to compile existing and desirable audit practices and to draft a model audit manual. Inputs have been taken from both Centre and States from various sources like (i) GST Audit Manual 2019 published by DG Audit, Government of India, (ii) CBIC Quality Assurance Review Manual 2021, (iii) West Bengal State Tax GST AUDIT MANUAL\_2021 (iv) Bihar State Tax Audit SOP, (v) Maharashtra State Tax GST Audit Manual 2020, (vi) Punjab Audit-Manual, Punjab Audit Administrative Instruction, Punjab Audit Checklist Documents - Value of Supply, Punjab Audit Checklist Documents And Returns – Supply, (vii) Karnataka State Tax GST Audit Model, (viii) GSTN Audit Process Flow, (ix) Uttar Pradesh GST Tax Audit, (x) further suggestions from States and Centre during compilation. On the basis of all such valuable inputs, the State of West Bengal has compiled this audit manual which has been accepted by the Committee of Officers.

The guidelines provided in the manual are intended to enable audit officers to carry out effective audits in a uniform, efficient and comprehensive manner adopting the best practices of the States and the Centre, as well as international practices. Audit processes envisaged under the GST regime are ably assisted by a technological tool named “BI Tools” developed by GSTN, tools of “DGARM”, concept of “Registered Person Master File (RPMF)” of DG Audit. Various States also developed technological and analytical tools, such as “e-Shodhane Audit Module” of Karnataka, “Tax Payers at a Glance” by West Bengal, Standard Operating Procedure of Bihar focusing areas of concern in Audit which not only complements and enhances the knowledge of the Audit officers also provides data backups and analysis. The technological tool is intended to encompass verification, examination, investigation, scrutiny and the like. Members of the Committee, as well as all the Members of the Sub-Committees and their leadership deserve kudos for forging a consensus consistent with the best audit practices. We congratulate them all. We sincerely hope that the model manual in your hands would lead to implementation of an effective

audit mechanism consisting of best practices and procedures tried and tested by the various indirect tax authorities in the country in the interest of revenue, to improve internal control at work in organisations of taxpayers and reduced burden of compliance upon taxpayers.

While emphasis has been placed in this Manual on developing a well-established audit procedure based on sound principles, it is needless to say that there cannot be a uniform approach to the audit of every taxpayer. Occasions may arise when a fact or figure apparent on the documents may need an examination with reference to some other sets of documents or even other sources. Therefore, the scope of audit in GST may vary depending on facts and circumstances of audit. An attempt has been made to address these issues in this document.

## EXECUTIVE SUMMARY

A Committee of Officers (CoO) on GST Audit was constituted by the GST Council Secretariat, comprising officers from the CBIC, States, GSTN and GST Council secretariat. The details of the said committee, alongwith its timelines and Terms of References (ToR) are discussed in detail in **Annexure 18 (p.272)**. To explore each of the six ToRs in greater detail, sub-committees were formed for each ToR. The proposal contained in each report of the sub-committees has been incorporated in the relevant Chapter of this Manual.

The task of preparation of a comprehensive All India Model GST Audit Manual (hereinafter called the Model GSTAM/ the Manual) for the Centre and the States was allotted to the Committee of Officers on GST Audit. For this purpose, a sub-committee of officers was constituted to compile existing and desirable audit practices and to draft a model audit manual. The sub-committee was requested to catalogue prevalent practices of audit in the Central and State Indirect tax administrations and adopt the best practices for GST Audit across the country. The task of compiling this manual was allotted to West Bengal as a Member of the Committee, studying thoroughly the Audit manual prepared by Central Government, GST Audit Manuals and Standard Operating Procedures prepared by various states like West Bengal, Punjab, Maharashtra, Karnataka, Bihar, and Uttar Pradesh as well as the module developed by the GSTN and available to Model 2 states. After compilation, the draft Model GST Audit Manual was circulated to all the members inviting their inputs and suggestions. The Model GST Audit Manual has been prepared after incorporating many of these suggestions. The Manual tries to take into account the differential structure of GST revenue administration prevailing in different States and the Centre. Furthermore, a sub-committee was constituted to study and compile the best audit policy and practices of

Centre and States. The sub-committee compiled the best practices and also made recommendations for Model GSTAM. The relevant recommendations have been included in this GSTAM and all the 14 recommendations are in **Annexure 17 (p-257)**.

This Manual aims to be an extensive and comprehensive document with a holistic approach towards GST audit which will not only facilitate the Audit Officers of the Centre and the States/UTs but will also create an impact in facilitating the auditees during the exercise of audit. The objective of this manual is to provide insights into the principles and procedures of audit and to give a holistic view of the entire process to the users of this Manual.

In the pre-GST regime, the audit process of States/UTs often got lengthened due to procurement and production of various statutory forms by the auditees in order to claim statutory deductions in the States/UTs. The GST regime does not require production of any such statutory forms and hence it is expected that substantial time of both the auditor and the auditee would be saved. Furthermore, audit in the GST regime has been designed in such a way as to complete the entire process within a short span of time. This will require the officers to concentrate on the process of examination of the books of accounts of a particular auditee within a short timeframe while at the same time yielding optimum results from the auditing exercise. Eventually, this would help the auditee also, who would be relieved from his engagement in the process of auditing sooner than was the case earlier.

This manual has been designed to cater to a systematic workflow of audit, ranging from brief criteria of selection to the completion of the process. It includes mechanisms for Joint and Thematic audit as and when they are approved by the Council.

It is hoped that this Model Audit Manual would form an important yet dynamic reference for audit principles, practices, and procedures for GST audit practitioners in the country.

**Dr. Amandeep Singh**  
ADG, DG Audit, Hqtrs, CBIC  
**Convenor**

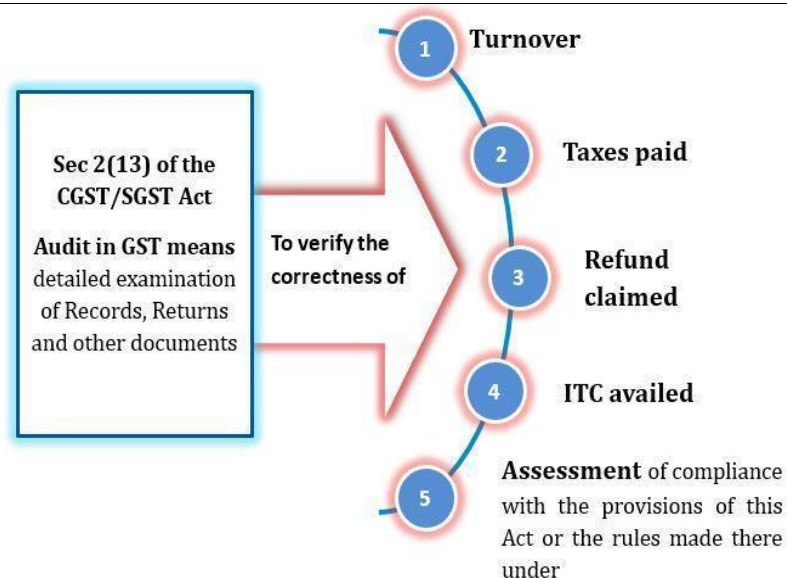
**Dr. Ravi Kumar Surpur**  
Chief Commissioner, CT Rajasthan  
**Co-Convenor**

## CHAPTER 1

This chapter covers the definition of audit, types of audit, and salient legal provisions related to audit.

### 1.1. Definition of audit under CGST/SGST Act, 2017

Audit is defined in sub-sec 13 of sec 2 of the CGST/SGST Act, 2017 as – *“detailed examination of records, returns and other documents maintained or furnished by the taxable 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”.*



**EXHIBIT 1**

Hence, GST audit is not restricted to the reconciliation of only the tax liability & payment of tax by a taxable person, but its scope is also extended to assessment with reference to the provisions of GST laws.

### 1.2 Types of Audit in GST

Three types of Audit are prescribed in GST:

1	<b>Audit by Tax Authorities:</b> As per provision of section 65 of the CGST/SGST Act, 2017 and as prescribed in rule 101 of the CGST/SGST Rules, 2017. This audit is to be conducted by an authorized officer; the power being delegated by the Commissioner. There is no turnover limit.
2	<b>Special Audit:</b> Special Audit by a chartered / cost accountant, on the order of an officer (not below the rank of Assistant Commissioner), upon prior approval of the Commissioner and appointed by the Commissioner, under section 66 of the CGST/SGST Act, 2017 read with rule 102 of the CGST/SGST Rules, 2017.
3	<b>Turnover based Audit:</b> Turnover based Audit u/s 35(5) of the CGST/SGST Act, 2017 read with rule 80(3) of the CGST/SGST Rules, 2017, by a chartered / cost accountant appointed by the RTP, when Aggregate Turnover exceeds prescribed quantum [ <b>Section 35(5) has been omitted w.e.f. 1<sup>st</sup> August, 2021</b> ]

Note: This Model GST Audit Manual is focused on audit by Tax Authorities only. The audited books of accounts and audit report submitted by the taxpayer in prescribed Form(s) are also subject to audit u/s 65.

1.3 Legal Provisions of Audit by Tax Authorities: This section aims to familiarise auditors with salient provisions of GST law.

1.3.1 Section 65 of CGST Act, 2017, and respective SGST Acts, 2017.

Sub - section	Provisions of the Act
(1)	<i>The Commissioner or any officer authorised 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.</i>
(2)	<i>The officers referred to in sub-section (1) may conduct audit at the place of business of the registered person or in their office.</i>
(3)	<i>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.</i>



(4)	<p><i>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.</i></p> <p><i>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.</i></p>
(5)	<p><i>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.</i></p>
(6)	<p><i>On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings.</i></p>
(7)	<p><i>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.</i></p>

### 1.3.2 Rule 101 of CGST / SGST Rules, 2017.

Sub - rule	Provisions of the rule
(1)	<p><i>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.</i></p>



(2)	<i>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.</i>
(3)	<i>The proper officer authorised to conduct audit of the records and 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 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.</i>
(4)	<i>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.</i>
(5)	<i>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</i>

### 1.3.3 Section 71 of CGST and SGST Acts, 2017 (Access to business premises).

*“(1) Any officer under this Act, authorised 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 programmes, computer software whether installed 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*



**EXHIBIT 2**

*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 authorised 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.”*

**Such access to business premises includes apart from physical access, online access to the books of accounts/records of the taxpayer.**

#### **1.3.4 Section 72 of CGST and SGST Acts, 2017 (Officers to assist proper officers).**

*“(1) All officers of Police, Railways, Customs, and those officers engaged in the collection of land revenue, including village officers, officers of central tax*

and officers of the Union territory tax shall assist the proper officers in the implementation of this Act.

(2) The Government may, by notification, empower and require any other class of officers to assist the proper officers in the implementation of this Act when called upon to do so by the Commissioner.

1.3.5 **Section 73 of CGST and SGST Acts, 2017** (Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason other than fraud or any willful misstatement or suppression of facts).

“(1) Where it appears to the proper officer that any tax has not been paid or short paid or erroneously refunded, or where input tax credit has been wrongly availed or utilised for any reason, other than the reason of fraud or any willful misstatement or suppression of facts to evade tax, he shall serve notice on the person chargeable with tax which has not been so paid or which has been so short paid or to whom the refund has erroneously been made, or who has wrongly availed or utilized input tax credit, requiring him to show cause as to why he should not pay the amount specified in the notice along with interest payable thereon under section 50 and a penalty leviable under the provisions of this Act or the rules made thereunder.



**EXHIBIT 3**

(2) The proper officer shall issue the notice under sub-section (1) at least three months prior to the time limit specified in sub-section (10) for issuance of order.

(3) Where a notice has been issued for any period under sub-section (1), the proper officer may serve a statement, containing the details of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or

*utilised for such periods other than those covered under sub-section (1), on the person chargeable with tax.*

*(4) The service of such statement shall be deemed to be service of notice on such person under sub-section (1), subject to the condition that the grounds relied upon for such tax periods other than those covered under sub-section (1) are the same as are mentioned in the earlier notice.*

*(5) The person chargeable with tax may, before service of notice under sub-section (1) or, as the case may be, the statement under sub-section (3), pay the amount of tax along with interest payable thereon under section 50 on the basis of his own ascertainment of such tax or the tax as ascertained by the proper officer and inform the proper officer in writing of such payment.*

*(6) The proper officer, on receipt of such information, shall not serve any notice under sub-section (1) or, as the case may be, the statement under sub-section (3), in respect of the tax so paid or any penalty payable under the provisions of this Act or the rules made thereunder.*

*(7) Where the proper officer is of the opinion that the amount paid under subsection (5) falls short of the amount actually payable, he shall proceed to issue the notice as provided for in sub-section (1) in respect of such amount which falls short of the amount actually payable.*

*(8) Where any person chargeable with tax under sub-section (1) or sub-section (3) pays the said tax along with interest payable under section 50 within thirty days of issue of show cause notice, no penalty shall be payable and all proceedings in respect of the said notice shall be deemed to be concluded. (9) The proper officer shall, after considering the representation, if any, made by person chargeable with tax, determine the amount of tax, interest and a penalty equivalent to ten per cent. of tax or ten thousand rupees, whichever is higher, due from such person and issue an order. Officers to assist proper officers. Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason other than fraud or any willful misstatement or suppression of facts.*

*(10) The proper officer shall issue the order under sub-section (9) within three years from the due date for furnishing of annual return for the financial year to*

*which the tax not paid or short paid or input tax credit wrongly availed or utilised relates to or within three years from the date of erroneous refund.*

*(11) Notwithstanding anything contained in sub-section (6) or sub-section (8), penalty under sub-section (9) shall be payable where any amount of self-assessed tax or any amount collected as tax has not been paid within a period of thirty days from the due date of payment of such tax.”*

**1.3.6 Section 74 of CGST and SGST Acts, 2017** (Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised by reasons of fraud or any wilful mis-statement or suppression of facts

*“(1) Where it appears to the proper officer that any tax has not been paid or short paid or erroneously refunded or where input tax credit has been wrongly availed or utilised by reason of fraud, or any willful misstatement or suppression of facts to evade tax, he shall serve notice on the person chargeable with tax which has not been so paid or which has been so short paid or to whom the refund has erroneously been made, or who has wrongly availed or utilised input tax credit, requiring him to show cause as to why he should not pay the amount specified in the notice along with interest payable thereon under section 50 and a penalty equivalent to the tax specified in the notice.*



**EXHIBIT 4**

*(2) The proper officer shall issue the notice under sub-section (1) at least six months prior to the time limit specified in sub-section (10) for issuance of order.*



*(3) Where a notice has been issued for any period under sub-section (1), the proper officer may serve a statement, containing the details of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for such periods other than those covered under sub-section (1), on the person chargeable with tax.*

*(4) The service of statement under sub-section (3) shall be deemed to be service of notice under sub-section (1) of section 73, subject to the condition that the grounds relied upon in the said statement, except the ground of fraud, or any willful-misstatement or suppression of facts to evade tax, for periods other than those covered under subsection (1) are the same as are mentioned in the earlier notice.*

*(5) The person chargeable with tax may, before service of notice under sub-section (1), pay the amount of tax along with interest payable under section 50 and a penalty equivalent to fifteen per cent. of such tax on the basis of his own ascertainment of such tax or the tax as ascertained by the proper officer and inform the proper officer in writing of such payment.*

*(6) The proper officer, on receipt of such information, shall not serve any notice under sub-section (1), in respect of the tax so paid or any penalty payable under the provisions of this Act or the rules made thereunder.*

*(7) Where the proper officer is of the opinion that the amount paid under subsection (5) falls short of the amount actually payable, he shall proceed to issue the notice as provided for in sub-section (1) in respect of such amount which falls short of the amount actually payable.*

*(8) Where any person chargeable with tax under sub-section (1) pays the said tax along with interest payable under section 50 and a penalty equivalent to twenty-five per cent. of such tax within thirty days of issue of the notice, all proceedings in respect of the said notice shall be deemed to be concluded.*

*(9) The proper officer shall, after considering the representation, if any, made by the person chargeable with tax, determine the amount of tax, interest and penalty due from such person and issue an order.*

*(10) The proper officer shall issue the order under sub-section (9) within a period of five years from the due date for furnishing of annual return for the financial year to which the tax not paid or short paid or input tax credit wrongly availed or utilised relates to or within five years from the date of erroneous*

*refund. Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised by reason of fraud or any willful misstatement or suppression of facts.*

*(11) Where any person served with an order issued under sub-section (9) pays the tax along with interest payable thereon under section 50 and a penalty equivalent to fifty per cent. of such tax within thirty days of communication of the order, all proceedings in respect of the said notice shall be deemed to be concluded.*

*Explanation 1.—For the purposes of section 73 and this section, —*

*(i) the expression “all proceedings in respect of the said notice” shall not include proceedings under section 132;*

*(ii) where the notice under the same proceedings is issued to the main person liable to pay tax and some other persons, and such proceedings against the main person have been concluded under section 73 or section 74, the proceedings against all the persons liable to pay penalty under sections 122, 125, 129 and 130 are deemed to be concluded.*

*Explanation 2. – For the purposes of this Act, the expression “suppression” shall mean non-declaration of facts or information which a taxable person is required to declare in the return, statement, report or any other document furnished under this Act or the rules made thereunder, or failure to furnish any information on being asked for, in writing, by the proper officer.”*

### **1.3.7 Section 75 of CGST and SGST Acts, 2017 (General provisions relating to determination of tax).**

*“(1) Where the service of notice or issuance of order is stayed by an order of a court or Appellate Tribunal, the period of such stay shall be excluded in computing the period specified in sub-sections (2) and (10) of section 73 or sub-sections (2) and (10) of section 74, as the case may be.*

*(2) Where any Appellate Authority or Appellate Tribunal or court concludes that the notice issued under sub-section (1) of section 74 is not sustainable for the reason that the charges of fraud or any willful misstatement or suppression of facts to evade tax has not been established against the person to whom the notice was issued, the proper officer shall determine the tax payable by such person, deeming as if the notice were issued under sub-section (1) of section 73.*

- (3) Where any order is required to be issued in pursuance of the direction of the Appellate Authority or Appellate Tribunal or a court, such order shall be issued within two years from the date of communication of the said direction.
- (4) An opportunity of hearing shall be granted where a request is received in writing from the person chargeable with tax or penalty, or where any adverse decision is contemplated against such person.
- (5) The proper officer shall, if sufficient cause is shown by the person chargeable with tax, grant time to the said person and adjourn the hearing for reasons to be recorded in writing: Provided that no such adjournment shall be granted for more than three times to a person during the proceedings.
- (6) The proper officer, in his order, shall set out the relevant facts and the basis of his decision.
- (7) The amount of tax, interest and penalty demanded in the order shall not be in excess of the amount specified in the notice and no demand shall be confirmed on the grounds other than the grounds specified in the notice.
- (8) Where the Appellate Authority or Appellate Tribunal or court modifies the amount of tax determined by the proper officer, the amount of interest and penalty shall stand modified accordingly, taking into account the amount of tax so modified.
- (9) The interest on the tax short paid or not paid shall be payable whether or not specified in the order determining the tax liability.
- (10) The adjudication proceedings shall be deemed to be concluded, if the order is not issued within three years as provided for in sub-section (10) of section 73 or within five years as provided for in sub-section (10) of section 74.
- (11) An issue on which the Appellate Authority or the Appellate Tribunal or the High Court has given its decision which is prejudicial to the interest of revenue in some other proceedings and an appeal to the Appellate Tribunal or the High Court or the Supreme Court against such decision of the Appellate Authority or the Appellate Tribunal or the High Court is pending, the period spent between the date of the decision of the Appellate Authority and that of the Appellate Tribunal or the date of decision of the Appellate Tribunal and that of the High Court or the date of the decision of the High Court and that of the Supreme Court shall be excluded in computing the period referred



to in sub-section (10) of section 73 or sub-section (10) of section 74 where proceedings are initiated by way of issue of a show cause notice under the said sections.

(12) Notwithstanding anything contained in section 73 or section 74, where any amount of self-assessed tax in accordance with a return furnished under section 39 remains unpaid, either wholly or partly, or any amount of interest payable on such tax remains unpaid, the same shall be recovered under the provisions of section 79.



## EXHIBIT 5

(13) Where any penalty is imposed under section 73 or section 74, no penalty for the same act or omission shall be imposed on the same person under any other provision of this Act.”

1.3.8 **Section 76 of CGST and SGST Acts, 2017** (Tax collected but not paid to the Government).

“(1) Notwithstanding anything to the contrary contained in any order or direction of any Appellate Authority or Appellate Tribunal or court or in any other provisions of this Act or the rules made thereunder or any other law for the time being in force, every person who has collected from any other person any amount as representing the tax under this Act, and has not paid the said amount to the Government, shall forthwith pay the said amount to the Government, irrespective of whether the supplies in respect of which such amount was collected are taxable or not.

(2) Where any amount is required to be paid to the Government under sub-section (1), and which has not been so paid, the proper officer may serve on the person liable to pay such amount a notice requiring him to show cause as to why the said amount as specified in the notice, should not be paid by him to the Government and why a penalty equivalent to the amount specified in the notice should not be imposed on him under the provisions of this Act.

(3) The proper officer shall, after considering the representation, if any, made by the person on whom the notice is served under sub-section (2), determine

the amount due from such person and thereupon such person shall pay the amount so determined.

(4) The person referred to in sub-section (1) shall in addition to paying the amount referred to in sub-section (1) or sub-section (3) also be liable to pay interest thereon at the rate specified under section 50 from the date such amount was collected by him to the date such amount is paid by him to the Government.



#### EXHIBIT 6

(5) An opportunity of hearing shall be granted where a request is received in writing from the person to whom the notice was issued to show cause.

(6) The proper officer shall issue an order within one year from the date of issue of the notice.

(7) Where the issuance of order is stayed by an order of the court or Appellate Tribunal, the period of such stay shall be excluded in computing the period of one year.

(8) The proper officer, in his order, shall set out the relevant facts and the basis of his decision.

(9) The amount paid to the Government under sub-section (1) or sub-section (3) shall be adjusted against the tax payable, if any, by the person in relation to the supplies referred to in sub-section (1).

(10) Where any surplus is left after the adjustment under sub-section (9), the amount of such surplus shall either be credited to the Fund or refunded to the person who has borne the incidence of such amount.

(11) The person who has borne the incidence of the amount, may apply for the refund of the same in accordance with the provisions of section 54.

1.3.9 **Section 77 of CGST and SGST Acts, 2017** (Tax wrongfully collected and paid to the Central Government or State Government).

*A registered person who has paid the central tax and State tax on a transaction considered by him to be an intra-State supply, but which is subsequently held to be an inter-State supply, shall be refunded the amount of taxes so paid in such manner and subject to such conditions as may be prescribed.*



## EXHIBIT 7

*(2) A registered person who has paid integrated tax on a transaction considered by him to be an inter-State supply, but which is subsequently held to be an intra-State supply, shall not be required to pay any interest on the amount of State tax payable.*

### 1.3.10 Section 78 of CGST and SGST Acts, 2017 (Initiation of recovery proceedings).

*“Any amount payable by a taxable person in pursuance of an order passed under this Act shall be paid by such person within a period of three months from the date of service of such order failing which recovery proceedings shall be initiated:*



## EXHIBIT 8

*Provided that where the proper officer considers it expedient in the interest of revenue, he may, for reasons to be recorded in writing, require the said taxable person to make such payment within such period less than a period of three months as may be specified by him.”*

### 1.3.11 Section 47 of CGST and SGST Acts, 2017 (Levy of late fee).

*“(1) Any registered person who fails to furnish the details of outward or inward supplies required under section 37 or section 38 or returns required under section 39 or section 45 by the due date shall pay a late fee of one hundred*

rupees for every day during which such failure continues subject to a maximum amount of five thousand rupees.

(2) Any registered person who fails to furnish the return required under section 44 by the due date shall be liable to pay a late fee of one hundred rupees for every day during which such failure continues subject to a maximum of an amount calculated at a quarter per cent. of his turnover in the State.”

**1.3.12 Section 50 of CGST and SGST Acts, 2017** (Interest on delayed payment of tax).

“(1) Every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding eighteen per cent., as may be notified by the Government on the recommendations of the Council.

Provided that the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date in accordance with the provisions of section 39, except where such return is furnished after commencement of any proceedings under section 73 or section 74 in respect of the said period, shall be levied on that portion of the tax that is paid by debiting the electronic cash ledger. [Proviso inserted on 01.09.2020 w-e-f 01.07.2017]

(2) The interest under sub-section (1) shall be calculated, in such manner as may be prescribed, from the day succeeding the day on which such tax was due to be paid.”

(3) Where the input tax credit has been wrongly availed and utilised, the registered person shall pay interest on such input tax credit wrongly availed and utilised, at such rate not exceeding twenty-four per cent. as may be notified by the Government, on the recommendations of the Council, and the interest shall be calculated, in such manner as may be prescribed.”

[Sub-sec (3) has been amended retrospectively as above as per the Finance Act, 2022].

**1.3.13 Section 122 of CGST and SGST Acts, 2017.**

**“Section 122. (1) Where a taxable person who—**

- (i) supplies any goods or services or both without issue of any invoice or issues an incorrect or false invoice with regard to any such supply;*
- (ii) issues any invoice or bill without supply of goods or services or both in violation of the provisions of this Act or the rules made thereunder;*
- (iii) collects any amount as tax but fails to pay the same to the Government beyond a period of three months from the date on which such payment becomes due;*
- (iv) collects any tax in contravention of the provisions of this Act but fails to pay the same to the Government beyond a period of three months from the date on which such payment becomes due;*
- (v) fails to deduct the tax in accordance with the provisions of sub-section (1) of section 51, or deducts an amount which is less than the amount required to be deducted under the said sub-section, or where he fails to pay to the Government under sub-section (2) thereof, the amount deducted as tax;*
- (vi) fails to collect tax in accordance with the provisions of sub-section (1) of section 52, or collects an amount which is less than the amount required to be collected under the said sub-section or where he fails to pay to the Government the amount collected as tax under sub-section (3) of section 52;*
- (vii) takes or utilises input tax credit without actual receipt of goods or services or both either fully or partially, in contravention of the provisions of this Act or the rules made thereunder;*
- (viii) fraudulently obtains refund of tax under this Act;*
- (ix) takes or distributes input tax credit in contravention of section 20, or the rules made thereunder;*
- (x) falsifies or substitutes financial records or produces fake accounts or documents or furnishes any false information or return with an intention to evade payment of tax due under this Act;*
- (xi) is liable to be registered under this Act but fails to obtain registration;*
- (xii) furnishes any false information with regard to registration particulars, either at the time of applying for registration, or subsequently;*
- (xiii) obstructs or prevents any officer in discharge of his duties under this Act;*
- (xiv) transports any taxable goods without the cover of documents as may be specified in this behalf;*
- (xv) suppresses his turnover leading to evasion of tax under this Act;*
- (xvi) fails to keep, maintain or retain books of account and other documents in accordance with the provisions of this Act or the rules made thereunder;*
- (xvii) fails to furnish information or documents called for by an officer in accordance with the provisions of this Act or the rules made thereunder or furnishes false information or documents during any proceedings under this Act;**



(xviii) supplies, transports or stores any goods which he has reasons to believe are liable to confiscation under this Act;

(xix) issues any invoice or document by using the registration number of another registered person;

(xx) tampers with, or destroys any material evidence or document;

(xxi) disposes off or tampers with any goods that have been detained, seized, or attached under this Act,

he shall be liable to pay a penalty of ten thousand rupees or an amount equivalent to the tax evaded or the tax not deducted under section 51 or short deducted or deducted but not paid to the Government or tax not collected under section 52 or short collected or collected but not paid to the Government or input tax credit availed of or passed on or distributed irregularly, or the refund claimed fraudulently, whichever is higher.

(2) Any registered person who supplies any goods or services or both on which any tax has not been paid or short-paid or erroneously refunded, or where the input tax credit has been wrongly availed or utilised,—

(a) for any reason, other than the reason of fraud or any wilful misstatement or suppression of facts to evade tax, shall be liable to a penalty of ten thousand rupees or ten per cent. of the tax due from such person, whichever is higher;

(b) for reason of fraud or any wilful misstatement or suppression of facts to evade tax, shall be liable to a penalty equal to ten thousand rupees or the tax due from such person, whichever is higher.

(3) Any person who—

(a) aids or abets any of the offences specified in clauses (i) to (xxi) of sub-section (1);

(b) acquires possession of, or in any way concerns himself in transporting, removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner deals with any goods which he knows or has reasons to believe are liable to confiscation under this Act or the rules made thereunder;

(c) receives or is in any way concerned with the supply of, or in any other manner deals with any supply of services which he knows or has reasons to believe are in contravention of any provisions of this Act or the rules made thereunder;

(d) fails to appear before the officer of central tax, when issued with a summon for appearance to give evidence or produce a document in an inquiry;

(e) fails to issue invoice in accordance with the provisions of this Act or the rules made thereunder or fails to account for an invoice in his books of account, shall be liable to a penalty which may extend to twenty-five thousand rupees.

### 1.3.14 Section 125 of CGST and SGST Acts, 2017 (General penalty).

*“Any person, who contravenes any of the provisions of this Act or any rules made thereunder for which no penalty is separately provided for in this Act, shall be liable to a penalty which may extend to twenty five thousand rupees.”*

1.3.15 In addition to the provisions above, auditors must bear certain other provisions in mind. These are summarized below:-

Sec	Section Heading	Rules	Remarks
7 & 8	Supply, Composite and mixed supply		Schedule I, II and III
12	Time of Supply of Goods		Advance payment has been delinked from time of supply in case of supply of goods.
13	Time of Supply of Service		Notification no.06/2019 – CT(R) in respect of time of supply of services in respect of any TDR/FSI received by a promoter.
14	Time in case of change in rate of tax.		
15	Value of Taxable Supply	27 to 35	Determination of Value of Supply
16,17,18,19 & 20	Input Tax Credit	36 to 45	Rules related to ITC and ISD
31	Tax Invoice	46 to 55A	Tax Invoice, Credit and Debit Notes
34	Credit & Debit Notes		
35	Accounts and other records	56 to 58	Accounts and Records

<b>37 to 39</b>	Statements and Returns	59 & 61	
<b>44</b>	Annual Return	80	Annual return and Reconciliation Statement (GSTR 9, 9A, 9B, 9C)
<b>49</b>	Payment of tax, interest, penalty and other amounts.	85 to 88A	Payment of Tax
<b>54</b>	Refund of tax	89 to 97A & updated Circulars	Master Circular no. 125/44/2019-GST dt.18.11.2019 & 135/05/2020-GST dt.31.3.2020
<b>71</b>	Access to business premises		
<b>73 &amp; 74</b>	Determination of tax not paid or short paid	Rule 142	Demand & Recovery
<b>76</b>	Tax collected but not paid to the Government		

1.4 An Audit Officer should always check the amended provisions of the Act and Rules made there under and apply provisions applicable for the period under audit.



## CHAPTER 2

This chapter covers intended audience, purpose of the manual, aims and objectives of audit, principles of audit, dealing with the auditee, rights and obligations of the auditee, and pre-requisites of an audit officer.

### 2.1 Intended Audience

Every document, especially one such as this, is intended for an audience. The Model GSTAM is intended to benefit GST Audit authorities, supervisory officers, audit team leaders, and individual auditors.

This Manual should be used in conjunction with statutory provisions, other Standard Operating Procedures of respective GST administrations, circulars, notifications, and relevant case law.

### 2.2 Purpose of this Manual

The All-India Model GST Audit Manual is intended to be a comprehensive document which would be helpful for the audit teams of the Centre and the States/UTs throughout the entire process of selection of taxpayers for audit till the completion of audit in an efficient and effective manner.



**EXHIBIT 9**

Audit in GST should verify the correctness of the facts and figures declared in the returns vis-a-vis books of accounts and returns filed by the taxpayers. Self-assessed declarations may contain hidden deviations. These deviations may be the result of omission, error, or deliberate action by a taxpayer. The Manual aims to play an important role in detection of non-compliances, if any, in the self-assessed declarations. However, such deviations may also be mere technical in nature without having any real revenue impact. The approach to be adopted in such cases would also be dealt with in this manual. This manual discusses methods,- (i) of looking into the aspects that demand meticulous attention, (ii) for preparation of an effective pre-audit desk review before the audit actually commences and (iii) for conducting a quality audit under GST that would not only monitor compliance of the taxpayers but would also successfully achieve the goal of revenue augmentation. The manual also suggests the need for an appropriate organizational structure so that audit officers can place their findings before an appropriate higher authority. This would help the audit officer in preparing a proper audit plan and conducting audit as per the plan. The Commissioner and other supervisory officers would also be updated with the progress of audits through an institutional arrangement enabling transparency, accountability, and organizational learning.

The approach towards a particular auditee may vary depending upon the study of that Auditee. The main objective here is to identify the areas where non-compliance or wrong interpretation of the law may have occurred resulting in less payment or non-payment of taxes, interest, late fees, etc. Identification of such areas will prevent the auditee from continuing with such deviations which result in erroneous declaration of self-assessed liability.

### **2.3 Aims and objectives of Audit**

Audit in GST should intend to evaluate the credibility of self-assessed tax liability of a taxpayer based on the twin test of accuracy of their declarations and the accounts maintained by the taxpayer. Thus, Audit in GST should have the following objectives:

- Measurement of compliance levels with reference to compliance strategy of the tax administration.
- Detection of non-compliance and revenue realization

- Prevention of non-compliance in the future.
- Discovering areas of non-compliance to prevent taxpayers from continuing with such deviations from expected compliance behaviour that results in erroneous declaration of self-assessed liability.
- Providing inputs for corrections in/amendments to the legal framework which are being exploited by taxpayers to avoid paying taxes.
- Encouraging voluntary compliance.
- Any other goals deemed worth pursuing by the GST administration.

## 2.4 Principles of audit

An important objective of GST audit is to measure the level of compliance of the auditee in the light of the provisions of the GST Act(s) and the rules made thereunder. Audit should be consistent with Notifications / Circulars / Orders issued from time to time.

GST audit should be teamwork where the Audit officer (Team Leader) leads and conducts the audit and prepares the audit report with the assistance of team members. This entire work process would involve a series of activities including pre-audit desk review to identify high-risk areas, preparation of a sound audit plan, approval / sanction of the audit plan by an appropriate higher authority, conducting audit within prescribed time limits and other performance parameters and ensuring consistently high audit standards.

The following principles should guide the audit process:-

1. Adherence to risk factors developed through a targeting strategy with the approval of the Commissioner/other appropriate authority.

2. Consistency with Departmental Circulars and using professional methodology.

3. Chalk out a sound pre-audit plan/audit program and conduct the audit accordingly.

4. Emphasize a systematic, flexible and penetrative audit.

5. Regular review of the audit plan and progress and modification of the audit program whenever necessary.

6. Concentrate on scrutiny of returns and records, the degree of which will depend on the identified risk areas.

7. Identify the veracity of turnover declared, taxes paid, refund claimed and received, input tax credit (ITC)availed, assessment of compliances as per the provisions of the GST Act(s) and the Rules made thereunder with particular focus on the aspects/transactions/activities of the taxpayer which led to his being selected for audit.

8. Record the proceedings of audit and findings thereof.

9. Provide a fair opportunity to the auditee to be heard and to submit their contention.

10. Carry out audit while adhering to high standards of professional conduct.

11. Implement a feedback mechanism with the objective of measuring the taxpayer's experience of audit and for validation of targeting parameters.



**EXHIBIT 10**

## 2.5 Dealing with the auditee

The main objective of the audit is to quantify shortfall of revenue in a cost effective and transparent manner. The attitude of the officer conducting the audit should reflect this. Audit officers should be aware that they are the main channel of communication between the department and the auditee.



**EXHIBIT 11**

The officer conducting audit should maintain a good professional relationship with the auditee. She/ He should recognize the rights of the auditees, such as uniform and transparent application of law and their right to be treated with courtesy and consideration. The audit officer should explain that a tax compliant auditee may reap a number of benefits from an audit, such as: -

1. They will be better equipped to comply with the laws and the relevant procedures.
2. The preparation of prescribed returns and self-assessment of Goods and Services Tax will be better focused, correct and complete.
3. The scrutiny of business accounts and returns submitted to various authorities, made in the course of an audit would help in removing any deficiency in their accounting and internal control systems.
4. Disputes and proceedings against them would be substantially reduced or even eliminated.

## 2.6 Rights and Obligations of the auditee

Tax administrations should consider implementing a Charter of rights and duties of taxpayers with regard to audit and publishing the same through measures of taxpayer engagement. Ideally, these should be aligned with the service delivery standards of the GST Administration.



**EXHIBIT 12**

During the course of audit, the authorised officer may ask the registered person to provide him/her necessary facility to verify the books of account or other documents as he/she may require, and to furnish such information as he/she may require and render assistance for timely completion of audit. **[Sec 65(5)].**

## 2.7 Pre-requisites of an audit officer

An audit officer, acting in close coordination with other members of his/her team and supervisory officers, is the lynchpin of an effective audit and should be equipped with a number of skills and relevant knowledge. These are summarized below. An audit officer should be able to answer the questions pertinent to a particular area of legal, technical, and interpersonal skill and knowledge. A list of competencies and an illustrative list of questions is given below:-

	Area of Competence (Skill-set/ Knowledge)	Illustrative Questions
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<b>1</b>	<b>Have a well-drafted pre-plan for identifying areas of concern.</b>	<ul style="list-style-type: none"> <li>• What to examine?</li> <li>• How to examine?</li> </ul>
<b>2</b>	<b>Be well aware of the procedural aspects.</b>	<ul style="list-style-type: none"> <li>• Is the Officer well aware of the online/offline Audit modules?</li> <li>• Is the Officer aware of the departmental guidelines?</li> <li>• Have all the points noted in the audit plan been covered?</li> <li>• Is the officer aware of the workflow and documentation/ recording system followed by the auditee?</li> </ul>
<b>3</b>	<b>Possess legal knowledge of legal provisions, changes in law, notifications, circulars, relevant case law, rates.</b>	<ul style="list-style-type: none"> <li>• Is the officer well aware of the legal provisions and changes thereto?</li> <li>• Is there any specific guideline in any circular?</li> <li>• Are there any court judgements that are applicable?</li> </ul>
<b>4</b>	<b>Possess knowledge of the industry / sector in which the taxpayer is active.</b>	<ul style="list-style-type: none"> <li>• Does the officer have a primary knowledge about the business pattern of the auditee with respect to the auditee's particular trade &amp; industry?</li> <li>• Is the audit officer aware of the existing trade practices, conventions, and market trends?</li> <li>• Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 provides that the Final Accounts should comply with the Accounting Standards. Does the audit officer possess the knowledge of the prevalent Indian Accounting Standards?</li> </ul>
<b>5</b>	<b>Be able to compute dues.</b>	<ul style="list-style-type: none"> <li>• If the auditee is willing to deposit the dues, what to do?</li> <li>• If the auditee is not willing to deposit the dues in accordance with the audit report, what are the next steps?</li> </ul>
<b>6</b>	<b>Skills for taxpayer engagement</b>	<ul style="list-style-type: none"> <li>• Is the audit officer unbiased and judicious in the course of audit?</li> <li>• Is he/she tactful to gain the goodwill and confidence of the auditee and act as a motivator and a facilitator who ensures voluntary compliance?</li> <li>• Does the auditor record technical lapses by the auditee which do not have any revenue implication, and have occurred due to oversight or ignorance, and ignore them on merit? Does the auditor discuss these with the auditee to improve the quality of compliance and make internal controls more robust?</li> <li>• Does the auditor apprise the auditee of the provisions of the GST Act, Rules, and relevant notifications, circulars, and court decisions to encourage the taxpayer to make voluntary payment in the course of audit?</li> <li>• Is the auditor transparent and discuss any</li> </ul>

	<p>discrepancies found in the course of audit with the auditee?</p> <ul style="list-style-type: none"> <li>• Does the auditor give auditee an opportunity for filing his/her explanation in respect of such discrepancies as intimated by the auditor and consider all the explanations and documents provided by the auditee regarding the points of dispute before drawing the Final Audit Report?</li> <li>• Does the auditor consult his/her immediate functional head to resolve any issue in the course of the audit?</li> <li>• Does the auditor inform his/her immediate supervisory officer of any lack of co-operation or deliberate failure to provide information and records by the auditee and follow it up with a written report?</li> <li>• Does the auditor preserve all the important documents submitted by the auditee in the course of audit which are relevant to findings as office records, preferably in electronic format?</li> <li>• Does the auditor maintain confidentiality in respect of sensitive and confidential information furnished in the course of audit?</li> </ul>
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Some important areas in which an auditor should check levels of compliance of the auditee are given in Exhibit – 13 below:



**EXHIBIT 13**














An attempt has been made to address the aforesaid issues in this Manual. While this Manual seeks to propose principles and procedures for audit, GST administrations have to ensure that skilled auditors are trained and deployed in adequate numbers to meet organisational requirements.

## CHAPTER 3

This Chapter covers the audit flowchart, different steps of audit, selection of taxpayers for audit, team formation and assignment and allocation audit to audit teams. This chapter also contains the gist of the proposal submitted by the sub-committee “on using the capability of Data Analytic developed by DGARM for identification of State Taxpayers for Audit”.

3.1 While GST Audit is a highly skilled exercise, it can also be conceived as a logical workflow of steps. These are summarised in the audit flow-chart below. Each of the steps is elaborated in the subsequent sections.

	<b>Audit Selection:</b> RTP for audit for a financial year or part or multiple thereof may be selected by Commissioner / appropriate authority based on targeting parameters /local factors developed in-house.
	<b>Allotment of selected RTP:</b> The selected RTPs may be distributed to the respective jurisdictional officer. Allocation should be consistent with audit norms (no. of days to audit a RTP, size of each RTP audit capacity, etc.).
	<b>Issuance of notice for audit:</b> The audit officer should issue FORM GST ADT - 01 fixing the date of audit. A Master File should be maintained in respect of each auditee, which should be updated before the commencement of audit.
	<b>Pre-audit desk review:</b> Basic ground work to chalk out the lines along which a particular audit will progress as well as to identify areas where audit attention should be concentrated for maximum yield.
	<b>Preparation and approval of audit plan:</b> Based on desk review, the audit team should prepare an audit plan and place it before the proper higher authority for approval. Any necessary modification may be done by the higher authority if required.
	<b>Commencement of audit:</b> The date on which the records /documents are made available by the registered person or the actual institution of audit at the place of business constitute commencement of audit. Prior identification of the sources of relevant data would lighten the burden of compliance on the auditee. Every GST Administration should consider publishing a white list of documents already available with the department which should not be called for from the taxpayers. This list can be shared with the auditee to emphasise the collaborative and facilitatory nature of audit
	<b>Examination:</b> In-depth checking of the records /documents/ books made available by the registered person during audit. “Original copies of documents like invoices, etc. may be called for only if deemed vital for being examined/subjected to close scrutiny by the audit team”.

	<b>Communication of discrepancies found:</b> The observations made upon audit are to be communicated to the auditee in writing. The auditee should be allowed due opportunity for filing his explanation in respect of discrepancies intimated by the department.
	<b>Preparation and approval of Draft Audit Report (DAR):</b> Drawing up a DAR containing the observations made in the course of audit after considering explanations & documents provided by the auditee in respect of such discrepancies and approval of the same by the appropriate higher authority. A mechanism like Monitoring Committee Meeting should be established to decide each audit para.
	<b>Preparation of Final Audit Report:</b> After approval, a final report is to be drawn up and issued to the auditee.
	<b>Audit consequences:</b> i. Closure of audit (in case the observations are admitted by the RTP and the amount short paid as indicated is paid) or ii. initiation of demand and recovery proceedings by issuance of show cause notice u/s. 73/74. A mechanism should be implemented to ensure that show cause notices are issued within the prescribed time limit

## 3.2 Different Steps of audit

### 3.2.1 Selection for audit

Statutory provisions: As per the provisions of section 65(1) of the Act read with rule 101(1) of the Rules (p.14), the Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for a financial year or part thereof or multiples thereof. The Commissioner by a general or specific order may select any registered person for audit of his books of accounts for a specific period.

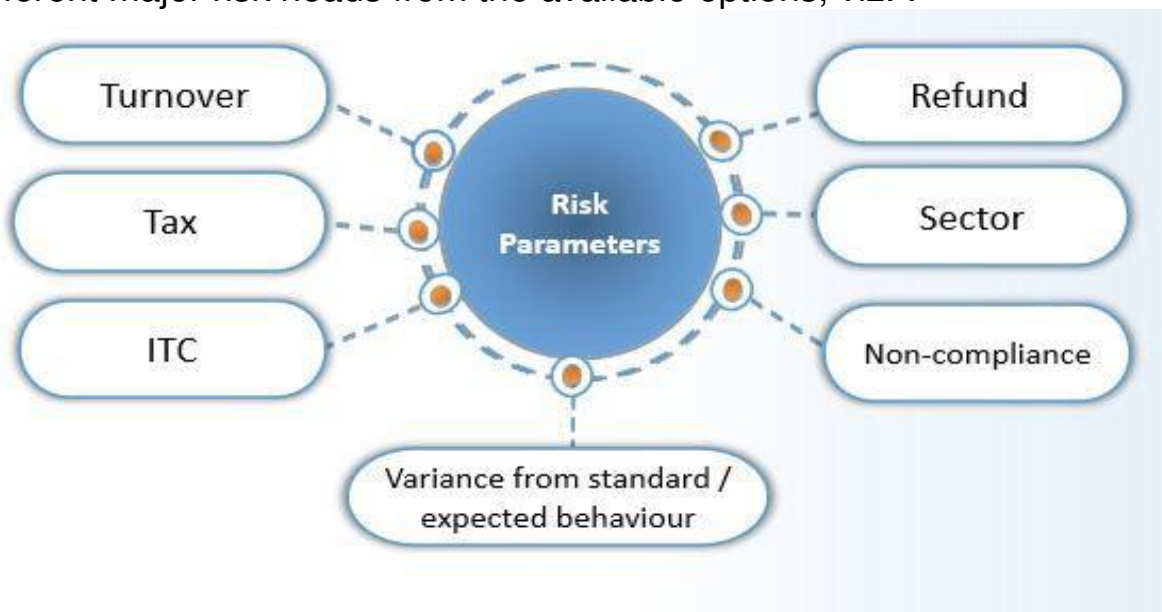
Importance of risk-based selection: The principle of risk-based audit envisages selection of taxpayers for audit based on certain risk parameters. Ascertaining the risk profile of the auditees based on a scientific approach is vital for selection of audit. Audit selection is a dynamic process where the experience of audit in each year plays a vital role in modifying the selection criteria. Some aspects of such risk profile assessment are discussed in this section.

Selection criteria for risk-based selection of auditees: are developed in response to a certain compliance environment and aggregate compliance

behaviour, as well as yield of past selection criteria. Hence, no selection criteria can be set in stone.

However, certain representative selection criteria as well as certain broad areas from which selection criteria can be chosen are briefly discussed below:

**Selection based on Risk Parameters:** The list of potential high risk taxpayers may be prepared by selecting one or multiple criteria under different major risk heads from the available options, viz. :



**EXHIBIT-14**

Specific benchmarks may be fixed against the risk criteria for each of the major heads. Some major heads are discussed below:-

- **Entity level risks** (e.g. Turnover, Tax, ITC, Refund, Commodity such as Iron & Steel, Paints & Chemicals, Textiles, Cement, Medicine, Footwear, Branded food grain, Automobiles etc., Service: Works contract, Real Estate, Information Technology, Consultancy service, Manpower service, Hospitality, Travel & Tourism, Leasing etc.).
- **Risks associated with compliance behaviour** (e.g. late filer of return, non-submission of Form GSTR-1, Form GSTR-3B, Form GSTR-9 & Form GSTR-9C).
- **Various ratios**, e.g.
  - Taxable turnover: Exempted turnover

- Export/SEZ turnover/ total turnover (except in case of export houses)
- Output tax : Input tax
- Cash payment: Output tax
- Set-of using e-credit ledger : Set-of using e-cash ledger
- Inter-state supply: Intra-state supply etc.
- **Exceptional Reports e.g.**
  - ITC claimed in Form GSTR-3B vs. ITC auto-populated in Form GSTR-2A/GSTR-2B
  - Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1
  - claim of ITC from cancelled RTPs, aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return
  - Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS deducted as reflected in Form GSTR-7 submitted by TDS deductor
  - Turnover declared by RTP in Form GSTR-3B compared to turnover on which TCS collected as reflected in Form GSTR-8 submitted by TCS collector
  - Turnover declared by RTP in Form GSTR-3B compared to minimum turnover expected on the basis of e-way bills generated in respect of the said RTP
  - Refund-claim against purchase from taxpayer having no auto-population of ITC in Form GSTR-2A
  - purchases from non-existent RTPs
  - RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.)

**Some of the steps and broad principles that may be followed for selection are given below:-**

- A. Taxpayers under the State/Central jurisdiction, i.e. the taxpayers who are required to file Form GSTR- 3B and Form GSTR-1, may be selected by the respective Commissioner.
- B. Those tax-payers who have filed at least such a minimum number of returns as the administration would decide, in the financial year or those who have been granted a refund beyond a certain amount may be selected.
- C. The taxpayers' pool may be divided into 3 segments namely Large, Medium & Small based on turnover, or on some other logical criterion.
- D. All risk parameters are required to be identified and all probable aspects need to be considered to identify non-compliance and non-payment / short payment of tax, interest, late fee, penalty etc. and evasion of tax.
- E. To select taxpayers for audit in an effective manner, secondary data sources (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be also considered and referred to along with the primary data sources (i.e. GST data).
- F. The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit as well as effectiveness of risk parameters chosen in the preceding Financial Year (s).
- G. Based on the average weight considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.
- H. The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one RTP has the same final score, the parameter of declared liability may then be considered and a taxpayer with more declared liability may be selected first.
- I. A Selection Committee may be constituted to identify various risk parameters for selection for audit, considering all the aspects where there are chances of lack of compliance with the Act resulting in short payment of tax etc. such as:

J. The final score may be calculated based on the data for each financial year and the parameters as well as the weightage adopted may undergo necessary modifications if required.

K. In case the RTP selected for audit has multiple registrations under the same PAN / TAN in the State, it is suggested that all such registration numbers may be selected for audit.

L. A certain percentage of the selection of the taxpayers may be done on a random basis. The percentage may be fixed by an audit administration based on their audit strategy. Random samples can serve as useful controls and uncover latent compliance issues.

M. A certain percentage of taxpayers can also be selected for audit based on local parameters such as intelligence inputs, past compliance behaviour, etc.

N. Suo-motu selection: If an officer comes across any specific information relating to a RTP and has specific reasons to believe that Audit of the said RTP's books of accounts is required to be done for one or more financial years, or, if any audit officer in the course of audit has specific reasons to believe that an observation made upon audit will have revenue impacts in other periods also, he/she may send a proposal in this regard to the Commissioner/appropriate authority. Similarly, an audit officer or his/her higher authority can propose an audit of a taxpayer for adequate reasons which are recorded in writing. The Commissioner/appropriate authority upon consideration of all such proposals may select some/all of such RTPs for audit. GSTN has developed a module to facilitate such proposals for suo motu selection of any taxpayer for audit.

### **3.2.2 Administrative / procedural arrangements for risk-based selection of auditees:**

The practice for risk-based selection varies between the Centre and the States. Any GST Administration which intends to implement risk-based selection of RTPs for audit has multiple options before them.

- In States, the Commissioner may fix the criteria of selection based on certain parameters as the Commissioner deems fit.



- In CGST, the Central Board of Indirect Taxes and Customs has mentioned in their GST Audit Manual that the selection of registered persons for them would be done based on the risk evaluation method prescribed by the Directorate General of Audit (DGA) in consultation with the Directorate General of Analytics and Risk Management (DGARM). The risk evaluation method as well as RTPs selected for audit is separately communicated to the Audit Commissionerates during the month of January/February of every year. The risk assessment function is jointly handled by the Directorate General of Audit and the Risk Management section of the GST Audit Commissionerates, as the latter are also at liberty to select a certain percentage of RTPs for audit based on local risk parameters.
- Any State GST administration can also request the DGARM for selection of taxpayers for the State for audit u/s.65 by using expertise of the DGARM. A State GST administration can also request the DGARM to share the targeting criteria with them.
- GSTN has also provided a targeting methodology based on assigning risk weight to different taxpayers as per their past compliance behaviour and other thresholds. State GST administrations may also refer to the same if they so wish.
- Certain State GST Administrations, such as Karnataka, have developed methodologies for targeting RTPs for audit. Their expertise is also available to other GST administrations upon request.

### 3.2.3 Allotment of selected RTP

Statutory provisions: It may be recalled that per provisions of sec 65(1) of the Act read with rule 101(1) of the Rules, any officer who is authorized by the Commissioner has the power to conduct an audit (P.14)

Decision not to audit: If the audit administration feels that an audit of a particular taxpayer need not be carried out, the case can be dropped. In order to drop an audit case, proper and adequate reasons are required to be given along with documents the reasons for dropping the same.

#### **Allocation of auditees:**

After audit selection, the list of selected RTPs may be made available to the jurisdictional proper officers through the functional hierarchy. The practice varies between state and central GST administrations.

**State GST:** In the State GST administrations, selected cases are allocated to the Zonal level audit head. The system provides facility to the Commissioner i.e. the HQ level to allocate Taxpayers of a particular Zone to that Zonal level Head. In the case of already allocated Taxpayer(s), if the HQ officer wants to modify the Zonal officer, he/she may do so after recording reasons for such change.

**Central GST:** In CGST, Audit Commissioners allocate taxpayers selected for audit (by the list developed by DGARM and DG (Audit) and a list based on local risk parameters) to audit circles and circle in-charges further allocate auditees to audit groups. The Audit Module developed by the CBIC allows allocation of auditees across the entire functional hierarchy.

**Audit modules:** The Audit Modules provide a way to leverage IT for better audit planning, conduct of audit and audit monitoring. Audit Modules developed by the CBIC permit assignment of auditees. A module developed by GSTN also permits assignment of auditees to Audit Officers. Some States have also automated this function in their respective Audit Modules.

#### 3.2.4 Assignment & team formation for audit:

1. After allocation, the next step is to assign the selected taxpayer to the officers of the Audit Team, who will finally carry out the audit. Normally, such assignment and team formation will be done by the Zonal officer. However, the same functionality has also been provided to the HQ Officer. So, the HQ Officer, if he/she desires, can also assign the Audit Team Lead and Audit Team Members on his/her own.
2. The allocating officer can fetch a list of allocated taxpayers which are pending for assignment. The allocation process involves the following steps:-
  - A. **Assign Audit Team Lead** – The HQ/Zonal Officer, while assigning a Taxpayer for Audit to a particular ‘Team lead’ can view the existing assignments i.e. number of audit cases assigned to that particular officer. This will help him to assign taxpayers keeping in view the existing workload on an audit officer and thereby maintain uniformity in work load on the audit officers in his/her jurisdiction. At any stage, if a need for change of Team

Lead arises, the same can be done through the system by reassigning such role to another officer in the jurisdiction.

B. **Assign Audit Team Members** – After assigning the Team Lead, the HQ/Zonal officer can go for assigning the Team Members. The names of the available officers along with their designation and existing work allocation can be viewed on the system and maintaining uniformity in work allocation, Team members can also be assigned. If needed, Team Members can also be changed with other available officers.

The RTPs relating to a particular jurisdiction on being selected for Audit may be allotted by the jurisdictional head to next junior level Officers having functional role of Audit and/or Adjudication in that particular jurisdiction (in some jurisdictions the audit officer may not have adjudicating authority). In the CBIC Audit Module, this step has been automated.

## Chapter 4

This Chapter covers preparatory activities prior to audit, starting with seeking information from the auditee, audit planning and preparation, including Desk Review, and formulation Audit Plan.

### 4.1 Seeking information:

#### Maintaining a Master File of the RTP:

The Department may maintain certain information relating to the selected RTP in the format named as “**Tax payer at a Glance (TAG)**” or a **Registered Person Master File (RPMF)**.

This TAG contains the basic profiling of the selected RTP in respect of registration, returns, ITC, payment of tax, and any other pertinent information (e.g. exceptional reports). The officer can also examine GSTR 9 & GSTR 9C and Balance Sheet, if available.

An updated Master File will minimise the information that the audit officer seeks from the taxpayer, increasing the ease of audit for auditor and taxpayer alike.



**EXHIBIT 15**

## 4.2 Issuance of Notice in FORM GST ADT-01:

Once the file is allotted to a particular Audit officer/Audit Team, a notice for conducting the audit is to be issued to the auditee in FORM GST ADT-01. The format of GST ADT-01 is provided in this manual as **Annexure – 1 (p.97)**. Intimation of audit (i.e. ADT-01) is to be issued to the taxable person at least 15 days in advance prior to the conduct of audit. [Sec 65(3), Rule 101(2)]. Form GST ADT-01 preferably should be issued within five (05) working days of allotment of files to an audit team or audit officer.

It has been observed that asking for all the books of accounts and records from an auditee with a large volume of business on the very first day of audit causes inconvenience for both the auditee and the auditor. It is difficult and impractical for an audit officer to examine all the documents with equal importance on one single occasion.

As a result, it would be prudent to ask a RTP to keep all his Books of Accounts and records ready to be made available for examination during the course of audit and to produce those in a staggered manner as decided by the audit officer. For example, the Audit Officer may ask for the first set of documents on the first day of hearing which is required for a thorough study of the annual business performances of the RTP, by issuing a separate letter along with the FORM GST ADT-01. This will help the Audit officer to chalk out an effective audit plan.

While directing furnishing of accounts/books/documents, the team/officer should also factor in the risk factor/s leading to the selection of the particular RTP and focus more on such aspects as may have contributed to the particular risk profile associated with that particular taxpayer. For instance, if it is found that a particular taxpayer got selected primarily on account of a very low cash pay-out, the audit team should focus more on the credit claims, the origin of such credit claims, the documentation, the authenticity of the vendors of the selected taxpayer, the break-up of categories of supplies on which credit has been claimed, the value addition profile, the inventory position, etc. Accordingly, the demand for records/documents/accounts should appropriately reflect this.

However, in cases, where the volume of business is not significant, the relevant documents and records may be asked to be produced on the first day of hearing as scheduled in FORM GST ADT-01.

Furthermore, the Audit Officer may send –

- a letter seeking mutual assistance to complete the audit in a focused manner **(A sample of the letter is given in Annexure -2 (p.98))**
- a questionnaire to the RTP for providing information required for audit **(A sample of the same is given in Annexure -3 (p.100))**
- a list of documents / statements and books of accounts to be produced for the purpose of audit. **(A sample of the list is given in Annexure -4 (p.104)).**

This questionnaire will help both the auditee and auditor to complete the audit process in a focused and planned manner. The questionnaire should incorporate queries relating to assessment of the business process of the auditee, the documentation process, the scheme of recording of documents in the accounts, and most important, the internal control put into place by the auditee. These questions should help the auditor to assess the overall soundness of the accounting system followed by the auditee, the areas of weakness which could indicate the nature of transactions which should be subjected to a deeper examination by the audit team.

It is needless to say that the questionnaire will change according to the need of the concerned case. The questionnaire should be issued as attachment with FORM GST ADT - 01.

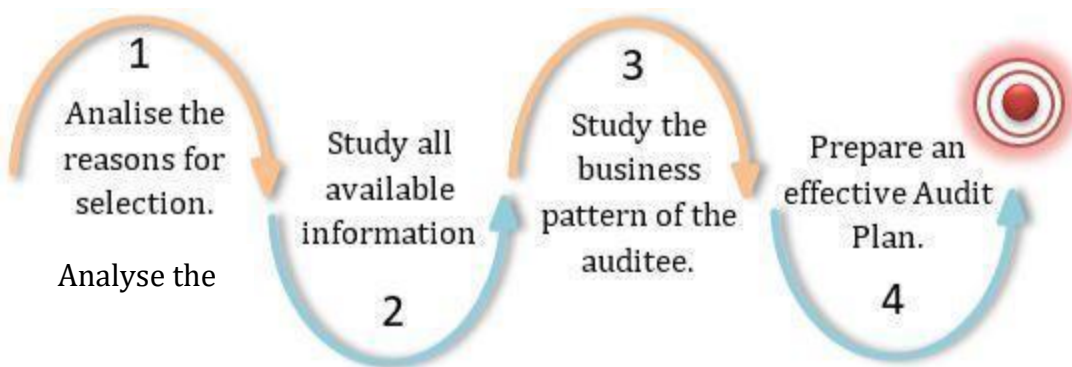
On production of such documents and records by the RTP on the first date of audit as per FORM GST ADT-01, audit will commence and the Audit officer will start chalking out the audit plan.

The remaining books of accounts, ledgers, statements, documents, records, etc. may be asked from time to time on the basis of the audit plan in the respective case. A letter may be attached/uploaded with the FORM GST ADT – 01 along with the questionnaire.

Observance of the following principles is suggested while seeking information from the auditees.

- Avoid making repeated requests for information.
- Obtain as much information as possible from the data sources available in the system.
- Seek information only with respect to areas of audit's interest.
- Develop a white list of documents, to be shared with the taxpayers that would not be sought for from the taxpayers.
- Avoid asking for original copies of invoices/debit-credit/notes, as far as possible; further, ALL/complete set of all invoices issued/received may also not be insisted on, particularly in large taxpayers
- Documents and transactions should be scanned/examined thoroughly on the basis of sampling and the sample should be drawn based on a careful consideration of the implicit risk areas/revenue implication.

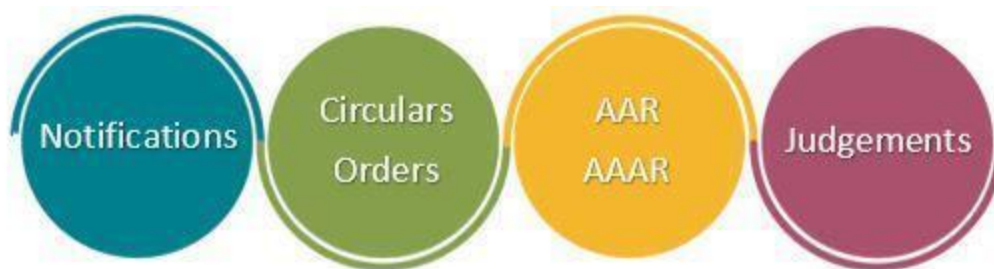
#### 4.3 Pre-audit desk review



**EXHIBIT-16**

This is the first phase of the audit programme done in the office by the audit officer. This process needs to be completed by the Audit Officer before the first date of appearance of the auditee as per FORM GST ADT-01. The idea behind this process is that the Audit Officer would get accustomed with the nature of business of the auditee vis-a-vis information available with her/him.





Upon studying this information, the audit team and its members should have clarity about the following: -

- **Reason(s) for selection.**
- **Profile of the auditee** with details of ownership, numbers of registered persons under the same PAN within the State, principal and additional places of business, migration status (if any), business trends and compliance level of the RTP in the pre-GST period as well as in the GST regime, business trend of the RTP vis-à-vis trends of the industry etc.
- **Broad types of supply involved** (i.e., resale, manufacturing, export, import, service, works contract, job work, ISD, etc.).
- **Business pattern of the auditee i.e. nature of goods and/or services dealt along with classification** (e.g. importer of medicine, exporter of leather goods, reseller of iron & steel, manufacturer of jute goods, restaurant service, manpower supply, travel agent, aviation, transport, etc.).
- **Return filing & tax compliance pattern** of the auditee in GST for the period under audit. If any irregularity is found in submission of Return, **the Audit Officer should calculate the Late Fees & Interest payable at the desk-review stage itself.** Furthermore, there may be chances of mismatch of Turnover and Tax as disclosed in Form GSTR-3B vis-à-vis Form GSTR-1. Similarly, there may be a mismatch between ITC claimed in Form GSTR-3B vis-à-vis ITC auto-populated in Form GSTR-2A/GSTR-2B.
- **Analysis of business operations as declared by the auditee in the GST Returns** in the light of other data sources available in the GST portal itself. The Audit Officer should verify the turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis footprint of payments made to the RTP as per GSTR-7 or GSTR-8 filed by TDS

deductors or TCS collectors, as the case may be. The Audit Officer should also consult the various exceptional reports made available.

- **Analysis of business operations as declared by the auditee in the GST Returns in the light of secondary data sources**, e.g. turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis the turnover declared in the income tax return(s)/tax audit report or any other source, if available.
- **An audit officer is required to study each case from a holistic point of view** keeping in view applicability of statutory provisions and amendments thereof, notifications, circulars and orders relevant to the audit period. There have been various instances where a specific transaction, when looked at from a wider perspective, yielded interesting conclusions. Many of these instances are covered by various clarificatory Circulars issued both by the Central Government and the State Government.
- **As a part of Desk review, an Audit Officer should:**
  - Read the entire original documents as available in various public domains,
  - Understand the reasons and contexts of such clarifications,
  - Cite any relevant portion of the clarification only from such original documents and not from any truncated reference.
- Ratio and trend analysis as also intra-industry comparisons to ascertain significant deviant behaviour and indicate areas requiring enquiry and deep examination
- The pre-audit desk review should enable Audit Officers to gather relevant information about the selected RTP before actual commencement of audit, enabling them to be fully prepared from the very first day of visiting the auditee's place or examining the books produced by the auditee for audit.

#### 4.4 Preparation and approval of Audit plan

Audit plan for a particular auditee is the **roadmap for a sound performance of the audit**.

This plan will serve as a schema of the entire process. Every such plan should be consistent with the departmental guidelines (Format of Audit Plan is in **Annexure 5 (p.105)**).

All the officers of an audit team should be involved in the process of preparation of the audit plan under the supervision of the immediate Senior Officer of the Audit vertical to draw up a good audit plan. Teamwork ensures buy-in from an early stage, brings forth a greater variety of ideas and can be reasonably expected to improve audit outcomes.

#### 4.4.1 **General guidelines to prepare audit plan**

- **Reason(s) for selection** – The audit team should study the reasons for selection and try to identify the focus area. There may be two sets of selection criteria – (i) as available in BIFA Tool of GSTN portal and (ii) as provided by the Department. It should try to identify major risk areas. In case the volume of documents for verification is large, the auditor should adopt sample verification. In such a case, sample selection techniques used should be spelt out. The sample should be chosen in such a way that it represents the whole. Samples should represent relevant time-periods, business activities, value addition chain and other parameters. Sampling criteria should be material.
- **Profile of the auditee (Taxpayer Master File, Taxpayer Profile, Taxpayer at a Glance or other suitable nomenclature may be adopted)** with details of ownership, numbers of registered persons under the same PAN within the State, principal and additional places of business, migration status (if any), business trend and compliance level of the RTP in the pre-GST period as well as in the GST regime, business trend of the RTP vis-à-vis the trends of the industry etc. Ideally the audit administration should maintain a Taxpayer Master File which contains all this information. Utilities developed for audit should enable automatic updation of the Taxpayer Master File.
- **Broad types of supply involved** (i.e., resale, manufacturing, export, import, service, works contract, job work, ISD, etc.).
- **Business pattern of the auditee i.e. nature of goods and/or services dealt along with classification** (e.g. importer of medicine, exporter of leather goods, reseller of iron & steel, manufacturer of jute goods, restaurant service, manpower supply, travel agent, aviation, transport, etc.).
- **Return filing & tax compliance pattern** of the auditee in GST for the period under audit. If irregularity is found in case of submission of Return, **the**

**Audit Officer should calculate the Late Fees & Interest payable at the desk- review stage itself.** Furthermore, there may be chances of mismatch of Turnover and Tax as disclosed in Form GSTR-3B vis-à-vis Form GSTR-1. Similarly, there may be a mismatch between ITC claimed in Form GSTR-3B vis-à-vis ITC auto-populated in Form GSTR-2A.

- **Analysis of business operations as declared by the auditee in the GST Returns** in the light of other data sources available in the GST portal itself. The Audit Officer should verify the turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis footprint of payments made to the RTP as per GSTR-7 or GSTR-8 filed by TDS deductors or TCS collectors, as the case may be. The Audit Officer should also consult the various exceptional reports made available.

- **Analysis of business operations as declared by the auditee in the GST Returns in light of secondary data sources**, e.g. turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis the turnover declared in income tax return(s)/tax audit report or any other source, if available.

- **Analysis of business operations as declared by the auditee in the Annual Financial Statement.**

- **An audit officer is required to study each case from a holistic point of view** of applicability of statutory provisions and amendments thereof, notifications, circulars and orders relevant for the audit period. As mentioned above, there have been various instances where a specific transaction, when looked at from a wider perspective, has yielded interesting conclusions. Many of these instances are covered by various clarificatory Circulars issued by the Central Government and the State Government.

- 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.

- **Source document(s)/ information to be verified:** Documents/ information reflecting or having a bearing on payment of GST should be verified, if required. For example GST Invoice(s) showing a particular discount.

- **Back-up / supporting document(s):** Back-up or supporting documents should be examined to check the correctness of the information contained in the source document (s), if required. The method of their

examination may also be specified in the plan. For example, commercial invoice, party ledger, discount policy documents, price circulars, etc. reflecting the said discount.

- **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, if required.
- Efforts should be made to make a simple audit plan in case of small taxpayers

#### 4.4.2 **How to make an effective audit plan?**

An effective audit plan actually starts building up from the stage of desk review.

Audit Plan is the most important stage before the conduct of audit. Each audit team should prepare an Audit Plan for each individual auditee allocated to it based on the information gathered from available sources and based on observations made upon pre-audit desk review and data analysis done by the team in relation to the auditee's business performance and information furnished in response to the questionnaire sent to the auditee along with notice in Form ADT-01. The information available from the GST back-office portal, MIS available internally and various reports (if available) should be analysed to prepare an effective audit plan. Any other pertinent information (e.g. received from any enforcement unit) in respect of the said auditee may also be taken into account.

**The Audit plan should be prepared preferably within seven (07) days prior to the first date of hearing / visit to be fixed in Form GST ADT 01.**

An effective audit plan will be a guiding track for Audit conducted under both "Field Audit Method" (Audit at RTP's place) as well as "Desk Audit Method" (Audit at Audit Officer's place of work).

#### 4.4.3 **Approval of audit plan**

The audit team shall get each Audit plan approved as per the departmental guidelines provided from the higher authority. The approving officer may modify the Audit plan if necessary.

On the basis of scrutiny of the set of documents and records and the filled-in questionnaire produced by the RTP during audit hearing, new angles may

open up. Inclusion of these points adds value to the audit plan. In case an Audit Team finds it necessary to modify the audit plan in the course of the audit, details of the same with reasons thereof shall be placed for approval before the same authority that has sanctioned the plan.

GSTN has developed a process to sanction audit plan through a back-office portal. The audit plan submitted should be sanctioned and modified as early as possible, preferably through back-office or through any other electronic means like e-office.



## Chapter 5

This chapter covers conduct of audit, audit findings and finalisation of audit.

### 5.1 Commencement of Audit

As per Explanation to Section 65(4) of the CGST/SGST Act, 2017 (p.14), '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.

Thus, audit will commence on the first date of hearing as per GST ADT-01 provided the auditee produces the requisite documents and records as have been asked for.

GST Administration may decide to audit any individual auditee or a class of auditees remotely in the interest of public health, availability of audit resources, taxpayer's facilitation or for any other reason which is fair and equitable.

### 5.2 Examination of Books of Accounts and records

Examination of Books of accounts and records involves verification of data and information and actual verification of documents submitted by the RTP in the course of audit and verification of the points mentioned in the audit plan. This is the most vital part of the audit process. The entire outcome of audit depends on examination of books of accounts systematically and in a planned manner.

- The officer should have primary knowledge about the business pattern of the RTP with respect to the particular trade & industry.
- He should also be well aware of the existing trade practices, conventions and market trends.
- The Audit Officer should be well aware of the statutory provisions, rates of taxes, Circulars, Orders etc. as applicable for the particular period of audit.
- An Audit Officer should apprise the RTP of the provisions of the GST Acts in respect of maintenance of books.
- He should preserve all the documents submitted by the auditee in the course of audit as office records preferably in electronic format.

- Physical copy duly authenticated or digitally signed copies wherever possible should be collected which are pertinent to the queries / audit para of the audit officer.
- He should take an unbiased and judicious approach in the course of audit.
- An Audit Officer should be tactful to gain the goodwill and confidence of the RTP.
- Technical lapses by the RTP which do not have any revenue implication, and have occurred out of oversight or ignorance, should be ignored. However, any such incident should be noted down in the course of audit.
- Confidentiality should be maintained in respect of sensitive and confidential information furnished in the course of audit.
- Understanding of the Indian Accounting Standards and the impact of GST thereupon while examining the Books of Accounts will facilitate an Audit Officer while examining Books of Accounts.

Some illustrative examples for primary understanding of accounting standards vis-à-vis GST are given as **Annexure 16 (p. 241)**.

### 5.3 Indicative parameters

Some indicative parameters for examination are discussed in this section. Registration/Migration Analysis, Return Analysis, Ratio analysis, Trend Analysis, Balance sheet study are some of the vital areas of Examination/Verification of Books of Accounts and records in the course of audit. The checks to be carried out regarding Reverse Charge Mechanism are given in **Annexure 9 (p. 141)**. Important changes in GST Law and Rates of Tax are in **Annexure 12 (p.184)**.

#### 5.3.1 Registration/Migration analysis

Previous registration details (if any) under earlier Acts are to be verified. If such information is not disclosed there may be a tendency to hide earlier history of compliance behaviour.

Updated details of business promoters, additional place of business, bank accounts, and details of authorised signatory/(ies) should be examined. If the same are not provided, the auditee should be asked to provide the same.

Furthermore, the Audit Officer should analyse trends and patterns of turnover, tax payment, nature of business etc. from the pre-GST registration data, if available.

### 5.3.2 Return Analysis

This is a most vital area before commencement of the Audit program. A great deal of the groundwork can be done upon analysis of the available return figures and thereby having a prima-facie idea of the business trend of the auditee.

#### 5.3.3 Illustrative steps that may be considered for an effective Return Analysis:

- HSN code of the goods and/or SAC of the services dealt in by the RTP should be verified where available to ensure that such are in conformity with the schedules/notifications and it is to be checked that the proper rate of tax thereupon was applied on outward supplies as shown in Form GSTR-1 & Form GSTR-3B.
- Time of filing of returns should be noted and should be checked to confirm whether the returns were filed within the prescribed time.
- Outward supplies as declared in Form GSTR-1, Form GSTR-3B and GSTR-9 should be compared with the Books of Accounts as maintained and produced by the auditee. The reconciliation statement, in case of any difference, is required to be examined with supporting documents and explanations along with Form GSTR-9/9A and Form GSTR-9C, if such have been submitted by the auditee.
- Claim of the RTP under different heads like – Zero-rated, Nil rated, Exempted and non-GST outward supplies, etc. as shown in Form GSTR-1, Form GSTR-3B. The reconciliation statement, in case of any difference, is required to be examined with supporting documents and explanations along with Form GSTR-9/9A and Form GSTR-9C, if such have been submitted by the auditee.
- Amount appearing under the head “Advance received” needs to be reviewed carefully since GST is applicable on “Advance received” against future “supply of services”. As per Notification

No.66/2017 - CT. dated 15.11.2017; payment has been delinked to determine time of supply in case of supply of goods.

- Transactions like import of services and transactions between related parties and activities specified in Schedule-I which are required to be considered as supply even without consideration are required to be examined thoroughly. These cases would require very cautious examination of the books of accounts, final accounts, P/L account and balance sheet to determine whether there are any such transactions which are not reflected in the returns. Some illustrative examples are given in **Annexure 15 (p. 219)** for understanding of the matter.
- Goods sent for approval and goods sent to job workers should be examined with the books of accounts.
- Data in respect of way bills, both inward and outward, should be verified with the books for compliance level analysis. It may happen that the total value of outward waybill grossly differs with the total outward supply. In that case one should go through the details into the accounts.
- Refund may be made to the auditee on account of export with or without payment of tax. In such cases, the veracity of export claims need to be checked. For this, the shipping bill details should be checked with the ICEGATE portal; in case of high volume of export through non-EDI check posts where the shipping bill details cannot be verified through ICEGATE portal, extra caution should be exercised in scrutinising the shipping bills in support of the export claims.
- In the case of export with payment of tax, if the value of export is found to be significantly higher than similar products sold in the domestic market in depth scrutiny of the payment received in respect of the export is required since there may be a possibility of monetizing excess ITC.
- In respect of claim for refund of unutilized ITC on account of zero-rated supply, adequate caution is required to be taken so that, ITC

on account of transitional credit, capital goods are not claimed for refund.

- Claim for refund of unutilized ITC may be made on account of inverted tax structure. In such cases, (i) verification of the classification of inputs and output supplies and the respective rates of taxes attracted by them is very crucial; (ii) Refund of unutilized ITC in accordance with section 54(3)(ii) of the CGST/SGST Act is provided where credit has accumulated on account of rate of tax on inputs being higher than rate of tax on output supplies. Similarly, “Net ITC” for the purpose of refund should not include any ITC relatable to trading activity; nor should it include ITC on account of capital goods or input services.
- The claim of ITC of an auditee should be checked against fulfilment of the conditions laid down in the Acts and Rules made thereunder.
- If usage of ITC for payment on account of export is significantly high, in depth scrutiny of the availment of ITC is warranted.
- In depth checking is needed in respect of goods and services on which ITC is blocked.
- Some illustrations in respect of the provisions of input tax credit are attached as **Annexure 11 (p.163)**.
- Enquiry should be made to confirm whether any specific Advance Ruling/Appeal Order of Advance Ruling is applicable for any of the supplies made by the auditee.
- Output tax payment is required to be examined to ascertain interest liability. Any output liability which has been discharged other than by Form GSTR 3B is required to be examined as to whether interest (if applicable) has also been paid for the same or not.
- Checking should be done in respect of interest and late fee payable as per notification(s).
- All possible areas related to compliance issues that may result in short payment or evasion of tax are also required to be checked.

- The intention of these above illustrations is to create awareness of Officers in the subject so that an Audit Officer looks into the statutory provisions in detail. It may be mentioned in this regard that these illustrations are merely indicative in nature. However, it is desirable that an Audit Officer should not confine himself to these indicative illustrations and should be prudent enough to go through the provisions of law and rule, various clarifications issued in different circulars, judgments passed by various Courts of Law and Rulings passed by AAR & AAAR in this respect in detail. As mentioned in Para 5.8 below, GST Tax administrations should strive to develop a shared platform for sharing audit related information.

#### 5.3.4 **Trend Analysis**

This analysis focuses on any abnormality that may have occurred in a particular financial year with respect to the previous financial years. For audit purposes, comparison of either absolute values or certain ratios over a period of time is absolutely necessary to see the trend and the extent of deviation from the average values during any particular period. The analysis of trends may indicate areas where short payment / evasion of taxes is involved. A representative example of such trend analysis is discussed in **Annexure 14 (p. 212)**. The application of the various examples of trend analysis and ratio analysis as discussed here may vary from case to case. In this case, sector specific trend (or the accounting principles followed by an auditee) may play a vital role. The trend of a supplier of particular goods may not be pertinent for another type. Moreover, services sector may demand a different angle of analysis compared to the goods sector. It may be noted that trend analysis should also be consistent with the industry-trends during the same period; a rising/falling trend in industry does not gel with a reverse trend in the case of a particular auditee unless the auditee faces an altogether different/abnormal situation.

#### 5.3.5 **Areas of concern during examination**

Following points may be covered in the process of examination.

##### 5.3.5.1 **Migration/Registration compliance**

Probable area of	Areas of concern	Action to be
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detection / examination		taken
Previous registration details under earlier Acts and up to date details of information of registration.	If not disclosed there may be a tendency to hide earlier history of turnover and compliance (liabilities of taxes).	Asking to provide such numbers and information.
	Up to date details of business promoters, additional place of business, bank accounts, details of authorized signatory.	

### **Why is examination of the above compliance important?**

Disclosing of the previous registration details is optional both in case of registration and migration. However, knowledge of previous registration details would help an audit officer to know the pre-GST compliance pattern of an auditee. In many cases it may appear that the RTP has failed to amend his registration and is continuing with the old information. If so, the audit officer should encourage the taxpayer to amend his registration with up-to-date information which would help both the audit officer and the auditee.

A few illustrative examples, as stated below, may help the Audit Officers in this regard. However, the intention of these examples is to provide a glimpse of the matter so that an Audit Officer can look into these aspects in detail.

### **Illustrative Examples of some interesting issues in this regard:**

**Example 1:** Suppose there is a huge amount of exempted supply in the period under audit. Before entering into the details of the exempted supply the audit officer may first examine the nature of supply in pre-GST regime. So, knowing Pre-GST registration numbers is important. Maybe there was no such exempted supply. Maybe sales in the pre-GST regime were much higher than in GST.

**Example 2:** The auditee fails to deposit the dues as reflected in the audit report after submission of the audit report. The Proper officer raises demand as per provisions of sec. 73 / sec 74 of the SGST/CGST Act, 2017 (as the case may be). The RTP again fails to comply. The officer initiates recovery proceeding by attaching the bank account of the auditee, debtor's account etc. But, if up to date bank accounts details are not amended, the efforts of the officer may not be fulfilled.

**Example 3:** Incorrect information in registration may lead to suppression of taxable turnover and less payment / evasion of tax. Date of commencement of business and date of liability for registration are two important aspects manipulating which an auditee may hide his pre-registration liability.

#### 5.3.5.2 Invoicing compliance

Probable area of detection / examination	Areas of concern	Action to be taken
Tax Invoice/ Debit Note/ Credit Note/ Bill of Supply etc.	Whether as per Sec. 31 / sec. 34 of the SGST/CGST Act and Rules made there-under?	In case of any discrepancies, clarification may be sought
	Continuity of the Sl. No. of such Tax Invoice/ Debit Note/ Credit Note/ Bill of Supply etc.	

Compliance in relation to issue of Invoice, Bill of supply, debit notes and credit notes: Checklist for checks to be carried out and key points of supplies and supply of Goods and Services or both are given in **Annexure 8 (p. 112)**. Check list for key points of value of supply and details of value of supply are in **Annexure 10 (p. 149)**.

A tax invoice is an important document. It not only evidences the supply of goods or services, but is also an essential document for the recipient to avail Input Tax Credit (ITC). Similarly, debit notes and credit notes are also vital documents. A supplier of goods or services or both is mandatorily required to issue a tax invoice. However, various situations may arise in a business, after issuance of an invoice. Possible situations are listed as follows:

- The supplier has erroneously declared a value which is more than the actual value of the goods or services supplied.
  - The supplier has erroneously declared a higher tax rate than what is applicable for the kind of the goods or services or both supplied.
  - The quantity received by the recipient is less than what has been declared in the tax invoice.
  - The quality of the goods or services or both supplied is found to be deficient.

In the aforesaid cases, the supplier may issue a credit note to the recipient.

But, output tax reduction on that credit note is conditional. It is dependent on the reversal of ITC of the recipient. Credit notes with tax implication in GST can be issued within the time limit as specified u/s 34(2) of the CGST / SGST Act, 2017.

Similarly, following situations may also arise in a business after an invoice is issued:

- The supplier has erroneously declared a value which is less than the actual value of the goods or services supplied.
- The supplier has erroneously declared a lower tax rate than what is applicable for the kind of the goods or services or both supplied.

In such a case, the supplier may issue a debit note to the recipient.

Compliance of invoice, debit notes and credit notes related provisions are directly linked with revenue in GST.

A few examples as given below may help the Audit Officers in this regard. However, these examples are merely indicative in nature:

**Example 1:** The audit officer may notice that there is discontinuity in serial numbers of the invoices issued. A number of reasons may be adduced by the auditee for the same. But, his explanations should be supported with evidence / correspondences. Otherwise, these explanations may be far from reality.

**Example 2:** An auditee has set up an exclusive brand kiosk to sell products of X company.

X Co. pays a consideration for setting up such a kiosk by issuing a commercial Credit Note to the auditee of Rs.10,000 p.m. Is there any revenue implication in GST?

Consideration is received in the form of a Credit Note in respect of supply of service by the auditee to X Co. So, GST is applicable @ 18%.

**Example 3:** The auditee being an importer / manufacturer of medicines has received some expired medicines from a distributor and issued credit notes for the same for an amount of Rs.50 Lakh. The tax component in the credit note was Rs. 3 Lakh CGST and Rs. 3 Lakh SGST. The auditee reduced his liability of output tax to such extent and the recipient also reversed his ITC to that extent. Is this correct?

Since, the auditee being an importer / manufacturer has received medicines from his distributor which are expired; he has to destroy such medicines. Therefore, the auditee must also reverse the ITC availed on such destroyed medicines.

### 5.3.5.3 Maintenance of books of accounts

Areas of concern	Action to be taken	Probable area of detection / examination
To ensure compliance of maintaining books of accounts. To examine cash flow, valuation, input and output ratio, etc.	To examine correctness of tax compliance made in returns.	<b>RTP will be asked to produce following books of accounts:</b> <ul style="list-style-type: none"> <li>• Annual report and Director's report (if any)</li> <li>• Profit &amp; Loss A/C</li> <li>• Balance Sheet</li> <li>• Notes to accounts</li> <li>• Tax Audit Report</li> <li>• Statement of income tax TDS.</li> <li>• List of HSN /SAC of the goods /or services in respect of the business.</li> <li>• Reconciliation statement in respect of Form GSTR 9, GSTR-1 AND GSTR 3B</li> <li>• Suppliers list with GSTIN (where applicable)</li> <li>• Ledger accounts of the suppliers</li> <li>• Statement of sales party wise and POS wise.</li> <li>• Supply for which tax paid in RCM.</li> <li>• Bank Statement for the period under audit</li> <li>• Stock register</li> <li>• Other documents and records as applicable as provided in section 35 of the Act</li> </ul>

The basic objective of audit stands on the principle of examination of books of accounts. The GST laws have prescribed the nature of books of accounts required to be maintained by an RTP. The officer in this case should be well aware of such provisions and ask the auditee to produce such books of accounts.

Further, the Officer should be well acquainted with the accounting policies which form the basis of any books of Accounts. Apparently, an entry may not appear to be related with GST revenue but, upon thorough examination in the course of audit such may turn out to be valuable information.

A few examples are given herein below, which may help the Audit Officers in this regard. However, these illustrations are merely indicative in nature with

the sole purpose to alert the audit officers in this regard who are also required to go through the relevant statutory provision in detail:

**Example 1:** In order to have an idea of the quantum of supply of an auditee, an officer generally examines the Debtors list. But there may be a case, where a Debtor (i.e. customer), say A is also a creditor (i.e. supplier). In such a case, it is required to examine whether A's Ledger A/c (as a Debtor) correctly reflects only the credit supply made by the RTP to A or it is rather a set-off account where the balancing figure reflects the net figure of amount receivable less amount payable.

**Example 2:** It is a normal business practice to get advances from the customers. In this case, advances played a role in determining the time of supply for goods till 14.11.2017. However, tax liability on advances received is still there in case of services. Now, as per the provisions of Rule 56(3), every RTP is required to maintain a separate account of advances received, paid and adjustments made thereto. An advance for which service is not provided or not adjusted in any invoice, the RTP is required to show such amount as Current Liabilities in the Final Accounts. So, the Audit Officer should only examine such Liability Accounts to verify whether such tax on such advances is actually paid or not.

#### 5.3.5.4 Return submission compliance

There have been various extensions of the due dates and conditional extensions of due dates for the return periods of different financial years. To facilitate an audit officer in this regard, an exclusive annexure is prepared which is attached as **Annexure 13 (p.190)**, which contains due dates, extension of due dates of various returns and other details of the returns alongwith the checks to be carried out. It also contains the State codes **(p.203)**.

#### 5.4 **Communication of discrepancies noticed**

Upon examination of the books of accounts and records in the course of audit, the audit officer shall clearly note all his observations relating to the possible areas of lapses, as discussed above.

The grounds of any discrepancies against the disclosed parameters of the auditee should be concise, to the point and self-contained. Different para(s) should be formed depending on the nature of observations.

Where any discrepancy is based on any circular or clarification or notification issued by the State Government or the Central Government or by the Commissioner or the Board, such must be mentioned clearly. Similarly, where findings are based on discussion or merit of any decision of any Hon'ble Court, decisions of Advance Ruling Authority, and decisions of Appellate Authorities such should be clearly cited. Similarly, where discrepancies are noticed in respect of information disclosed in the return and those ascertained from accounts/documents, the same need to be mentioned clearly in the communication, alongwith the tax implications.

The findings of audit should be prepared and are required to be communicated to the RTP within 30 days of commencement of audit.

The auditee, if he thinks fit, may submit a written explanation in reply to such findings upon adducing supporting documentary evidence and other facts & figures as may be necessary.

The auditee shall be given a time of at least seven (07) days from the receipt of the draft report to submit his/her reply.

The Audit Officer should inform the auditee about the observations made in the course of audit preferably in electronic format. The auditor should also apprise the auditee of the provisions relating to his voluntary compliance and at the same time encourage him to pay the dues **in Form GST DRC – 03 in the course of audit.**

## 5.5 **Draft Audit Report and approval thereof**

The audit officer shall clearly mention in his working paper the reply of the auditee in respect of the findings drawn and communicated to the auditee. After careful consideration of the reply a **Draft Audit Report (DAR)** should be prepared by the audit officer for internal administrative purpose and not for the auditee.

The DAR shall be placed before the audit plan sanctioning authority for perusal. If the total amount of tax due exceeds a certain amount, DAR should be placed before the appropriate higher authority with a short narration of such dues for perusal and approval. This condition may vary State to State and the Centre. This condition is purely for administrative purposes to ensure

that the demand is genuine. The aforesaid narration for such high dues should be concise, to the point and self-contained.

Where any finding is based on any circulars or clarifications or notifications issued by the State Government or the Central Government or by the Commissioner or the Board, such must be mentioned clearly in the DAR. Similarly, where findings are based on discussion, merit of any decision of any Hon'ble Court, decisions of Advance Ruling Authority and decisions of Appellate Authorities, such should be clearly cited.

On points of difference, further consultations / examination may be required.

## 5.6 **Monitoring Committee Meeting**

Every team of audit should represent the status of audit once in every month on a pre-scheduled date in a format annexed hereto **as Annexure 7 (p. 109)** before the Monitoring Committee in the Monitoring Committee Meeting (MCM) under the chairmanship of the Commissioner/ appropriate authority.

This Committee, besides monitoring the status of audit of every level, will also try to identify the important observations made upon audit by different units for better coherence among all the existing audit teams. At the same time, the Committee will also try to identify the areas of audit related to the unit that need special attention and make suggestions accordingly. The committee may also review the audit objections raised by the Audit Teams and after discussions take a decision on the same.

The Monitoring Committee shall invite the Audit head of all the units, Nodal officer of Information System Division/IT Division and representatives from GST-Planning Unit of the State/Centre to offer their views to maintain the progress and ensure uniformity in audit and subsequent demand and recovery proceedings. The Committee may invite any Audit Team or Audit Officer of any unit if deemed fit.

Composition and procedure of this committee may vary from State to State and at the Centre. As MCM is an important institutional mechanism, the frequency of its meetings and mandate should be revisited from time to time to make it more effective.



## 5.7 Final Audit Report

The audit officer shall finalize the findings of the audit and draw **Final Audit Report in GST Form ADT-02** (hereinafter referred to as 'FAR') after due consideration of the reply furnished [Rule 101(4)] and the discussions in MCM.

After approval of the DAR by the appropriate authority, the FAR shall be issued to the auditee preferably through system / electronically to the auditee within 7 (seven) working days of approval.

**Format of GST FORM ADT-02 is annexed herewith as Annexure 6(p. 108)**

**After issuing the FAR, the Audit Case will have to be closed.**

5.7.1 Such closure of case can be done in the following scenarios:

- a) The technical lapses (if any) are corrected and the entire dues as per the FAR are paid by the Taxpayer preferably within 30 days in Form GST DRC-03;
- b) FAR is issued with Nil Revenue implication;
- c) The tax, interest or any other amount payable by the RTP as have been ascertained as short paid or not paid is not deposited by the taxpayer within 30 days after the issuance of the FAR, and in such situation the case is required to be referred to the respective jurisdiction for initiation of demand and recovery proceedings (after the issuance of show cause notice, as the case may be, depending on the administrative and legal arrangement in this regard).

5.8 GST Tax administrations across the country should endeavour to develop a common platform for sharing important audit findings and other sources of relevant information to improve the quality and efficiency of audit. This inclusion can take the form of an audit bulletin on an online portal or a GST Audit Knowledge Management System.

## CHAPTER 6

This chapter covers follow up of audit.

### 6.1 Audit Consequences

After receipt of the FAR, the auditee may agree to the audit observations in full, or he may disagree in full or he may even agree to a part of the observations made.

In case of full or partial agreement, the audit officer should encourage the auditee to make voluntary payment of the dues in Form GST DRC – 03 as detected in the course of audit. Where the RTP agrees with the short levy as per the show cause notice, the auditor should explain the benefits available u/s 73(6) / 74(6) of the SGST/CGST Act, as the case may be.

Now, the observations made in the FAR may be of 2 types:

- Those of technical nature and not having any real revenue impact.
- Those having revenue impact, i.e. short payment of tax, interest etc. by the auditee.

Technical lapses by the RTP which do not have any revenue implication, and have occurred out of oversight or ignorance, should be allowed for correction (if required).

### 6.2 Demand & Recovery proceedings

If the tax, interest, penalty or any other amount payable by the RTP as have been ascertained as short paid or not paid, is not deposited by the taxpayer within 30 days after the issuance of the FAR, the case is required to be referred to the respective jurisdiction as per the provisions of Section 65(7) of the SGST/CGST Act for initiation of demand and recovery proceedings. The proper officer having the assigned role of 'Demand & Recovery' shall initiate action under Section 73 or 74 of the said Acts, as the case may be, through the 'Assessment & Adjudication' module in the back office of GST.

It is the administrative decision of the respective State whether the audit officer will subsequently adjudicate or that will be done by a separate officer.

Whatever may be the arrangement, it is desirable that the adjudicating officers carefully consider the findings as noted in the Final Audit Report and take subsequent actions independently.

However, repetition of points of examination (including documents thereof) should be avoided unless it is absolutely necessary.

## Chapter 7

This chapter covers audit in certain circumstances.

### 7.1 Different possible scenarios during the conduct of audit

During the course of audit, beginning with the process of selection to completion, various possible scenarios may arise such as registration has been cancelled before or after selection, RTP is in NCLT, death of the proprietor, transfer of business, non-existent person, etc. Such various scenarios during audit along with possible actions are discussed below:

#### 7.1.1 The auditee is found non-existent

It is to be noted that audit is a document-based exercise and the purpose of audit as delineated in this audit manual is to examine the records, returns and other documents maintained or furnished or filed by the registered person under this Act or Rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his/her compliance with the provisions of the Act or rules made thereunder. Thus, where the taxpayer is not found to be existent the process of examination and verification cannot be carried out as the said taxpayer is a bogus taxpayer with no credentials that can be attributed to a taxpayer registered under the SGST/CGST Act. Therefore, in such a scenario it is proposed that the audit of such taxpayers need not be carried out. The details of such a taxpayer should be shared with the Jurisdictional GST officer and the enforcement wing for further necessary action.

#### 7.1.2 GSTIN/Registration Certificate (RC) of taxpayer is cancelled

Audit under section 65 is an exercise that is required to be carried out in relation to a registered person to assess his compliance with the provisions of the Act or rules made thereunder. In the scenario where the registration of the auditee has been cancelled from an anterior date which is prior to the initiation of the audit, the audit of such a taxpayer would not be within the ambit of the "Audit" as defined in section 2 of the Act. Therefore, in such a scenario if deemed fit, audit of such a taxpayer need not be carried out. The details of such a taxpayer should be shared with the Jurisdictional GST officer and the enforcement wing for further necessary action.

### **7.1.3 Taxpayer is existent but documents are seized**

The case for conduct of audit has already been assigned. There may arise a situation in which a taxpayer is existent and active but the documents relevant for audit are seized or under the possession of some other Government agency like CGST, ED, Court, Police etc. Audit is primarily a document-based exercise which fundamentally examines the records, returns and other documents maintained or furnished or filed by the registered person under the relevant GST Laws or Rules made thereunder. So, in a scenario where records of the auditee have been seized by some authority and the same are not available with the auditee it is suggested that audit of such auditee should be deferred and the audit wing should endeavour to obtain records from the concerned authority which has seized the said records so that meaningful audit can be carried out. As for the information available in the returns which can be examined from the perspective of tax it would be prudent that the said exercise is carried out by the jurisdictional officer rather than audit officer in case the jurisdictional office has a separate wing or section for audit. Once the documents of the auditee are obtained then the audit wing can proceed with the audit. Further course of action in such cases can also be discussed and decided in the MCM.

### **7.1.4 Investigation/verification by some other wing/agencies are going on**

If the taxpayer is found existent and active and the records of the auditee are available although the investigation into certain activity of the taxpayer is being carried out by the other investigating agencies it suggested that the audit of such taxpayer should be carried out irrespective of the fact that another agency is also investigating the taxpayer. The audit wing should be expected to coordinate with the other investigating authority so as to be abreast of the aspect being examined by the said authority and its repercussions on the audit being carried out. However, different GST tax administrations may, in the interest of administrative exigencies, adopt a different approach in such cases.

### **7.1.5 During examination the business model of the auditee is found fraudulent**

The case has already been assigned for conduct of audit. The taxpayer is existent and active, but during the conduct of audit, it emerges that the business model of the auditee is fraudulent and it is beyond the powers of the

audit officer to deal with the issue under the Act/Rules formulated thereunder. In this scenario, although all the parameters of audit are met by the auditee but during the conduct of audit it emerges that the nature of transactions being carried out by the auditee are so fraudulent that they vitiate the existence of the registered taxpayer to the core and the investigation of same cannot be carried out within the four walls of audit as well as the powers assigned thereunder to the audit officers. It is therefore suggested that in such a scenario, the case should be transferred to the enforcement wing to carry out further investigation in the manner by exercising the various powers assigned to them including that of inspection, search and seizure.

#### **7.1.6 During audit it appears that the taxpayer is engaged in certain fraudulent activities**

The case has already been assigned for conduct of audit. The taxpayer is existent and active. But during the conduct of audit, it emerges that the taxpayer is engaged in certain fraudulent activities beside the regular business. It is to be noted that section 65 of the CGST/SGST Act empowers the tax authority to take action under section 73 as well as section 74 of the Act in relation to the observations originating out of the conduct of audit. Further, Section 74 is specifically for determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised by reason of fraud or any wilful misstatement or suppression of facts. Thus, it is suggested that in such a scenario the audit team should carry out the audit and should mention specifically in the final report such fraudulent activities so that any demand of tax for such fraudulent activity should be raised under section 74 of the CGST/SGST Act.

#### **7.1.7 Taxpayer is not cooperating with the audit team**

The case for conduct of audit has already been assigned for audit. The taxpayer is existent and active. But during the conduct of audit, it emerges that the taxpayer is not cooperating in submission of documents sought by the audit team. In this scenario, although all the parameters of audit are met by the auditee, the auditee is not cooperating in submission of documents sought by the audit team. As noted above, audit is primarily a document-based exercise which fundamentally examines the records, returns and other documents maintained or furnished by the registered person under this Act or Rules made thereunder. So, in a scenario where the auditee is not providing

the records, the audit wing/team/audit officer should issue SCN to impose penalty upon the auditee under section 125 of the SGST/CGST Act read with IGST Act and should give a detailed report to the head quarter / head of the audit vertical. In this scenario, the case should also be transferred to the enforcement wing to carry out further investigation by exercising the various powers assigned to them including that of inspection, search and seizure. Progress of such cases referred for investigations should be monitored through MCM.

## **7.2 General guidelines**

It is important to ensure that the registration number of non-existing persons does not survive for a long period. As criteria for selection of audit cases is related to the high turnover parameters, it is all the more dangerous that registration of such persons remains active for a long period. As such, in such cases, immediate action is needed against the RTP to cancel the registration and other proceedings against the person. The jurisdictional officer should explain the cause of not initiating action against such RTP for such a long period to their supervisory officer.

Audit selection committee should try to collect the above information before finalising the list for audit so that in the list there should not be any cancelled person and to minimise selection of non-existent persons in the list.

In the above situations where it is advised not to continue audit u/s 65 of the Acts, the audit team or the audit wing should first inform the same through the audit vertical / audit wing to the Commissioner / organisation carrying out the targeting exercise, requesting for de-selection of the selected RTP.

Uniform audit templates go a long way in ensuring uniformity of practices and similar taxpayer experience. Templates that capture the spirit of GST laws, use unambiguous language and cover all the relevant issues will lead to mitigating excessive correspondence with taxpayers, minimize gaps in audit exercise and reduce potential for litigation. Correspondence based on templates should be automated and templates should be made available to the audit officers through an internal communication tool on audit module or a departmental website.



## CHAPTER 8

This Chapter covers administration, role of officers, Constitution of Committees and Standard Operation Procedure (SOP) for the conduct of Thematic Audits and Joint Audits as and when approved by the GST Council.

### 8.1 Thematic Audit

#### 8.1.1 Overview

Purpose of Theme-based audit is to conduct “focused audit” instead of a “comprehensive audit”, so that available resources are directed to check/verify compliance of sensitive issues or sectors. The results obtained from theme based audit assists the policy makers to assess compliance level of a particular type of service/industry or trade sectors or areas so that compliant sectors may be extended greater facilitation and special focus may be directed to ensuring compliance on sectors with relatively low compliance scores. It is a value-adding approach that helps the Auditors to determine, consolidate and report high-level insights in the business transactions and practices prevalent in a particular type of industry/service sector. Theme-based audit may have both compliance and performance audit objectives.

#### 8.1.2 Scenarios which may necessitate conducting thematic audit: **The following scenarios may lead to a thematic audit.**

- Taxpayers in the same supply chain registered in same/different states;
- Simultaneous audit of units which have same modus operandi of tax evasion and are registered across states;
- Taxpayers dealing in supply of some goods/services which have also been determined as evasion prone.
- Thematic audit may also extend to specificity like trends in availment and utilisation of ITC in any given sector e.g. telecom sector, trends in valuation of supplies to distinct persons in the pharma sector, etc.

#### 8.1.3 Administrative arrangement for Selection of themes for thematic audit

For conducting thematic audit, GST Council may form a co-ordination committee at all India level which should choose themes for conducting audit,

constitute a Committee of Officers for selecting taxpayers in a state for conducting thematic audit, coordination among various Audit Authorities for evolving a common minimum audit plans for a given theme and, monitor actual audit by the field formations and disseminate audit outcome to appropriate stakeholders.

It is recommended that the co-ordination committee may be constituted with the following as its members:

- Pr. DG/DG (Audit) or any Pr. Additional Director General (Audit) / Additional Director General (Audit) as nominated by him;
- Joint Secretary, GST Council;
- Pr. Commissioner/ Commissioner (GST), GST Policy Wing;
- CEO, GSTN;
- Three Commissioners of SGST, as nominated by the GST Council;
- One CGST (Audit) Commissioner as nominated by the GST Council.

The co-ordination committee shall be responsible for selecting themes for conducting theme based audit at all India level in a coordinated manner. For selecting the Audit themes, the Committee may consider using the following parameters/ data sources:

#### 8.1.4 **Indicative parameters** for selection of themes are given below:-

- Economic indicators;
- Third party information from Tax authorities and other Regulatory authorities;
- Sensitive nature of the commodity and / or service;
- Risky sectors in news for frauds for e.g., E-commerce, online gaming, jewellers etc.;
- Sectors directly involved in providing services to a large consumer base, such as banking, insurance, air and land travel, utilities etc.
- Sectoral revenue and value addition trends and variations therein

In addition to above, risky themes identified by the State and Central Tax Authorities based on local intervention can also be used for determining a

local theme. Certain risk - based parameters may also be adopted for selection of Taxpayers for conducting theme - based audit, such as:

- Taxpayers showing abnormal growth;
- High revenue contributing Taxpayers;
- Sectors/units flagged by the CAG or PAC or otherwise where credible information is available to point out that the provisions of the Act are not being followed or where issues like place of supply issues or point of taxation are cropping up;
- Taxpayers availing benefit of major exemption notification;
- Sectors with low cash pay-out
- Taxpayers engaged in supply of risky and sensitive commodities and services viz., advertising services, event management services, metals, chemicals, entertainment services and Health & education related auxiliary services etc.

#### 8.1.5 **Administrative arrangement for conduct of Thematic audits.**

For coordination of actual audit, the Co-ordination Committee may constitute a Committee of Officers (CoO) for each state/ UT composed of the following two members:

- State GST Commissioner
- CGST Audit commissioner preferably located at the same station

The Committee of Officers shall select the Taxpayers based on the themes which have been finalised by the Coordination committee. The details of the taxpayers so selected, will be shared with Audit formations of the Central and State tax authorities for conducting audit proceedings.

#### 8.1.6 **Role of Audit field formations (of Central and State Tax) for conducting thematic audit**

Theme-based audit of a selected Taxpayer would be conducted by the concerned GST audit authority (i.e. the jurisdictional central or state audit officer).

Considering the importance of thematic audit, it is imperative to allocate appropriate resources/staff in each of the Audit formation. The Head of the

Audit formation in the State/Centre may like to specifically earmark appropriate staff (Audit Groups) exclusively for Thematic Audit. Even separate nomenclature may be adopted for such audit groups. It is emphasised that the Audit groups should be provided with proper infrastructure for efficient handling of the Audit work. Audit groups dealing with Thematic Audits should be given proper training to deal with audit of records of the taxpayers of these themes.

#### **8.1.7 Standard Operating Procedure (SOP) for conducting Thematic Audit.**

- a) The Co-ordination Committee (CC) shall select the themes for Audit and communicate the Themes to the Committee of officers (CoO) responsible for Audit.
- b) For a given theme, the committee of officers shall select the taxpayers to be audited in that particular state.
- c) Audit groups earmarked for conducting the theme based audit shall request the selected tax payer(s) for providing necessary documents viz. Balance sheet(s), 3 CD reports(statement of particulars required to be furnished under Section 44AB of the Income Tax Act, 1961), profit and loss statements, income tax returns etc. The concerned audit group shall also take out various GST returns filed by the said taxpayer and examine/scrutinise them. They will accordingly prepare the Desk Review (DR) and also the Audit Plan (AP). As with entity-based audit discussed in earlier section above, as much data as possible may be gathered from the documents/returns already available in the system.
- d) All such Audit groups (both under Centre and State tax authorities) shall forward the proposed audit plan so prepared by them, to the Committee of Officers which shall examine these audit plans to ensure uniformity in approach and provide further inputs, if any. After this exercise, a common minimum Audit Plan shall be prepared and communicated to all Audit Groups for conduct of audit.
- e) The Committee of Officers for conduct of thematic audit shall also indicate a date on which audit of all such taxpayers irrespective of their jurisdiction (whether under Centre or State) shall commence.
- f) After conduct of audit, all the Audit Groups shall prepare their

observations and convey to the taxpayer (s) for their written response to these observations. In their written response, the taxpayer is expected to communicate their agreement or disagreement as the case may be to the observations pointed out by the Audit Group. After taking into account the written response from the taxpayer, the Audit Group shall prepare the draft audit para(s).

g) The Audit Group shall forward their draft audit para(s) to the Committee of Officers for approval. Before approving the draft audit para(s), the Committee of Officers may hold a meeting (physical/virtual) with concerned audit groups. This Committee may also point out certain additional areas which need to be looked into by the audit groups before finalising the audit paras.

h) Once draft audit para(s) are approved by the Committee of Officers, the audit group (s) shall present their draft audit report before their respective Audit Authorities for approval. The Audit Authorities may adopt a practice of holding monthly meetings of the monitoring committee for approval of audit paras presented by their audit groups. At present, Central Tax Authorities are holding monthly meetings of the monitoring committee consisting of Commissioner (Audit), Joint Commissioner/Additional Commissioner (Audit) and Assistant/Deputy Commissioners heading various Audit Circles wherein audit objections are discussed and approved.

i) Once audit para(s) are finalised after approval of the Monitoring Committee, the concerned audit officers/groups shall issue Final Audit Report (FAR), a copy of which shall also be endorsed to the coordination committee for dissemination to Central Tax Audit Commissionerates /State Audit Officers across India for information.

j) The audit paras which have been agreed upon by the taxpayer shall be closed after payment of the due tax amount along with appropriate interest and penalty, if any.

k) As regards unpaid/short paid GST is concerned where the taxpayer is not in agreement with the audit para and is not willing to pay outstanding GST along with interest and penalty, the audit groups shall prepare demand cum show cause notice to be adjudicated by the appropriate Tax Officer. Before issue of demand cum show cause notice, the taxpayers may be given pre-consultation so as to give them one more opportunity to explain their

point of view to the senior tax officers before a final decision is arrived at. The Tax Authorities may also use this opportunity to explain the department's view point to the taxpayers and encourage them for voluntary compliance. This will reduce unnecessary litigation which is good for both the taxpayer as well as the government.

l) After adjudication proceedings, recovery action against the taxpayer shall be taken by the appropriate jurisdictional tax authority (i.e. Central Tax Commissionerates or State Tax Jurisdictional Authority) in accordance with Section 79 of the CGST/SGST Act read along with relevant rules and provisions issued therein.

m) The jurisdictional tax authorities shall upload the audit findings (in a predetermined format), in an Audit Utility which shall be accessible to all the Audit formations across the country. These findings may be helpful in detecting similar types of anomalies in similar cases across the country.

## **8.2 Joint Audit**

### **8.2.1 Overview**

It is possible that some taxpayers registered on the same PAN may be spread across multiple locations either within the same State or across States of India. These multi-location taxpayers may fall under different tax administrations, particularly so in case of multistate operators. Therefore, there is a need to ensure a coordinated approach for conducting audit of such multi-location taxpayers.

### **8.2.2 Administrative arrangement for Selection of Joint audits**

Constitution of Coordination Committee - It is proposed that the Coordination Committee constituted by the GST Council for the purpose of thematic audit may also be entrusted with the work of coordinating joint audit.

The Coordination Committee may select certain taxpayers for joint audit out of the database provided by GSTN. It is proposed that the taxpayers may be selected for joint audit based on clear and mutually agreed criteria/risk parameters between different tax administrations.

### **8.2.3 Examples of criteria for selection of taxpayers for joint audits :-**

- Registration in two or more GST Tax administrations.

- Entities above a certain turnover aggregate threshold, for example, more than Rs. 100 Crore.
- Taxpayers dealing in the service industry, having national or multi state operations. Inter-agency coordination failure in the aforementioned cases may lead to lack of uniformity in interpretation of law leading to compliance hassles for the taxpayer and increased litigation for the department. Therefore, there is a need for well-defined procedures to delineate the modalities of conducting theme-based audit.

The Coordination Committee may also adopt any other parameters/criteria for selecting taxpayers for joint audit.

#### 8.2.4 **Administrative arrangement for conduct of Joint audits.**

Constitution of Committee of Officers - For coordination of conduct of joint audit of a multi locational taxpayer, Committee of Officers (hereinafter referred to as Supervisory Committee) may be constituted.

It is proposed that this committee may comprise the following:-

- The Commissioner (SGST/CGST) of the jurisdiction where the headquarter of the said company/business entity is located.
- The Commissioner (SGST/CGST) of the jurisdiction having the highest risk score in the GSTINs of the company/business entity.
- The Commissioner (SGST/CGST) of the jurisdiction other than the above two where the turnover of the GSTIN of the said PAN is the highest.
- The Commissioner (SGST/CGST) of the jurisdiction other than the above three where the ITC utilisation of the GSTIN of the said PAN is the highest. (If it is the same as the unit where the highest turnover is then this criteria does not come into play)
- The Commissioner (SGST/CGST) of the jurisdiction where the selected company/business entity maintains its compliance and financial records.

#### 8.2.5 **Standard Operating Procedure for conducting Joint Audit**

a) The Co-ordination Committee shall select the multi-locational taxpayers for joint audit and communicate the same to the concerned Supervisory Committee. This should be done no later than the month of February for the next financial year. This Committee in turn will intimate the jurisdictional Audit Authorities to allocate the selected taxpayer to a particular audit group for



conduct of audit.

b) The nominated Audit group shall request the taxpayer for providing necessary documents viz. Balance sheet(s), 3 CD reports (statement of particulars required to be furnished under Section 44AB of the Income Tax Act, 1961), profit and loss statements, income tax returns etc. The concerned audit group shall also take out various GST returns filed by the said taxpayer and examine/scrutinise them. They will accordingly prepare the Desk Review (DR) and also the Audit Plan (AP). As recommended in para 10.7 above any documents not available with the taxpayer administration/GSTN/other regulators should be sought from the auditee.

c) All such Audit groups (both under Centre and State tax authorities) shall forward the proposed audit plan to the Supervisory Committee which shall examine these audit plans to ensure uniformity in approach and providing further inputs, if any. After this exercise, a common minimum Audit Plan shall be prepared and communicated to all Audit Groups for conduct of audit.

d) The Supervisory Committee shall also indicate a date on which an audit of all such taxpayers irrespective of their jurisdiction (whether under Centre or State) shall commence. An effort should be made to start and conclude the audit within 3 months and at any rate, within the same financial year.

e) After conducting an audit, all the Audit Groups shall prepare their observations and convey to the taxpayer(s) for their written response to these observations. In their written response, the taxpayer is expected to communicate their agreement or disagreement as the case may be, to the observations pointed out by the Audit Group. After taking into account the written response of the taxpayer, the Audit Group shall prepare the draft audit para(s).

f) The Audit Group shall forward their draft audit para(s) to the Supervisory Committee for vetting. Before vetting the draft audit para(s), this Committee may also hold a meeting (physical/virtual) with concerned audit groups. The Committee may also point out certain additional areas which need to be looked into by the audit groups before finalising the audit paras.

g) The Supervisory Committee shall, before finalising the audit paras, resolve any inconsistency or conflicting interpretations on any point of law

made by the different audit teams and recommend modification of such interpretations accordingly and the audit teams shall suitably incorporate them in their report.

h) Once draft audit para(s) are vetted by the Supervisory Committee, the audit group(s) shall present their draft audit reports before their respective Audit Authorities for approval. The Audit Authorities may adopt a practice of holding monthly meetings of the monitoring committee for approval of audit paras presented by their audit groups. At present, Central Tax Authorities are holding monthly meetings of the monitoring committee consisting of Commissioner (Audit), Joint Commissioner / Additional Commissioner (Audit) and Assistant/Deputy Commissioners heading various Audit Circles wherein audit objections are discussed and approved.

i) Where it is felt that different audit authorities are adopting different opinions with regard to approval of audit para in their respective monitoring committees, the role of the supervisory committee will come into the picture. It is proposed that they may hold meetings with all CGST Audit Commissioners/State GST Commissioners quarterly or more frequently, if needed for establishing a uniform approach in this regard across tax jurisdictions in India.

j) Once audit para(s) are finalized after approval of the Monitoring Committee (or Supervisory Committee), the concerned audit officers/groups shall issue Final Audit Report (FAR), a copy of which shall also be endorsed to the Supervisory Committee for dissemination to Central Tax Audit Commissionerates/State Audit Officers across India for information.

k) The audit paras which have been agreed upon by the taxpayer shall be closed after payment of the due tax amount along with appropriate interest and penalty, if any.

l) As regards unpaid/short paid GST is concerned where the tax payer is not in agreement with the audit para and is not willing to pay outstanding GST along with interest and penalty, the audit group shall prepare demand cum show cause notice to be adjudicated by the appropriate Tax Officer. Before issue of demand cum show cause notice, the taxpayer may be given pre-consultation so as to give him/her one more opportunity to explain his/her point of view to the senior tax officers before a final decision is arrived at. The Tax Authorities may also use this opportunity to explain the department's

view point to the taxpayer and encourage him/her for voluntary compliance. This will reduce unnecessary litigation which is good for both the taxpayer as well as the government.

m) After adjudication proceedings, recovery action against the taxpayer shall be taken by the appropriate jurisdictional tax authority (i.e. Central Tax Commissionerates or State Tax Officers) in accordance with Section 79 of the CGST/SGST Act read along with relevant rules and provisions issued therein.

n) The jurisdictional tax authorities shall upload the audit findings (in a predetermined format), in an Audit Utility which shall be accessible to all the Audit formations across the country. These findings may be helpful in detecting similar types of anomalies in similar cases across the country.

The follow up action to be taken after completion of above audits is the same as given in Chapter 6 above (p. 62)

## CHAPTER 9

This chapter covers capacity building in specialised areas.

### 9.1 Training and Capacity Building

The erstwhile VAT did not have service sectors therefore it has been felt that officers of State GST needs to be trained specifically in service sectors which needs to be identified by the states and NACIN will draw a program to train the Master Trainers for each state based on the requirements of those states. NACIN through its Zonal Campus are already conducting bi-monthly training course on GST Audit & Accounting and one training program for Master Trainers of GST Audit has already been conducted.

#### 9.1.1 This training program will identify

- The frequency with which the training program needs to be conducted by NACIN for the master trainers as well as for the other officers.
- Nomination of Nodal officers from States for identification of Training needs
- Training on specific service sector which has been identified by the respective State GST (around top 5 services)
- Identification of officers to create proper training modules for identified specific service sectors.

The above needs shall be identified in coordination with the State GST by the ZTI NACIN. The identification and conduct of the program shall be a continuous one where the SGST can even rotate the master trainers and officers to create training modules on specific sectors based on their requirement.

The frequency of the training program will be shared by State GST based on their requirements and the officers which need to be trained.

This training program will be in addition to the regular training program on GST Audit.

Since there are multiple types of services being supplied by business entities therefore it is also suggested that the process flow along with the case study of that service sector shall be part of the training program. For eg, banking sector and insurance sector are giving multiple services therefore there is a need to explain and train the officers on the overall work flow of the services so that the holistic picture of the services being supplied is available to the officers.

This work flow of the services needs to align with the GST Act so that the officers shall understand the services which are taxable and which are exempted. They shall also understand the concept of mixed and composite supply in the gamut of services being supplied.

#### 9.1.2 Identification of Specific Service Sectors for focused training

NACIN in coordination with the State GST will identify the specific service sectors where there is a need to train the officers for capacity building. It is also suggested that since there are multiple services being offered by the business entities therefore there is a need to understand the supply in accordance with the GST law and procedures. In this regard supply of services needs to understand properly and various concepts like time of supply, place of supply, mixed vs. Composite supply, taxable and exempted supply etc. needs to be focused upon so that the model of the sector along with the taxability is clear to the officers.

For identification of the specific sectors it is recommended that a Committee at the zonal level shall be formed with the following as its Members

- ADG NACIN ZTI
- Commissioners of State GST or his representative

This Committee shall decide the sectors which needs to be focused upon. Further the committee shall meet every quarter to review the specific sector areas.

Some of the sectors which have been identified where there is a need for training are

1. Work contract
2. E commerce Services
3. IT & ITES
4. Banking & Insurance
5. Hospitality
6. Telecom
7. Online Information Database access & Retrieval(OIDAR)

It is recommended that the industry experts along with the officers may be involved in the training program to understand the specific sector model.

## **9.2 Building knowledge on financial accounting**

### **9.2.1 Introduction**

a. Accounting is reporting through financial statements. It is the process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time and results in the preparation of Financial Statements (including Balance sheet, Profit & Loss account etc.).

b. Financial accounting is keeping track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income and expenditure statement, trading and P & L account and a balance sheet. GST Audit basically refers to examination of various records, returns and other documents maintained or furnished by the auditee, like

- Monthly/ Quarterly/ Annual Return;
- Copy of the audited annual financial statements;
- Reconciliation statement, reconciling the value of supplies declared in the Annual return furnished for the financial year with the audited annual financial statement in FORM GSTR 9C/any other form, etc.;
- Such other particulars, as may be prescribed.

### **9.2.2 Audit in GST with reference to financial accounting**

a. While implementing the GST Law, the GST officers come across the

financial accounts of the taxpayer. Taxpayers' business consists basically of his daily transactions of outward or inward supplies (alongwith events related to such supplies), and each transaction may have GST implications i.e. either levy of GST or the claim of legitimate and eligible ITC or the GST by way of RCM. Hence, the GST officers are required to have a working knowledge of financial accounting, on the basis of which entire business transactions are recorded and compliance is made by the taxpayer.

b. GST audit casts a huge responsibility on the auditor for detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilized etc. Hence, it is very important that the auditor possesses a good understanding of accounting fundamentals as well as sufficient accounting skills to read and analyze financial statements. Further, there are several transactions which may not appear in the financial accounts and records maintained by the registered persons such as stock transfers, free samples (except in stock registers), services received from outside India from related parties (except in correspondences), other supplies made without consideration, etc. Due care must be exercised by the auditor to identify such transactions as there may be no direct reference to these transactions in the financial records. Another skill that is very important is being able to link the 3 financial statements, i.e., income statement, balance sheet, and cash flow statement.

c. Following are various aspects of financial accounting having impact on GST, which have to be examined and analyzed by the auditor thoroughly:

d. Identification of various types of Income (Taxable, Exempt, Export, SEZ supplies, Other Income, Reimbursements etc.) of companies in respect of Supply of Goods and Services.

- Study of various items of balance sheets that impact GST like Capital Account (Withdrawal of assets, Debits/credits in nature of supplies), Loans (Figures in odd amounts, standing for long, No interest, No movement), Current liabilities (Advances, RCM, reversal of ITC), GST paid on RCM, Mismatched Credits, Other credits in dispute, Duty Paid on Exports and so on.

- Understanding of "Notes to Accounts" in financial statements which would help in understanding the business of the entity, Taxes / Contingent Liabilities, Cost or Net Realizable Value (Assistance in valuation provision



under GST), Information about related parties & Payments made to Related Party / Key Managerial Personnel, Payments made to Foreign subsidiaries/ Associated concerns, Valuation of Inventory etc.

- Analysis of various accounting ratios (like Net profit ratio, Gross profit ratio, Supplies/Turnover ratio, Creditor Turnover ratio, ITC/ gross tax liability ratio, Non-GST expenses/GST expenses ratio, Addition to fixed assets/Total assets ratio etc., Liquidity/Solvency ratios to indicate areas of probing.

- Indian companies follow Indian Accounting Standards, while the companies operating in the US follow the Generally Accepted Accounting Principles (GAAP) and companies with international exposure follow International Financial Reporting Standards (IFRS). Hence, it is imperative to familiarize the Auditors to these accounting/ reporting Standards.

- Different software tools are available for conducting an audit, and the one appropriate to the financial accounting must be chosen or designed for the auditor.

e. In this context, it is relevant to note that the importance of evaluating the internal control mechanism of the entity under audit cannot be overemphasised. Evaluation of the internal control system is a very important step in the actual conduct of audit as it enables drawing of correct samples for auditing and effective targeting of risk areas. Internal control mechanism is actually the sum total of all policies and procedures which are adopted by the entity in order to achieve the objective of "orderly and efficient conduct of its business", including safeguarding of assets, prevention and timely detection of any fraud/error, ensuring accuracy and completeness of recording, classification and disclosure of transactions.

f. Essentially, the efficacy and effectiveness of the internal control mechanism of the auditee provides a reasonable assurance to the auditor as to the degree of reliance that can be placed on the accounts and financial statements of the auditee. Based on his/her assessment of the effectiveness of such a mechanism the auditor can draw appropriate samples for subjecting them to detailed scrutiny and verification.

g. Internal control systems with regard to accounting have the following objectives: -

- that ALL transactions are RECORDED

- that recorded transactions are REAL
- that ALL transactions are RECORDED TIMELY
- that all recorded transactions are PROPERLY VALUED
- that all recorded transactions are PROPERLY CLASSIFIED & POSTED
- that all recorded transactions are PROPERLY DISCLOSED
- that all recorded transactions are PROPERLY SUMMARISED

h. Internal control mechanism provides reasonable assurance, not only to the auditor but also the management, that all essential aspects of all transactions have been properly and appropriately recorded and that there are no material errors of omission or commission. Internal control mechanism can be evaluated through appropriate questionnaires, check lists and through a study of the business process adopted by the entity. It is recommended that such an exercise should be undertaken before commencing the audit and verification process and the outcome of the evaluation exercise should be utilized for deciding the scope and extent of audit and also for identifying which areas of the operations the auditor must specially focus on.

### 9.2.3 **A perspective through Accounting Standards**

The GST Officer, while looking into the financial statements of a Taxpayer/ Company, should first understand the accounting standards applicable to the Taxpayer/company. There could be differences in the manner of the accounting and treatment of certain transactions as per Accounting Standard in the financial statements vis-à-vis the treatment under GST. This can lead to difference in turnover as per GST law and the principles of accounting and, consequently, turnover as per final accounts. This could be better understood through the following example:

#### **Time of Supply Recognition from the GST Perspective:**

- As per the provisions of CGST Act, in respect of 'Time of Supply of Goods' revenue shall be recognized as per Section 12 and in respect of 'Time of Supply of Services' as per Section 13 of the said Act. The Value to be considered for such transactions is as per the provisions of Section 15 of the CGST Act. However, primarily GST is triggered when the entity makes supply of goods or services or both. The definition of supply under GST is very comprehensive and includes sale, transfer, barter, exchange, rental,

lease, disposal, stock-transfer etc. of goods and/or services.

- On the contrary, in 'financials' revenue is recognized when the goods are sold, or services are rendered. No revenue is recognized when the fixed assets are sold / disposed of, except for profit on sale of such assets or when goods are transferred to the branches.
- For instance, from an accounting standpoint, revenue from sale of goods is recognized when significant risks and rewards in the goods is transferred by the seller to the buyer while in case of services revenue is recognised either on proportionate completion method or completed service contract method. These events may not correspond to the time of supply set out in sections 12, 13 and 14 of the Act and, accordingly, revenue as per the books of accounts may differ with that under GST law.
- This leads to the concept of billed/unbilled revenues and prior period items.

#### **9.2.4 Value of Supply recognition from a GST perspective**

- Such transactions would result in difference between the revenue reported under GST when compared to the 'financials'.
- Value of supply of goods or services or both under Section 15 of GST law is the transaction value i.e. the price actually paid or payable for the said supply and would include any duties and taxes paid under any other law other than GST, incidental expenses incurred to meet such supplies, interest charged, if any, etc.
- Valuation of contracts under Indian Accounting Standards (Ind AS) might differ on certain aspects from GST Laws. For example, the contract value may not include any duties and taxes paid which is refundable, interest on delayed payment, expenditure incurred by the recipient etc. These differences might lead to differences in valuation of contracts.
- Supplies without consideration: As per Schedule I of the CGST Act- GST is leviable on certain transactions even if such transactions are made without consideration – like supply of goods from principal to agent, disposal of business assets, supplies to related parties etc. Under Ind AS transactions without any consideration would not form a part of the financial statements and would be treated as a non-balance sheet item / off- balance sheet item.

- Post sales discounts: Usually if the entity has a practice of granting discounts to its customers on post-sale basis, then for providing such discounts the entity may raise a financial credit note which will not be subjected to GST but would be reported as discounts in the financial statements.

#### 9.2.5 **Cash Flow - The third important financial statement**

- A cash flow statement is one of three mandatory financial reports generated by every business organization monthly, quarterly, or yearly. It measures the rate at which a business generates its cash so as to operate, **invest** and pay its debts. The statement of cash flow complements the other two financial statements of the business, i.e. the income statement and the balance sheet.
- The cash flow statement summarizes the inflow and outflow of cash and cash equivalents pertaining to a business. Main objective of a cash flow statement is to help a business keep track of its cash inflow and outflow.
- As per GST law Cash flow statement is required to be disclosed as per (Part B of GSTR 9C), though for 2017-18 and 2018-19 its optional, its verification will be an integral part of verification by the GST Officer. Even if it were not mandatory in terms of GST law, the cash flow statement would, nevertheless, be a very useful tool in most cases for verifying whether all supplies to external entities have been reflected in the return.
- Further, it can also help GST officer to understand the working of a business and its operations. It provides them with details about the business' cash flow, from where is it coming and where it is going. Cash flow is the indicator of the Taxpayer's financial well-being, its liquidity, and its operating ability.
- The GST officer needs to calculate and reconcile the Receipts disclosed and find out and confirm that they are appropriately disclosed and subjected to tax.

#### 9.2.6 **Sector specific approach**

Some sectors involve complex income streams, financial reporting mechanisms etc., of which officers may not always be fully conversant. For example, various income/revenue heads often need to be verified by the

officers during audit of Banking, Insurance and Non-Banking Financial Companies (NBFC) sectors. The Banking sector generates income among others through interest income, capital markets operations (e.g., sales and trading services, underwriting services, mergers & acquisition advisory), other fee-based income (e.g., credit card fees, savings/ current accounts charges, mutual fund revenue, investment management fees, custodian fees). The revenues could also come through alternative financial services, investment banking and wealth management. Each of these aspects merit a close look by the audit officers for possible implications with regard to GST. Similarly, in the insurance sector, various streams exist like premiums earned, reinsurance, income from investments (e.g., interest, profit on sale/redemption of investments, transfer/gain on revaluation/change in fair value). As these are specialised sectors, it is necessary that the audit-related training modules focus on these sector-specific accounting principles, accounting standards etc. for a better appreciation of audit requirements of these sectors.

9.2.7 In view of the above, capacity building of tax officials in respect of financial accounting is necessary. This can be done through:

1. Imparting Training/capacity building of officers in the field of financial accounting from institutions like NACIN to:
  - a. analyze and examine Financial Statements, various accounting ratios etc.;
  - b. enhance skills of officers for detecting lacunae in the financial accounting of any company;
  - c. learn about different strategies used to detect tax fraud and evasion.
2. Utilizing services of experienced tax officers from States and the Centre. The sharing of knowledge amongst the officers of both the tax administrations is of utmost importance as tax administrations on both the sides have evolved over the years and both of them have certain unique attributes which have to be factored in before devising an approach to GST audit. The experience of Central Tax officers in the services and manufacturing and that of the State Tax officers in dealing with the traders can be mutually beneficial to improve the overall quality of the Audit systems and procedures.
3. Creation of various Checklists to be examined during the audit. The checklists to be prepared should also be able to reflect the industry specific

factors and the domain expertise of officers from both the tax administrations can be made use of.

Creating a strategy that builds the right mix of skills and experience — IT, statistical, analytical and tax domain knowledge. Learning and knowing the theoretical aspects of financial accounting albeit important but it has to be backed up with the knowledge of the modern tools of accounting software and systems.

#### **9.2.8 Interpreting Business Contracts/Agreements**

a. A business contract/agreement is the statement, either oral or written, of an exchange of promises in business. It is a negotiated and legally enforceable understanding between two or more legally competent parties.

b. There are different types of business agreements/contracts. Scrutiny of these contracts or agreements constitutes one of the important functions of audit, some of which are discussed below:-

c. Foreign Technical Collaboration Agreement: This agreement may be a pure technical collaboration agreement or technical-cum-financial collaboration agreement. In the latter, there is equity participation also. Sometimes, collaboration agreements are only financial in nature wherein only equity participation by a foreign company is involved. This is relevant for the following reasons:

- Where there is equity participation, imports from the collaborator may be subjected to scrutiny;
- Payment of royalty/technical know-how fee may involve GST liability towards import of services including IPR;
- Whether consideration paid to the collaborator has been taken into account in arriving at cost of production; etc.
- When the supply is from a related party (a) with consideration, (b) without consideration .

d. Joint Venture Agreement: Many times, a joint venture company is set up by Indian Companies with equity participation. Generally, there is a joint venture agreement or promoter's agreement which defines various terms and conditions subject to which a joint venture has been formed. This is relevant for the following reasons:-



- Nature of shareholding in the company;
- If there are any clauses regarding pricing pattern for sale to one of the joint venture partners that may have a bearing on related persons sale or sale at arms-length. This may impact valuation;
- The agreement may contain clauses for payment for certain services which may have tax implication;
- There may be provisions for common Managing Director or common Directorship indicating control/management of various companies which may have a bearing on related persons concept; etc.

#### **e. Joint Development Agreement in Real Estate Sector and GST Audit**

- Joint Development Agreements are common in the real estate industry wherein the Land Owner enters into an agreement with a Builder/Developer for the development of the land in lieu of certain consideration. The consideration in such cases can be varied- ranging from a lump sum payment by the builder to the land owner to a share in the ultimately constructed flats/property or a combination of both.
- Such agreements involve an element of transfer of land for developmental purposes. Transfer of Development Rights (TDR) are covered under the GST and there is no ambiguity in this regard unlike the Service Tax period.
- Various transactions in a JDA with concomitant GST implications are as follows:
  - (i) Land Owner to Builder/Developer.
  - (ii) Builder/Developer to Land Owner.
  - (iii) Land Owner to Customers/buyers.
  - (iv) Builder/Developer to Customers/buyers.
  - (v) Retention of flats/property for own use.
- All such transactions have GST implications like the eligibility of ITC, Time of Supply, Rate of Tax, Value of Supply etc. which would require a detailed reading of the various agreements entered between the concerned parties. A case in point is the eligibility of ITC in such cases only for the portion of the flats/property sold before a completion certificate is obtained. The ITC availed and utilized in the flats/property sold after the completion certificate is obtained has to be reversed. The exact liability of the GST on such projects can be arrived at only after the details of the agreements are



studied thoroughly in consonance with the provisions of the GST Act and Rules. The treatment of transfer of development rights and implications in varied schemes like rehabilitation also have to be understood clearly.

f. Works Contract:

Works contract is an activity wherein supply of both service and goods takes place, for example, construction of building; erection, commissioning, installation of plant and machinery, etc. In common parlance, a works contract relates to both 'movable property' and 'immovable property'. In the Service Tax regime, the service portion in the supply of works contract service for carrying out construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration of any 'moveable property' or 'immoveable property' was subjected to levy of Service Tax. In the GST period, the definition of works contract has been restricted to any work undertaken for an 'immovable property' only. Consequently, any composite supply (comprising supply of goods and supply of service) on movable property (goods), for example, a fabrication work or paint work done in automotive body shop does not fall within the definition of works contract under the GST; and such contracts would be treated as composite supplies and would be taxed accordingly. Further, circumstances under which a seemingly immovable property is to be treated as a moveable property and vice versa in terms of judicial pronouncements is crucial in this context and has to be considered carefully in the light of facts of the case. Under the GST law, works contract has been treated to be supply of services, as per Entry No. 6(a) in Schedule II of the CGST Act. This is relevant for the following reasons:-

- If a works contractor has his project office in a State, he has to take registration in that State once he crosses the threshold limit of Rs. 20 lakhs (Rs. 10 lakhs in a Special Category State).
- As the works contract has been defined to be a supply of service, the works contractor is not entitled to avail of the Composition Scheme, because it is available only to suppliers of goods and the restaurant industry (not serving alcohol).
- Unlike the Service Tax and VAT regimes, no abatement from the value of service is allowed to the works contractor under the GST law.
- ITC of tax paid on works contract service is not available when such works contract service is supplied for construction of an 'immovable property'

(other than plant and machinery) except where works contract service is an input service for a supplier of works contract service. [refer to section 17(5)(c) of the CGST Act]. In other words, ITC of tax paid on the works contract service can be availed only by a recipient of such works contract service (taxable person) who is using these services for further supply of works contract service. For example, a company, not engaged in the supply of works contract service, cannot be entitled to avail of ITC of GST paid on the works contract service received from a works contractor.

- As the supply of works contract service under the GST laws necessarily involves immovable property, the place of supply of service would normally be the place of where the immovable property is located.
- The value of supply of works contract service, involving transfer of property in land or undivided share of land, as the case may be, shall be equivalent to the 'total amount' ('consideration charged for works contract service *plus* the 'amount charged for transfer of land or undivided share of land', as the case may be) charged for such supply *less* the value of land or undivided share of land, as the case may be. The value of land or undivided share of land, as the case may be, in such supply shall be deemed to be one third of the 'total amount' charged for such supply.

#### **g. Manufacturing Agreement:**

There can be contract / manufacturing agreements which a company might enter into with another company, usually brand owner of repute. Such brand owning companies usually contract out the manufacturing of finished goods to a contract manufacturing facility under certain terms and conditions. This is relevant for the following reasons:-

- The payment under the contract manufacturing arrangement may be looked into;
- What happens to the waste and scrap generated under the contract;
- Whether the contract manufacturer is the real manufacturer or the dummy created for the purpose of declaration of lower assessable value;
- Whether the agreement contains any other consideration which can be converted into monetary terms; etc.

#### **h. Service Agreement:**

There may be service agreements/MOUs on various aspects of the business.

In some businesses, Purchase Orders constitute the agreement which contains various terms and conditions for supply of services. Specific focus could be sector-wise service agreements in automobile, FMCG and infra projects. This is relevant for the following reasons:-

- Service given or parts supplied during AMC
- To verify the terms and conditions especially with respect to supply of services;
- Whether the invoice is raised as per the Agreement/contract;
- To compare the total price charged in the Agreement/contract with the GST invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note;
- To study tax structure agreed upon in the Agreement/Contract;
- Any clause regarding Liquidated damages, or Penalties etc.

i. **Job Work Agreement:**

Job work agreements would be formal agreements or through letters exchanged between the parties which contain the basic terms and conditions of the job work. This is relevant for the following reasons:-

- Nature of job work done;
- Time period of returning job worked items as per Section 143 of the said Act;
- What happens to the waste and scrap generated during the job work;
- Whether an applicable rate of tax is charged; etc.

j. **Dealership/Distribution agreement:**

Manufacturers/ suppliers usually market goods through a distributor or dealer network; and enter into dealer/distribution/stockist agreements containing various terms and conditions. Supplies by Principal and Agent as defined in CGST Act 2017 are areas of specific focus. This is relevant for the following reasons:-

- Whether the agreement contains any condition or terms whereby the dealer/distributor is to advertise on behalf of manufacturer; if so, what are the conditions;
- Post sale discounts
- Warehousing facility

- Whether there is any provision for sharing of expenses;
- Whether the goods under supply require after sale service/warranty;
- Whether there is any separate optional warranty agreement, set to commence immediately after the initial mandatory warranty period;
- Is there any provision in the agreement for delivery of free gift items through dealer;
- What is the discount pattern or incentive offered by manufacturer in the agreement; Is it based on the commercial considerations normally prevailing in the trade or not;
- Whether the agreement provides for any non-refundable security deposit with or without interest; etc.

k. **Purchase Contract:**

Purchase of materials/goods are under specific contracts or by tenders floated. These purchase contracts/tenders may also contain information related to audit. This is relevant for the following reasons:-

- Who is the supplier; whether he is related person or not;
- Whether the delivery of goods made directly to factory or to job worker; etc.

l. **Lump sum turn-key contract:**

The assessee may have a turnkey contract which may involve supply, erection at site and commissioning of the goods. This is relevant for the following reasons:-

- Whether the price of the goods is inclusive of erection, commissioning at site;
- Whether any attempt has been made to overload the erection and commissioning charges;
- Whether the machinery is supplied by the manufacturer; etc.
- Case study of solar project (70% of value as goods @ 5% and 30% of value as services @ 18%).

m. Apart from the above there can be many other types of contracts/agreements such as Works Contracts, Constructions contracts, Leasing contracts, Hire purchase agreements, Franchisee agreements, Non-disclosure agreement, Non-Competitive contract , Insurance and reinsurance agreements / contracts, Banking contracts – to the extent of the Banking

fees, charges, penalties charged for services rendered to its customers, other banks, etc. and the exact nature and nuances of such contracts/agreements will have to be understood by the officers conducting audit by factoring in the scope and type of business activity being conducted by the taxpayer.

n. GST officer has to verify and ensure that the results or outcomes of various agreements are accounted for appropriately and the appropriate compliance is made by the taxpayer.

o. It is the duty of GST officer to not only plug the revenue leakages, but to also keep a close watch on systemic tax planning that may adversely affect GST revenues. It should be ensured that while conducting the audit, the terms and conditions of the contracts are gone through and their impact on the value of the supply should be ascertained appropriately so as to point out any duty evasion. For this, conditions of contract, compliance of such terms & conditions, scope of manipulations while performing the contract (e.g. Supplies under Schedule-II of CGST Act, 2017), liquidated damages, penalty clause etc. need to be checked and factored in appropriately.

p. At times this may also require cross-referencing between the contract(s) and the financial statements.

### **9.2.9 Understanding System Driven Business Process through SAP, Oracle, Tally Etc.**

a) A process is a series of tasks that are completed in order to accomplish a goal. A business process, therefore, is a process that is focused on achieving a goal for a business. Processes are something that businesses go through every day in order to accomplish their mission. The better their processes, the more effective the business. As processes grow more complex, they need to be documented. For businesses, it is essential to do this, because it allows them to ensure control over how activities are undertaken in their organization. It also allows for standardization. The complex nature of the business transactions these days has made it mandatory to make the business processes and specifically the accounting processes to be automated and system driven.

b) With the advent of GST, a large number of GST software packages

have been developed and have become widely available. These software packages help organizations simplify the process of GST billing, filing returns, and generating GST invoices. These software packages vary in cost, complexity, features, security, data processing ability, scalability etc. Effective GST software can aid businesses in managing their finances, accounts, inventory, purchase, sales, payroll, taxation, and other processes efficiently.

c) Financial Accounting System is an accounting system where the financial data of the organization is maintained. It is important for auditors to be well conversant with various industry standard softwares like SAP, Oracle, Tally etc.; and also to various accounting methods like Cash Accounting and Accrual Accounting methods. Hence, the auditors must be well trained in financial accounting concepts and use of financial accounting systems that would help them examine and analyze the accounting process, various transactions and ledgers of the assessee while correlating the same with various GST Returns, financial statements etc. Therefore, it is necessary to:

- Impart knowledge related to latest financial accounting systems and methods through various training programs;
- Use of Software for identifying risk parameters similar to CAAP used in the Central Excise regime.
- Developing software to collect back up of Financial Accounts maintained by the Taxpayer.

#### 9.2.10 **Audit in an ERP Environment**

a) The objective of an GST auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement or entry feeding level. The auditor has to understand the nature of the governance structures of the entity i.e. the business structures as well as the IT structures. The IT team is usually the custodian/owner of the application and the business team is the custodian/owner of the data residing within that application, therefore, it is imperative to segregate and understand the roles of both the structures/team. The GST officer has to understand the IT systems and related procedures within IT and business processes by which the transactions are initiated, recorded, processed, reported in the ERP environment. It will also be desirable for the GST officer to get a grasp of the various access controls and rights like the Administrator role/rights,



senior management role/rights and the like so as to access data accessible only to a certain level of officers of an entity. A company may be using a number and variety of software packages to carry out its various functions as depicted in the table below:

<b>Information System</b>	<b>Purpose</b>	<b>Location</b>	<b>In-house or Packaged</b>
SAP/Tally	Accounting, Supply Chain, Production	USA	Packaged
Pay Master	Pay Roll	India	Packaged
Budget king	MIS, Budgeting	India	In-house

b) The GST officer will thus be required to have a good knowledge of the general IT systems and the Automated Application software being used in a business for carrying out the task of audit in an efficient and effective manner.

c) The modern tools/software like Tally. ERP9 designed specifically for the purpose of preparing and finalizing GST Returns has in-built mechanisms to generate various Reports. For example, the GSTR-1 statements can be generated from Tally. ERP9 in JSON format, compressed in the .zip format and uploaded. An advanced tool such as the Tally.ERP9 not only allows the officers to get a summary of the various reports but also goes a long way in finding out about the mismatches in the data. The knowledge of the ERP software will help the GST officers in reconciling the various figures submitted on the portal with those of the financial statements. Further, the ERP systems are designed to cater to a multitude of taxpayer's needs such as Profit tracking, Fixed Assets Management, Risk Management, Multi- Currency Management and Tax Management and therefore, the GST officer auditing an entity should be able to understand various aspects related to these automated accounts.

d) The traditional system of bookkeeping mandated the preparation of separate ledgers like the Purchase Ledger, Sales Ledger, Credit Ledger, Bank/Cash Book etc. but the shift to the automated environment has done away with these requirements and all the transactions are now integrated. An enterprise resource planning system inherently means that all the modules within the system are seamlessly connected with each other and the transactions flow through the relevant modules. Thus, there is one Primary Set of Books and all the transactions reside here. For example, if we take 2 purchase transactions involving 2 Vendors



Purchases Dr -	Purchase Control Account
To Vendor 1 A/c -	Creditors Control Account
Purchases Dr -	Purchase Control Account
To Vendor 2 A/c -	Creditors Control Account

e) In the above example, the ERP will maintain the details of transactions separately for Vendor 1 and Vendor 2 and also have a Creditors Control Account to capture the total of all Creditors balances.

f) In such an automated environment, while deciding on the audit procedures the GST officer should consider the risk of material misstatement at the assertion level (at the level of initial entry) for each class of transactions, account balance and disclosure. Thus, the traditional way of conducting audit may not prove to be fruitful for the department because of the inherent risks prevalent due to the complexity of systems, use of sophisticated application software, systems being distributed over geographies, volume of transactions, outsourced processes and the like.

g) In view of the above cited difficulties, the GST officers will have to mould their thought process and start relying more on what the accountants call the “Controls Based Audit”. Some of the basic tenets of conducting audit under systems driven approach are:

- 1) Design of the Audit Team- incorporation of more experts/ specialists who can extract the data from the ERP systems. Obtaining data independently from the software gives the officers more direct audit evidence.
- 2) Use of Computer Assisted Audit techniques;
- 3) Preparation of customised and specialised systems in-house by the department by using the experience of the tax administrations;
- 4) Use of latest technology like cloud computing;
- 5) Develop competence for “forensic audit”.

## Annexures

### Annexure 1: Notice for conducting audit (p. 39)

#### 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 an 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.
- (iii) furnish/keep ready the following on the said date
  - (a) your reply to the questionnaire annexed hereto vide Annexure A,
  - (b) Information duly filled in the Tables annexed hereto vide Annexure B
  - (c) The documents/accounts listed in Annexure C hereto

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

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

Signature ... ..

Name .....

Designation.....

## Annexure 2 (p.40)

Sample letter seeking mutual assistance to complete the audit in a focused manner.

<b>GOVERNMENT OF .....</b>	
<b>Office Name.....</b>	
<b>Address.....</b>	
Memo No. ADT/AUDIT YEAR/Section/Audit Gr./case no. [e.g.: Memo No. ADT/2017-18/Park Street/Team 1/5]	Date: ..... Date: 1st December, 2021]
<b>To</b> .....	
<b>GSTIN</b>	: .....
<b>Address</b>	: .....
<b>Period</b>	: .....
<p>You are aware by now that you have been selected by the Commissioner, State Tax/Central Tax, ..... for audit of your books of accounts and records for the <b>period from.....to .....</b> in accordance with the provisions of section 65 of the SGST/CGST Act, 2017 read with section 20 of the IGST Act, 2017.</p> <p>In accordance with the provisions of the Acts and Rules made there under, you are required to (i) provide 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.</p> <p>To avoid any inconvenience from your part to produce the entire set of book of accounts and records on the first date of hearing as specified in Form GST ADT-01, it will be much more practical to produce such books of accounts in a staggered manner and to the extent of what actually will be required from time to time. This will help you and the audit authority to complete the audit process in a focused and planned manner. For such reasons <b>you are hereby asked to produce following statements and accounts (duly signed and stamped) before the undersigned on first date of hearing as specified in Form GST ADT-01 issued to you:</b></p> <ul style="list-style-type: none"><li>• Annual report and Director's report for the FY .....</li><li>• Profit &amp; Loss A/c for the year ended on 31<sup>st</sup> March, .....</li><li>• Balance Sheet as they stood on 31<sup>st</sup> March, .....</li><li>• Auditor's Notes to the A/c for the FY .....</li><li>• If GSTR -9C is not submitted for the period then Trial Balance for the RTP having above mentioned GSTIN (It is applicable where the RTP has multiple GSTIN),</li><li>• Consolidated statement (party-wise total for the period under audit) of inward &amp; outward supplies including exempted and non-GST supply:</li></ul>	

RTP to whom supply made	GSTIN	Total numbers of invoice/debit notes issued	Supply Value (Rs)	Tax (Rs)				Broad category of Goods/services
				CGST	SGST	IGST	Cess	
RTP from whom supply received	GSTIN	Total numbers of invoice/debit notes issued	Supply Value (Rs)	Tax (Rs)				Broad category of Goods/services
				CGST	SGST	IGST	Cess	

- List of HSN code of goods and SAC of services in respect of your supply.
- Reconciliation statement in respect of Turnover as disclosed in GSTR 3B and GSTR 1 and as per books of accounts.
- ITC as claimed in GSTR 3B and as auto populated in GSTR-2A.

**You are requested to fill up the Questionnaire as annexed herewith and produce it** (duly signed and stamped) before the undersigned **on the first date of hearing** as specified in Form GST ADT-01 issued to you. **You are also requested to mail all these afore-stated statements and accounts at: ..... well in advance.**

**The other accounts, statements, records and documents as and when will be required during the course of audit will be duly informed to you or your authorized representative.**

**Signature of the Audit Officer**.....

**Name** : .....

**Designation** : .....

**Full Address** : .....

**E-mail Address** : .....

**Phone Number**:.....(Office),.....(M)

### Annexure 3: Sample questionnaire for auditee (p.40)

[Please fill up and attach separate sheets wherever necessary]

#### 1. General Information about the RTP (auditee):

a)	Legal Name & Trade Name (if any)																			
b)	GSTIN																			
c)	Address (Principal place)																			
d)	Period of GST Audit																			
e)	Name and contact number and e-mail address of the 'Authorized Person' for Audit and the person responsible for Accounts & Billing.																			
f)	Total tax paid for supply of goods and/or services for the period under audit (Act wise).	<table border="1"> <tr> <th>Tax</th> <th>From e-credit ledger</th> <th>From e-cash ledger</th> </tr> <tr> <td>SGST</td> <td></td> <td></td> </tr> <tr> <td>CGST</td> <td></td> <td></td> </tr> <tr> <td>IGST</td> <td></td> <td></td> </tr> <tr> <td>CESS</td> <td></td> <td></td> </tr> </table>	Tax	From e-credit ledger	From e-cash ledger	SGST			CGST			IGST			CESS					
Tax	From e-credit ledger	From e-cash ledger																		
SGST																				
CGST																				
IGST																				
CESS																				
g)	Whether possesses GSTIN as ISD / TDS deductor / TCS collector in the State?	<table border="1"> <tr> <td>GSTIN as ISD</td> <td></td> </tr> <tr> <td>GSTIN as TDS deductor</td> <td></td> </tr> <tr> <td>GSTIN as TCS collector</td> <td></td> </tr> </table>	GSTIN as ISD		GSTIN as TDS deductor		GSTIN as TCS collector													
GSTIN as ISD																				
GSTIN as TDS deductor																				
GSTIN as TCS collector																				
h)	Constitution of Business and names of the current business owners/promoters.																			
i)	Details of transactions with related and distinct persons [Ref: Sch. I as appended in Sec 7]	<table border="1"> <tr> <th>Name with GSTIN, if any</th> <th>Total supply value during the period</th> <th>Total tax involved (act wise)</th> <th>POS in case of inter state supply</th> <th>Disclo</th> </tr> </table>	Name with GSTIN, if any	Total supply value during the period	Total tax involved (act wise)	POS in case of inter state supply	Disclo													
Name with GSTIN, if any	Total supply value during the period	Total tax involved (act wise)	POS in case of inter state supply	Disclo																

				C G S T	S G S T	I G S T	C E S S		
j)	Details of transactions without any consideration, excluding details mentioned in sl. No. i) above [Ref: Sch. I as appended in Sec 7]	Please fill up in an identical table as in above in sl.no. i).							
k)	Types of goods and or services supplied [with HSN/SAC] other than those attracting tax under Reverse Charge	Name of the goods / services	HSN/SA C		Rate of Tax				
l)	Types of goods and or services received [with HSN/SAC] on which tax is payable under Reverse Charge	Name of the goods / services	HSN/SA C		Rate of tax				
m)	Whether any offence case is booked in respect of Tax for supply of goods/or services, by any Authority under any law in force. If so, details thereof.								
n)	Whether any amount payable/ paid to the Client has been adjusted against the receipt/ receivable and net income shown in the P&L Account. If yes, details thereof.								
o)	If the answer to question (n) above is yes, then, whether it has affected the Turnover as per GST Returns and whether due tax on the receipt/ receivable and net income shown in the P&L Account (relating to supply) has been paid?								
p)	Whether any advance payment is received towards providing services? If yes, whether Tax for supply of services was paid on such receipts?								
q)	Whether any advance payment is received towards supply of goods? If yes, whether Tax was paid on such transactions accordingly?								

r)	Details of any refund applied for the period concerned (please provide details of the status of the refund application: accepted/rejected, if rejected reasons thereof, amount of refund received etc.)	
----	---	--

## 2. Information on invoicing and accounting pattern:

a)	Is invoice issued in all transactions? If not, reasons for not issuing invoice.	
b)	How many series of invoices are being used?	
c)	If more than one series is used, give details of each such series.	
d)	If there are more than one series of invoices, is tax for supplies paid on all the series of invoices?	
e)	If the answer to question (d) is not, then the reasons for not paying tax for supplies on such series of invoices (e.g. exempted / zero rated without payment of tax / trading / nontaxable goods /services). Give details.	
f)	In case of provision of service, is the invoice issued on the date of provision of service or before or later?	
g)	List of the different account heads under which invoices issued for taxable supplies are recorded in the P/L account or in Trial Balance.	
h)	List of the different account heads under which invoices/bills issued for exempted and non-GST supplies are recorded in the P/L account or in Trial Balance.	
i)	Whether the Invoice Numbers are generated automatically or are fed manually. Give the name and designation of the person having the authority to cancel an invoice.	
j)	Whether any amount is recovered by issue of debit note and whether it is included in the gross value of supplies?	
k)	Are any goods or services provided free of cost or at subsidized price? If so, provide details of such goods / services.	
l)	Are any reimbursements received from the recipients? If so, quantum and reasons for such.	
m)	Is any expenditure that the supplier is liable to pay for a supply but is actually borne by the recipient? If so, details of such.	
n)	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	



o)	Are the accounts prepared on mercantile basis or cash basis?	
p)	Whether there has been any switching over of the accounting software during the audit period?	
q)	Have any changes been made in the accounting policies affecting GST liability relating to reimbursement of expenses, timing of payment of Tax for supply of services and treatment of payments in foreign currency?	
r)	Are the accounts audited by a Statutory Auditor? If so, name, address, phone number and E-mail id of the auditor.	

**Annexure 4: List of documents/ statements and books of accounts to be produced for the purpose of audit (p. 40)**

- Annual report and Directors report (if any)
- Profit & Loss A/C
- Balance Sheet
- Notes to Accounts
- Tax Audit Report
- If GSTR -9C is not submitted for the period then Trial Balance for the RTP having above mentioned GSTIN (It is applicable where the RTP has multiple GSTIN),
- Statement of Income Tax TDS
- List of HSN /SAC of the goods /or services in respect of the business dealt in by the auditee
- Reconciliation statement in respect of Form GSTR 9, GSTR-1 AND GSTR 3B
- Suppliers list with GSTIN (where applicable)
- Ledger accounts of the suppliers in respect of inward supplies
- Statement of outward supplies (party wise and POS wise).
- Statement of inward supplies for which tax paid/payable in RCM.
- Statement of outward supplies for which tax is payable in RCM by the recipient.
- Bank Statement for the period under audit
- Stock register
- Other documents and records as applicable as provided in section 35 of the Acts and the rules made thereunder and as may be required for the purpose of audit.

Note - 1: On the first date of audit the auditee may be asked to produce only the documents and statements as specified in the letter annexed with ADT - 01.

Note – 2: The above list is illustrative. It is recommended that GST Administrations ensure to identify documents/records/filings already available in the system and not to ask for the same from the taxpayers.

## Annexure 5: Format of a sample Audit Plan (p. 44)

### SAMPLE AUDIT PLAN

**Note: This is only an illustrative Audit Plan. Plan for each auditee should be prepared based on the specific requirement of the audit of that auditee.**

#### A. Basic Information

1. Name of the auditee	.....					
2. GSTIN	.....					
3. Period of Audit						
4. Nature of Business	4.1. Goods & Services:	.....	4.2. Manufacturing unit (if any), name of the State(s) only:	.....	4.3. Corporate office / ISD [Name of the State(s)]:	.....
5. Risk score of selection						
6. Major risk areas as per score	1) ..... 2) ..... 3) ..... 4) ..... 5) ..... 6) ..... 7) .....					
7. Audit Case No.	..... .....			Date of issuance of ADT – 01 with ref.no.		Reference No: ..... ..... Date: .....
8. Date of Commencement	.....			Normal date of completion by		.....
9. Name & designation of Officers in the Audit team.						

10. Audit Unit (Name)	.....
--------------------------	-------

**B. Audit Plan drawn by Audit Officer/Audit Team.**

Sl. No.	Type of working paper (Ratio study, Trend analysis, Others)	Description (e.g.: Return filing pattern, Outward supply, inward supply, reverse charge, ITC, refund, etc)	Audit Risk (Low, Moderate, High)	Documents to be examined	Audit procedure (Desk Audit / Field Audit/ 3 <sup>rd</sup> party enquiry)	Ratio Study/Trend study/ Other study in brief	Remarks
1							
2							
3							
4							
5							
6							
.....							

.....  
 [Signature of the Audit Team Lead  
 Date.....  
 Name: .....  
 Designation: .....

**C. Modifications suggested by Ratifying Officer**

Comments

**Placed before the Sanctioning Officer for final sanction.**

.....  
 Date:.....

Signature  
Name.....

Designation of Ratifying Officer.....

**D. Modifications suggested by Sanctioning Officer:**

Comments

Sanctioned / sanctioned as modified.

.....  
Signature Date:.....  
Name .....  
Designation of Sanctioning Officer.....

## Annexure 6: Final Audit Report (FAR)- FORM GST ADT 02 (p.61)

### 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	Integrated tax	Central tax	State /UT tax	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

.....

## Annexure 7: Format of status report to MCM (p.60)

### MCM REPORT (Format) CONSOLIDATED

1.	Period of Audit	
2.	Name of Team Leader (Audit Team)	
3.	Other members of the Audit Team	
4.	No. of cases allotted	
5.	No. of audit cases completed	
6.	No. of cases pending	
7.	Status of pending cases:	Pending at the stage of desk-review
		Pending for approval of audit plan
		Pending at the stage of examination of books
		Examination completed but DAR is pending
		Pending at the stage of preparation of FAR
8.	Notable findings in respect of cases where FAR is issued.	Findings in brief (case-wise report may be placed in such cases only as per following format)

### CASE-WISE REPORT

1.	Case No.	
2.	Legal Name and Trade Name	
3.	GSTIN	
4.	Period of Audit	
5.	Name of the Audit Officer(s) with designation	
6.	Name and designation of the officer who sanctioned the Audit Plan	



7.	Important dates		Date of initiation	Date of sanction of Audit Plan	Date of FAR
8.	Date of first appearance				
9.	Name & other details (phone no., e-mail) of A/ appearing				
10.	Mode of Audit (specify)		Desk Audit	Field Audit	Both
11.	List of observations made upon audit [in brief]	Revenue implication (Rs.)	Whether admitted by Auditee (Yes/No)		If Yes, amount realized, Act-wise (Rs.)
	i)Rate difference (wrong HSN/SAC) Pl. mention in brief.				
	ii)Supply not disclosed in returns. (Separate row may be used for each type of such non-disclosure)				
	iii) Tax was payable under RCM but not paid				
	iv)Wrong claim of ITC				
	v)Reversal of ITC not made (specify in brief).				
	vi)Excess refund claimed (specify brief findings)				
	vii) Similarly add rows, if required.				
12.	<b>Particulars</b>	<b>Integrated Tax with POS</b>	<b>Central Tax</b>	<b>State Tax</b>	<b>Cess</b>
	(a)Total amount of tax involved for the discrepancy found (in Rs.)				
	(b)Tax paid during audit or after getting FAR				

	Tax dues (12a – 12b)				
13	(a)Total interest payable				
	(b)Interest paid during audit or after getting FAR				
	Interest dues (13a-13b)				
14	(a)Penalty payable				
	(b)Penalty paid during audit or after getting FAR				
	Penalty dues (14a-14b)				
15	Total amount paid during audit or after getting FAR				
16	Total amount dues (Tax + Interest +Late fees +Penalty)				

## Annexure 8: KEY POINTS FOR SUPPLY and SUPPLY OF GOODS OR SERVICES OR BOTH (p. 55)

TABLE I: KEY POINTS FOR SUPPLY			
Sr. No.	Key issues	Reference Points from returns/law	Accounts
1	Whether the kind of outward supplies like Taxable supply, exempted supply, Zero-rated supply, NIL rated supply, Supplies to SEZ unit/developers, Deemed Export etc. are appropriately classified under GST law?	<ul style="list-style-type: none"> <li>• Sr. No. 4 &amp; 5 of GSTR 9</li> <li>• Taxable Supply: Sr. No. 5N of GSTR 9</li> <li>• Exempted: Sr. No. 5D of GSTR 9</li> <li>• Nil: Sr. No. 5E of GSTR 9</li> <li>• Non-GST Supply: Sr. No. 5F of GSTR 9</li> <li>• Zero Rated: Sr. No. 5A, 4C of GSTR 9</li> <li>• Supply to SEZ: Sr. No. 5B, 4D of GSTR 9</li> <li>• Deemed exports: Sr. No. 4E of GSTR 9</li> <li>• Section 7 of SGST/CGST Act</li> <li>• Section 17(3) of SGST/CGST Act</li> <li>• Section 147 of SGST/CGST Act</li> <li>• Schedule I, II and III of SGST/CGST Act</li> <li>• Section 16 of IGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice /Bill of Supply</li> <li>• Tax rate Notification</li> <li>• Exemption Notification</li> <li>• HSN/SAC</li> <li>• Contract</li> <li>• Shipping Bill/Bill of Export</li> <li>• Bill of Lading</li> <li>• Letter of Undertaking</li> <li>• Duty drawback availed</li> <li>• Payment received (Bank/Cash)</li> <li>• Composite/Mixed Supply</li> </ul>
2	Whether any activity or transaction which falls within the scope of supply has not been identified by the Registered Person?	<ul style="list-style-type: none"> <li>• Non-GST Supply: Sr. No. 5F of GSTR 9</li> <li>• Schedule III of SGST/CGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice/Bill of Supply</li> <li>• Contract</li> <li>• Consideration received</li> <li>• Analysis of cash flow and mapping cash flow onto the returns</li> <li>• Business purpose</li> </ul>
3	Whether supply has been correctly classified as Inter-State supply/Intra-State as per Section 7(5) & 8 of the IGST Act, 2017?	<ul style="list-style-type: none"> <li>• Sr. No. 3.1 &amp; 3.2 of GSTR 3B</li> <li>• Section 10,12,13 of IGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice/Bill of Supply</li> <li>• Party-wise supply with address</li> <li>• Contract</li> <li>• Transportation document</li> <li>• Whether B2B or B2C in case of supply of services</li> </ul>
4	What is the treatment of promotional items	<ul style="list-style-type: none"> <li>• Sr. No. 5E &amp; 5 F of GSTR-9</li> </ul>	<ul style="list-style-type: none"> <li>• Sales promotion</li> </ul>

	given free to end consumers by FMCG companies?	<ul style="list-style-type: none"> <li>• Sr. No. 14N, 14P, 14Q of GSTR-9C</li> </ul>	<ul style="list-style-type: none"> <li>• expenses</li> <li>• Ledger account of Distributors/Franchisees/Agents</li> <li>• Stock Register</li> </ul>
5	Whether the Zero-rated supply is verified as per the provisions of law?	<ul style="list-style-type: none"> <li>• Sr. 5A &amp; 4C of GSTR-9</li> <li>• Section 16 of IGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Contract</li> <li>• Shipping Bill/ Bill of Export</li> <li>• Bill of Lading</li> <li>• Payment received (Bank Statement)</li> <li>• Letter of Credit / Telegraphic Transfer</li> <li>• Letter of Undertaking</li> <li>• Duty drawback availed</li> </ul>
6	Whether supply of capital goods has been subjected to GST and as to whether the same has been included in the returns filed?	<ul style="list-style-type: none"> <li>• Section 18(6) of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Fixed Asset Schedule</li> <li>• Contract</li> <li>• Ledger account of fixed assets/plant and machinery</li> <li>• Ledger account of scrap</li> <li>• TCS under Income Tax Act</li> <li>• Bank Statement (Payment received)</li> </ul>
7	Whether the transactions are correctly classified as supply of goods or supply of services as per Schedule-II of the CGST/SGST Act, 2017?	<ul style="list-style-type: none"> <li>• Table 9 of GSTR 9C</li> <li>• Sr. No. 17 &amp; 18 of GSTR 9c</li> <li>• Schedule II of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice/Bill of Supply</li> <li>• Contract</li> <li>• Composite/Mixed Supply</li> </ul>
8	Are there any transactions wherein goods sent for job-work are not received back within the specified period?	<ul style="list-style-type: none"> <li>• Form ITC -04</li> <li>• Section 143 of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery Challan</li> <li>• Gate outward register</li> <li>• Gate Inward register</li> <li>• Stock register</li> <li>• Job work charges</li> </ul>
9	Whether any business asset has been permanently disposed off for which input tax credit had been availed?	<ul style="list-style-type: none"> <li>• Sr. No 6B of GSTR-9</li> <li>• Schedule I of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Fixed Asset Schedule</li> <li>• Contract</li> <li>• Ledger account of fixed assets/plant and machinery</li> </ul>

			<ul style="list-style-type: none"> <li>• Ledger account of scrap</li> <li>• Stock register</li> <li>• Bank Statement (Payment received)</li> <li>• Cash flow statement</li> </ul>
10	Whether "Related persons" or "Distinct persons" in relation to the registered person have been identified and whether activities or transactions with them have been duly identified and accounted for as per law?	<ul style="list-style-type: none"> <li>• Section 15(4) of CGST/SGST Act</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• List of related/distinct persons</li> <li>• Ledger account of Related persons</li> <li>• Loans and advances</li> <li>• Income tax Audit report</li> <li>• Annual return under Companies Act</li> </ul>
11	Whether any "Agent" has been appointed by the registered person and whether transaction with such agent has been duly accounted for as per law?	<ul style="list-style-type: none"> <li>• Schedule I of CGST/SGST Act</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Commission expenses</li> <li>• TDS/ Form 26AS</li> <li>• Contract with franchisee /distributor</li> <li>• Structure of business supply chain</li> </ul>
12	Whether any foreign exchange has been remitted outside India for any import of services and whether tax on the same has been paid as per law?	<ul style="list-style-type: none"> <li>• Sr. No. 6E and 6F of GSTR- 9</li> </ul>	<ul style="list-style-type: none"> <li>• Contract</li> <li>• Bank Statement (payment made)</li> <li>• Letter of credit/ telegraphic transfer</li> <li>• Director report</li> </ul>
13	Whether the goods for business use have been put to personal use?	<ul style="list-style-type: none"> <li>• Section 17 (1) of CGST/SGST Act</li> <li>• Schedule II of CGST/SGST Act</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Stock register</li> <li>• Drawings account</li> <li>• Nature of expenses especially telephone, repair and maintenance, insurance etc.</li> </ul>
14.	Whether tax has been paid on RCM on inward supplies?	<ul style="list-style-type: none"> <li>• Section 9(3) and 9(4) of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Self- invoices issued</li> <li>• Payment vouchers</li> <li>• Examine the nature of expenses especially freight (inward and outward), legal charges, import of services etc.</li> <li>• Bank Statement (payment made)</li> </ul>

15.	Whether tax paid on advances received?	<ul style="list-style-type: none"> <li>• Sr. No. 4F of GSTR-9</li> <li>• Section 12 and 13 of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Bank Statement (Payment received)</li> <li>• Cash book for any cash received</li> <li>• Loans and advances in the Balance Sheet</li> <li>• Ledger account of debtors</li> <li>• Current liabilities on account of unearned income/advance received</li> </ul>
16.	Whether any credit note issued for supplies made?	<ul style="list-style-type: none"> <li>• Sr. No. 4I of GSTR-9</li> <li>• Section 34 of CGST/SGST Act</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Note Vouchers</li> <li>• Goods return register</li> <li>• Ledger account of sale returns</li> <li>• Weigh bill</li> <li>• Gate Inward pass</li> <li>• Transportation document</li> <li>• ITC reversed by recipient</li> <li>• Whether issued within timeline defined by section 34</li> </ul>

## Supply of Goods or Services or both.

In the pre-GST era, incidence of taxation on goods and services varied under different tax laws. 'Excise duty' was levied upon removal of manufactured products from the factory, 'Service Tax' was levied on 'provision of service' and VAT was levied on the value of sales or deemed sales of goods. These multiple incidences of taxation of the pre-GST era have been converted into the single incidence of taxation of SUPPLY in GST.



**EXHIBIT 17**

GST Law has defined 'supply' in an inclusive manner. Supply in GST comprises of all forms of supply of goods or services or both. It includes sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business [section 7(1)(a) of CGST & SGST Act].

	<b>Sale</b> means transfer of ownership of any goods or service against consideration.		<b>Lease</b> signifies contract to allow right to use for a period without transfer of title.
	<b>Transfer</b> means making over the possession of a property, a right, or a responsibility to another.		<b>Barter</b> is exchange of goods or services for other goods or services without using money.
	<b>Exchange</b> is an act of giving one thing and receiving another (especially of the same kind) in return.		<b>Rental</b> means periodical payment for the use of someone else's property.
	<b>Disposal</b> is to part with or alienate / the action or process of getting rid of something.		<b>License</b> is a permission to use something without transfer of possession.

#### EXHIBIT 18

- Import of services for a consideration whether or not in the course or furtherance of business is also a supply.
- Some activities as specified in Schedule I of CGST/ SGST Act, even if made or agreed to be made without a consideration, are treated as supply.
- Further, activities or transactions specified in Sch III shall be treated neither as a supply of goods nor a supply of services in GST.

#### Thus, supply has following important characteristics

- Supply shall be for a consideration except transactions specified in Sch.I which shall be treated as supply even if made without consideration.
- Supply is done in the course or furtherance of business except import of service for a consideration which is considered as supply whether or not in course or furtherance of business.
- There are certain activities specified in Sch. III which are not to be treated as supply of goods or services.

#### Conditions of 'Supply' in GST:

(a) for a **consideration** and (b) **in the course or furtherance of business**



**Exceptions:**

(a) Activities in Schedule I to be treated as supply **even if made without consideration**

(b) Import of Service to be treated as supply **even if it is not in the course or furtherance of business**

**The above conditions are discussed below with some examples:**

**A. Consideration is a condition of supply -****EXHIBIT 19**

A person runs two coaching centres. One is for needy students which is absolutely free, whereas the other is against fees. He is providing the same services from both the coaching centres. But, the services provided from the free coaching centre does not fulfil the first characteristic of supply (i.e. consideration) in GST. So, it is not a supply in GST. But, the services from the other coaching centre fulfills all the characteristics of supply. It must be remembered that consideration may not wholly be in monetary form; it may be in forms other than money too. For instance, supply of a new mobile phone worth Rs.50000 in exchange for a specified old mobile phone worth Rs.10000 and Rs.40000 in cash. When the consideration is not wholly in money, the value of the supply is to be ascertained as per rule 27 of the CGST Rules, 2017.

**B. Supply should be “in the course or furtherance of” business -**

One of the characteristics of supply is that supply should be “in the course or furtherance of” business except a few. ‘In the course or furtherance’ is not defined in GST law, but is broad enough to cover any supply made in connection with the business and therefore the phrase needs to be analyzed in detail. The Australian Concise Oxford Dictionary (1997) defines the phrase ‘in the course of’ as ‘during’ and the word ‘furtherance’ to mean ‘furthering or being furthered; the advancement of a scheme etc.’ The literal meaning of the said phrase ‘in the course or furtherance of business’ is “as part of doing regular business” or “anything done in relation to business”. For example:

- i. Purchases & Sales of goods by reseller.
- ii. Selling scrap generated in the process of manufacturing is also in the course of business.

iii. Activities done as part of CSR by a Company are also in the course of business.

Thus, the phrase widens the scope of supply to bring more activities in its ambit.

**c. Import of services for a consideration is supply** in GST even if not in course or

furtherance of business. Suppose, a person 'P' of West Bengal is constructing his own house for his personal use. He availed the services of an architect in the USA and paid USD 10,000 for it. In this case, though it is not in the course of furtherance of business, still it would be treated as supply in GST and Mr. P would be liable for payment of GST under RCM; that he may be exempted from payment is another matter but the liability is there.



**EXHIBIT 20**

It is also relevant to mention in this respect that, services are considered to be imported when three conditions are fulfilled- (i) Supplier of services is located outside India, (ii) Recipient of services is located in India and (iii) Place of supply of services is located in India [sec 2(11) of the IGST Act, 2017].

#### **D. Exceptions in respect of 'Consideration' being an essential condition for Supply in GST –**

There are some exceptions where activities are treated as 'Supply' under GST even if such are made without consideration. These are specified in Schedule- I under section 7 of the Act.

**Schedule I: Following activities to be treated as supply even if made without consideration:**

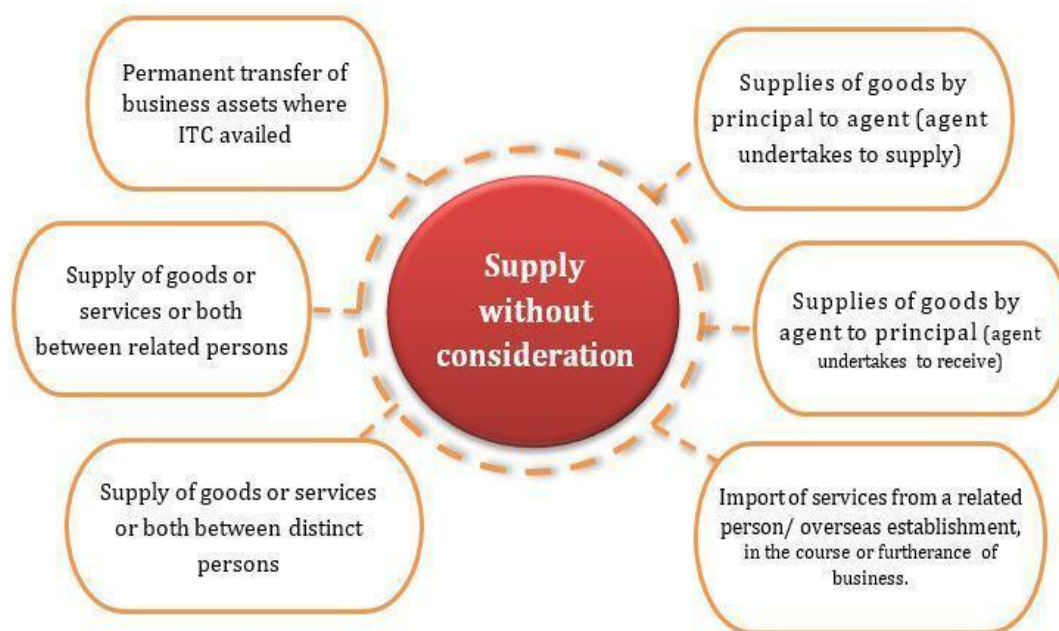
1. Permanent transfer or disposal of business assets where ITC has been availed on such assets.
2. Supply of goods or services or both between related persons (such as officers or directors of one another's business, employer & employee,

members of the same family, legally recognized partners in business etc.) or between distinct persons as specified in sec 25, when made in the course or furtherance of business. But gifts not exceeding rupees fifty thousand in value in a financial year by an employer to an employee shall not be treated as supply.

3. Supplies of goods by principal to his agent where the agent undertakes to supply such goods on behalf of the principal.

Supplies of goods by an agent to his principal where the agent undertakes to receive such goods on behalf of his principal.

4. Import of services by a **person** from a related person or from any of his other establishments outside India, in the course or furtherance of business.



**EXHIBIT 21**

**1. Permanent transfer or disposal of business assets without consideration:** There is no doubt that disposal of business assets against consideration is a supply. However, if ITC on any business asset has been availed, then disposal of such business assets even if made without consideration should also be treated as supply. Examples –

a. **Permanent transfer: Example No. 1** - Suppose XYZ Ltd., is in the business of hospitality. He purchases an air conditioner and a car for his hotel business and avails ITC on the air-conditioner but no ITC is availed in respect of the car. After 2 years, he permanently transfers the AC to one director and

the car to another director, both without any consideration. Though no consideration is taken in case of transfer of the air conditioner still, it would be treated as a supply as per Schedule I and supplier shall have to pay an amount determined according to section 18(6) of the CGST/SGST Act. In the case of permanent transfer of the car, it will not be treated as supply since no ITC has been availed on the same.

**Example No. 2** - Woodwork, being a sole proprietorship firm is in the business of selling furniture. However, if the owner takes a set of furniture from its inventory to furnish his bedroom, the transfer of the furniture by the owner is a supply as per Schedule I and would be subject to GST.

### **Whether temporary transfer of business assets would be considered as supply in GST?**

Temporary transfer of business assets with consideration is a supply in GST. However, temporary transfer of business assets without consideration has not been covered under Sch. I. So, it will not be treated as supply. But, for that limited period for which such assets are not used for the purpose of business, ITC shall have to be reversed as per provisions of section 17(1) read with rule 42 and 43.

**Disposal of business assets:** There are various reasons for disposal of business assets without any consideration. Most common reasons for such disposal are following: Assets are not in usable condition, Assets donated etc. **e.g.** – A company disposes of its old fans to a nearby rural health Centre as a donation during renovation of its office. The company had availed ITC on such fans. So, even if no consideration is involved in this disposal, it will still be treated as supply in GST.

### **Supplies between related persons:**

a. Transactions between related persons is considered a supply in GST even if made without any consideration. Related persons are defined u/s 2(84) of the CGST/SGST Act. Persons shall be deemed to be related if they fall under any of the following categories:

- Officer/ director of one business is the officer/ director of another business,
- Businesses are legally recognized as partners,
- An employer and an employee,

- Any person holds at least 25% of shares in another company either directly or indirectly,
- One of them controls the other directly or indirectly,
- They are under common control or management,
- The entities together control another entity,
- They are members of the same family.

However, in accordance with the provision in entry no. 2 of Schedule I, gifts not exceeding fifty thousand rupees in value in a financial year by an employer to an employee shall not be treated as supply.

**Example:** Company X gives a mobile phone worth Rs. 25000/- to each member of its sales team as a gift in 2017-18. The same Company X gives a high-end laptop worth Rs. 60,000/- to the head of the sales team for his performance.

Here, the gift of mobile phone to a salesperson as stated above, would not be treated as supply since the value of such gift to an employee does not exceed Rs.50,000/- in that FY. However, say, the company over and above the above, also gifts a family tour package to that employee which is worth Rs.30,000/- in the same FY. In this case, since the value of the gift exceeds Rs.50,000/-, the entire amount of Rs.55, 000/- (=Rs.25, 000/- + Rs.30, 000/-) would be treated as a supply by the employer. In the second case also, gift of laptop worth Rs.60, 000/- to the sales head would be treated as a supply since the value of gift exceeds Rs.50,000/-.

**Sometimes companies' gift to non-related persons without any consideration. The same may be illustrated as follows –**

**a. Gifts provided by pharmaceutical companies to the Doctors –** Gifts given by the pharmaceutical companies to the doctors shall not be treated as supply since in this case, both are not related persons or distinct persons as specified in section 25 and the activity (of giving gift) is made without consideration. However, the pharmaceutical company in this case, is not entitled to claim ITC on corresponding purchase of such gift items in accordance with section 17 (5) of the CGST/SGST Act.

**b. Diwali gift / New Year gift to business Clients –** The activity of giving Diwali Gifts or New Year gifts to business clients would also not qualify as supply since the activity is not between related parties and is without



consideration. However, ITC on corresponding purchase of the same needs to be reversed, if already availed, in accordance with S.17 (5) of the SGST/CGST Act.

### **Supply between distinct persons:**

Stock transfer from one branch to another branch or from the manufacturing unit to different sales units within or outside the State is a very common practice in business. In the pre-GST regime, this type of inter-state transaction was exempted subject to fulfilment of certain conditions. However, this stock transfer is a supply between distinct persons in GST. Following persons are distinct persons –

- a. All registered persons (whether in the same State or different States) under a single PAN are distinct persons (section 25(4) of the CGST/SGST Act).
- b. Where registration has been obtained by a person in respect of an establishment in a State (or a union territory), another establishment of the same person in another State (or union territory) they are treated as establishments of distinct persons (section 25(5) of the CGST/SGST Act).

**Example:** A registered manufacturer in Delhi, transfers finished goods worth Rs.5,00,000/- to its depot located in Kolkata, WB. This would be treated as a supply in GST.

**Supply of principal and agent:** In pre-GST regime, consignment transfer to consignment agents in VAT and CST Acts was exempted subject to fulfilment of certain conditions. However, supply of goods by a principal to his agent where the agent undertakes to supply such goods on behalf of his principal is treated as supply by principal to the agent even if such is made without consideration. Similarly, supply of goods by an agent to his principal where the agent undertakes to receive goods on behalf of the principal is treated as supply by the agent to his principal even if such is made without consideration. The key here is whether the invoice for the supply has been issued by/to the agent in his own name rather than in the name of the principal; if so, the transaction between the principal and the agent is a supply, otherwise not. (Circular no. 57/31/2018-GST dated 4th September, 2018 refers)

The same is illustrated below—

A manufacturer of hosiery products in Kolkata engages an agent in Siliguri to sell his products as an agent. When the manufacturer transfers his stock to the agent it would be treated as supply by the principal to the agent and subsequently when the agent sells the same to the customer such would be treated as supply by the agent.

This manufacturer further engages an agent in Nadia to receive cotton yarn from vendors of Nadia. When the agent transfers cotton yarn to the manufacturer the same would be treated as supply by the agent to the principal.

### **Import of services from a related person or from overseas establishment**

Import of services is a supply, if it is made for a consideration.

However, Import of Service without consideration would also be treated as supply if such is made **in the course or furtherance of business** and is made from any related person or from any establishment outside India to him in India and the same is made. **Example** – A multinational company engaged in engineering services provides engineering drawing from its unit at France to a unit in Kolkata, free of cost.

This import of service would be treated as supply even if it is without any consideration.

However, in this case it is very difficult to identify such services., if there is no self-compliance made by the RTP. If we examine the books of accounts carefully, we may find some areas where an audit trail of such supply may be identified. In such cases a list containing details of establishments outside India can be obtained and the correspondences between the entity in India and its foreign counterpart can be examined, at least on a sample basis.

For example, a company asks engineers from his foreign establishment to supply engineering services to a client in West Bengal. The foreign establishment charges nothing for the services but travel expenses and all other expenses of such engineers are borne by the registered company in West Bengal. So, audit trail of such services can be found in the relevant head of expenses. Therefore, it is very important to know the business pattern of the auditee to identify probable areas where reflection of such type of transactions may be identified.



## **E. Activities neither to be treated as supply of Goods nor as supply of service**

Before going into the detailed discussion on activities or transactions which shall neither be treated as supply of goods nor supply of service as provided in Schedule III, it is important to know the context of Schedule-III. In GST law, services are defined in the widest form ; ‘anything other than goods’ is defined as services. So, the services provided by an employee to his employer also becomes a supply of services. Functions performed by MLAs and MPs also get into the ambit of services as far as the definition of services is concerned. But it was never the intention of the GST law to bring services by the employees or MLAs or MPs and similar other activities into the scope of supply.

**Accordingly, the following activities or transactions which are enlisted in Sch. III, shall neither be treated as a supply of goods nor a supply of services:**

- i) Services by an employee to the employer in the course of or in relation to his employment.
- ii) Services by any court or Tribunal.
- iii) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;
- iv) The duties performed by any person who holds a post in pursuance of the provisions of the Constitution in that capacity;
- v) The duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central/ State Govt. or a local authority and who is not deemed as an employee before the commencement of this clause.
- vi) Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
- vii) Sale of land, sale of building (other than specified in Para. 5(b) of schedule II of the Acts].
- viii) Actionable claim, other than lottery, betting and gambling.
- ix) Supply of goods from one non-taxable territory to another without entering into India.
- x) (a) Supply of warehoused goods to any person before clearance for home consumption.  
(b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port

of origin located outside India but before clearance for home consumption (High Seas Sale).

### **i) Services by an employee to the employer in the course of or in relation to his employment**

In case of supply of services by an employee, fulfilment of the following three broad conditions is required for the levy of GST -

- i. presence of service,
- ii. existence of consideration and
- iii. the supply is in the course of or in relation to the employment of the employee; that is to say, the services rendered by the employee are as per the contract of employment or within the scope of the employment.

But, as per entry no.1 in Schedule III, services rendered by an employee to his employer in the course of or in relation to his employment, shall neither be treated as supply of goods nor as supply of services.

It is important to note that the exclusion is applicable only in circumstances **where the services are rendered in the course of or in relation to his employment and not otherwise**. Any service rendered by an employee to his employer beyond the normal course of employment can be subject to GST unless otherwise exempted. Therefore, employee-employer agreement should have comprehensive details about the roles and responsibilities of the employee and remuneration against those services. These are also important areas to examine.

For example –

a. There is a condition in the employment clause of a pharma company that an Area Sales Manager is required to fulfil his target during a year otherwise, it would affect his increment and next promotion. An Area Sales Manager who is highly efficient exceeded the target prior to the end of the financial year. The company, being pleased, gifted him a personal car. This is nothing but a gift by the employer to the employee but the same would be treated as supply in accordance with entry 2 of Schedule I.

**ii) Actionable claim, other than lottery, betting and gambling:** Except lottery, betting and gambling, all other actionable claims are neither to be treated as supply of goods nor as supply of services.

Section 3 of the Transfer of Property Act, 1882 defines Actionable Claim. It is a claim of –

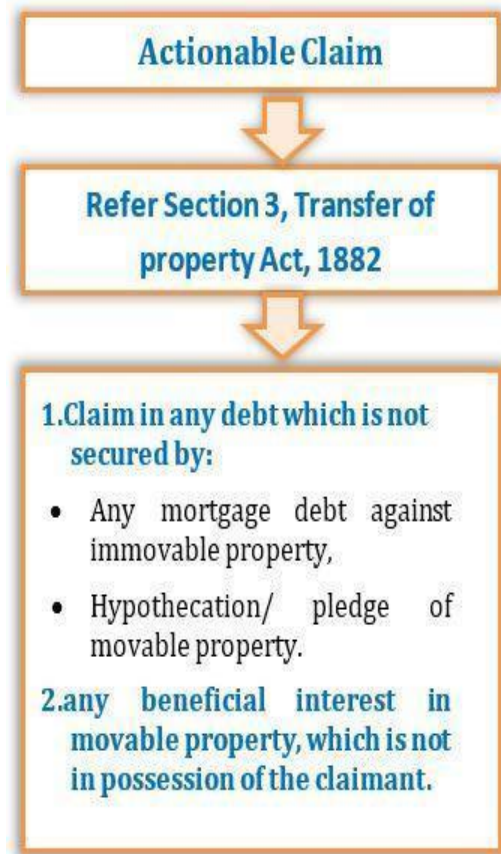
1. any debt which is not secured by:
  - a. Mortgage of immovable property,
  - or
  - b. Hypothecation, or pledge of movable property,
2. any beneficial interest in movable property, which is not in possession of the claimant. The possession can be actual or constructive.

### Examples of Actionable Claims

- Lottery ticket,
- Betting & gambling,
- Right to credit in a provident fund,
- Dividends on shares, debentures, negotiable instruments such as bills of exchange etc.,
- Rights shares or option to purchase shares,
- Bank guarantee,

### Examples of Non-Actionable Claims

- Copyright,
- Right to claim damage in the event of breach of contract,
- Right to use,
- Coupons and Vouchers.



### EXHIBIT 22

There are several examples of actionable claims. But, only lottery, betting and gambling are liable to GST.

### iii)Sale of land, sale of building (other than specified in Para. 5(b) of schedule II of the CGST/ SGST Act):

Sale of land is outside the ambit of GST. But there may be many activities and transactions related to land which can be taxable in GST. Some of these activities are mentioned in Sch. II.

## **Schedule II: Activities or transactions to be treated as supply of goods or supply of services**

### **1. TRANSFER**

**(a) Any transfer of title in goods is a supply of goods** - Transfer of title of goods means transfer of possession and control on such goods i.e transfer of ownership. However, sometimes, title may be transferred before getting physical possession of goods. For example, X being a reseller of sewing machines receives an order to supply 15 pieces of sewing machine to a business person Y in Bihar. But, Y instructs X to deliver the same to Z in Jharkhand. In this case, Y transfers the title of the goods to Z without getting physical possession of the goods. Hence, in this case there are two distinct supplies of goods, first one by X to Y and the second one by Y to Z.

There may be situations where transfer of title of taxable goods may not be treated as supply in GST. In the case of 'High Sea Sales', transfer of title of goods occurs on high seas. Subsequently, documents of Customs clearance i.e. Bill of Entry etc is filed by the person who buys the goods from the original importer during the said sale. This high sea sale is not a supply in GST as per entry no. 8(b) of Sch. III.

**(b) Any transfer of right in goods or of undivided share in goods without the transfer of title thereof is a supply of services** – “**Transfer of right to use of goods**” was always a point of dispute between two different taxation authorities. Transfer of effective control and possession over any goods along with the transfer of right to use was considered as deemed sale under the VAT Acts. However, if there was no transfer of effective control and possession over any goods, mere transfer of right to use was considered as supply of service. So, upon consideration of all the conditions it was always difficult to decide whether a particular transaction was liable to levy of VAT or service tax. This particular entry in Sch. II has done away with any such confusion and henceforth any transfer of right in goods or of undivided share in goods without the transfer of title thereof would be considered as supply of services.

Excavators, Cranes, Dumper trucks, Generator, Transit Mixer and many such machineries are usually supplied on rent basis without transferring the title. All such transactions are treated as supply of service in GST. But, as

per the rate notification, rates of applicable GST of such services is equivalent to the rates of the particular goods.

**(c) Any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods-**

Example of the aforesaid entry can be Hire Purchase. There may be a two-party transaction between the owner and the hirer or there may be a tripartite agreement between seller, the buyer and the financier. Obviously the second type of agreement is more popular nowadays. However, this kind of tripartite arrangement cannot be considered as hire purchase. In this case, full payment is made by the financing company for the purchase of the buyer and the purchaser becomes the owner of the goods. The finance company has only the right to seize the goods for non-payment of loan. In case of failure to pay the loan, the finance company sells the goods after taking possession of the goods. In such a case, it is a supply in GST and there is specific valuation rule 32(5) of the CGST/ SGST Rules, 2017 which reads as follows:

*“Where a taxable supply is provided by a person dealing in buying and selling of second hand goods i.e., used goods as such or after such minor processing which does not change the nature of the goods and where no input tax credit has been availed on the purchase of such goods, the value of supply shall be the difference between the selling price and the purchase price and where the value of such supply is negative, it shall be ignored:*

*Provided that the purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by five percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession”.*

This is further clarified by Question No.63 in FAQ issued by the CBIC on Banking, Insurance and stock brokers sector dated 27.12.2018.

## **2. LAND AND BUILDING**

**(a) Any lease, tenancy, easement, licence to occupy land is a supply of services,**

**(b) Any lease or letting out of the building including a commercial, industrial, or residential complex for business, or commerce, either wholly or partly is a supply of services -**

Land and buildings being immovable properties are kept outside the ambit of 'Goods' as defined under the CGST/SGST Act, 2017. But services like lease, tenancy, tenancy transfer, easement, licence to occupy land, lease or letting out of any building or part thereof are treated as supply of service in GST. Even, the tenancy premium is liable for levy of GST. There are certain kinds of such supplies which are notified as nil rated supply. e.g. Leasing of industrial plots or plots for development of infrastructure for financial business. Grant of tenancy rights in a residential dwelling for use as residential dwelling against tenancy premium or periodic rent or both is also exempt supply [vide sl. no 12 of Notification No. 12/CT (R)2017].

An interesting ruling by AAR of GST, Karnataka is relevant to mention here [vide, ruling 2020 (4) TMI 692]:

Applicant has let out a Residential complex to a company who is engaged in the business of providing residential accommodation to students by entering into sublease agreement with students for providing residential accommodations with amenities, security, entertainment facilities for a period varying from 3 months to 11 months. The ruling held that they are like hotel rooms and no circumstances can be termed as a residential dwelling. The services provided are not for use as a residence by the lessee. Hence it is not the nature of the property which determines taxability but the purpose of letting out the property which determines taxability.

### **3. TREATMENT OR PROCESS**

**Any treatment or process which is applied to another person's goods is a supply of services –**

Any treatment or process applied to another person's goods is a service. Further, any treatment or process undertaken by a person on goods belonging to another registered person is defined as "job work" in GST. Now, if consumables are supplied by the job worker in the process of applying treatment or process then also it would be treated as supply of services.



However, if goods are also supplied by the job worker for manufacturing of a product as per the specification of the Principal then the same may be considered as manufacturing of that particular goods. Accordingly, the job worker is liable to charge GST at applicable rates for supply of that particular goods. In this respect clarification in Circular No: 52/26/2018-GST dated 09.08.2018 is relevant:

**Fabrication of buses may involve the following two situations** - (a) Bus body builder builds a bus, working on the chassis owned by him and supplies the built-up bus to the customer, (b) Bus body builder builds body on chassis provided by the principal for bodybuilding. In situation (a), the supply of a bus is being made, and accordingly the supply would attract GST@ 28%. In situation (b), fabrication of body on chassis provided by the principal (not on account of bus bodybuilder), the supply would be treated as services, and 18% GST as applicable will be charged accordingly.

#### **4. TRANSFER OF BUSINESS ASSETS**

**(a) Where goods forming part of the assets of a business are transferred or disposed of by or under the direction of a person carrying on the business so as no longer to form part of those assets, such transfer or disposal is a supply of goods by the person.**

In this entry “business assets” means both Fixed and Current assets. Transfer or disposal of the same would be taxable under GST irrespective of whether the transaction is done with consideration or without consideration.

**(b) Where, by or under the direction of a person carrying on business, goods held or used for the purpose of the business are put to any private use or are used , or made available to any person for use, for any purpose other than a purpose of the business, the usage or making available of such goods is a supply of services.**

Where goods held or used for the purpose of business -

- (i) are put to private or personal use; or
- (ii) made available to another person for use for any purpose other than a purpose of the business,

In both such cases it would be a supply of services **only** if such a transaction is made **for** consideration.



e.g1. A proprietor who is in the business of selling cars brings a car temporarily for 2 months to his residence for personal use. Here, it should be deemed as a supply of services by the said registered person **to the proprietor if he pays to the business for the personal usage of the car; otherwise, credit proportional to such usage is to be reversed in terms of section 17(5)(g).**

e.g2. When a registered person transfers the right to use his assets to his sister concerns (who are distinct persons) for a limited period of time, it would also be a supply of services even if there is no consideration involved **by virtue of falling within the scope of entry 2 of Schedule I.**

**(c) Where any person ceases to be a taxable person, any goods forming part of the assets of the business carried on by him, shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person unless-**

**(i) The business is transferred as a going concern to another person, or**

**(ii) The business is carried on by a personal representative who is deemed to be a taxable person.**

Example- A manufacturer of hosiery goods has decided to close his business. At the time of filing application for cancellation of registration, he has raw materials and finished goods as stock worth Rs.10 Lakh. He also has Plant & Machinery worth Rs.15 Lakh. He has disclosed such assets but failed to pay any tax. His application is accepted and registration is cancelled. This manufacturer is liable to pay tax on his stock including Plant & Machinery as the same is deemed to be supplied by him immediately before he ceases to be a taxable person. However, in the present case if the person would have transferred the business as a going concern to another person, in such case, it would have been treated as exempt supply of services in accordance with sl.no 2 of Notification No. 12-CT(R)/2017 dated 28.06.2017. Similarly, in case of death of the person, if the business is carried on by his legal heir as a taxable person under GST then all liability of the deceased proprietor would be transferred to the legal heir.

## **5. SUPPLY OF SERVICES**

As per Sch. II the following activities are treated as supply of services:

- (a) renting of immovable property.
- (b) Construction of a complex, building, civil structure or a part thereof, including a complex or a building intended for sale to a buyer, wholly or partly, except where entire consideration has been received after the issuance of completion certificate, where required by the competent authority or after its first occupation, whichever is earlier.
- (c) Temporary transfer of right to use or enjoyment of intellectual property right is service.
- (d) Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software.
- (e) Agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act.
- (f) Transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment, or other valuable consideration.

**(a) Renting of immovable property is service** - The word 'Immovable Property' has not been defined in the CGST/WBST Act, 2017, however the same has been defined u/s 2(19) of the General Clauses Act, 1977 - "Immovable Property" shall include land, benefits to arise out of the land, and things attached to the earth, or permanently fastened to anything attached to the earth.

Suppose, a heavy generator is installed on the ground of any registered person. Whether the same would be treated as immovable property? In the judgement of Mallur Siddeswara Spinning Mill case (166) ELT 154 (SC) the Hon'ble Supreme Court of India held that if a machine (say a Genset) is fastened on a frame and is capable of being shifted from that place, it is capable of being sold. It is goods and not immovable property. In such cases the twin test of "permanence" and "marketability" have been laid down by the Apex Court. It is advised to go through the relevant judgements in this regard.

Several activities are associated with renting of immovable properties such as:

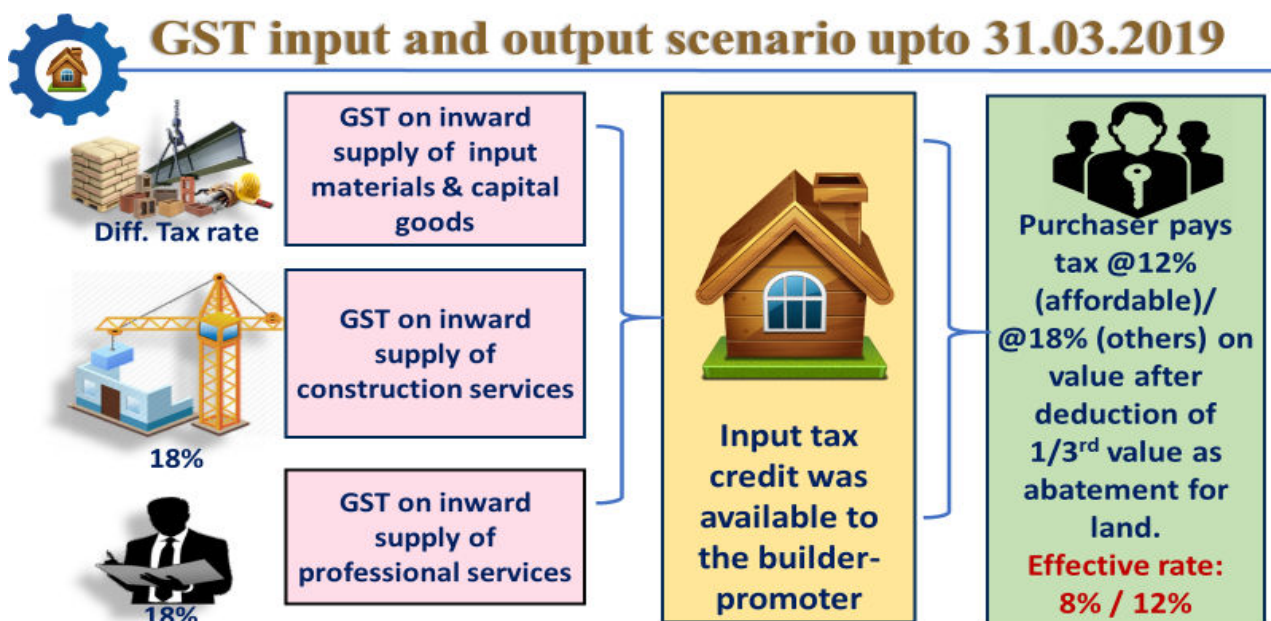
- Renting of residential complex / building / flats/ etc.
- Renting of a commercial complex/unit/flat.
- Renting of a place / property/ complex for a religious function.
- Renting of a place / property/ complex for social function.
- Renting of a place / playground for sports and games.

- Renting of property to an educational institution.

**(b) Construction of a complex, building, civil structure or a part thereof, including a complex or a building intended for sale to a buyer, wholly or partly -**

Where any consideration in respect of construction of complex, building, civil structure or part of it is received partly or wholly, before issuance of completion certificate, then the entire consideration shall be treated as consideration for the services provided and, the same is taxable under the Act. But, if no consideration is received before getting completion certificate or after its first occupancy, whichever is earlier, then sale of that complex or building or any civil structure will neither be treated as supply of services nor as supply of goods.

The tax rate on supply related to real estate projects has undergone a change w.e.f. 01.04.2019. The input- output scenario up to 31.3.2019 was as follows:



### EXHIBIT 23

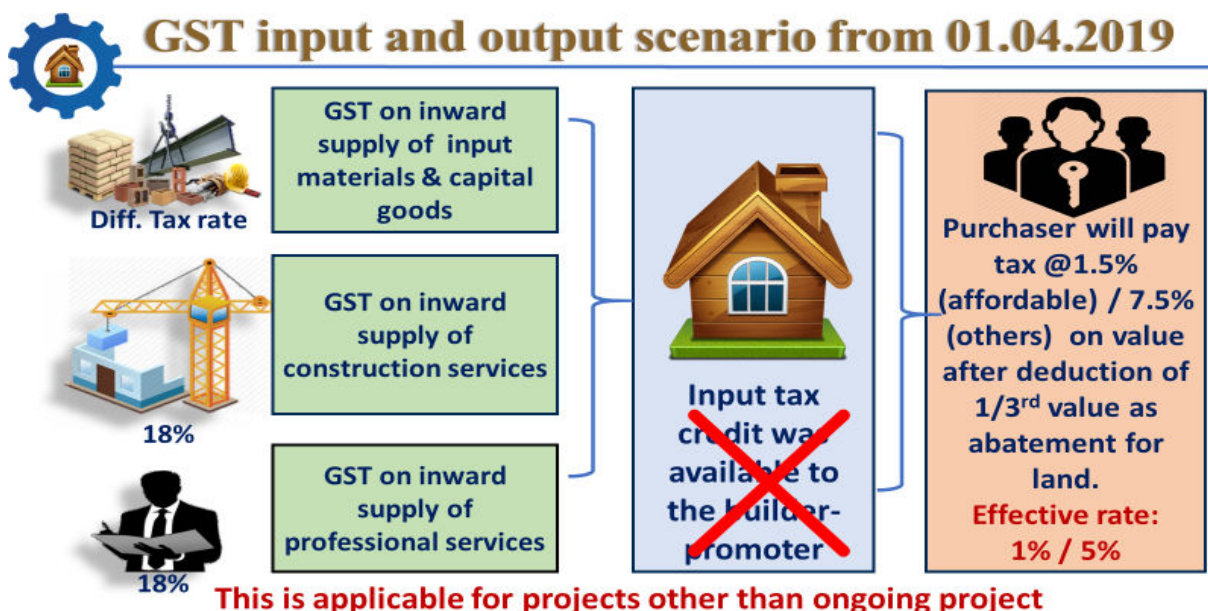
**In the real estate sector, a Developer - Promoter or a Landowner – Promoter is primarily engaged in supply of service.**

A Developer-Promoter is a promoter who constructs or converts a building into apartments or develops a plot for sale.

A Landowner-Promoter is a promoter who transfers the land or development rights or FSI to a developer-promoter for construction of apartments and receives constructed apartments against such transferred rights and sells such apartments to his buyers independently.

Apart from the aforesaid services there are various other services also associated. A separate book has been published by the Directorate of Commercial Taxes, West Bengal on the real estate sector. An Audit officer entrusted with the job of auditing a taxpayer in the real estate sector is advised to follow the book and go through the notifications related to real estate.

Present input- output scenario in the real estate sector which is effective from 01.04.2019 is as follows:



**EXHIBIT 24**



## Comparative view

Sl. No.	Description	Effective New Rate	Effective Old Rate
1.	Construction of affordable Residential Apartment by a promoter (RREP & REP other than RREP)	1% (without ITC)	8% (with ITC)
2.	Construction of other than affordable Residential Apartment by a promoter (RREP & REP other than RREP)	5% (without ITC)	12% (with ITC)
3.	Construction of commercial apartment in RREP by a promoter	5% (without ITC)	12% (with ITC)
4.	Construction of commercial apartment in REP other than RREP by a promoter	12% (with ITC)	12% (with ITC)

### (c) Temporary transfer or permitting the use or enjoyment of any intellectual property right -

The term 'Intellectual Property Right' (IPR) has not been defined in the GST Act. However, IPR includes Copyright, Trademark, Patents and other similar rights to an intangible property. In GST law goods comprise of both tangible and intangible goods. IPR is nothing but goods. Temporary transfer or permitting the use or enjoyment of IPR is treated as supply of service in GST. However, if IPR is permanently transferred it would be considered as a supply of Goods.

### (d) Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software -

#### Software a goods or service?

Software in physical form is considered as goods in GST. However, the act of development of software is service.

### (e) Agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act is service in GST-

One of the services which have always been the point of discussion in pre-GST regime as well as in the GST regime is the supply of service for "agreeing to the obligation to refrain from an act, or to tolerate an act or



situation, or to do an act". **The key here is whether any of the following activities of:**

- (a) refraining from doing an act, or**
- (b) tolerating an act or a situation, or**
- (c) doing an act,**

**has been carried out**

**(I) in accordance with an agreement or contract (express or implied) which provides for the same, and**

**(II) whether any consideration (whether in money or otherwise) is paid in return for engaging in any of the aforesaid activities.**

**If both the aforesaid conditions at (I) and (II) above are satisfied then such activity constitutes a supply within the meaning of the Act.**

**(f)Transfer of Right to use goods for cash, deferred payment or valuable consideration is considered supply of services under Schedule II.**

It has already been discussed in SI. No.1(b) above. Let us discuss some rulings by AAR in this respect:

Example 1: AAR Kerala in the case of M/s. Abbott Healthcare Pvt. Ltd. –

Abbott undertakes an agreement for placement of specified medical instruments to customers like hospitals, labs etc., for their use without any consideration but with the condition that these hospitals, labs etc. agree to purchase at least a specified number of products like reagents, calibrators, disposals etc. The ruling says that it is a composite supply where the principal supply is the transfer of right to use of any goods for any purpose which is supply of service and is liable to GST under SI No. 17 (iii) – Heading 9973 of Notification No. 11/2017 Central Tax (Rate) dated 28.06.2017.

Example 2: Case Number 46 of 2019, Order Number 40 of WBAAR/2019-20 - M/s Ishan Resins & Paints Limited, the applicant engaged in the business of leasing out trucks or tankers without operator to GTA raised query as to whether it would be covered under serial no. 22 (b) of Notification No. 12/2017 CT(Rate) dated 28/06/2017 (corresponding State Notification No. 1136 – FT dated 28/06/2017) as exempt services by way of giving on hire of transportation of goods to GTA.

The AARWB HELD THAT: - The Applicant intends to lease out vehicles like trucks, tankers etc. that are designed to transport goods. The control and possession of the vehicle will be transferred to the lessee, who will engage the operators and bear the cost of repair, insurance etc. It is, therefore, not classifiable under SAC 9966, which is restricted to rental services of transport vehicles with operators. The service is classifiable under SAC 997311 as leasing or rental services concerning transport equipment without an operator. It amounts to transfer of the right to use the goods and taxable under Sl No. 17(iii) of the Rate Notification.

## 6. COMPOSITE SUPPLY

**The following composite supplies shall be treated as a supply of services, namely:**

- (i) works contract as defined in clause (119) of section 2; and
- (ii) supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.

### (i) Works contract:

Works Contract has been defined in Section 2(119) of the CGST Act, 2017 as a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract.”



**EXHIBIT 25**

Thus, it is seen from the definition that the term works contract has been restricted to a contract for building construction, fabrication etc. **of any immovable property only**. This is a clear diversion from the concept of works contract as per the VAT Act. This diversion is expected to solve many disputes in the realm of taxation of works contracts.

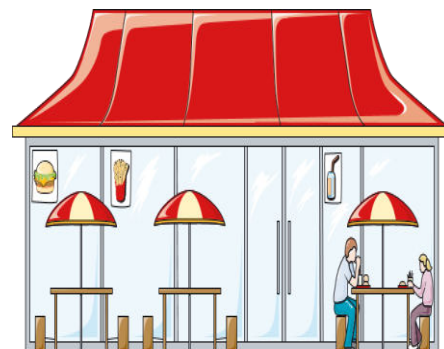


In a works contract both goods and services are naturally bundled and supplied in conjunction with each other in the ordinary course of business. So, basically it is a composite supply. But, there is no need to find the principal supply since this entry 6(a) in Schedule II specifies works contract as a supply of service.

Apart from works contracts in GST, there are several other composite supplies such as fabrication or painting jobs done in automotive body shops, service contracts relating to different machines and equipment etc. However, these would not be covered within the definition of works contract in GST. In such contracts it is important to identify the principal supply for levy of appropriate rate of tax.

**(ii) Supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration is a supply of service –**

There were several judgements before the 46<sup>th</sup> amendment of the Constitution of India in this respect. Hon'ble Apex Court in the matter of State Of Punjab vs M/S. Associated Hotels Of India (on 4 January, 1972) analyzed the nature of contract where a customer stays in the hotel and meals are served as part of and incidental to that service.



**EXHIBIT 26**

Hon'ble Andhra High Court in the matter of Durga Bhavan And Ors. vs The Deputy Commercial Tax Officer on 19th September, 1980 categorized the sale of food in restaurant into two parts -

The supply of food, etc., by restaurants may be made to customers who sit in the restaurants and consume the food. In such a case they enjoy the amenities provided by the owners of the restaurants.

The second class of cases comprise of supply of food-stuffs, snacks, drinks, etc., across the counter where there is practically no service rendered or amenities provided except in the manner of supplying the goods like packing, etc.

Finally, it was needed to make 46th Constitutional Amendment in the year 1981.

### Key Elements of Article 366(29A)(f)

*“Tax on the sale or purchase of goods includes:*

*(f) a tax on the supply, by way of or, as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (whether or not intoxicating), where such supply or service, is for cash, deferred payment or other valuable consideration, and such transfer, delivery or supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and a purchase of those goods by the person to whom such transfer, delivery or supply is made.”*

Thus, in the pre-GST regime both Service Tax and VAT was levied on this supply. This entry 6(b) of the Schedule II is expected to reduce any confusion in respect of determination of this particular nature of supply since entry 6(b) of the Schedule II specifies the supply as the supply of service.

However, there may still prevail some confusion regarding the nature of certain supplies.

Illustration -

a. Whether tobacco consumed in hookah bars would get covered in the entry 6(b) of Schedule – II “as any other article for human consumption”?

To analyse this, we need to take resort to a well-recognised and established principle of a law which is **“Ejusdem Generis”**.

**“Ejusdem Generis”** is an aspect of the principle of **“Noscitur a sociis”**. The Latin word ‘sociis’ means ‘society’, ‘Society’ of the same nature. It is an established principle of law that when general words follow specific words, such cannot be read in isolation. Their colour and their contents are to be derived from the context of specific words. In this case “any other article for human consumption” can’t be read in isolation. It must be read as “being food or any other article for human consumption”.

The phrase ‘any other article’ takes its colour from the word ‘food’. Now the question arises whether hookah is a food? Since it is not a food it will not be covered under this entry of Schedule II. In hookah bars, hookah paste is supplied with the right to use a smoking apparatus. So, it is a composite supply, where hookah paste is the principal supply.

**[There is a very famous judgement in respect of the principle of “*Ejusdem Generis*”. Interested readers may go through the judgement in the case of *McBoyle v. United States* 283 U.S. 25 (1931)].**

## Annexure – 9: Levy of tax on Reverse Charge Mechanism (RCM) (p.49 )

Tax is payable by a 'taxable person' in GST. Usually, tax is levied on the outward supplies of goods or services or both by a supplier. But in some specified transactions liability to pay tax gets **shifted** i.e., in such cases tax is levied on the recipient.



### EXHIBIT 27

This mechanism of liability / leviability to pay tax by the recipient is called Reverse Charge Mechanism (hereinafter referred to as RCM).

**a. Definition of reverse charge:** “reverse charge” means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under section 9(3) or section 9(4) of the CGST /SGST Act or under section 5(3) or 5(4) of the Integrated Goods and Services Tax Act. [sec. 2(98)]

**b. Notified supplies under sec 9(3):**

The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both. [sec. 9(3) of the SGST/CGST Act/sec. 5(3) of the IGST Act].

**Notifications issued:**

Sl. No.	Subject	Notification No. & date
1.	Consolidated list of goods on which tax is payable under RCM under section 9(3) of the SGST Act, 2017.	CGST Notification No. 04/2017-CT(Rate) dt. 28.06.2017

2.	Consolidated list of services on which tax is payable under RCM under section 9(3) of the SGST Act, 2017	CGST Notification No. 13/2017-CT(Rate) dt. 28.06.2017
3.	Notification for RCM on goods under section 5(3) of the IGST Act, 2017	<a href="#">4/2017-ITR dated 28.06.2017 as amended time to time.</a>
6.	Notification for RCM on services under section 5(3) of the IGST Act, 2017	<a href="#">10/2017-ITR dated 28.06.2017 as amended time to time.</a>

**c. Supplies received from unregistered person under sec 9(4):**

The provision of section 9(4) of CGST/SGST Act /5(4) of IGST Act has been amended w.e.f. 01.02.2019. Before this amendment the aforesaid provision upto 31.01.2019 was as follows - *“The State tax/central tax/integrated tax in respect of the supply of taxable goods or services or both by a supplier, who is not registered, to a registered person shall be paid by such person on reverse charge basis as the recipient and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.”*

Thus, as per the above provision (s), a registered person was liable to pay tax on RCM whenever he received any taxable supply from an unregistered person.

But, on the recommendation of the GST Council, notification under section 11(1) has been issued to exempt payment of tax under section 9(4) of the CGST/SGST Act upto a certain limit (Rs.5000/- per day) of inward supply from 01.07.2017. [CGST Notification No. 08/2017-CT(Rate) dt. 28.06.2017.]

**The Gist of the said notification is as under:**

- If the amount of inward supplies of goods or services or both, received in a day by a registered person from all unregistered suppliers, does not exceed Rs.5000/-, no tax is payable on RCM under section 9(4) by a registered recipient.
- If a registered person receives inward supplies of goods or services or both exceeding Rs. 5000/- in a day from all unregistered suppliers, he is liable to pay tax on RCM basis on the entire amount of such supplies received by him.

**Example** - on 01.08.2017, a registered person X receives goods and/or services from five suppliers. Three of such suppliers are unregistered from whom total supplies have been received to the tune of Rs. 4900/-. In this

case, the entire amount of Rs. 4900/- is exempted from payment of any tax u/s 9(4) by virtue of the notification No. 1132-F.T. Now, on the same day another registered person Y has received supplies of goods and/or services from ten suppliers out of whom six are unregistered from whom, total supplies received on that day is of Rs. 5100/-. In this scenario, Y is liable to pay tax on the entire value of supplies received from the unregistered persons i.e., on Rs.5100/-.

- **The above provision was effective from 01.07.2017 to 12.10.2017.**

From 13.10.2017 the provision for payment of tax under section 9(4) of SGST/CGST Act and section 5(4) of IGST Act have been omitted by amending CGST Notification No. 08/2017-CT(Rate) dated 28.06.2017 and CGST Notification No. 38/2017-CT(Rate) both dated 13.10.17.

CGST Notification No. 08/2017-CT(Rate) dated 28.06.2017 have been finally rescinded w.e.f. 01.02.2019 vide CGST Notification No. 01/2019-CT(Rate) dated 29.01.2019.

**d. Supplies received from unregistered person under amended provisions of sec 9(4):**

Finally, the provision is amended w.e.f. 01.02.2019 as below:

“Govt. may specify by notification a class of Registered recipients who shall pay tax on RCM on supply received from an unregistered supplier.

CGST Notification No. 07/2019-CT(Rate) dated 29.03.2019 have been issued w.e.f. 01.04.2019 to specify that subject to certain conditions a promoter is liable to pay tax under section 9 (4).

**e. Compulsory Liability of Registration for a person liable to pay tax on RCM:**

As per the provisions of section 24(iii) of the SGST/CGST Act, persons who are required to pay tax under reverse charge are liable to be registered without any threshold.

Hence if any person receives inward supply of goods and/or services for the purpose of business on which tax is payable on RCM, he is liable to be registered without any threshold.

**f. Tax payable by e-commerce operator [Sec 9(5)]:**

The Government on the recommendation of the GST Council may notify categories of services wherein the person responsible for payment of taxes in GST would neither be the supplier nor the recipient of supply, but the e-commerce operator through which the notified services are effected. It is important to know that all the provisions of the Act are applicable to such e-commerce operator as if he is the supplier of the specified services and liable to pay tax.

The Govt. has notified certain services in this regard vide, CGST Notification No.17/2017-CT (R), dated 28.06.2017 as amended time to time, including services by way of transportation of passengers by a radio-taxi, motor cab, maxi cab and motor cycle, etc. on which tax will be payable by the e-commerce operator u/s 9(5).

Where the e-commerce operator does not have a physical presence in the taxable territory, any person representing him in the taxable territory would be liable to pay the taxes. If no such representative exists, the e-commerce operator is liable to appoint such a person to discharge all the obligations.

**g. Some queries on RCM**

Sl. No.	Question	Answer
1	<p>A registered person receives service from a Goods Transport Agency (GTA) who doesn't charge any GST.</p> <p>a. Is the registered person liable to pay tax on RCM?</p> <p>b. What would happen if the recipient was unregistered? In that case, who will pay the tax, and at which rate?</p>	<p>a. Yes. (vide, Entry No. 1 of CGST Notification No. 13/2017-CT(Rate) dt.28.6.2017)</p> <p>b. The recipient, other than an individual or a HUF, is liable to pay tax on RCM.</p> <p>(i) From 01.07.2017 till 21.08.2017, the GTA was liable to pay tax @ 5% without ITC;</p> <p>(ii) from 22.08.2017 to 12.10.2017 the GTA may pay tax @ 5% without ITC or @12% with ITC; and</p> <p>(iii) from 13.10.2017, no tax is payable on such supply <b>to an unregistered individual</b> as it became "NIL" rated only in such cases vide Entry No. 21A of CGST Notification No. 12/2017-CT(Rate) dated 28.06.2017.</p>



2	<p>i) XYZ Co. is the title sponsor of a cricket tournament. In this case, is there any supply involved? What is the nature of such supply?</p> <p>(i) Who is the supplier, and who is the recipient?</p> <p>(ii) Who is liable to pay GST?</p>	<p>(i) In this case, there is a supply of "Sponsorship service (SAC Code-998397)".</p> <p>(ii) Here, the tournament's organizing body is the supplier of such services and XYZ Co. is the recipient.</p> <p>(iii) Here, the tax is payable under RCM by XYZ Co. .</p>
3	<p>A registered person in India imports services (other than OIDAR services provided by a person in a non-taxable territory received by a non-taxable online recipient) from a company in the USA. Is there any liability to pay tax under GST by either of the parties? If the answer is 'Yes', who is liable to pay tax?</p>	<p>Yes. Notification No. 10/2017-ITR dated 28.06.2017 issued under section 5(3) of the IGST Act stipulates that the recipient registered person is liable to pay tax on RCM.</p> <p>Note: In case of OIDAR services provided by a person in a non-taxable territory received by a non-taxable online recipient, the supplier of services located in a non-taxable territory is liable for paying integrated tax.</p>
4	<p>A Panchayat Samithi sells old and used goods to a registered person. In this case who is liable to pay tax ? If such sale would have been effected on say, 01.11.2017 who is liable to pay tax?</p>	<p>If the recipient of the supply is a registered person, then such recipient was liable to pay tax on RCM. (Entry No. 6 of CGST Notification No. 04/2017-CT(Rate), dated 28.06.2017 inserted by CGST Notification No. 36/2017-CT(Rate) w.e.f. 13.10.2017). However, if the said supply is made to an unregistered person, the Panchayat Samithi itself has to charge tax on forward charge basis.</p>

5	A registered person imports goods from Bangladesh. Is he liable to pay tax (IGST) on RCM as in case of importer of services?	While importing goods from Bangladesh, he has to pay IGST. But such tax is paid by him in accordance with section 3 of the Customs Tariff Act, 1975. It is worthwhile to mention that subject to conditions, the importer is eligible to avail ITC on such payment of IGST.
6	A GTA has accrued liability for registration. He thinks that as tax is payable on GTA service by the recipient on RCM basis, he is not required to be registered under GST. Is he correct?	As per CGST Notification No. 05/2017-CT dated 19.06.2017, <b>persons</b> who are <b>only</b> engaged in making supplies of taxable goods and/or services, the total tax on which is liable to be paid on RCM by the recipient under section 9(3) of the CGST/SGST Act are exempted from obtaining registration. But in the case of a supplier of GTA services, the option is there to pay tax on forward charge also. So, it cannot be said that total tax on that service is liable to be paid on RCM by the recipient under section 9(3). Thus, the person is not correct, and may be required to get himself registered.
7	An Advocate decided not to get registration even though he has crossed the threshold of Rs. 20 lakhs. Is he correct as per GST Law?	Yes. Advocate service is exclusively taxable on RCM under section 9(3). So, the said Advocate is correct in his position.

#### h. Court judgements on RCM under GST

Several judgments have been pronounced by different High Courts on reverse charge mechanism under GST. Gist of some important judgements are compiled in the Table below:

Sl. No.	Issue of the case	Gist of the Judgement
1.	Bombay High Court  Bai Mamubai Trust and 2 Ors vs	Q.1. Whether GST is liable to be paid on services or assistance rendered by the Court Receiver appointed by Court?  A.1 There may be instances where payments received by the Court Receiver may attract GST-

	<p>Suchitra Wd/Of Sadhu Koraga ... on 13 September, 2019</p> <p>Bench: S.J. Kathawalla</p> <p>(Courtesy: Indian Kanoon Org)</p>	<p>(i) Where the Court Receiver is appointed to run the business of a partnership firm in dissolution, the business of the firm under the control of receivership may generate taxable revenues.</p> <p>(ii) Where the Court authorises the Court Receiver to let out the suit property on leave and licence, the licence fees paid may attract GST.</p> <p>(iii) Where the Court Receiver collects rents or profits from occupants of properties under receivership, the same will be liable to payment of GST.</p> <p>(iv) Consideration received for assignment, licence or permitted use of intellectual property.</p> <p>In such cases, GST may be collected from the Court Receiver as a representative assessee under Section 92 and as such the Court Receiver may be required to obtain registration under the relevant GST laws. [Para. 84 &amp; 85]</p> <p>However, if the Court Receiver is deputed to make an inventory of goods, collect rents with respect to immovable property in dispute or where the property has to be sealed, or the Receiver is appointed to call bids for letting out the premises on leave and licence, the fees or charges of the Court Receiver are exempt. [Para. 86]</p> <p>Q.2. Whether GST is liable to be paid on royalty or payments under a different head paid by a defendant (or in a given case by the plaintiff or third party) to the Court Receiver in respect of properties over which a Court Receiver has been appointed?</p> <p>A.2. The answer is in the affirmative, subject to the payment towards royalty or the payment to the Court Receiver (described by whatever name) is towards or in relation to a “supply” within the meaning of the CGST Act. [para. 87]</p> <p>Q.3. Specifically, in the facts of the present Suit, where the Plaintiff alleges the Defendant is in illegal</p>
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		<p>occupation of the Suit Premises: Whether there is any 'supply' within the meaning of the CGST Act? Whether payment of royalty for remaining in possession of the Suit Premises, either during the pendency of the Suit, or at the time of passing of the decree, falls within the definition of 'consideration' for a 'supply' chargeable to payment of GST under Section 9 of the CGST Act?</p> <p>A.3. The answer is in the negative. [Para. 88]</p> <p>Q.4. If in any circumstance, GST is payable or applicable to payments made to the Court Receiver, how that statutory liability is to be discharged? Is it to be paid by the Defendant / party in occupation directly, or by the Court Receiver?</p> <p>A.4. Where any payment to be made under an order of the Court attracts GST, the agent appointed by the Court Receiver must have or must obtain CGST registration and make such payment on behalf of the Receiver and indemnify the Receiver for any liability that may fall upon the Receiver under Section 92 of the concerned GST Act. Where no agent is appointed, naturally the Court Receiver will have to obtain registration. [Para. 91 &amp; 92]</p>
2.	<p>Rajasthan High Court - Jodhpur</p> <p>Vinod Kumar Sharam vs State Of Rajasthan on 10 April, 2019 read with Ladu Lal Hiran and Ors vs State Of Rajasthan And Ors on 28 August, 2018</p>	<p>(i) Whether Royalty Contractors (termed as ERCC Contractors) appointed by the Government of Rajasthan <b>exclusively</b> for collecting the royalty on behalf of the Government from the mining lessee of natural resources without supply of such natural resources can collect GST @ 18% as forward charges – the answer is in the <b>negative</b>.</p> <p>(ii) Whether the royalty paid for mining activities as chargeable under the notification dated 28.06.2017 provides that the lease holders are required to pay the GST under the <b>reverse charge mechanism</b> – the answer is in the affirmative.</p>

## Annexure 10: Key points for value of supply and details of value of supply (p.55)

TABLE II: KEY POINTS FOR VALUE OF SUPPLY			
SR. NO.	KEY POINTS IN RELATION TO SCOPE OF SUPPLY	Reference Points from returns	Accounts
1	Whether the transaction value is in accordance with the terms of the contract?	<ul style="list-style-type: none"> <li>Contracts/Agreement</li> <li>Purchase order</li> <li>Invoices</li> <li>File of Correspondence with Client/Customer</li> </ul>	
2	Whether the discounts allowed are in accordance with regular practice of the taxpayer and the purchaser has paid the sum originally charged less the discount?	<ul style="list-style-type: none"> <li>Price Circular</li> <li>Invoice linked to Discount</li> </ul>	
3	Whether any amount that the supplier is liable to pay but incurred by the purchaser has been included in the value of supply?	<ul style="list-style-type: none"> <li>Price circular</li> <li>Contract/Agreement</li> </ul>	
4	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?	Debit Notes	
5	Whether there are supporting documents for the credit notes issued for supplies made?	Price circular Contract/Agreement	
6	Whether there are supporting documents for the debit notes issued for supplies made?		
7	Whether terms of contract detail any consideration flowing from the third party?	Contract/Agreement	
8	Whether the taxpayer has engaged in any supplies to related persons as defined in section 15? If so, check whether there is significant variation in the value in comparison to similar transactions with unrelated buyers.	List of related persons Inter-unit movement check through delivery challan.	

9	Whether the taxpayer has made any supplies where money is not the sole consideration?		
10	Whether any exchange offer or scheme has been offered by the taxpayer?	Exchange offers during festive months.	

## Value of supply

The GST is applied on the value of supply of goods and services. The consideration may be in money or in other forms. Buyer can also pay for his inward supply with non-monetary considerations by giving the seller other goods or services in exchange. There may be a situation when there is no consideration at all. Then what will be the value of supply? Hence it is really important to calculate the value of supply properly as per provisions of laws.



**EXHIBIT 28**

There are several situations where valuation takes a vital role, such as the case of different sales offers, free distribution, combo offers etc. Therefore, what can be part of the value of supply or what does not, is very important to understand to levy GST.

**A. The methodology of valuation of a particular supply is exclusively discussed in Section 15 of the CGST/SGST Act, 2017.**

### **What is the value of supply under GST?**

As per Section 15(1), the value of supply is the transaction value actually paid or payable for the supply of goods and / or services between parties **not related** and where **price is the sole consideration**. The value of supply shall include -

- (a) any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than CGST Act, SGST Act, UTGST Act and the GST (Compensation to States) Act, if charged separately by the supplier;
- (b) any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;
- (c) incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services;
- (d) interest or late fee or penalty for delayed payment of any consideration for any supply; and
- (e) subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.

**The above provisions of Section 15(1) are applicable to determine value of supply when [the parties are not related](#). So, it is important to know first as to who are related parties and who are not.**

### **Related Parties**

The supplier and recipient of a particular supply will be considered as related persons if they satisfy the below mentioned situations enumerated in the explanation to Section 15(5) of the CGST /SGST Act 2017:

- (i) such persons are officers or directors of one another's businesses;
- (ii) such persons are legally recognised partners in business;
- (iii) such persons are employer and employee;
- (iv) any person directly or indirectly owns, controls or holds twenty-five per cent. or more of the outstanding voting stock or shares of both of them;
- (v) one of them directly or indirectly controls the other;
- (vi) both of them are directly or indirectly controlled by a third person;
- (vii) together they directly or indirectly control a third person; or
- (viii) they are members of the same family;



**Where persons are related, price determined under section 15(1) is irrelevant and is subject to verification under section 15(4) by reference to the rules applicable.**

### **Price is the sole consideration**

It is important then to understand the term 'price is the sole consideration'. If there is any consideration not in money, the money actually paid cannot be taken as the basis of valuation. Any additional consideration received apart from the monetary consideration shall also be considered to arrive at the actual transaction value. In fact, the consideration can be both monetary and non-monetary which is well defined in Section 2(31) of the CGST / SGST Act.

**There is an important clause in the provisions of valuation** – *“any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable..”*

This clause is a check to ascertain that any amount of a supply may not be diverted by the supplier from the actual value of supply.

Example: There is a supply agreement between a principal and an agent where the principal fixed his supply value to the agent at Rs.500/- per unit for a taxable item and also fixed the sale price of the agent to any buyer at Rs.600/- per unit of that item where Rs.50/- per unit will be retained by the agent as commission and balance as incidental expenses. Question arises now, what will be the supply value of principal to the agent? As per the above clause of valuation provision, the supply value should include this commission and incidental expenses of the agent. The supplier (here the principal) manages to escape from the liability of paying commission and incidental expenses to the agent by transferring them to the buyer. But, it shall be part of supply value from principal to agent.

**Incidental expenses as a part of supply value** – Incidental charges incurred before or at the time of supply shall form part of supply value.

Example – There is a supply contract of door delivery of fragile goods with proper packing. Suppose, the value of the goods is Rs.10,000/-, packing

charges are Rs.500/- and door delivery cost is Rs.600/-. Then, it will be a composite supply with the supply of that goods as principal supply and value of supply is Rs.11,100/-.

So, the incidental charges incurred before or at the time of supply shall be part of supply value. But, if such charges incurred after the supply whether that should not be part of supply value? Let us explain it with an example –

Warranty supply of parts to end-customers through a dealership – Suppose a company sold a car with a consideration of Rs.10 Lakh to a customer with 3 years free service warranty. An authorised service centre of that car company supplies service of servicing of the car to that car owner. This service is actually provided by the car company (as per terms of purchase of car), through the authorised service centre. There may be replacement of parts under warranty also. Now, the transaction of free service and / or warranty replacement between the car company to the customer is not liable to GST not because it is free now, but since the price for the replacement is built into the price of the car originally supplied and therefore tax has already been paid by the car company at the time of selling of the car. Now, the question arises then what is the role of the service centre here? In fact, the service centre delivers the part and rendered service to the customer but ‘supplies’ it to the car company. Hence, there is another supply involved here between the service provider and the car company which is taxable supply in GST.

[Reference: Mohd. Ekram Khan’s decision of SC in 144 STC 542. As such, warranty involves two supplies and neither of which are free from tax. One is tax pre-paid and another is currently taxed though not involving the end customer].

**Interest, late fee or penalty for delayed payment are also part of supply value-** All these special charges are linked to an underlying original supply, therefore, shall be part of supply value. So many questions may arise – what will be the time of supply for these special charges? Whether the rate of tax of original supply will be applied for the special charges also? Whether all such special charges are liable to GST? It is better to explain it with an example –

Example: A contractee awarded a contractor with a 'turnkey project' to build a road with an agreed price of Rs.100 Cr (Excluding GST). Some of the terms of agreement were as follows –

i. The contractor must pay earnest money Rs.5 Cr in the form of FD as a security to abide by the terms and conditions to use machinery and materials not below the specified standard and also for timely completion of the project. However, if completion is delayed by more than 6 months, 50% of the security will be forfeited. Similarly, any breach in the condition of quality is liable to forfeiture of 10% of the security. At the same time, if it is completed 2 months prior to the date, the company will provide prize money of Rs.50 Lakh to the contractor. There was also a clause that if the contractee fails to provide land in time the contractor will charge 1 Cr. for each month of delay.

ii. The contractor finished the work 2 months prior to scheduled time. Due to bad quality of machinery used, the contractee forfeited 5% of earnest money. The contractee failed to deliver land to the contractor in due time therefore, the contractor charged Rs. 4 Cr extra to the contractee. The contractor also charged interest of Rs.60 lakh for late payment.

In this example, there are so many incidental charges. But, all are not taxable in GST. Earnest money is a kind of security only. So, GST is not leviable on the same. The taxability of the above charges is explained the table below –

Sl. No.	Description	Amount	Remarks
1	Turnkey project of construction of road	100 Cr	Taxable as works contract service.
2	Security	5 Cr.	Not a supply in GST
3	Forfeiture of security by the contractee	2.5 lakh	<b>It is a penalty for not using the specified quality of machinery and hence it is not a supply</b>
4	Award for early completion	50 Lakh	Taxable service <b>being a supply ancillary to the main</b>

			<b>supply of construction service</b>
5	Penalty for delay to handover land.	4 Cr	<b>It is a penalty (hence not a supply) for not adhering to the terms of the contract which stipulated transfer/providing land on a specific date</b>
6	Interest for delayed payment of contractual price	60 Lakh	Taxable and shall be part of the value of construction service.

Thus, there are so many special charges but only the last one is for the underlying original supply of construction service.

**Discounts to be excluded from Taxable Value** – As per Sec 15(3) value of supply will not include discount, provided:

- It is allowed before supply, or
- It is allowed after supply, provided that it is established in agreement linked to specific supplies and corresponding credit is reversed by the recipient.

**Example:** M/s. A of Kolkata supplied 10 pcs of i-Phone to M/s. B of Kolkata on 20.09.2019 where basic price of such phones is Rs. 10 lakh. A discount of Rs. 1 lakh is offered and courier charges of Rs.1000.00 is charged at the time of supply. **What is the value of supply in the above transaction if the tax rate of such i-phones is 12%?** As per the conditions, 50% payment was made at the time of delivery and further condition was that if balance payment is made within 20.10.2019 then 10% further discount on basic price will be allowed. If such payment is made in time, **whether this discount will also be deducted from the supply value?**

In this example, courier charges are to be added to the value of supply as incidental charges and discount is to be deducted as it is offered at the time of supply. Hence, taxable value will be Rs. 9,01,000/-. GST @ 12% is to be added to Rs. 9,01,000/- to get the value of supply i.e. Rs. 10,09,120/-. If 50% of the amount is paid and rest is paid within 20.10.2019, further

discount of 10% on basic price will be allowed. Though it is a post-sale discount, the condition was fixed at the time of supply. So, the discount is allowed as a deduction. Accordingly, M/s A may decrease his output tax subject to the condition that M/s B reverses an equal amount of ITC.

In lieu of discounts if promotional items are offered by the supplier to increase sales volume and to attract new customers for their products, such promotional items are not discounts as not satisfying the requirements of section 15(3).

**Example:** Two goods, say A (tax rate 12%) & B (tax rate 18%) are offered for a single price of Rs. 3000/- under the scheme 'Buy one get one free'. Now, what will be the transaction value? What will be the rate of tax on such supply?

In this example, it may appear first at a glance that one item is being 'supplied free of cost' without any consideration. But it is not an individual supply of free goods rather a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one. Hence, here transaction value will be Rs. 3000/-. Taxability of such supply will be dependent upon whether the supply is a composite supply or a mixed supply. If it is a composite supply, then the tax rate of the principal supply will be applicable and if it is a mixed supply, tax rate shall be 18%.

#### **B. Determination of Value of Supply as per GST Rules:**

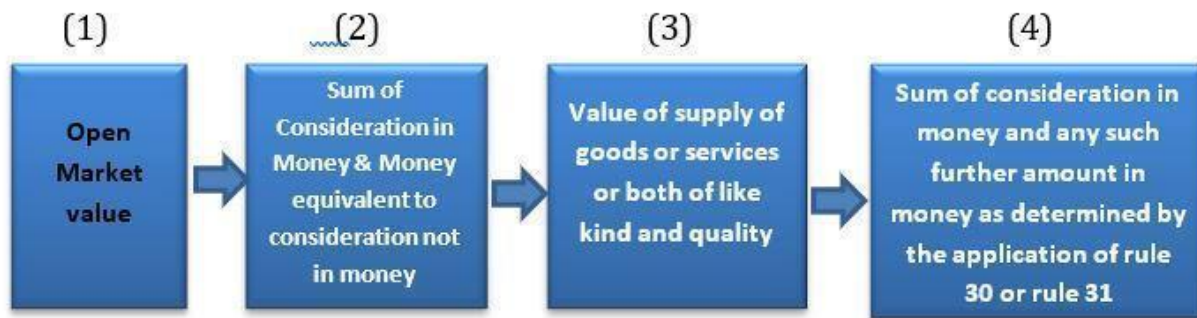
Reference to GST Rules related to valuation is permitted only if the transaction value cannot be determined as discussed above. These are cases where either the parties are related/distinct/agent or the price is not the sole consideration. Valuation Rules are prescribed under Chapter IV of the CGST/SGST Rules, 2017 from Rule 27 to Rule 35.

**The above Rules are explained below:**

##### **1. Where consideration is not wholly in money - Rule 27**

This rule is applicable for the supplies like barter, exchange and transactions listed in schedule I where the transaction is not wholly in money as they fail to qualify for application of section 15(1).

Now, the order of application of the methods to determine the value of supply has to be maintained in the following sequence.



**EXHIBIT 29**

**Example 1:**

(a) X Co. supplied a car to Mr. Sen in exchange for Mr. Sen's old car and on payment by Mr. Sen of Rs. 5,00,000/-. If the price of the new car without exchange is Rs. 9,00,000/-, then the open market value of the new car is Rs. 9,00,000/-.

(b) If the open market value of the new car is not known, and the price of the old car is Rs. 4,00,000/- at the time of supply, then the value of supply of the new car will be Rs. 9,00,000/-.

(c) A customized air conditioning unit whose open market value is not available is installed at an office wherein the consideration is paid in the form of money of Rs. 40,000 and an old air conditioning unit whose price is not available at the time of supply. A similar air conditioning unit in terms of characteristics, quality, functional components, materials and reputation etc. has been installed by the company at another client's premises for Rs. 60,000/-. Since, the value of goods of like kind and quality is available, the value of Rs. 60,000/- will be taken under Rule 27.

(d) value determined by rule 30 or rule 31.

**2. Where supply is made between related persons with or without consideration and distinct persons without consideration - Rule 28**

The value of supply under this rule will be:

(a) **Open market value:** Example: A cell phone dealer gifts a cell phone set worth Rs. 23,000/- to his son. Since, this is the open market value, it will be the value of supply for the mobile set supplied to a related person.

(b) **Value of Supply of Like kind and quality:** If open market value is not available, then value of supply may be determined on the basis of supply of like kind and quality.

(c) Value determined by rule 30 or rule 31.

**The two provisos to this rule are of significance:**



(i) If the supply to a related or distinct person is for further supply, then the value may be an amount equivalent to 90% of the value of supply of like kind & quality to non-related person.

(ii) where it is the recipient, who is entitled to full credit, the value declared in the invoice is deemed to be open market value. This provision appears to accommodate internal preferences between distinct persons.

[Reference: In a case of GKB Lens Pvt Ltd, Advance Ruling had been sought on whether goods supplied to the branches in the States other than West Bengal can be valued in terms of the Cost Price under the Second Proviso to Rule 28 of CGST Rules, 2017, instead of 90% of MRP as required under the First Proviso of the same Rule. AAR West Bengal held - The Applicant has the option of not supplying goods to its branches under the First Proviso of Rule 28 and is eligible to value these goods by applying the terms of the Second Proviso to Rule 28 of GST Act.]

### 3. Where supply is made or received through agent - Rule 29

This rule is applicable only in case of ‘**supply of goods**’ and not ‘supply of services’. The value of supply under this rule will be:

(a) Open market value or ‘at the option’ of supplier 90% of the price charged for goods of ‘like kind and quality’ by the Agent.

Example: Agent supplies groundnut @5000/- per Qtl. Agent is purchasing groundnut from a non-related supplier @4550/- per Qtl. What should be the supply value from principal to agent?

It should be 90% of Rs. 5000/- ie. Rs. 4500/-

(b) Value determined by rule 30 or rule 31.

**This rule is applicable only in case of those transactions where the Agent ‘handles’ the goods of the Principal.** It is clarified vide Circular No. 73/47/2018-GST dated 05-11-2018 that in case of supply of goods, if the invoice is issued by supplier to customer either himself or through del credere agent (DCA) then it does not fall under the ambit of agent. However, in a case where the invoice is issued by the del credere agent then it would fall under the ambit of an agent.

### 4. Value of supply based on cost - Rule 30

This rule is applicable for valuation of supply of goods and services, only where the other methods of valuation do not apply. It provides that the value will be ‘**cost plus 10%**’.



Example: Suppose ABC Limited is a manufacturer of office furniture. Say, the cost of manufacturing a chair is Rs. 4,000/-. Similar chair in the open market is valued at Rs. 4,500. These chairs are supplied to a furniture showroom at the rate Rs. 3,000 and balance in non-monetary consideration. Now since the open market value is available, Rs. 4,500 will be considered for valuation of supply. However, if Open Market Value is not available, the value of supply as per cost method will be 110% of the cost of manufacturing i.e.  $\text{Rs. } 4,000 \times 110\% = \text{Rs. } 4,400$ .

## 5. Residual method of valuation - Rule 31

As per the residual method, where the value of supply of goods or services or both cannot be determined under the cost method, the same shall be determined using reasonable means consistent with the principles and general provisions of the GST law. Unitary method or number of man hours required to complete a job can be examples of such valuation method.

## 6. Lottery, betting, gambling and horse racing - Rule 31A

**Supply Value in case of Lottery:** Value shall be 100/128 of the face value of ticket or of the price as notified in the Official Gazette by the Organising State, whichever is higher.

Note: The above Rule is as amended by the CGST/SGST (Second Amendment)

Rules, 2020, w.e.f. 1-3-2020. Prior to the amendment, the Rule provided for determination of value of supply for lottery run by state Government as 100/112 of the face value of ticket or the price as notified in the Official Gazette by the organising State whichever is higher. Value of supply for the lottery authorized by a State Government is determined as 100/128 of the face value of ticket or the price as notified in the Official Gazette by the organising State whichever is higher.

**Betting, Gambling or Horse Racing:** Actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be 100% of the face value of the bet or the amount paid to the totalisator. This implies that the value on which GST has to be paid will be the amount of bet placed or the amount paid to the totalisator instead of the commission or share of revenue of the race club.

Actionable claim is “goods” under section 2(52). Hence, actionable claim in the form of chance to win betting, gambling and horse racing with reference to the above definitions will be goods and not services. The tax rate notifications issued for goods states that ‘actionable claim in the form of chance to win in betting, gambling, or

horse racing in a race club' is liable to tax at the rate of 28%. The rate notification issued for services also specifies that the gambling as an activity involving services and accordingly, liable to tax at 28% (refer entry No. 34(v) of Notification No. 11/2017 (Rate)).

With the above ambiguities there may be some confusion whether to tax actionable claims as goods or services.

## 7. Specific valuation provisions – Rule 32

Rule 32 is only an option available to the supplier for determination of valuation of certain specific supplies. He may opt for the mechanisms specified in rule 32 or in rules 27-31 or in section 15 as the case may be.

### (a) Purchase and sale of foreign currency including money changing:

Option 1	Option 2
<p>Difference between buying-selling rate and the RBI reference rate.</p> <p>Where reference rate is not available, 1% of gross Indian Rupee provided/received. And where the conversion is not into Indian Rupees, then 1% of the lesser of the Indian Rupee equivalent of each currency exchanged.</p> <p><u>Example:</u> Suppose a company M/s Thomas Cook Ltd, a money changer, converts 1000 Euro into rupees @90 per Euro. The RBI reference rate for Euro is Rs. 88.</p> <p>So, the value of supply shall be = <math>(90-88) \times 1000 = \text{Rs. } 2000/-</math>.</p>	<p><b>For currency exchange <math>\leq</math>Rs.1 L:</b> 1% or Rs.250/- which one is higher.</p> <p><b>For currency exchange <math>&gt;</math>Rs.1L but <math>\leq</math> 10L</b> 0.5% of exchanged amount exceeding 1 L plus Rs.1000/-</p> <p><b>For currency exchange <math>&gt;</math>Rs.10L:</b> 0.1% of exchanged amount exceeding 1 L plus Rs.5500/- but maximum Rs.60000/-</p> <p><u>Example:</u> Suppose a money exchanger received Singapore Dollar and provided Indian Rs. 5,00,000/-.</p> <p>The value of supply shall be <math>(4,00,000 \times 0.5\%) + 1000 = \text{Rs. } 3000/-</math></p>

**(b) Value of service in relation to air travel agents:** 5% of basic fare in case of domestic booking and 10% of basic fare in case of international booking of passengers by air. Commission to the travel agent may flow from passenger or airline or any other person and the value determined here will be the tax for all the sources of commission.

### (c) Supply of services in relation to life insurance

- If in the policy allocation for investment of certain amount is intimated to the policy holder: Gross premium - Investment amount
- In case of single premium other than (i): 10% of single premium

(iii) In cases other than (i) & (ii): 25% of premium charged for first year & 12.5% for subsequent year

**(d) Supply of services of person dealing in second-hand goods**

(i) If supplied as it is or after minor processing without changing nature of goods and without availing ITC: Sale price - Purchase price (If this difference is negligible, that shall be ignored)

(ii) Purchase price in case of repossessed goods from a defaulting borrower who is unregistered: Purchase price - 5% from purchase price for each quarter from date of purchase to date of disposal after repossession.

**(e) Supply of voucher:** The value will be the redemption value of the voucher. Voucher includes coupon, stamp, token, et

**8. Service of pure agent - Rule 33**

This rule applies only to supply of services. The cost incurred by the supplier shall be excluded from value of supply if the following tests are satisfied:

- (a) the supplier acts as a pure agent of the recipient of the supply, when he makes payment to the third party on authorisation by such recipient;
- (b) the payment made by the pure agent on behalf of the recipient of supply is separately indicated in the invoice issued by the pure agent to the recipient of service;
- (c) the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.

**Pure agent:**

- A person who enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure in the course of supply of goods or services or both;
- Neither intends to hold or holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply.
- Does not use for his own interest such goods or services so procured as pure agent.
- Receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.

Example: Mr. A is an importer who goes to Mr. B for Customs clearance work in respect of import of a consignment. The clearance of goods would also require taking of transporter service. Mr. A also authorizes Mr. B to incur expenditure on his behalf for procuring the transporter service and agrees to reimburse such expenses. In this scenario, Mr. B is providing custom broker service to Mr. A, which is principal to principal basis and the transportation services procured by Mr. B on behalf of Mr. A is a pure agent service and expenses incurred by Mr. B on transportation shall not form part of the value of the Customs broker service.

#### **9. Rate of exchange of foreign currency - Rule 34**

Any transactions undertaken in foreign currency must be converted into INR and the rate of such exchange is as follows:

- (a) For determination of the value of taxable goods the rate of exchange shall be the applicable one as notified by the Board under section 14 of the Customs Act, 1962.
- (b) for determination of the value of taxable services rate of exchange shall be the applicable one determined as per the generally accepted accounting principles for the date of time of supply of such services in terms of section 13 of the Act.

#### **10. Value of supply inclusive of integrated tax, central tax, state tax, union territory tax – Rule 35**

In such cases, the tax amount shall be determined in the following manner:  
Tax amount = (Value inclusive of taxes X tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST) ÷ (100 + sum of tax rates, as applicable, in %)

## Annexure 11: Input Tax Credit (p. 52)

Availability of Input Tax Credit throughout the value chain is the essence of GST in India. Needless to say that examining the veracity of ITC availed by an auditee is of paramount importance to an auditor. The provisions related to ITC are as follows:



EXHIBIT 30

**Sec 16** Eligibility and conditions for taking input tax credit.

**Sec 17** Apportionment of credit and blocked credit.

**Sec 18** Availability of credit in special circumstances.

**Sec 19** Taking ITC in respect of inputs and capital goods sent for job work.

**Sec 20** Manner of distribution of credit by Input Service Distributors.

**Sec 21** Manner of recovery of credit distributed in excess.

EXHIBIT 31

### Relevant Rules

<b>Rule 36</b>	<b>Rule 37</b>	<b>Rule 38</b>	<b>Rule 39</b>	<b>Rule 40</b>
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Rule 41	Rule 42	Rule 43	Rule 44 & 44A	Rule 45
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a. **How is Input Tax Credit (ITC) defined in GST**

Section 2(63) of the CGST/SGST Act defines Input Tax Credit as the **credit of input tax**.

Section 2(62) defines input tax as follows: **“input tax”** in relation to a registered person **means any tax** such as Central Tax, State Tax, Integrated Tax or Union territory tax **charged on any supply of goods or services or both** made to him & **includes**:-

- **Integrated Tax charged on import of goods &**
- **Tax payable under reverse charge mechanism,**

**but does not include the tax paid under the composition levy.**

**Input** is defined in Sec 2(59) as any goods other than capital goods used or intended to be used by the supplier in the course or furtherance of business.

**Capital goods** is defined in Sec 2(19) as goods, the value of which is capitalized in the books of account of the person claiming ITC and which are used or intended to be used in the course or furtherance of business.

**Input service** is defined in Sec 2(60) as any service used or intended to be used by a supplier in the course or furtherance of business.

b. **Provisions of section 16(1)**

Who can claim ITC?	In respect of which?	Primary condition?
Every registered person subject to conditions and restrictions	In respect of credit of input tax charged on any supply of goods or services or both	Used or intended to be used in the course or furtherance of his business.

**EXHIBIT 32**

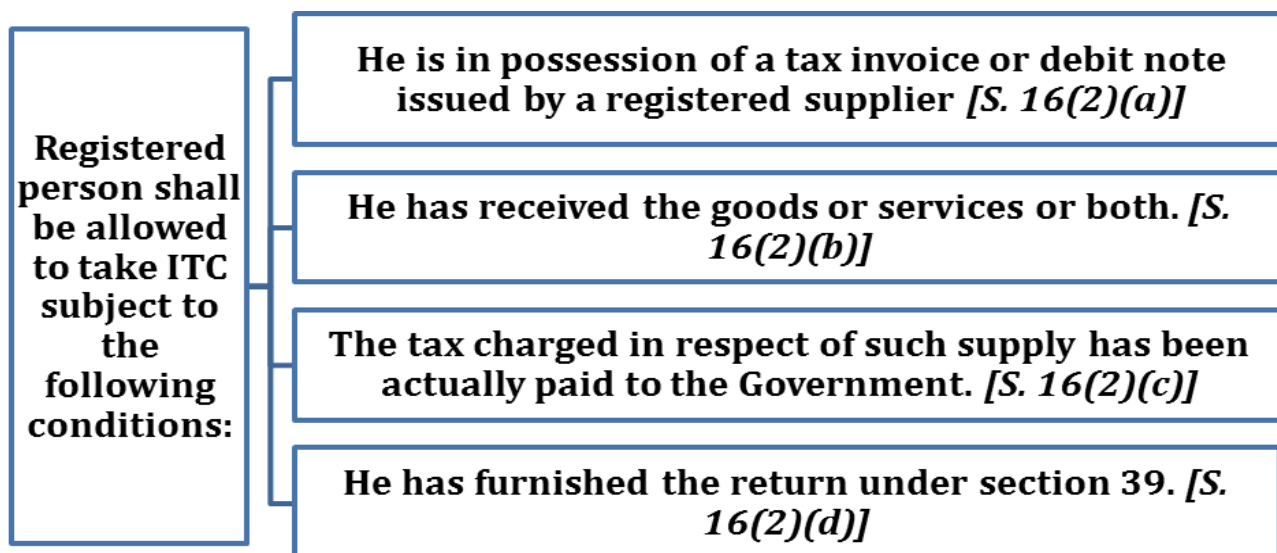
In accordance with Section 16(1) of the CGST/SGST Act, 2017:

- (i). Only a registered person other than persons under composition scheme is entitled to claim ITC.



- (ii).However, this claim is not unconditional and is subject to conditions and restrictions as prescribed.
- (iii).Self-assessed ITC taken in the return is credited to the electronic credit ledger of the taxpayer.
- (iv).ITC can be taken on such supply of goods or services or both to the registered person which are used or intended to be used in the course or furtherance of his business.

**c. Provisions of sec 16(2) provide conditions to avail of ITC –**



*With effect from 01.01.2022 another condition to the effect that supplies in respect of which credit is being claimed have been declared by the supplier in his GSTR-1 and the credit available has been communicated to the recipient (vide GSTR-2B) and that the credit is not restricted in terms of the said communication*

**d. Deemed recipient of goods / services**

Where goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods either by way of transfer of documents of title to goods or otherwise, it shall be deemed that the registered person has received the goods for the purpose of Section 16(2)(b).

Where services are provided by the supplier to any person on the directions of and on account of another registered person, it shall be deemed that the



registered person has received the services for the purpose of Section 16(2)(b).

It may be noted in this regard that the date of receipt of the goods or services is vital for availing ITC. It may happen that the supplier issues invoice on 30<sup>th</sup> of a particular month and uploads details of the same in Form GSTR-1 of that month and the same is auto-populated in GSTR-2A of the recipient in the same month. However, this does not make the recipient eligible to avail of ITC in the return of this said month if he receives the goods in the subsequent month. In the case of goods, many audit trails can be found in respect of receipt of goods in documents like E-Waybill, GRN etc.

This, however, may be difficult to ascertain in the case of services. Further, there may be a situation where goods are received in the subsequent month but purchase is auto populated in GSTR 2A in the month of sale as disclosed by the supplier in GSTR 1. In such cases there is a probability to claim ITC wrongly by the recipient though the goods are not received.

#### e. **Goods received in lots**

If goods are received in instalments against a single invoice, credit can be availed only upon receipt of the last instalment of goods.

Suppose, a consignment of iron ores was dispatched from Jharkhand to Kolkata by 10 trucks. Invoice was raised to the recipient on 28.10.2018. Three trucks reached Kolkata by 30.10.2018 but the truck carrying the final lot of the consignment reached the recipient on 03.11.2018. The supplier also disclosed such sales in his GSTR 1 for the month of Oct'18. In this case, **ITC in respect of the invoice issued on 28.10.2018 can be availed not before the month of November, 2018.**

#### f. **Payment in respect of the supply as a condition to avail ITC:**

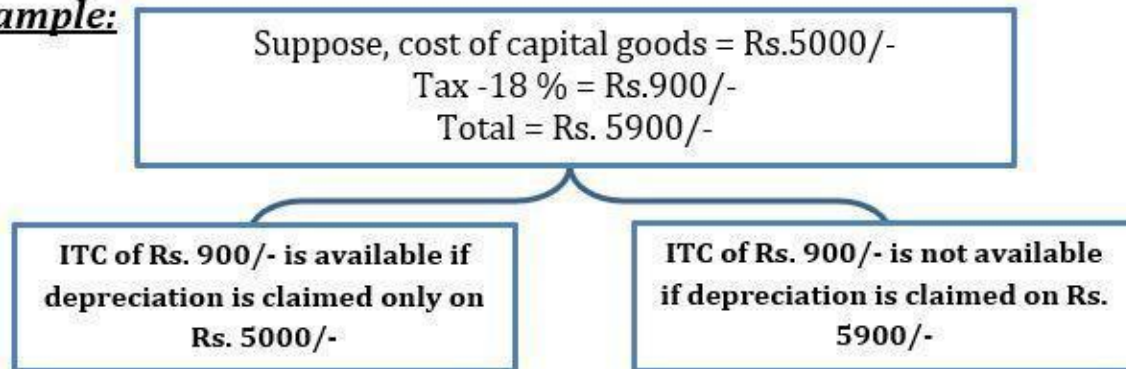
When a recipient fails to pay his supplier (other than supplies on which tax is payable under RCM), the amount of value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice, the recipient is liable to add the ITC availed on such supply to his output tax liability along with interest thereon.

However, the recipient is also entitled to avail the credit of ITC once he makes the payment towards the amount of value of supply along with tax payable thereon.

## Capital goods and plant & machinery on which depreciation is claimed on the tax component under the Income Tax Act:

Sec 16 (3) **does not allow** a registered person to take **ITC on such a tax component** of the **cost of capital goods** and **plant and machinery**, on which he has **claimed depreciation** under the provisions of the **Income Tax Act, 1961**.

### Example:



### g. Time limit to claim ITC

As per Sec 16(4), a registered person shall not be entitled to take ITC in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return (Form GSTR-3B) under section 39 for the month of September following the end of financial year to which such invoice or 'invoice relating to such debit note pertains' or furnishing of the relevant annual return, whichever is earlier.

- **For F/Y 2017-18**, a taxpayer shall be allowed to take ITC till the due date of furnishing of the return for the month of March, 2019 i.e. 23.04.2019 in respect of any invoice or invoice relating to such debit note for supply of goods or services or both made during the FY 2017-18, the details of which have been uploaded in the Form GSTR-1 for the month of March, 2019.
- **For F/Y 2018-19**, a taxpayer shall be allowed to take ITC till the due date for furnishing of the return for the month of September, 2019 i.e. 20.10.2019. For the FY 2018-19, for the taxpayers having aggregate turnover upto Rs. 2 cr, filing of GSTR-9 is optional and for the taxpayers having aggregate turnover upto Rs. 5 cr filing of GSTR-9C is optional. The Ministry of Finance, GoI in an Official Press Release dt.24.10.2020 announced the extension of due date to file GSTR 9, GSTR 9A & GSTR 9C for the FY 2018-19 to 31st December, 2020.

### h. ITC in respect of supplies not declared by the supplier in Form GSTR-1

A supplier is supposed to disclose all B2B supplies in Form GSTR 1 which gets auto populated in Form GSTR 2A of the recipient. Auto-population of invoices in Form GSTR 2A primarily assures disclosure of relevant supply by the supplier. However, disclosure in Form GSTR-1 does not sufficiently ensure that tax in respect of such supplies has been paid by the supplier which is paid in the return in Form GSTR-3B.

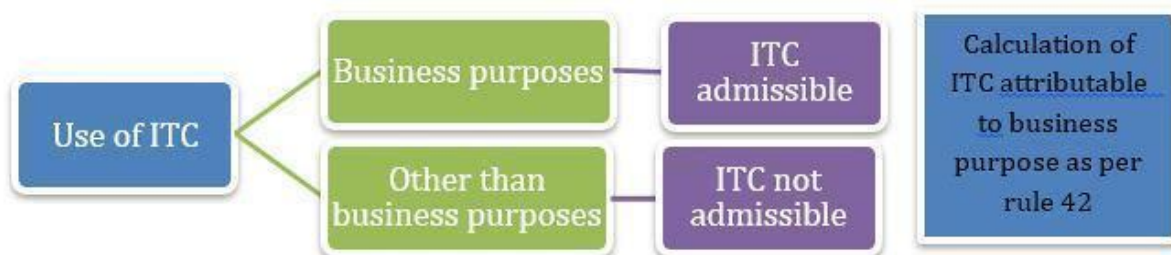
Rule 36(4) has been inserted vide notification No 49/2019-CT, dt. 09-10-2019 (corresponding State notification. No 1730-F.T. dt.16.10.2019) and it applies to all returns filed after 9<sup>th</sup> Oct 2019. In accordance with Rule 36(4), a registered person is entitled to avail of maximum 10% (20% from 09.10.2019 to 31.12.2019) of eligible credit on the basis of auto-populated details in Form GSTR-2A of a particular month in respect of details of invoices or debit notes which have not been uploaded by the corresponding suppliers (i.e. which have not been auto-populated in Form GSTR-2A).

### Illustration:

Suppose X calculates ITC at Rs. 100/- for the month of January 2020 on the basis of invoices in his possession. However, his suppliers declare invoices whose corresponding ITC calculates to Rs. 60/- only, in their Form GSTR-1 which is auto-populated in Form GSTR-2A for the month of January 2020 of X. It is also found out that ITC is eligible for Rs. 60/- since nothing in this amount is restricted by Section 17(1)/ (2)/ (5) etc.

In this case, X is eligible to avail of ITC to the tune of Rs. 66/- [Rs. 60/- + Rs. 6/- (=Eligible ITC: Rs. 60/- x 10%)]

#### i. Apportionment of Credit [Sec 17(1)]



### EXHIBIT 33

**Example:** A registered person claims ITC as follows –

- ITC of Rs.20,000/- for purchase of taxable goods for resale.
- ITC of Rs.5000/- on rent payment for a two storied building, where 1<sup>st</sup> floor is used for business purpose and 2<sup>nd</sup> floor for residential purpose.

- c. ITC of Rs.1500/- for renting cab services both for business and for personal use.
- d. ITC of Rs.6000/- for purchase of furniture for residence.

### **Ineligible ITC:**

Rs.1500/-: Restricted in accordance with section 17(5)

Rs.6000/-: On purchase of Furniture for residence (for purpose other than business).

### **Eligible ITC:**

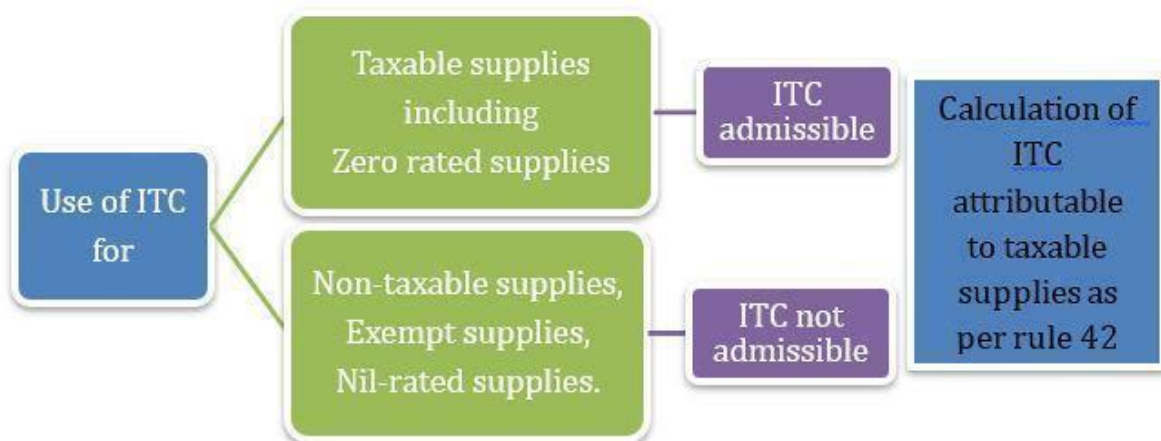
Rs.20,000/-

ITC to be apportioned in accordance with rule 42

Rs.5,000/-: Common Credit for service availed for both business and non – business purpose.

Eligible to claim portion of ITC out of Rs.5, 000/- which is attributable to business purpose (to be calculated in accordance with rule 42)

### **j. Availability / apportionment of ITC when used for taxable supplies (including zero-rated supplies) as well as exempt supplies [Sec 17(2)]**



**EXHIBIT 34**

**Value of exempt supply for the purpose of apportionment of ITC [Sec 17(3)]** Exempt supply has been defined in sec 2(47) of the CGST/SGST Act as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11 of the CGST/SGST Act or under section 6 of the IGST Act, and it includes non-taxable supply.

**For the purpose of apportionment of ITC as per sec 17(2) exempt supply includes** the outward supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause 5(b) of Schedule-II, sale of building.

**However, it shall not include** the value of activities or transactions specified in Schedule III, except sale of land & subject to clause 5(b) of Schedule II, sale of building.

**Example:** A registered person engaged in manufacturing of both taxable and exempted goods and pays tax amounting to Rs.1,50,000/- on procurement of inputs and input services for a particular period.

The corresponding tax paid on inputs and input services which are used as follows –

- a. Rs.5,000/- exclusively for non-business purposes.
- b. Rs.45,000/- exclusively for exempt supply.
- c. Rs.10,000/- ineligible credit u/s 17(5).
- d. Rs.40,000/- exclusively for taxable supplies including zero rated supply.
- e. Rs.50,000/- Common credit for both taxable and exempt supply.
- f. Exempt supply during the period was Rs.1,20,00,000/- and taxable supply was Rs.80,00,000/-.

What will be the eligible credit during the period?

**Answer:**

**Ineligible ITC:**

Rs.5,000/-: exclusively for non-business purposes.

Rs.45,000/-: exclusively for exempt supply

Rs.10,000/-: Restricted in accordance with section 17(5)

**Eligible ITC:**

Rs.40,000/-: exclusively for taxable supplies including zero rated supply

**ITC to be apportioned in accordance with rule 42**

Rs.50,000/-: Common Credit used for both taxable supply & exempted supply

**Eligible to claim portion of ITC out of Rs.50, 000/- which is attributable to taxable supply (calculated in accordance with rule 42)**

$$\text{Rs.50,000} \times (\text{Rs.80,00,000} / (\text{Rs.80,00,000} + \text{Rs.1,20,00,000})) = \text{Rs.20,000/-}$$

Total eligible credit available to the registered person: Rs.40,000/- + Rs.20,000/- = Rs.60,000/-



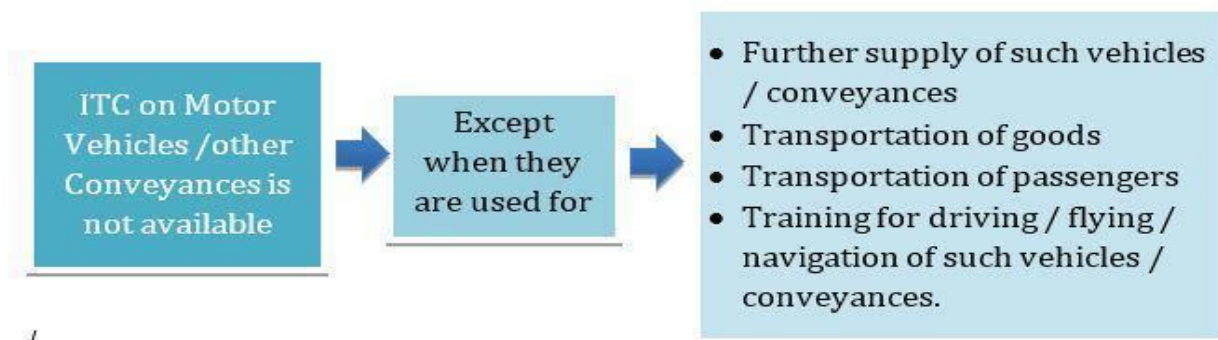
## Availability of Credit for a banking Company or a financial institution including NBFC [Sec 17(4)]

Descriptions	Options of availing of ITC	Conditions
Banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances.	<ul style="list-style-type: none"> <li>Either apportion the ITC as per provisions of section 17(2).</li> <li>OR</li> <li>Avail 50% of the eligible ITC on inputs, capital goods and input services every month and the rest shall lapse.</li> </ul>	<ul style="list-style-type: none"> <li>Option once exercised shall not be withdrawn during the remaining part of the FY</li> <li>The restriction of 50% shall not apply to the tax paid on supplies made by one registered person to another registered person having the same PAN.</li> </ul>

### k. Ineligible Input Tax Credit [Sec 17(5)]

**Input tax credit is not available** in respect of certain inward supply of goods or services in accordance with Section 17(5) (**blocked credit**). The provision of Section 17(5) was amended w.e.f 1<sup>st</sup> February, 2019. Hence, the provisions are discussed accordingly:

#### i. Motor vehicles and other conveyances (valid upto 31.01.2019)–



### EXHIBIT 35

#### **Example:**

ABC Pvt Ltd has purchased an SUV @ Rs 7.5 lac +GST on 31.12.2018 to be used by one of its directors. Shall the company be allowed to avail of this ITC?

Ans: No, the company is not eligible avail of this ITC since this is blocked as per the provisions of Sec 17(5).

There may be a situation where a company may claim ITC on cars purchased in the name of the company with the plea that cars are used to carry employees to office / factory / work site.

### Whether ITC is allowable in such cases?

**No, ITC is not allowable in this case also.**

### ii. Food, beverages, outdoor catering, beauty treatment etc (valid up to 31.01.2019)

Supply of goods and services being:

Food & Beverages	Beauty Treatment	Cosmetic & Plastic surgery
Outdoor Catering	Health Services	Rent-a-cab

ITC is not available except where the inward supply is used for making taxable outward supplies of the same category of goods or services or both or as an element of taxable composite or mixed supply.

Membership of club	Health and fitness centre	Travel benefit to employee for leave
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ITC always blocked

Rent a cab	Life/ Health Insurance
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ITC is not available except:  
(i) where the services are obligatory for an employer to provide to its employees under any prevalent law.  
(ii) the inward supply is used for making taxable outward supplies of the same category of goods or services or both or as an element of taxable composite or mixed supply

### EXHIBIT 36

**Example:** A company pays tax on procurement on some input services as follows:

- Rs.15,000/- on food and beverages for factory workers.
- Rs.2,500/- for outdoor catering for picnic of office employees
- Rs.3,500/- for health-related services to employees
- Rs.3000/- on rent-a-cab services for guests,
- Rs.10,000/- for purchase of GI policy for workers (150 workers),
- Rs.12,000/- for health insurance policies of office staff
- Rs.4,000/- for membership and other expenses of club
- Rs.5,000/- for travel benefit to employees for visiting different sites.
- Rs.2,600/- for travel benefit to employees going on leave.



### Calculation of eligible ITC.

Group insurance to workers is obligatory on the part of the employer as per Workmen Compensation Act. Therefore, ITC is admissible on such input service. Travel benefit is restricted only during leave. Thus, input tax credit for procurement of services under sl. No. 'e' and 'h' above are only eligible for availing.

#### iii. Motor vehicles and other conveyances (valid w.e.f. 01.02.2019)



#### EXHIBIT 37

Subsequent to amendment of Section 17(5) the ambit of availability of ITC on motor vehicles is expanded. Prior to 01.02.2019, passenger vehicles, goods vehicles and other conveyances were treated at par and ITC was available for specific purposes only as mentioned above in Table in (i) above. However, subsequent to the amendment w.e.f. 01.02.2019, ITC is made available for goods vehicles. In respect of the passenger vehicles, ITC has been denied for vehicles with seating capacity not more than 13 persons including the driver. This means that, ITC is available on passenger vehicles with seating capacity more than 13 persons including the driver w.e.f. 01.02.2019. However, doubts may prevail in respect of availability of ITC in respect of construction machineries like tractor, crane, road roller, tippers and dumpers etc. i.e. Whether they can be classified as motor vehicles?

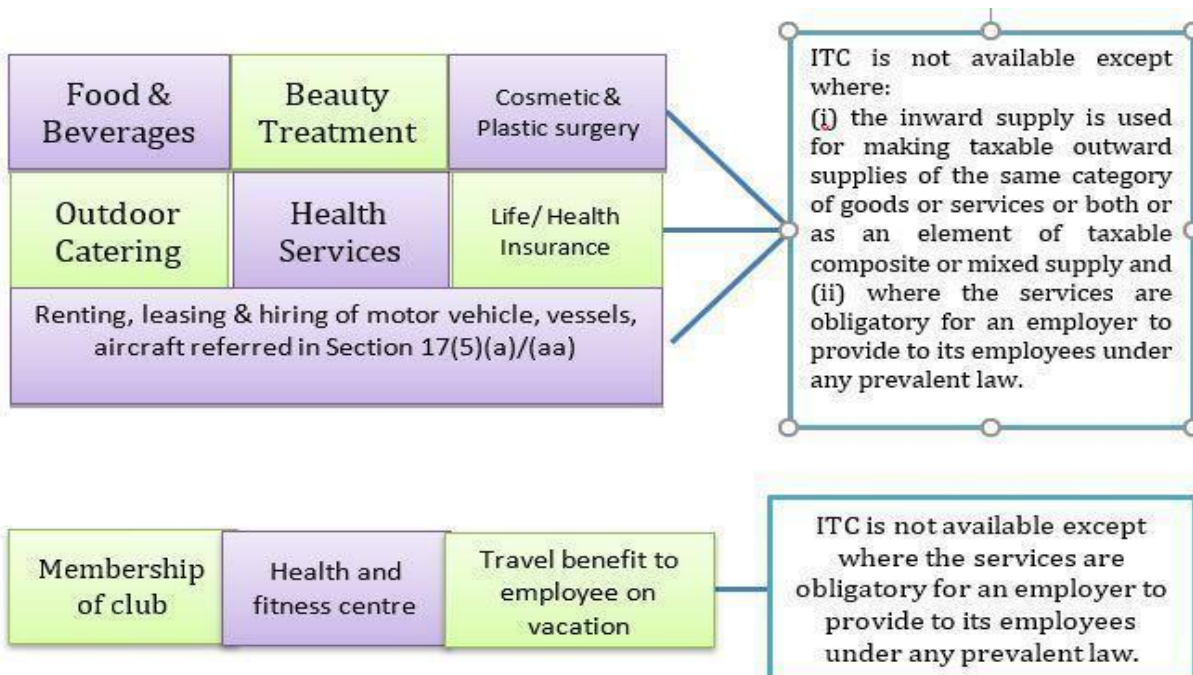
It may be noted that, most of the earth moving machineries require registration under MV Act as motor vehicle. Since, earth moving machineries like tractor, crane, road roller, tippers, dumpers etc are also considered as motor vehicles, they are not outside the restriction clause in section 17(5).

It may further be noted in this regard that, fulfilment of conditions specified in section 16 and 17 of the CGST/SGST Act may not be sufficient sometimes for availing of ITC. Certain restrictions in respect of availability of ITC are also provided in the rate notifications.

#### **Illustration–**

Tax paid on purchase of a goods vehicle by a GTA would otherwise be available as ITC, but as per rate notification no.13/2017 – CT(R) dt.28.06.2017, services of a GTA in relation to transportation of goods is taxable @ 5% provided that the ITC on goods and services used in supplying the service has not been taken

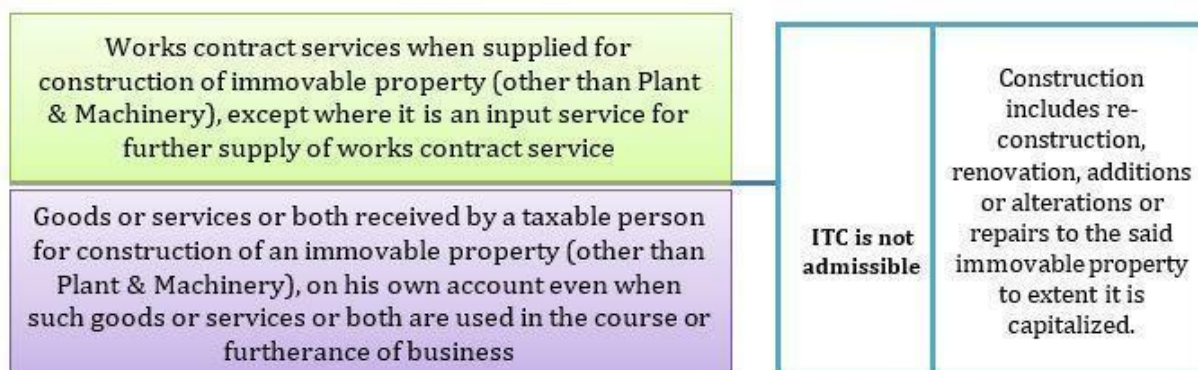
iv. **Food, beverages, outdoor catering, beauty treatment etc (w-e-f 01.02.2019)**



**EXHIBIT 38**

Hence, w-e-f 01.02.2019, ITC would be available in respect of the aforesaid services if it is obligatory on the part of employer to provide the same to its employees under any law for the time being in force.

**v. Works Contract Service used for immovable property other than plant & machinery but including repair maintenance and renovation to the extent of capitalization**



**EXHIBIT 39**

**Works contract is defined** under section 2(119) as a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in

goods (whether as goods or in some other form) is involved in the execution of such contract.

Works contract as defined under section 2(119) though being a composite supply is treated as a supply of services as per Para 6(a) of Schedule II of the CGST/SGST Act, 2017. If a registered person avails of works contract service as input service for further supply of works contract service, then in such a scenario he would be eligible to avail of the ITC on such service procured by him.

**Illustration-** A taxpayer is constructing his new factory for manufacture of taxable goods. Contractor 'A' supplies construction services and another vendor 'B' supplies 'Plant & Machinery'. The taxpayer also procures goods and services on his own account to develop the boundary wall of the factory premises.

In this case, the taxpayer is not in the business of supplying works contract service. Therefore, he is not eligible to claim ITC in respect of tax paid on inward supplies of works contract service. He is eligible to claim ITC on plant & machinery. The taxpayer is also not eligible to claim ITC on tax paid on procurement of goods and services on his own account for building the boundary wall.

However, if contractor 'A' engages a subcontractor, he is eligible to claim ITC on procurement of works contract service from the sub-contractor since the same is procured for further supply of works contract service.

Plant and Machinery may also be of the nature of immovable property in certain cases when affixed permanently to the earth. It may be noted that, when a works contract service is procured for construction of plant and machinery, ITC would be available to the recipient, since works contract service procured for construction of plant and machinery is excluded from the negative list.

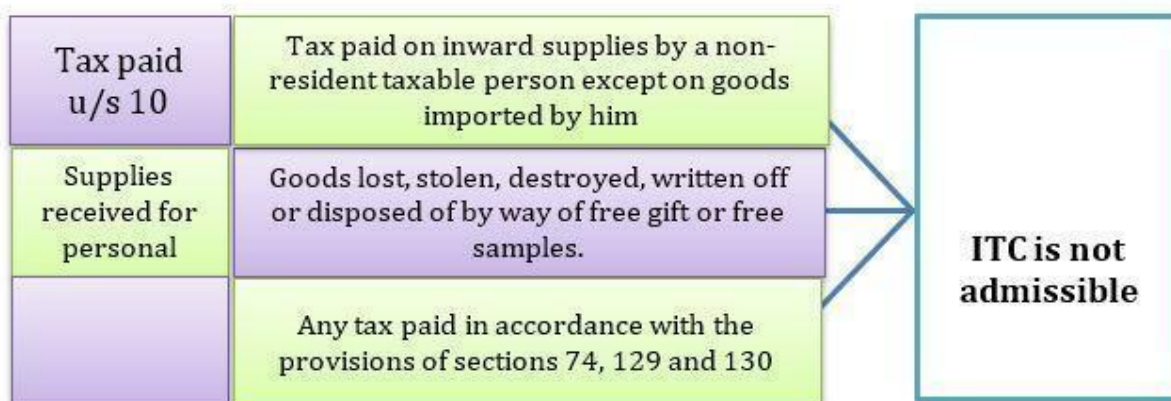
**For the purpose of Input Tax Credit “plant and machinery” means apparatus, equipment, & machinery fixed to earth** by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes—

- (i) land, building or any other civil structures;
- (ii) telecommunication towers; and



(iii) pipelines laid outside the factory premises.

**vi. Other unavailable credit –**



**EXHIBIT 40**

ITC is blocked in respect goods lost, stolen, destroyed, written off or disposed off by way of free gift or free samples. Confusion may arise that whether those goods are only inputs and capital goods or also manufactured end product or any intermediary products. Since, there is no such condition, so whether those goods are inputs, capital goods, finished product or any intermediary products ITC is required to be reversed when such goods are lost, stolen, destroyed, written off or disposed off by way of free gift or free samples.

**I. Availability of credit in special circumstances:**

**a. Sec 18(1) and 18(2) -**

Supplier	Stock held as			Stock to be considered as on
	Inputs or Inputs contained in semi-finished/ finished goods	Input Services	Capital Goods	
Person, who has applied for <b>registration within 30 days</b> from the date of incurring liability for registration and who has been granted such registration	ITC available	Stock of service is not possible. ITC not available	ITC not available	The day immediately preceding the date from which he becomes liable to pay tax

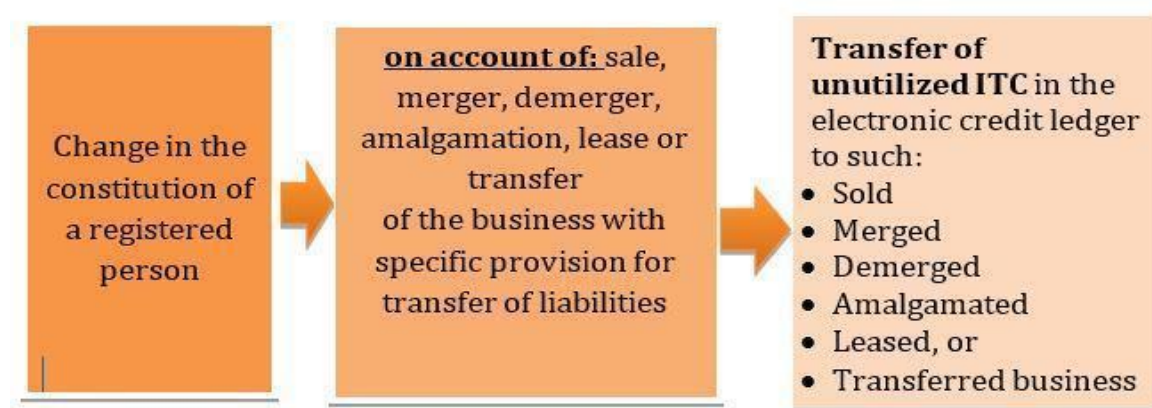
<b>Voluntarily Registered</b>	ITC available	ITC not available	ITC not available	The day immediately preceding the date from which supplier is liable to pay tax under the regular scheme.
<b>Person ceases to pay tax under the composition scheme</b>	ITC available	ITC not available	ITC available	The day immediately preceding the date from which supplier is liable to pay tax under the regular scheme.
<b>Exempt supplies become taxable</b>	ITC available on inputs relatable to such exempt supply	ITC not available	ITC available on capital goods exclusively used for such exempt supply	The day immediately preceding the date from which exempt supplies become taxable.

**Note:**

a. ITC in respect of inputs or inputs contained in semi-finished/ finished goods or capital goods held in stock as noted in the above table would be available only within one year from the date of issuance of the tax invoice related to such supply.

b. The credit on capital goods shall be reduced by five percentage points per quarter or part thereof from the date of invoice.

**b. Transfer of credit in special circumstances [Sec 18(3)]**



**EXHIBIT 41**

c. Other circumstances provided under section 18

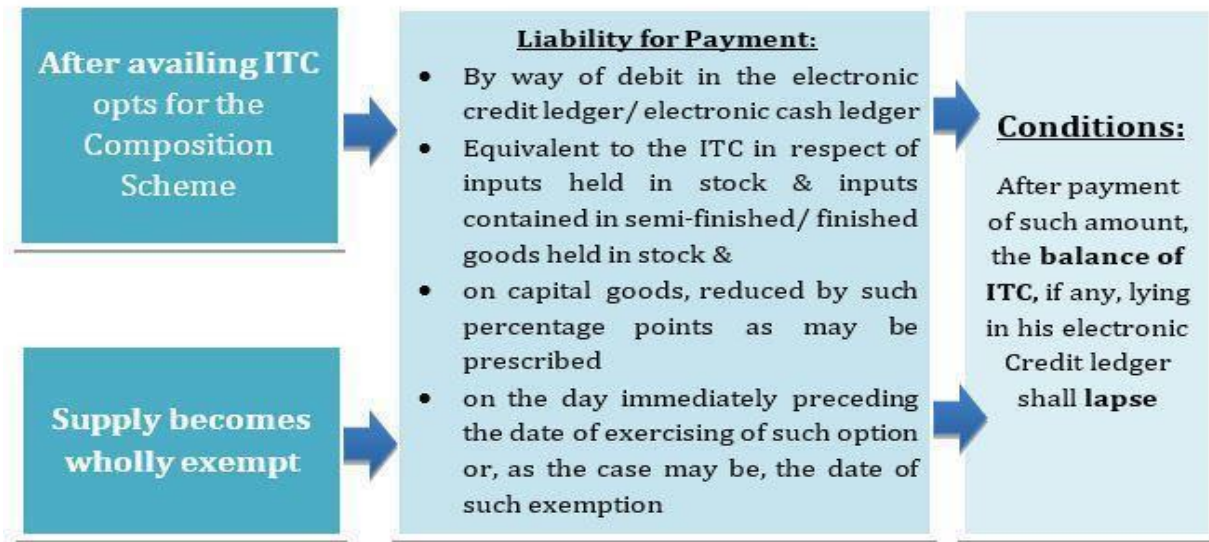


EXHIBIT 42

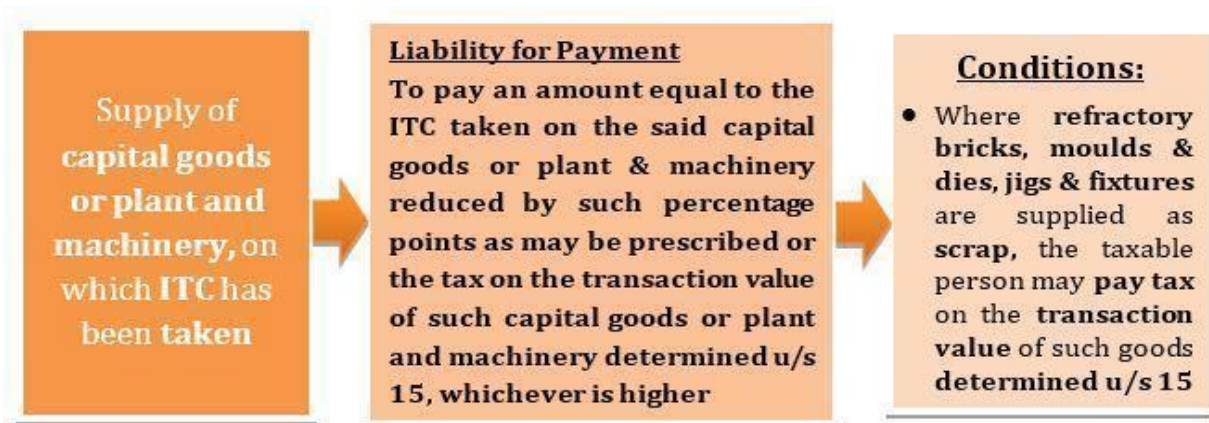


EXHIBIT 43

d. ITC in respect of inputs and capital goods sent for job work.

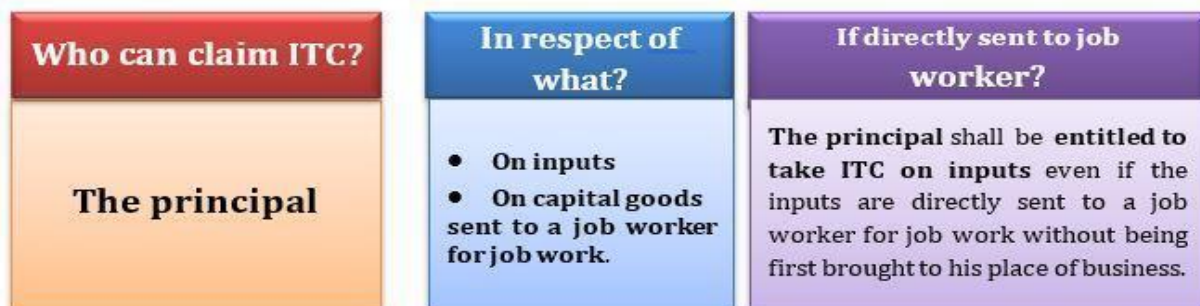
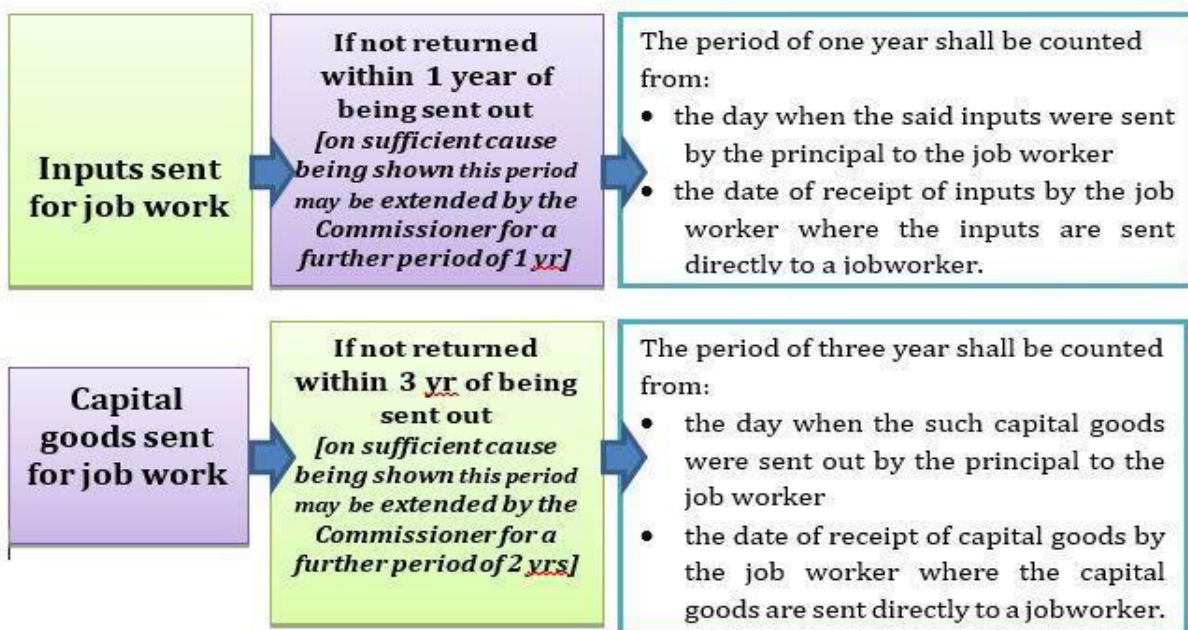


EXHIBIT 44

If the inputs/ capital goods sent for job work are not received back by the principal after completion of job work or otherwise or are not supplied from the place of business of the job worker (Sec 19)





**EXHIBIT 45**

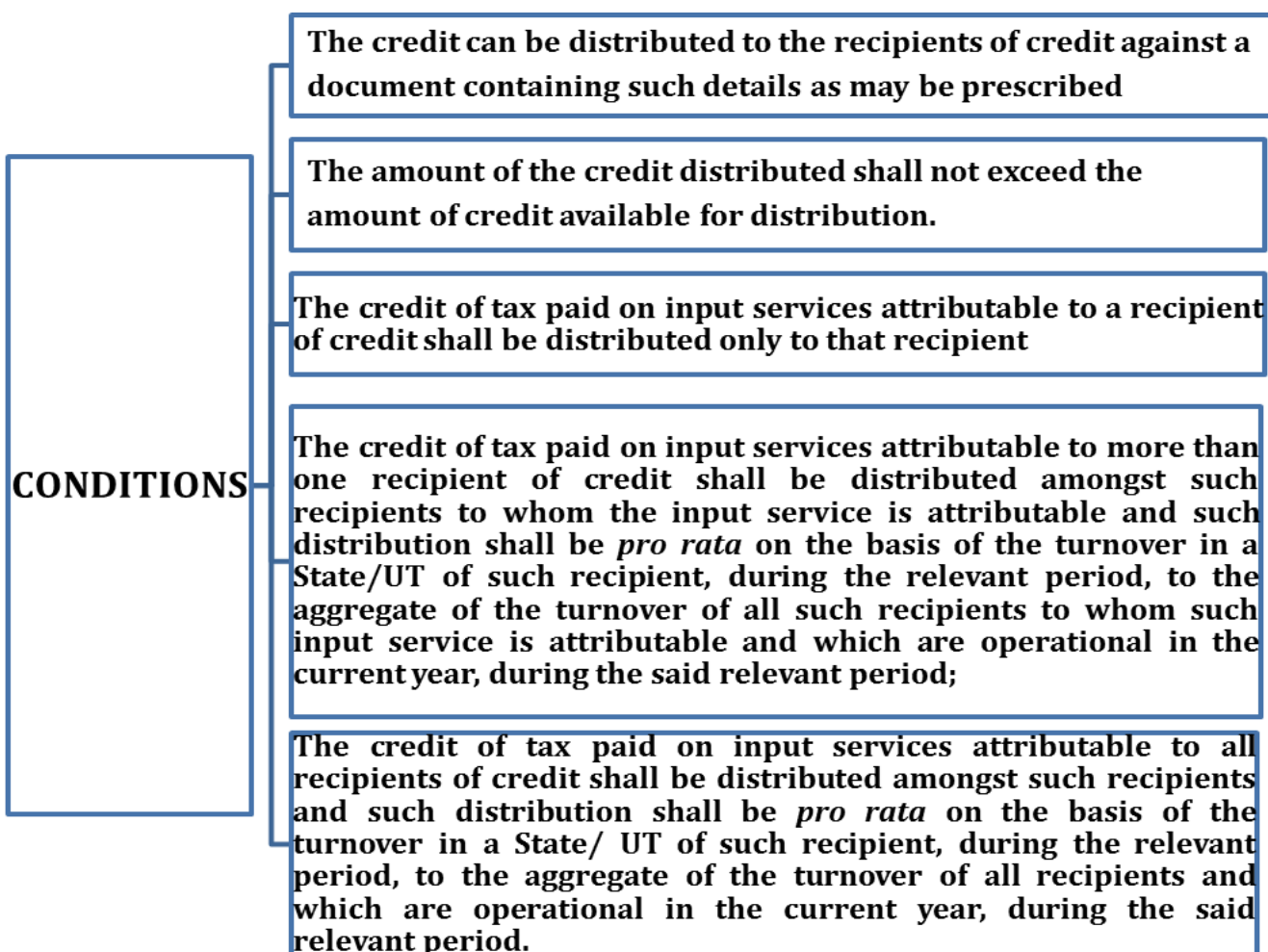
- The above time period for returning back inputs/ capital goods from job workers to the principal shall not apply to moulds and dies, jigs and fixtures, or tools sent out to a job worker for job work.
- Principal means a registered person referred to in section 143(1)
- For the purposes of job work, input includes intermediate goods arising from any treatment or process carried out on the inputs by the principal or the job worker

**e. Manner of distribution of credit by Input Service Distributors.**

Who can distribute?	What to distribute?	How?
The Input Service Distributor	<ul style="list-style-type: none"> <li>• the credit of State tax as State tax /IGST</li> <li>• the credit of Central tax as Central tax /IGST</li> <li>• IGST as IGST or State tax/Central Tax</li> </ul>	By way of issue of documents containing the amount of ITC being distributed in such manner as may be prescribed

**EXHIBIT 46**

**a. Conditions for distribution of Credit by ISD**



- **“relevant period”** for the purposes of Section 20 shall be—
  - (i) if the recipients of credit have turnover in their States or UTs in the financial year preceding the year during which credit is to be distributed, the said financial year; or
  - (ii) if some or all recipients of the credit do not have any turnover in their States or UTs in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed
- **“recipient of credit”** means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;
- **“turnover”**, in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entries 84

and 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule.

### Example of distribution of ITC by ISD:

A company has 6 numbers of GSTIN under a single PAN in the following States:

- i. In Delhi as normal taxpayer
- ii. In Delhi as ISD
- iii. In West Bengal as normal taxpayer
- iv. In Bihar as normal taxpayer
- v. In Uttar Pradesh as normal taxpayer
- vi. In Punjab as normal taxpayer

The ISD received invoices from different vendors as follows:

- a. Factory building renovation in West Bengal involving IGST of Rs.1,00,000/- (renovation works duly capitalized in the books in HQ Delhi)
- b. Advertisement in all the above States involving input tax of Rs.30,000/- as IGST.
- c. Repairing of plant & machinery at Delhi and UP involving input tax of Rs.10, 000/- as CGST and Rs.10, 000/- as SGST.
- d. Tax audit in Punjab involving input tax of Rs.20, 000/- as IGST.

**Turnover of previous year of the above GSTINs was as follows:**

	Delhi	UP	Punjab	MP	WB	Bihar
Turnover	10 Cr	10 Cr	4 Cr	5 Cr	8 Cr	1 Cr
Pro-rata ratio	25%	25%	10%	12.5%	20%	2.5%

**The ISD distributed ITC as follows:**

Invoice wise total credit (Rs.)	Delhi	UP	Punjab	MP	WB	Bihar
Inv. a 1,00,000					IGST=10000 0	
Inv. b 30000	CGST=375 0 SGST=375 0	IGST=7500	IGST=3000	IGST=375 0	IGST=6000	IGST=750

Inv. c 20000	CGST=500 0 SGST=500 0	IGST=1000 0				
Inv. d 20000			IGST=2000 0			

Distribution of ITC by the ISD as appeared in the above tables is correctly done except in respect on Inv. a. for which ITC is blocked as per provisions of section 17(5) of the CGST/SGST Act. Now, the question arises how and from whom that can be recovered? Let us go through the provisions of section 21 below.

**Manner of recovery of credit distributed in excess [Sec21].**

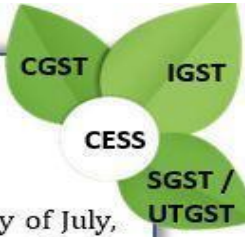
Distributes excess credit	What to do?	How?
When the Input Service Distributor distributes the credit in contravention of the provisions contained in sec 20 to one or more recipients of credit	The excess credit so distributed shall be recovered <b>from such recipients along with interest</b>	The provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of amount to be recovered.

**EXHIBIT 47**

Thus, the credit distributed in excess to West Bengal by the ISD as IGST of Rs.1,00,000/- for renovation of factory building which has been capitalized can be recovered under section 73 or 74 as applicable along with interest from the distinct person in West Bengal as he was the recipient in this case.



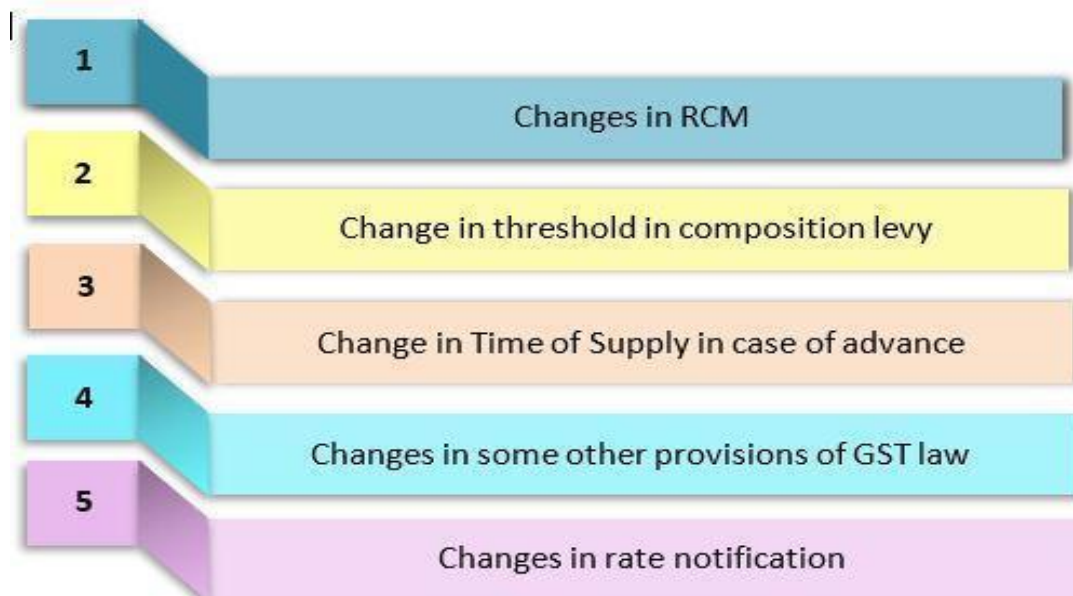
## Annexure 12: Important Changes in GST Laws and Rates during 2017-18 & 2018-19 (p.49)



**Introduction:**

Good and Services Tax came into force on the 1<sup>st</sup> day of July, 2017. With passage of time the provisions of the said laws have been changed on amending the GST Acts through issuance of notifications under sections 23, 128, 148 and 172 to give relief to the stakeholders. The Acts were also amended twice through legislation with effect from 1<sup>st</sup> February, 2019 and with effect from 1<sup>st</sup> January, 2020 respectively. Moreover, the rates of taxes were amended several times during 2017-18 and 2018-19. It is felt that some of the changes discussed above have direct impact over the payability of GST by a registered person. Hence those important changes are being enlisted in the following paragraphs.

**EXHIBIT 48**



**EXHIBIT 49**

## Changes in Reverse Charge Mechanism (RCM)

Reverse charge is a mechanism under which the recipient of the goods or services is liable to pay the tax instead of the provider of the goods and services. Under the normal taxation regime, the supplier collects the tax from the buyer and deposits the same after adjusting the output tax liability with the input tax credit available. But under reverse charge mechanism (RCM), liability to pay tax shifts from supplier to recipient.

In respect of RCM u/s 9(3) of the SGST/CGST Acts, 2017, the CGST Notification no. 04/2017-CT(Rate), dt.28.06.2017 and CGST Notification no. 13/2017-CT (Rate), dt.28.06.2017 notify certain specified Goods and Services for the supply of which tax is payable under RCM.

In respect of section 9(4) of CGST/SGST Act and section 5(4) of IGST Act the original provision has been amended as follows:

- If the amount of inward supplies of goods or services or both, received in a day by a registered person from all unregistered suppliers, does not exceed Rs.5000/-, no tax is payable on RCM under section 9(4) by a registered recipient.
- If a registered person receives inward supplies of goods or services or both exceeding Rs. 5000/- in a day from all unregistered suppliers, he is liable to pay tax on RCM basis on entire amount of such supplies received by him.

From 13.10.2017 the provisions of section 9(4) of SGST/CGST Act and section 5(4) of IGST Act have been kept suspended.

### **Finally, the provision has been amended w.e.f. 01.02.2019 as below:**

“Govt. may specify by notification a class of Registered recipients who shall pay tax on RCM on supply received from an unregistered supplier.”

It may be noted that, w.e.f. 01.04.2019 CGST Notification no. 03/2019 CTR dt.29.03.2019 have been issued on certain specific conditions and situations of “Construction Services” where tax is to be paid under reverse charge mechanism.



Changes at a glance in Sec 9(4) of CGST/SGST Act, Sec 5(4) of IGST Act  
Tax payable by registered person in respect of supply by unregistered person



## Composition levy

- Threshold limit for opting Composition Levy was 75 lakh rupees at the advent of GST. Said threshold has been extended to 1 Crore rupees.  
[CGST Notification No. 46/2017-CT, dated 13.10.17]
- Option for Composition Levy in the middle of 2017-18 has been allowed by inserting sub-rule (3A) to rule 3.  
[CGST (Ninth Amendment) Rules, 2017 issued vide Notification No. 45/2017-CT, dated 13.10.17]
- Restaurants, eateries etc. shall not be barred from Composition Levy even if it supplies any exempt services including services by way of extending deposits, loans or advances  
[RoD Order issued vide CGST Order No. 01/2017-CT, dated 13.10.17]
- Rate Reduction with effect from 01.01.2018:

- Rate of Composition Levy for manufacturers has been reduced from one (01) per cent. of turnover in the State to half (0.5) per cent. of turnover in the State.
- Rate of Composition Levy for traders has been reduced from half (0.5) per cent. on turnover in the State to half (0.5) per cent. of the **turnover of taxable supplies of goods** in the State

[CGST (1<sup>st</sup> Amendment) rules, 2018 issued vide notification No. 03/2018-CT, dated 24.01.2018]

## Tax on Advance received

Section 12(2) of the SGST/CGST Act:

“The time of supply of goods shall be the earlier of the following dates, namely:

- (a) the date of issue of invoice by the supplier or the last date on which he is required, under section 31, to issue the invoice with respect to the supply; or
- (b) the date on which the supplier receives the payment with respect to the supply.”

- So, in terms of the above provisions, tax is payable when advance payment is received for supply of both goods or services.

- But taxpayers having aggregate turnover in the preceding financial year upto 1.5 crore are exempted from payment of tax on Advance received in case of **supply of goods** with effect from 13.10.2017

[CGST Notification No. 40/2017-CT, dated 13.10.17]

- The above benefit has been extended to all taxpayers from 15.11.2017.  
[CGST Notification No. 66/2017-CT, dated 15.11.17]

## Changes in SGST/CGST Act relevant for 2017-18 & 2018-19

- Import of services without consideration by a **taxable person** from a related person or from any of his other establishments outside India, in the course or furtherance of business has been treated a supply as per para. 4 of Schedule I. Such provision is amended so that it will be applicable not only to a taxable person, but to **any person**. [w.e.f. 01.07.17]
- Scope of No supply extended w.e.f. 01.02.2019 by amending Schedule III:

- Supply of goods from non-taxable territory to another non-taxable territory without entering into India. (Para. 7)
- Supply of warehoused goods to any person before clearance for home consumption; and
- Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption. [*In common parlance **HIGH SEAS SALE***] (Para. 8)

#### **Input Tax Credit:**

- Where the **services** are provided by the supplier to any person on the **direction and on account of a registered person**, for the purpose of **entitlement of input tax credit** it shall be deemed that the said registered person has **received services** [*Explanation to Sec. 16(2)(b) of SGST/CGST Act amended w.e.f. 01.02.2019*]
- Subject to conditions, Input tax credit in respect of invoices or invoice relating to such debit notes for **supplies made during 2017-18** can be availed till the due date of furnishing return (GSTR-3B) for the month of **March, 2019** i.e. 23.04.2019 (*as extended by Notification No. [09/2019-C.T./GST](#) dated 22.04.2019*)
- **Condition:** Details of such invoices or debit notes are uploaded by the supplier in GSTR-1 till the due date for furnishing GSTR-1 for the month of March, 2019.  
[*Proviso added to section 16(4) by ROD Order No. 2/2018 dated 31.12.2018*]
- ITC can be transferred on obtaining separate registration for multiple places of business within the State w.e.f. 01.02.2019 [*rule 41A inserted, [dated 29.01.2019](#)*]
- **Order of utilisation of ITC changed:**
- **Existing provision (from 01.07.17 to 31.01.19):** For payment of State tax/central tax, ITC of State tax/central tax has to be debited first, then ITC of integrated tax can be debited
- **New provision:** ITC of State tax/central tax shall be utilised for payment of integrated tax or State tax/central tax, only after the ITC of integrated tax has first been utilized fully towards such payment. [New section 49A inserted w.e.f. 01.02.2019.]

#### **Important Changes in the IGST Act in relation to export of services and place of supply made by [IGST \(Amendment\) Act, 2018](#)**

- ❖ **Export of services [sec. 2(6)(iv)]:**

- **Original provision [01.07.17 to 31.01.19]:** One of the condition to be satisfied for export of services is that the payment has to be received in convertible foreign currency
- **Changed provision from 01.02.19:** Now even if payment is received in Indian rupees wherever permitted by the RBI, if other conditions are satisfied such supply would be treated as export of services
- **Place of supply:**
- **Original provision [01.07.17 to 31.01.19]:** POS of services by way of transportation of goods to a registered person, shall be the location of such person, and that to an unregistered person, shall be the location at which such goods are handed over for their transportation. [*section 12(8) of the IGST Act*]
- **Changed provision from 01.02.2019:** Where the transportation of goods is to a place outside India, POS shall be the place of destination of such goods [*proviso added to section 12(8)*]
- **Original provision [01.07.17 to 31.01.19]:** Subject to other conditions, **POS of services** supplied in respect of **goods temporarily imported** into India **for repairs** is the **location of the recipient**
- **Changed provision from 01.02.2019:** Now, **POS of services** supplied in respect of **goods temporarily imported** into India **for repairs or for any other process or treatment** also is the **location of the recipient** [*Second proviso to section 13(3)(a) substituted*].

## Annexure 13: Due dates and extension of due dates of submission of various returns (p.58)

### Financial Year (2017-2018)

#### a. Return type – Form GSTR - 3B

Month	Due date/Extended due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable	Remarks
July, 17	25.08.2017 <sup>1</sup>					<b>Waived</b> (CGST Notification No, 28/2017-CT, dt. 01.09.2017)
July, 17	28.08.2017 <sup>2</sup>					
Aug'17	20.09.2017					<b>Waived</b> (CGST Notification No, 50/2017-CT, dt. 24.10.2017)
Sep'17	20.10.2017					
Oct'17	20.11.2017					@Rs. 25/day (Where total amount of tax payable in a return is nil, Rs. 10/day) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed. (CGST Notification No, 64/2017-CT, dt. 15.11.2017)
Nov'17	20.12.2017					
Dec'17	22.01.2018					
Jan'18	20.02.2018					
Feb'18	20.03.2018					
Mar'18	20.04.2018					
Total late fee payable						
Total late fee paid						
Late fee due						
1. for all registered dealers other than those specified in 2 below. [06–C.T./GST dt. 21.08.17] 2. for registered dealers entitled to avail ITC and opting to file GST TRAN-1 (conditions apply) [05–C.T./GST dt. 17.08.17]						

#### a.1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Late fee waived	Condition
October, 2017	Waived in full	❖ Return in FORM GSTR-3B was submitted but not filed on the common portal, after generation of the application reference number. [CGST Notification No. 41/2018-CT, dt. 04.09.2018]
July, 2017 to March, 2018	Waived in full	❖ If the said return is furnished between the period from 22nd December, 2018 to 31st March, 2019. [ CGST Notification No. 76/2018-CT, both dt. 31.12.2018]

**a.2 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B**

Tax period	Return in GSTR-3B furnished <b>between 01.07.2020 to 30.09.2020</b>	Return in GSTR-3B furnished <b>after 30.09.2020</b>
July, 2017 to March, 2018	❖ Maximum <b>Rs. 250/-</b> under each of the CGST/SGST <b>Act for each return period.</b>  ❖ <b>Nil</b> where the total amount of <b>tax payable in the return for a tax period is nil.</b>	❖ <b>@ Rs. 25 / day</b> subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed  ❖ <b>Where total amount of tax payable in a return is nil:</b> <b>@ Rs. 10 / day</b> subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed [CGST notification no. 52/2020-CT, dt. 10.07.2020]

**b. Return type – Form GSTR - 9**

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2017-18	07.02.2020 [01/2020-C.T./GST, dt. 18.03.2020]			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					



Total late fee paid		
Late fee due		

**c. Form GSTR - 1**

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable
Jul'17	31.10.2018			<b>@Rs. 25/day</b> (Where total amount of tax payable in a return is nil, <b>Rs.10/day</b> ) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed.  (CGST Notification no. 04/2018-CT dt. 23.01.2018)	
Aug'17	31.10.2018				
Sep'17	31.10.2018				
Oct'17	31.10.2018				
Nov'17	31.10.2018				
Dec'17	31.10.2018				
Jan'18	31.10.2018				
Feb'18	31.10.2018				
Mar'18	31.10.2018				
Total late fee payable					
Total late fee paid					
Late fee due					

**Amnesty: No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019** [CGST Notification no. 75/2018, dt. 31.12.2018]

**No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th December, 2019 to 17th January, 2020** [CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020]

## Financial Year (2018-2019)

### a. Return type – Form GSTR - 3B

Month	Due date / Extended due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'18	22.05.2018			<b>@Rs. 25/day</b> (Where total amount of tax payable in a return is nil, <b>Rs.10/day</b> ) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed.  <i>(CGST Notification no. 64/2017-CT, both dt. 15.11.2017)</i>	
May'18	20.06.2018				
Jun'18	20.07.2018				
Jul'18	24.08.2018				
Aug'18	20.09.2018				
Sep'18	25.10.2018				
Oct'18	20.11.2018				
Nov'18	20.12.2018				
Dec'18	20.01.2019				
Jan'19	22.02.2019				
Feb'19	20.03.2019				
Mar'19	23.04.2019				
Total late fee payable					
Total late fee paid					
Late fee due					

### a.1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Late fee waived	Condition
<b>April, 2018 to Sept, 2018</b>	Waived in full	❖ If the said return is furnished between the period from 22nd December, 2018 to 31st March, 2019. [CGST Notification no. 76/2018-CT, dt. 31.12.2018]

## a.2 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Return in GSTR-3B furnished <b>between</b> <b>01.07.2020</b> <b>to 30.09.2020</b>	Return in GSTR-3B furnished <b>after</b> <b>30.09.2020</b>
<b>April, 2018</b> <b>to</b> <b>March, 2019</b>	<p>❖ Maximum <b>Rs. 250/-</b> under each of the CGST/SGST <b>Act for each return period.</b></p> <p>❖ <b>Nil</b> where the total amount of <b>tax payable in the return for a tax period is nil.</b> [ CGST notification no. 52/2020-CT, dt. 10.07.2020]</p>	<p>❖ <b>@ Rs. 25 / day</b> subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed</p> <p>❖ <b>Where total amount of tax payable in a return is nil:</b> <b>@ Rs. 10 / day</b> subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed</p>

## b. Return type – Form GSTR 9

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2018-19	31.12.2020 [12/2020- C.T./GST, dt. 04.11.2020]			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					
Total late fee paid					
Late fee due					

## c. Form GSTR - 1

Period (Monthly/ Quarterly)	Due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'18	31.10.2018			<b>@Rs.25/day</b> (Where total amount of tax payable in a return	
May'18	31.10.2018				
Jun'18	31.10.2018				

Jul'18	31.10.2018			is nil, <b>Rs.10/day</b> ) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed.  (CGST Notification no. 04/2018-CT, dt. 23.01.2018)	
Aug'18	31.10.2018				
Sep'18	31.10.2018				
Oct'18	11.11.2018				
Nov'18	11.12.2018				
Dec'18	11.01.2019				
Jan'19	11.02.2019				
Feb'19	11.03.2019				
Mar'19	11.04.2019				
Apr-Jun 2018	31.10.2018				
Jul-Sept 2018	31.10.2018				
Oct-Dec 2018	31.01.2019				
Jan-Mar 2019	30.04.2019				
Total late fee payable					
Total late fee paid					
Late fee due					

#### Amnesty:

**No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019** [CGST Notification no. 75/2018, dt. 31.12.2018]

**No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th December, 2019 to 17th January, 2020** [CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020]

## Financial Year (2019-2020)

### a. Return type – GSTR 3B

	Due date	Due date (Aggr. T.O. up to Rs. 5 Crore)	Submi t on	Days of delay	Late fee payable per day	Total Late fee payable
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<b>Apr'19</b>	<b>20.05.2019</b>				<b>@Rs. 25/day</b> <b>(Where total amount of tax payable in a return is nil, Rs.10/day)</b> subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed.  <i>(CGST Notification no. 64/2017-CT, dt. 15.11.2017)</i>	
May'19	20.06.2019					
Jun'19	20.07.2019					
Jul'19	22.08.2019					
Aug'19	20.09.2019					
Sep'19	20.10.2019					
Oct'19	20.11.2019					
Nov'19	23.12.2019					
Dec'19	20.01.2020					
Jan'20	22.02.2020	24.02.2020 0				
Feb'20	20.03.2020	24.03.2020 0				
Mar'20	20.04.2020	24.04.2020 0				
	<b>Total late fee payable</b>					
	<b>Total late fee paid</b>					
	<b>Late fee due</b>					

**a-1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B**

<b>Tax period</b>	Return in GSTR-3B furnished <b>between</b> <b>01.07.2020</b>  <b>to 30.09.2020</b>	Return in GSTR-3B furnished <b>after</b> <b>30.09.2020</b>
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<p><b>April, 2019</b></p> <p><b>to</b></p> <p><b>March, 2020</b></p>	<p>❖ <b>Maximum Rs. 250/-</b> under each of the CGST/SGST <b>Act for each return period.</b></p> <p>❖ <b>Nil</b> where the total amount of <b>tax payable in the return for a tax period is nil.</b> [CGST notification no. 52/2020-CT, dt. 10.07.2020]</p>	<p>❖ <b>@ Rs. 25 / day</b> subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed</p> <p>❖ <b>Where total amount of tax payable in a return is nil:</b>  <b>@ Rs. 10 / day</b> subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed</p>
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**b. Return type – Form GSTR - 9**

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2019-20	31.12.2020			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					
Total late fee paid					
Late fee due					

**c. Form GSTR - 1**

Period (Month / Quarter)	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'19	11.05.2019			<b>@Rs. 25/day</b> (Where total amount of tax payable in a return is nil, <b>Rs.10/day</b> ) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date	
May'19	11.06.2019				
Jun'19	11.07.2019				
Jul'19	11.08.2019				
Aug'19	11.09.2019				
Sep'19	11.10.2019				
Oct'19	11.11.2019				



Nov'19	11.12.2019			of return, till the date on which return is filed.  (CGST Notification no. 04/2018-CT, dt. 23.01.2018)	
Dec'19	11.01.2020				
Jan'20	11.02.2020				
Feb'20	11.03.2020				
Mar'20	11.04.2020				
Apr-Jun 2019	31.07.2019				
Jul-Sept 2019	31.10.2019				
Oct-Dec 2019	31.01.2020				
Jan-Mar 2020	30.04.2020				
Total late fee payable					
Total late fee paid					
Late fee due					

#### Amnesty:

- No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019**[CGST Notification no. 75/2018, dt. 31.12.2018]
- No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th Dec, 2019 to 17th January, 2020** [CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020]
- No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the month **March, 2020** and for the quarter **Jan-Mar 2020** by the due date **but furnishes FORM GSTR-1 on/before 10.07.2020 and 17.07.2020** respectively. [CGST Notification no. 53/2020-CT dt. 10.07.2020 read with CGST Notification no. 04/2020, dt. 17.01.2020]
- The months of Return filing as shown in the Tables below are based on all months of any FY. However, the audit officer should consider the months applicable for the period under audit.

#### a. Return type – GSTR 3B

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable
--------------------------------	----------	--------------	------------------	---------------------

Apr				
May	<b>Notes:</b> System generally automatically calculates late fee during submission of return. However, for the return periods of different FYs various extensions of due dates and conditional extensions of due date were allowed.			
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec				
Jan				
Feb				
Mar				
Total late fee payable				
Total late fee paid				
Late fee due				

b. **Statement in GSTR 1**

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable
Apr				
May				
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec				
Jan				
Feb				
Mar				
Total late fee payable				
Total late fee paid				
Late fee due				

c. **Return type – GSTR 9 / 9A**

Period	Due date	Submitted on	Days of delay	Late fee payable
FY.....				

Total late fee payable	
Total late fee paid	
Late fee due	

## Part D [Correctness of turnover in State (monthly statement)]

Turnover disclosed in GSTR 3B (Rs.)	Turnover disclosed in GSTR 1 (Rs.)	Turnover disclosed in GSTR 9 / 9A (Rs.)	Turnover as in P/L account (Rs.)	Difference (Rs.)
Reconciliation statement with supporting documents needs to be examined.				
Any other supply which is not disclosed in any of the above fields but disclosed at the time of audit.				

Additional information from the books / other sources to examine correctness of the turnover disclosed finally at the time of audit (monthly statement):

Areas of concern	Examination	Value of supply		Disclosed in return (Y/N)	Additional tax liability (if any)			
		Intra-State (S)	Inter-State (I) with POS (State Code) *		State tax	Central tax	Integrated tax	Cesses
Other/Misc. income								
Whether in the pre-GST or in the GST regime, "Other Income" ledger has always been an important ledger to examine. It is important to go through every transaction reflected in this ledger to confirm as to whether GST is applicable on any transaction for which tax compliance has not been made. For example, penal interest, penalty / damages recovered etc.								

<b>Stock transfer to other State(s)/UT (s)</b>								
<p>Stock transfer to distinct persons in the State and other States never form part of turnover in P/L account in consolidated books of accounts. In the erstwhile VAT regime, stock transfer to branches and consignment agents in other States were nil rated subject to production of declarations in Form F under the CST Act, 1956. In GST, stock transfers to distinct persons are taxable. Therefore, it is very important to check the stock transfer value (both inwards and outwards) to ascertain the compliance. There is a specific rule for valuation in this regard. If any auditee takes the benefit of the 2<sup>nd</sup> proviso of Rule 28 then the audit officer should check whether such has been taken properly or not.</p> <p>An example is given below for proper understanding of the Audit Officers:</p> <p><b>e.g:</b> A banking company purchased 4 cars and dispatched those to 4 branches in 4 States (1 car / branch) by raising tax invoice where value of each car is shown at a nominal price of Rs.10,000/-. On being asked, the auditee bank may reply that valuation has been done as per rule 28 of CGST Act, 2017. Is it a correct valuation done by the bank?</p> <p>As per the 2<sup>nd</sup> proviso of rule 28, the value declared in the invoice shall be deemed to be the open market value where the recipient is eligible for full input tax credit. In the instant case, the recipient is not eligible to avail of ITC and therefore, the value declared cannot be accepted as open market value.</p>								
<b>Sale of assets</b>								
	<p>Sale of assets is always taxable in GST. Moreover, permanent transfer or disposal of business assets on which input tax credit has been availed is also considered as supply even if no consideration is received (Sch. I of Sec 7).</p> <p>Donation of business assets or scrapping or disposal in any other manner (other than as a sale – i.e., for a consideration) would also qualify as ‘supply’, where input tax credit has been claimed.</p>							

<b>Goods sent on approval basis</b>	<p><b>Goods Sent on approval basis before 1<sup>st</sup> July, 2017 (but not more than six months earlier from 1.7.2017)</b> if returned within 6 months (2 months more in case of sufficient cause) from GST implementation, then no tax is payable by the person returning the goods. If it is returned after the time limit, then GST is payable by the person who returned the goods [sec 142 (12)]. If the goods are not returned within above time limit, the person who sent the goods is liable to pay GST.</p> <p><b>In GST regime:</b> The invoice with respect of goods sent on approval basis has to be issued at the earliest of – (i) Before or at the time of supply, (ii) 6 months from the date of removal of goods from factory / godown etc. If the goods are not approved within 6 months, it will be deemed that sale of the said goods has taken place by the person who has sent the goods for approval. [S. 31(7) read with S. 12(2)]</p>							
<b>Goods sent to job workers</b>								

	<p><b>Inputs sent for job work are not received back</b> by the principal after completion of job work or otherwise not received within 01 year of their being sent out, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were sent out [<b>sec 143(3)</b>]. <i>In such cases liability to pay interest will also arise</i></p> <p><b>Capital goods, other than moulds and dies, jigs and fixtures, or tools, sent for jobwork are not received back</b> by the principal after completion of job work or otherwise not received within 03 years of their being sent out, it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out [<b>sec 143(4)</b>]. <i>In such cases liability to pay interest will also arise</i></p> <p><b>Any waste and scrap generated during the job work</b> may be supplied by the job worker directly from his place of business on payment of tax, if such job worker is registered, or by the principal, if the job worker is not registered [<b>sec 143(5)</b>].</p>						
<b>Disposal of assets without any</b>							



<p><b>consideration [Entry 1 of Sch – I]. Supply of goods or services to related person or to distinct person even without consideration) [Entry 2 of Sch – I]</b></p> <p>Note: When the related persons are employee and employer then the next row is applicable.</p>	<p>There is no doubt that disposal of business assets against consideration is a supply. But, if ITC on any business asset is taken then disposal of such business assets even made without consideration is also to be treated as supply.</p> <p>Suppose XYZ Ltd., is in the business of Hotel. He purchased AC for business purposes and availed ITC and a car for which no ITC has been claimed. After 2 years, he permanently transfers the AC to one director and the car to another director without any consideration. Though there is no consideration in case of transfer of AC machine still it shall be a supply as per schedule I and supplier has to pay an amount determined according to sec 18(6). In the case of permanent transfer of the car, it will not be treated as supply since no ITC has been claimed on the same.</p>							
<p><b>Supply of goods or services to related person or to distinct person (even without consideration) [Entry 2 of Sch – I]</b> When the related persons are employee and employer.</p>								
	<p>Distinct person is defined in Sec 25(4) and related person is defined in Explanation to sec 15.</p> <p>This issue needs careful examination because in most of the cases there may not be any reflection of transactions with related or distinct persons in P/L account or in any ledger. In the case of goods there may be an audit trail of transactions among the distinct or related person without any consideration. But in the case of services, such trails may not be found in the books of accounts. The auditor needs to study the particular business pattern of the auditee and should try to find out probable areas. Valuation of such supply needs examination.</p>							
<p><b>Expenses accounts to ascertain if</b></p>								

<b>there are any expenses for free gift or facility (free holiday package, etc.)</b> to any employee for value exceeding Rs. 50,000/- in a year.	This is another important area where the auditee may fail to comply with the provisions [entry no.2 of Sch I of sec 7]. Most of such supplies may be found in different expense ledgers like misc. expenses / other expenses, wages-salary-allowances, benefits to the employees, directors' remunerations, etc.							
<b>Commission agent of goods</b> (both the commission and the supply value of goods on behalf of the principal will form part of supply value) [Entry 3 of Sch – I].								
	As per the provisions of the GST Laws, in the case of supply through agent both the principal and the agent are liable to pay tax. So, the value of supply of goods made or received through an agent as prescribed in Rule – 29 needs proper examination.							
<b>Income from land and building</b>								
	Many transactions are linked with Land; e.g. sale of land and building subject to entry no.5 of sch. III, rent, lease, easement, licence to occupy land, development, transfer of tenancy right, transfer of development right, and building apart from sale of under construction real estate property etc.							
<b>Agreeing to the obligation –</b> i. to refrain from an act ii. to tolerate an act or a situation iii. to do an act								
	Section 7(1A) of the CGST/SGST Act, 2017, includes activities referred to in Schedule II in the scope of supply. Clause 5(e) to Schedule II provides that 'agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act' shall be treated as supply of service.							
<b>Any other areas of concern</b>								

	The above Tables may not be exhaustive for an audit officer in respect of particular auditee and there may be other areas of concern. The audit officer should mention his detection in this table. These would include adjustments on account of unbilled revenue (at the beginning and at the end of the year) and adjustments on account of advances received in respect of services						
Total undisclosed supply value							
Tax involvement on undisclosed supply							

\*Refer to next table for list of State Codes

### LIST OF STATE CODES: For noting Places of supply

STATE/UNION TERRITORY	CODE	STATE/UNION TERRITORY	CODE
Jammu and Kashmir	1	Jharkhand	20
Himachal Pradesh	2	Odisha	21
Punjab	3	Chhattisgarh	22
Chandigarh	4	Madhya Pradesh	23
Uttarakhand	5	Gujarat	24
Haryana	6	Daman and Diu	25
Delhi	7	Dadra and Nagar Haveli	26
Rajasthan	8	Maharashtra	27
Uttar Pradesh	9	Andhra Pradesh(before division)	28
Bihar	10	Karnataka	29
Sikkim	11	Goa	30
Arunachal Pradesh	12	Lakshadweep	31
Nagaland	13	Kerala	32
Manipur	14	Tamil Nadu	33
Mizoram	15	Puducherry	34
Tripura	16	Andaman and Nicobar Islands	35
Meghalaya	17	Telangana	36
Assam	18	Andhra Pradesh (new)	37
West Bengal	19	Ladakh	38

**Part E (Correctness of purchase / procurement for which tax is payable u/s 9(3) & 9(4) of the SGST/CGST Act and u/s 5(3) & 5(4) of the IGST Act)**

As disclosed in GSTR 3B (Rs.)	As disclosed in GSTR 9/9A (Rs.)	As disclosed in P/L (Rs.)	Difference (Rs.)
Reconciliation statement with supporting documents needs to be examined.			
Any other supply which is not disclosed in any of the above fields but disclosed at the time of audit.			

**Additional information from the books / other sources to examine correctness of the finally disclosed liability to pay tax u/s 9(3) & 9(4) of the SGST/CGST Act and u/s 5(3) and 5(4) of the IGST Act (month wise statement):**

Relevant section	Areas of concern	E x a m i n a t i o n	Taxable value (Rs.)		Discl osed in retur n (Y/N)	Additional tax liability (if any)			
			Intra - Stat e (S)	Inter- State (I) with POS (State Code)		St at e ta x	C e n t r a l ta x	I n t e g r a t e d ta x	C e s s
9(3) of SGST / CGST Act	Goods under Notification no.4/2017 (R) dt.28.6.2017.								
5(3) of IGST Act	Goods under Notification no. 4/17-IT(R) dt.28.6.17.		Normally a supplier collects tax from the buyer and deposits the same after adjustment of the output tax liability with the input tax credit available. Liability to pay tax shifts from supplier to recipient under reverse charge mechanism (RCM), Apart from this, in the case of import of goods and/or services also, the recipient is liable to pay tax except in some specific cases like OIDAR services from outside the territory of India to non-taxable person in India.						
9(3) of SGST / CGST Act	Services under Notification no.13/17 (R) dt.28.6.17								
5(3) of IGST Act	Services under Notification no.10/17-IT(R) dt.28.6.17.								
7(1)(c) of SGST / CGST Act and sec 20 of IGST Act [Entry 4 of sch – I]	Import of services (with or without consideration) from related person in the course or furtherance of business.								
7(1)(b) of SGST/ CGST Act	Import of services for a consideration.								

Proviso of Sec 5(1) of IGST Act	Import of goods								
9(4) of SGST / CGST Act	Intra-state procurement of goods and services from unregistered person where daily amount of such purchase is more than Rs.5000/- [applicable for 01.07.17 to 12.10.17]								
5(4) of IGST Act	Inter-state procurement of goods and services from unregistered person where such purchase is more than Rs.5000/- per day [applicable for 01.07.17 to 12.10.17].								
Residual	Any other areas of concern								
<b>Total undisclosed supply value</b>									
<b>Tax involvement on undisclosed supply</b>									

\*Refer to previous page for list of State Codes

## Part F (Correctness of claim of Input Tax Credit)

Details of ITC [month-wise]	Integrated Tax		Central Tax		State Tax		Cess	
	A s p e r 3 B	A s p e r a u d i t	A s p e r 3 B	A s p e r a u d i t	A s p e r 3 B	A s p e r a u d i t	A s p e r 3 B	A s p e r a u d i t
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a. Import of goods								
b. Import of Services								
c. Inward supplies liable to Reverse Charge (except a, b above)		In GST, ITC can be availed by every registered taxable person on all inputs, input services and						
d. Inward supplies from ISD								
e. All other ITC including ITC on TRAN								

<b>A. ITC available (a+b+c+d+e)</b>		capital goods used or intended to be used in the course of or for the furtherance of business with a few exceptions.	
f. ITC required to be reversed as per Rule 42 & 43			
g. Other ITC required to be reversed			
<b>B. ITC required to be Reversed (f+g)</b>			
<b>C. Net ITC Available [A-B]</b>			
h. Ineligible ITC as per Sec. 17(5)		However, there are conditions to avail such ITC. The situation becomes more complex when there is common credit used in business and non- business, or used in taxable supply and exempt supply.	
i. Other ineligible ITC			
<b>D. Ineligible ITC</b>			
<b>E. Net eligible ITC[C-D]</b>			

## Part G (Payment of Tax)

Month	Type	Apr	Ma y	Ju n	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Tax paid upon setting off ITC	IGST													
	CGST													
	SGST													
	Cess													
Tax paid in cash	IGST													
	CGST													
	SGST													
	Cess													
Total tax paid as per GSTR-3B	IGST													
	CGST													
	SGST													
	Cess													
Total														

Month	Tax paid as per GSTR-3B or otherwise*				Tax payable as per Audit				Balance Tax payable			
	CGS T	SGS T	IGST	Cess	CGS T	SGST	IGST	Cess	CGST	SGST	IGST	Cess
Apr												
May												
Jun												
Jul												
Aug												
Sep												
Oct												
Nov												
Dec												
Jan												
Feb												
Mar												
Total												

\*payment made by any other instrument like DRC-03, payment against DRC-07 etc.

## Part H (Correctness of Payment of Interest)

### 1. Interest payable due to late payment of tax

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of tax paid													
Due Date of payment													
Date of payment													
Default period (days)													
Rate of Interest													
Interest payable													

### 2. Interest payable due to non/short payment of tax

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of non/ short payment of tax													
Due Date of payment													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
Interest payable													

\*The actual interest payable shall be calculated till the date on which such interest is actually paid.

### 3. Interest payable due to excess ITC availed

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of excess ITC availed													
Date of claim													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
Interest payable													

\*The actual interest payable shall be calculated till the date on which such interest is actually paid.

### 4. Interest payable due to excess amount Refunded

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of excess refund													
Date of receipt of refund													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													



Interest payable													
------------------	--	--	--	--	--	--	--	--	--	--	--	--	--

\*The actual interest payable shall be calculated till the date on which such interest is actually paid.

Particulars	Amount (Rs.)
Total Interest payable (as observed upon audit) [Sum of Interests payable under Tables 1 to 4 above]	
(-) Interest paid [as disclosed in GSTR-3B]	
(-) Interest paid [as voluntarily through DRC-03 or through GSTR-9 or in the course of audit, other than any payment made in compliance of Sec. 73 or 74]	
<b>Interest Due</b>	

\*The actual interest due shall be calculated till the date on which such interest is actually paid.

### Part I (Correctness of Any other amount due)

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Any other amount due													
Due date of payment of such amount													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
<b>Interest payable</b>													

## Annexure 14: Ratio Analysis & Trend Analysis (p.53)

The relative values of one data field when compared with another could help to detect potential errors or areas of non-compliance. It also helps to detect wrong Input Tax Credit availed, wrong valuation, claiming of input tax credit on inputs used in exempted goods / services, availment of ITC without receipt/actual use of input, etc.



**EXHIBIT 50**

### Example 1

Audit Officer finds that the RTP (auditee) has a tax liability of Rs. 72 lakh out of which Rs. 70 lakh has been paid upon setting off ITC from his credit ledger and only Rs. 2 lakh has been paid in cash.

In this case, the Officer should apply the ratio of [ITC availed : Total tax paid through Electronic cash ledger + tax paid through Electronic credit ledger].

In this case,

The result is  $70/(2+70) = 70/72 = 0.972$ , i.e. 97.2%.

The result on such higher side may be of various reasons including accumulation of high stock resulting in accumulation of ITC.

But, if the RTP is a reseller without having significant warehouses, or if the goods dealt in are perishable in nature, the issue of stock holding will not stand good.

This should ring a bell in the audit officer's head that there may be a case of:

- wrong availment of input tax credit on goods/services in excess including claiming of input tax credit on inputs used in exempted products.

- under valuation of goods as value-addition should involve adequate difference between the two.
- or suppression of sales.

### **Example 2**

The auditee deals with both exempted goods and taxable goods. Total supply in the audit period is of Rs. 10 crore out of which exempted supplies amount to Rs. 6.5 crore.

In this case, the Audit Officer should apply the ratio of [Value of exempted outward supply: value of total outward supplies made]. This ratio helps to identify:

- outward supplies made in the guise of exempted supplies.
- supply of essential parts of outward supply as exempted supplies.
- under valuation of outward supplies by overvaluing exempted outward supply

As in this case, the ratio comes out as 0.65 or 65%.

If the audit officer is satisfied that the figures pertain to actual supply of exempted goods, it should be thoroughly examined whether the supplier has availed any ITC on inputs related to such exempted supplies. In such case, including cases of availing common credit, proportionate ITC is to be reversed.

### **Example 3**

Ratio analysis for over a continuous period, say 3 years gives a holistic picture of the trend of the RTP. Taking an example, if the ratio of [Amount of input tax credit availed on inward supply : Total tax liability on outward supply] is studied over a period of 3-4 years, and if the ratio is increasing there is the possibility of the following irregularities:-

- Rendering of unaccounted outward supply;
- Under valuation of outward supply;
- Showing outward supply income as non-taxable outward supply income.
- Inflation of inward supply credit.

Some of the indicative ratio analysis and trend analysis as follows may be carried out by the audit officer

## RATIO ANALYSIS

### I.BASED ON RETURN DATA

Sl.	RATIO	2017-18	2018-19	2019-20
i)	Inward supply value : outward supply value			
ii)	EWB value of inward supply : EWB value of outward supply			
iii)	Non-GST Turnover : Total Turnover			
iv)	Exempted Supply value: Total Turnover			
v)	Value of Goods Sent for Job Work : Total Turnover			
vi)	ITC on inward supply : Total inward supply			
vii)	Total ITC available : Total GST payable			
viii)	ITC availed on capital goods purchased during the years : addition to capital goods			
ix)	ITC availed on Capital Goods : Total ITC availed			
x)	Transitional ITC availed : ITC availed in the year			
xi)	Tax payable: Total turnover			
xii)	Total Ineligible & Reversed ITC : Total ITC Availed			
xiii)	Tax payment by ITC : Total Tax paid			
xiv)	Tax paid in cash : Tax paid on setting off ITC			

### II.BASED ON FINAL ACCOUNTS DATA

Sl.	RATIO	2017-18	2018-19	2019-20
i)	Inward supply value : outward supply value			
ii)	Other income : outward supplies			
iii)	Gross profit : Gross revenue			

iv)	Power consumption/fuel consumption (Qty) : production quantity as per P&L Account			
v)	Production of Goods : Scrap Scrap: Production of goods			
vi)	Quantity of Actual production : installed capacity			
vii)	Cost of Major input: Value of outward supplies			
viii)	Consumables value: Value of taxable supplies.			
ix)	Net profit : Value of outward supplies			
x)	Capital employed : Value of outward supplies			

## TREND ANALYSIS

### I.GENERAL TRENDS

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Total Turnover			
b)	Total Zero Rated (Exports) Supply,			
c)	Supply to SEZ			
d)	Deemed Export			
e)	Total Exempted Supply			
f)	Total NIL rated Supply			
g)	Total Non-GST Supply			
h)	Total Taxable Outward Supply			
i)	Total Inward Supply subject to Reverse Charge			
j)	Total Tax payable on Outward Supplies			
k)	Additional Tax paid by DRC-03 (Annual Return)			
l)	GST of a particular goods/service vis-a-vis overall growth of that industry. (%)			
m)	Trend in proportion of value of exempted goods/services to the total value of goods/services. (%)			

n)	Gross operating profit			
o)	GST paid by debit in Electronic Cash ledger vis-à-vis GST paid by debit in Electronic Credit Ledger			
p)	GST paid by debit in Electronic Credit ledger vis-à-vis Total GST paid			
q)	Value of outward supplies made to related person vis-a-vis total value of supplies. (%)			
r)	Inter unit transfers /sales to related party as per Balance Sheet			
s)	Total refund claimed			
t)	Total refund sanctioned			
u)	Demand raised (if any)			
v)	Value of EWB outward			
w)	Value of EWB inward			

## II.ANALYSIS FOR MANUFACTURER OF GOODS

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Cost of production of major finished Goods (as per cost record)			
b)	Quantity of inputs consumed in the production of Finished Goods			
c)	Value of inputs consumed in the production of Finished Goods			
d)	Production of finished goods compared to outward supplies			
e)	Production of scrap compared to Production of finished goods			
f)	Production of taxable outward supplies vis-a-vis exempted supplies			
g)	Movement of inward supplies vis-a-vis total production			
h)	Movement of inward supplies for goods manufactured on job-work vis-a-vis total production			

## III.ANALYSIS FOR MANUFACTURER AS WELL AS RESELLER OF GOODS

Sl.	PARTICULARS	2017-18	2018-19	2019-20
-----	-------------	---------	---------	---------

a)	Difference in ITC taken & ITC available on purchase of raw materials			
b)	Job work income as per P&L Account or Trial balance			
c)	Movement of inward supplies vis-a-vis total outward supply			

#### IV. ANALYSIS FOR SUPPLIER OF SERVICES

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Difference in ITC taken & ITC available on input services			
b)	Cost of procurement of major services provided (as per books)			

#### V. ITC TREND ANALYSIS

Particulars	2017-18	2018-19	2019-20
Opening balance			
Total ITC availed on Inputs			
Total ITC availed on Input Services			
Total ITC availed on Capital Goods			
Total ITC received from ISD			
TRAN credit claimed			
Total ITC eligible & availed			
Ineligible ITC, Not availed			
Credit utilized for payment of tax (Debit entries in e-credit ledger)			
ITC reversed			
Closing balance			



## VI.TURNOVER TREND ANALYSIS

Year	Turnover as per P&L A/c or Trial Balance	Other Income	Value of Taxable Supplies	Total GST paid	GST paid in cash	GST paid by setting of ITC
2017-18						
2018-19						
2019-20						

## Annexure 15: Study of Profit and Loss Account and Balance sheet (p.51)

### Financial Statement, Accounts and GST

- i. Every business organization draws up financial statements in respect of any financial year comprising (a) the Balance Sheet as on the last day of the financial year {summarising the value of "owings" (what it owns) and "owings" (what it owes) or the value of assets, liabilities and capital} of the entity as on the said last date, (b) the Profit and Loss Account or the Income Statement {summarising the revenue receipts during the year from its business operations (does not include receipts of a capital nature) and the expenses incurred for earning the said revenue during the year}.
- ii. The aforesaid financial statements are generally referred to as the final accounts of the entity and are prepared for every distinct legal entity (as opposed to a "distinct person" in terms of Section 25). Thus, branch offices of a company/entity having business operations in more than one State will have consolidated financial statements in respect of all its transactions across the country, unless the different State "Units" ("distinct person" in terms of Section 25) are independent profit centres recognized as such by the company itself. Thus, in cases where the different State Units are not recognized as independent profit centres, the returns filed by the entity in a particular State cannot be mapped on to the financial statements on a one-to-one basis. In such cases (and even otherwise) every unit prepares a trial balance as at the end of the year (which also forms the basis for preparation of financial statement); the trial balance comprises balances/totals in respect of each item of revenue, expenditure, capital receipts, capital expenditure, assets/properties and liabilities/obligations. Thus, wherever the audited final accounts, i.e. profit and loss account and balance sheet are not available, the reconciliation of the return with books of accounts should be carried out *vis-a-vis* the trial balance. It may be noted that the trial balance may not be readily available in respect of individual units of a multi-location entity (*viz. some Pan-India entities with centralised control on debtors, creditors and payments*) operating on a SAP/ERP platform where the vendors, customers or the bank accounts are operated centrally. In such cases the trial balance has to be extracted with some effort.

- iii. Different kinds of businesses entities like companies, banking companies, insurance companies, public utility (e.g. electricity generation/transmission/distribution) companies, etc. are governed by different statutes which have generally prescribed formats for the preparation of final accounts and also the information to be contained in such accounts. By and large, the formats and content prescribed under the Companies Act *vis-a-vis* final accounts for companies is a standard document in the accounting world and all relatively large undertakings, whether or not companies, adopt the same.
- iv. Schedule III to the Companies Act, 2013 prescribes the norms, content and format of the balance sheet and the profit and loss account of a limited company. The Schedule also contains instructions for preparation of the financial statements.
- v. An important component of the financial statements is the Notes to accounts which contain detailed information and break-up regarding different items of the information and contents of the Balance Sheet and the Profit and Loss Statement.
- vi. The most important of which, for our purposes, is the Statement of Profit and Loss (Part-II of the said Schedule III). This statement comprises information regarding "Total Revenue" which has two significant and separate components viz. "Revenue from Operations" and "Other Income". This statement also has information regarding "Cost of materials consumed", "Purchases of Stock-in-Trade", "Changes" in inventory levels, "Employee" costs, "Finance costs", "Depreciation" and "Other" expenses. On the basis of this information, the operating profit is derived and disclosed; it is from this profit that adjustments towards prior periods and exceptional items, tax, effect of discontinuing operations are made and the net resultant earnings are derived.
- vii. The general instructions for preparing this Statement (as contained in this Part) specify that companies (other than finance companies i.e. those generally engaged in financing operations of other business entities or extending/accepting loans/deposits) are required to separately disclose in the Notes to the Accounts, revenue from sale of goods/products, sale/supply of services and other operating revenues and the said Notes are to also separately disclose Excise Duty (now GST). In respect of finance companies, the revenue from operations shall include revenue from Interest and Other

financial services. In case of supply of services, supplies under broad heads are to be separately disclosed.

viii. Each such category of supply would refer to an "outward" supply in terms of GST and the values of such supplies as appearing in the financial statement/trial balance should be traced to the respective ledger accounts in the books of accounts. The business operations of an entity may comprise different kinds of goods/services and transactions involving them may be recorded differently in the books by different entities. For instance, an entity engaged in supply of readymade garments may have separate ledger accounts for supply of hosiery, shirts/trousers, kids clothing, woollen garments and accessories. These items may attract different rates of tax, depending on their classification. In such a case, the validation of outward supplies declared in the return may ideally begin with seeking a break-up of the aggregate value of each category of outward supply declared in the said returns into its various items/sub-items i.e. hosiery, shirts/trousers, kids clothing, woollen garments and accessories. The value of each such item/sub-item (separately recorded by the auditor in a document forming part of his working papers) may be validated by the auditor through the profit and loss statement/trial balance. The scheme of validation to be adopted by the auditor has to depend on (and, ideally, follow) the scheme of classification of his activities/transactions and the level of detail adopted by the supplier in the ordinary course of his business.

ix. The details regarding "Other Income" in the Profit and Loss Statement are to be classified in the Notes as "Interest income" (in case of other than finance companies), "Dividend", net gain/loss on sale of investments (i.e. shares, debentures, bonds, etc.), and other non-operating income. It is this component of "Other Income" which is of particular significance in verifying whether all 'other supplies' (transactions that are incidental or connected, whether related or unrelated, to the primary operations of the entity) have been disclosed properly in the GST returns or not. Hence, the details of this component should be carefully examined by the auditor and every item should be co-related to the corresponding entry in the trial balance and from there be verified from the appropriate ledger accounts in the books of accounts maintained by the entity.

x. In the process of seeking a break-up of the aggregate value of each category of outward supply as referred to in Para above, the auditor may encounter categories of such supplies which are not in the nature of the primary

activities of the business entity. For instance, the said entity engaged in the supply of readymade garments may have, during the said period, sold off/disposed empty cartons in which it may have received the items that it sells. It may also have sold off/disposed old furniture or old air conditioners/computers. The entity is engaged in the business of selling readymade garments and the supply of empty cartons (related to its main business), air conditioners/computers (not so related) is not part of its main activity; but it is connected to/incidental therewith. The supply of these items is also leviable to tax and has been clubbed together in the outward supplies declared in Table 3.1 of GSTR-3B. But the same will not appear in the "Revenue from operations" component of its profit and loss statement; rather, the same will be disclosed as "Other Income" component. Accordingly, each such item may be verified with respect to the ledger accounts.

xi. The auditor should pay particular attention to the mapping of every item of revenue recorded in the books of accounts (appearing on the 'income' side of the profit and loss statement or 'credit' side of the trial balance) on to the break-up of outward supplies referred to above. Care should be taken to ensure that every item of income appearing in the profit and loss statement/trial balance (except the "no supplies" referred to below) plus the "deemed supplies" explained below is included in some item of the break-up of outward supplies as derived from Table 3.1 of GSTR-3B and the aggregate value of all such items of income appearing in the profit and loss statement/trial balance (as adjusted for "no supplies" and "deemed supplies") matches with that of the aggregate value of outward supplies declared in Table 3.1 of GSTR-3B. If not, it is indicative of supplies on which tax not being paid/short paid.

xii. It is important to note that the outward supplies reported in Table 3.1 of GSTR-3B may include values of supplies for which no corresponding values are available in the profit and loss statement and/or trial balance (except where any asset has been permanently alienated, in which case there will be a "write/written off" account/balance in the profit and loss statement/trial balance and also a reduction/disposal in the fixed asset account, in case of such an asset). These are the "deemed supplies" of Schedule I of the Act. The major transactions in this category are transfers of goods or cross-charge on account of services to other branch offices/depots/agents/units (this will reflect as ITC in case of receipts under similar circumstances). In the case of goods, such

transactions are easily verifiable from the stock register/statements and/or goods transfer register. The valuation in such cases is not a problem if the same is a B2B transaction where credit is fully available; the value in the invoice suffices. However, in case of B2C transactions of this nature, valuation rules 27-31 will have to be applied. Transactions in services under such circumstances present a different problem, however. Where centrally procured services have not been dealt with in accordance with the ISD mechanism, there could be entries (and tax invoices) relating to supply of services by the Head Office (HO) to a Branch Office (BO) or by one BO to another Bo or by BO/s to HO (who are all distinct persons within the meaning of section 25). It is in such cases that the auditor has to tread with caution as even the fact that whether services have actually been supplied as claimed or the issuance of tax invoices is just an attempt to move credit around from one such entity to another entity in view of the second proviso to rule 28. The auditor should carefully examine and seek evidence/documents to validate whether the 'supplier' has the wherewithal and has deployed the quantum of resources necessary for the generation of services claimed to have been so provided to other units because no service can be supplied unless it is 'generated' through some resources or method.

xiii. There is another category of transactions which are reflected in the profit and loss statement/trial balance but are not part of supplies liable to tax as reflected in Table 3.1 of GSTR-3B. These are the "no supplies" of Schedule III. Of particular importance in this category are supplies of land, supplies of building (before completion certificate), high sea sales or supply of goods in the customs area before filing a bill of entry. These are all business transactions involving goods or services between different persons with consideration and, as such, they are recorded in the books of accounts (and reflected in the profit and loss statement/trial balance) but they have been declared as not being leviable to GST and, hence, they will not appear in GSTR-3B.

xiv. The value of 'inward supplies liable to reverse charge', as disclosed in Table 3.1 of GSTR-3B may also be sought to be dis-aggregated similarly with reference to supplies of goods and/or services on which payment on reverse charge has been notified. This can be validated with reference to entries on the debit side of the trial balance or the expenditure side of the profit and loss statement. While very few goods have been notified as taxable on reverse

charge basis, there is a long list of services on which tax is payable on reverse charge by the recipient.

xv. Accordingly, the value shown at serial (d) of Table 3.1 of GSTR-3B should be broken-up into its separate components. An illustrative list could be as follows:-

Goods			Services		
Description	Value	Tax	Description	Value	Tax
Import of the Goods			Import of Services		
Separately for each item dealt in (e.g. cashew, biri leaves, etc.)	<i>(separately for Inter-State and Intra state)</i>	<i>(separately For IGST, CGST, SGST, Cess)</i>	Services received from GTA	<i>(separately for Inter-state and Intra- state)</i>	<i>(separately for IGST, CGST, SGST, Cess)</i>
			Legal Services		
			Services received from Government/ LT (service-wise separately)		
			TDR or FSI		
			Long term lease of land		
			<i>Add rows for other RCM services if received</i>		

xvi. Each of the above items (except possibly in case of goods) will correspond to different entries in the trial balance from where they can be referred back to the respective ledger accounts. The value of import of goods is separately disclosed in the Notes to accounts. Receipt of certain services (e.g. services from Government, import of services, TDR/FSI, etc.) may not be available as separate headings in the trial balance. These have to be ascertained from the ledger of the personal accounts to whom payments have



been made e.g. Government, Builder, Foreign Supplier, etc. The values in respect of each of the above items is to be validated with reference to the ledger accounts and/or purchase register, where available, via the trial balance.

xvii. The ITC availed is to be validated with reference to Table 4 of GSTR-3B. The ITC availed on account of import of goods, import of services and other inward supplies liable to tax on reverse charge basis is to be validated in the manner specified above. ITC availed on account of receipts from ISD is not readily verifiable from the trial balance or profit and loss statement (except where HQ- Branch/Branch-HQ/Inter-Unit services are billed on cross-charge basis), since this does not involve any monetary consideration. Thus, ISD credit is to be verified with reference to the Journal book in which they are specifically entered. There are other means of verification of such ISD credit, particularly the GSTR-2A.

xviii. By far, the largest component of ITC is reported at serial (e) of Table 4 of GSTR-3B under the head "All other ITC". This is the most frequent and most widely availed ITC since it pertains to purchase/receipt of goods and/or services in the normal, primary and routine course of business, relating to the essential activities of the business entity.

xix. This item too should be segregated by the auditor under its various components viz. inputs, input services, capital goods and each of these components may be further segregated into each of its various heads (e.g. 'inputs' into different goods, HSN wise, 'input services' into various services, again HSN wise and 'capital goods' into each of different category of capital goods). In so far as 'inputs' are concerned, these are generally recorded separately category-wise and may be traced back from the dis-aggregated GSTR-3B to the separate ledger accounts via the trial balance. 'Input services' too can be validated similarly. In this context, it must be remembered that no credit is availed on account of anything that is not recorded in the books of accounts and is not reflected in the profit and loss statement/trial balance (except in case of receipt of "deemed supplies" or ISD). If so, it would be indicative of a case of credit being "wrongly availed".

xx. As explained above while every item of income/receipt (including "deemed supplies" but excluding "no supplies") is to appear in the outward supplies of GSTR-3B, failing which it would be indicative of tax being not/short paid.

However, every item of expenditure will not appear in Table 4 of GSTR-3B since credit is not available in certain cases (Section 17(5) of the Act). However, where the credit is not otherwise blocked under Section 17(5), and if it is still not availed it may be indicative of the credit availment being either deferred to a future period or the credit not being availed in which case it may be indicative of the purchase/receipt being suppressed; this needs to be investigated further.

### Examples of some types of Account that require thorough examination

S I. N O .	Examp les of some types of Accoun t that require thoroug h examin ation	Remarks	
1	Introduct ory Director' s Report and Auditor's Notes	<p>The Annual Report prepared by a company <i>inter alia</i> contains the following:</p> <p>a) <b>Director's Report:</b> This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Information in respect of advance received and order booked. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc. reported in the report may be useful to the auditor. It will help to know the business model of the company. It may contain certain details such as:</p> <p>□ Classification of goods and services dealt with. It will help audit officers to determine applicable rate of tax. So, audit officer shall have adequate knowledge in classification of goods and services disclosed by the auditee. Incorrect classification of</p>	

	<p>goods or services can lead to incorrect GST payment.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Foreign Exchange earned during the year;</li> <li><input type="checkbox"/> Foreign Exchange paid during the year, e.g. may be on account of taxable services received by the Auditee where he is liable to pay GST under reverse charge mechanism.</li> <li><input type="checkbox"/> Advance received. Audit officer should then concentrate on operational liability (current &amp; recurring) where such advance is accounted for.</li> <li><input type="checkbox"/> Information on the operations carried out by the Auditee during the year under report. This may help in finding the exact nature of services provided by the Auditee.</li> <li><input type="checkbox"/> It may show some of the Directors having commission and some having received sitting fees. Are these receipts liable to GST? If, yes what will be the value of supply? Besides sitting fees if other facilities like car, flat, club membership etc are provided whether all such will be part of consideration or not? Audit officers should follow provisions of sec 15 read with rule 27 of the CGST/SGST Act, 2017.</li> <li><input type="checkbox"/> If any Director helped the company by standing as a guarantor in taking a loan whether that will be treated as supply or not?</li> <li><input type="checkbox"/> We may get information in respect of <b><u>Seconded by Foreign entity</u></b> to render services to an Indian Entity not as employee of Indian entity. This importation of service is treated as supply as per entry no.4 of Sch.I appended to section 7 of the CGST/SGST Act, 2017.</li> </ul> <p><b>b) Auditor's Report:</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> These may be reports of Statutory auditor or Internal auditor or C &amp; AG Audit. In the case of statutory</li> </ul>	
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	<p>audit, a separate report under CARO (Companies Auditor's Report Order, 2003/2015) is required to be given. The same should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. For example, Auditor may report that goods meant for outward supply, available in stock were not reconciled or provision for obsolete items have not been made during the year. Tax auditor may like to examine such opinion in detail.</p> <p>□ <b>Company Auditor's Report Order (CARO)</b> may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of inward supply and goods meant for outward supply was under taken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods. It also shows disputed tax liabilities separately for Customs, Income Tax, GST etc. Cases booked under Income Tax may be examined to find out any implication on GST.</p> <p>□ In the case of Public Sector unit, C &amp; AG report and comment of the company available in the Annual Report should be examined.</p> <p>□ <b>Disclosure of accounting policies followed in the presentation of financial statement</b> – Auditor's Notes may contain accounting standards with the disclosure of significant accounting policies followed in the preparation and presentation of financial statements. Such policies often give additional valuable information, e.g. The auditee may disclose revenue as per AS 7, where the principles of accrual system of revenue are acknowledged. But, the auditee for GST purpose may disclose supply</p>	
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		value from works contract on certified bill basis.	
2	P & L A/c	<p><b>Profit &amp; Loss Account:</b></p> <p>The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during desk review to find out the overall working of the unit. <b>In the main body of the Profit &amp; 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.</b></p> <p><b>P/L account may be studied for the following purposes:</b></p> <ul style="list-style-type: none"> <li>□ The most important step of audit is to determine the Total Turnover in the State and the tax liability of the auditee. This information in the P&amp;L A/c may be available as Sale or Operating Revenue or in any other similar nomenclature. However, this part denotes only the operating income, i.e. income from the main activity of business.</li> <li>□ The auditee may have other incomes like scrap, insurance claims receipt, profit on sale of fixed assets, commission received, erection and commissioning, freight and insurance recovered etc. which may be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation or whether these are liable for GST. They should carefully study the nature of business income – some of which may have accrued from the supply of taxable services and the balance from the supply of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or</li> </ul>	

		<p>contracts.</p> <p><input type="checkbox"/> The primary documents to be examined in this case are: Supply Invoices; Bank Statement; Debtors Ledger; Party-wise customer list. To ascertain the veracity of the figure reported in the Sale A/c vis-à-vis the Turnover disclosed in the Returns, additional documents like Sale contracts, Delivery Challan, Material Transfer Notes may be examined.</p>	
3	General Ledger A/cs for various expenses	<p>Scrutiny of expenses ledger is very important for an Audit Officer as the expenditure accounts have direct impact on availment of ITC, valuation of finished goods and payment of GST on the taxable value, value of inward supply on which GST is pay able under Reverse Charge. (<b>e.g. Expense Accounts:</b> Purchase, Packing and Forwarding Expenses, Advertisement Expenses, Transportation/Freight Charges, Outward supply Expenses, Sale Promotion, benefits to employees, entertainment expenses etc.)</p> <p>The General Ledger may contain various accounts depending upon the scale of business of the auditee. Hence, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance (if available) which gives names of all the accounts maintained by a unit.</p> <p><b>While making the detail examination -</b></p> <p><input type="checkbox"/> All the important Purchase accounts need to be checked to find</p>	

		<p>out whether any rejection of raw material or short receipt of input have taken place which will have impact on the ITC availed by the auditee.</p> <p>□ Raw material consumption account may also be verified to find out with regard to writing off obsolete material.</p> <p>□ 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.</p> <p>□ From the Trial Balance, the income accounts (these types of 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.</p>	
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4 .	Income Tax Audit Report	<p>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.</p> <p>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.</p> <p>As per Clause 27(a) of the said report, amount of ITC availed or utilised during the year and its treatment in the Profit &amp; 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.</p> <p>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</p>	
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		be inquired into.	
6	Internal Audit Report	<p>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.</p> <p>This report can be used for cross verification of loss of any input, excess availment of ITC, collection of additional consideration. Also the implications on the past period for any short payment or non-payment of tax can be examined from this report.</p> <p>Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs</p>	

		to be examined.	
7	Fixed Asset Schedule [available in Balance Sheet]	<p>This schedule contains the details of addition, deletion to the asset and depreciation charged thereupon. The examination thereof has multiple impact – in terms of turnover arising out of miscellaneous income and reversal of ITC under certain conditions. An asset can be deleted upon various circumstances – it may lose its working condition and hence may be written off. In such case, it may yield a scrap value. Whether any consideration has been received in this case can be verified from the Other Income/Miscellaneous Income A/c. This will have an impact on the Turnover. An old asset may also be permanently transferred to any related or distinct person. In such case, the matter should be looked into from the angle of Schedule I of Sec 7 of the SGST/CGST Acts, 2017. In case ITC has been availed on such asset, such has to be reversed. Furthermore, running assets are depreciated in prescribed rates. In case depreciation has been charged on a value inclusive of GST, such</p>	

		<p>ITC has to be reversed. Verification of the claim of depreciation on capital goods should be made from the Income tax return filed by the taxable person or from the Income Tax Audit Report (Form 3CD).</p> <p>There may also be possibilities of recording both expenses as well as income relating to a particular asset in the same account, thus affecting the net balance of such account. In this case, each Ledger Account for individual assets need to be checked to ascertain whether there are any sale or disposal or transfer of such asset hidden in such account. Presence of such may have impact on the tax liability of the auditee.</p>	
8	Other Income/ Miscellaneous Income	<p>Other income/Miscellaneous Income as reported in the P &amp; L A/c comprises of income from all those sources which do not form its operating revenue.</p> <p>A supplier in GST has its operational revenue generating from supply of goods or service or both. But there are other sources from which he may earn something more which is not booked under the A/c heads of Sales or Services or Revenue, as the case may be. Such incomes in a consolidated manner are known as Other incomes/Miscellaneous Income. Some major sources of other/miscellaneous income are income from:</p> <ul style="list-style-type: none"> <li>• Sale of scrap</li> </ul>	

	<ul style="list-style-type: none"> <li>• Receipt of insurance claim</li> <li>• Profit on sale of fixed assets</li> <li>• Commission received</li> <li>• Penalty / demurrage/ compensation received from employee/customers/suppliers</li> <li>• Rental income</li> <li>• Interest from Bank</li> <li>• Interest from debtors for late payment</li> <li>• Revaluation gain on fixed assets</li> <li>• Gain on exchange rate</li> <li>• Discount received</li> <li>• Dividends</li> <li>• Freight and insurance recovered etc.</li> </ul> <p>Many of such incomes are subject to GST such as sale of scrap or sale of fixed assets, as the nomenclature sale suggests. But there are many other account heads forming part of miscellaneous income (except a few) which also qualify as supply and should be forming a part of the GST Aggregate Turnover. Thus, these incomes are required to 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.</p>	
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9	<b>Unbilled revenue</b>	<p><b>Un-billed revenue</b> is actually recorded in the books of account and reflected in the financial statements, but in different accounting periods and it arises mainly in the context of supply of services. This arises from the concept of revenue recognition i.e. the question as to when should revenue in respect of a transaction or activity be recognized and recorded as such in the books of accounts and taken therefrom to the financial statements. Accounting Standard 9, issued by the Institute of Chartered Accountant of India, deals with revenue recognition and states that, generally:</p> <p><i>"Revenue from sales or service transactions should be recognised when the requirements as to performance ..... are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed."</i></p> <p>It may so happen that the terms of the contract stipulate that the invoice in relation thereto may be issued on the happening of a certain milestone, say the seventh day of the month following the month in which the work has been certified. But in such a case the revenue accrues on certification even though the invoice should be issued next month. If such an event were to happen in the last month of the financial year, the books of accounts and the financial statements would recognize the revenue on this count and the turnover declared in the financial statement would include this. However, since the invoice is issued in the next year, this turnover would be reported in the GST return</p>	
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		<p>for the next year. Thus, for the purpose of reconciling the turnover declared in the returns for any year (say, Y1), the value of unbilled revenue in respect of the preceding year (Y-1) shall be added to the turnover declared in the financial statements of Y1. Similarly, the unbilled revenue as at the end of financial year Y1 should be deducted from the turnover declared in the financial statements of Y1. This information is also available in rows A and I of Table 5 in Part II of Form GSTR-9C. The exact amount of unbilled revenue as at the beginning and as at the end of any financial year can be verified from the financial of the relevant years; however, in respect of 2017-18, this exercise would have to be carried out separately for the period between April, 2017 to June, 2017 since this information may not be readily available from the financial statements as such.</p>	
10	Un-adjusted Advances	<p><b>Un-adjusted Advances</b> in respect of which GST has been paid during the financial year in accordance with the provisions of Section 12 and 13 of the Act also need to be <b>added to</b> (where such advances have been received during the <i>current</i> financial year) or <b>deducted from</b> (where such advances have been received during the <i>preceding</i> financial year) the turnover declared in the financial statements for the current financial year. This adjustment is necessary for reconciliation since GST liability on advances received has been discharged in the year in which such advances has been received while the revenue in respect of the said advances has been recognized in the books of accounts/financial statements of either the preceding or succeeding year;</p>	



1 1	<b>Other adjustments</b>	<p><b>Other adjustments</b> are also required to be carried out to the turnover as declared in the books of accounts/ financial statements drawn from such books of accounts in order to reconcile the said turnover with the turnover declared in the GST returns. Such adjustments have been listed at serial numbers 5E to 5O, <i>except</i> serial numbers 5H and 5I thereof (which have already been discussed above, of the Reconciliation Statement in Form GSTR-9C. It may be noted that although, in accordance with the provisions of section 35(5) read with section 44(2) of the Act, the reconciliation statement may not be required in cases where the annual turnover is below Rs. 2 crores, the aforesaid adjustments will apply to every taxpayer the turnover declared by whom in his returns is to be compared with the turnover declared in his books of accounts and the financial statements drawn on the basis of such books of accounts. The adjustments noted here in this para, and the preceding paras, should be recorded separately in a Tabular manner showing clearly the nature of the adjustments (e.g. unbilled revenue, credit notes, advances, etc.), the value as per the returns, the value as reflected in the books of accounts or financial statements and the difference, if any. That there will be differences in the turnover as per the return and the turnover as per the books/financial statements is inevitable and the two can be reconciled within the framework of preparation of financial statements and maintenance of books of accounts and the framework of the GST Law. However, where the turnover as declared in the returns</p>	
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		<p>does not reconcile with that recorded in the accounts even after carrying out the aforesaid adjustments, the reasons for such difference may be examined in the light of the evidence and records presented to the auditor and explanations may be sought from the taxpayer. The tax implications of such unreconciled differences may be worked out, the workings and documentation should be made part of the working papers/file/record of audit and should form part of the audit team's report which is also made available to the taxpayer.</p>	
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## Annexure 16: Indian Accounting Standard in the perspective of GST (p.49)

<p>Indian Accounting Standards (Ind ASs) are Standards prescribed under Section 211(3C) of the Companies Act, 1956. This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.</p>	 <p style="text-align: center;"><b>Accounting Standard</b></p> <p style="text-align: center;"><b>EXHIBIT 51</b></p>
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It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

There are various fields where the manner of the accounting and provisions under GST may vary. GST in India is a paradigm shift with complete business change, which impacts finance, accounting and reporting functions.

The following illustrative examples are for primary understanding before conducting audit and there could be many more cases of differences in the turnovers between the financial statements and the GST Law when the auditor will audit in practical field.

### 1. AS 1 / IND AS 1: DISCLOSURE OF ACCOUNTING POLICIES

AS 1 deal with the disclosure of significant accounting policies followed in the preparation and presentation of financial statements. It states that an enterprise needs to disclose significant accounting policies followed by it to prepare and present its financial statements.

The following are a few examples of the areas in which different accounting policies may be adopted by different enterprises.

- a) Methods of depreciation, depletion and amortisation
- b) Treatment of expenditure during construction
- c) Conversion or translation of foreign currency items

- d) Valuation of inventories
- e) Treatment of goodwill
- f) Valuation of investments
- g) Treatment of retirement benefits
- h) Recognition of profit on long-term contracts
- i) Valuation of fixed assets
- j) Treatment of contingent liabilities.

**e.g.1: Supplies on behalf of the principal** are not reflected in the financial statements of the agent and only commission is shown as the revenue of the agent. Under the GST Law, such turnover would be treated as part of the agent's turnover also *[Ref: Sch I under sec 7]*.

**e.g.2: Disposal of business assets without any consideration** – Suppose assets of a company are damaged due to flood. The company claimed insurance and also received the claim amount. The company disposed of such damaged assets. If no consideration is received on such disposal of business asset then also it will be considered as sale of assets in GST if input tax credit has been availed on such business assets *[Ref: Entry no. 1 of Sch I under sec 7]*.

### **e.g.3: Other income from penal interest**

The interest may be for various reasons like bank interest against deposit, penal interest received for payment received beyond interest free credit period, etc. So, when examining such other income, the audit officer should check whether such interest is taxable or exempted. In the present case interest received from bank against deposit is exempted but interest received from the recipient of goods and/or services for late payment is taxable if the supplied goods and/or services were taxable *[Ref: sec 15(2)(d)]*.

**e.g.4: Sometimes auditee may prepare his final statement by showing certain income in different head of expenses.** The following are a few examples of expenses in which supply may be involved-

- a) Printing & Stationery,
- b) Repairing of office and godown,
- c) Repairing of furniture & Fixture,

For example, the auditee incurred expenses for purchase of office stationery and at the same time also received some sale proceeds against sale of old

office stationeries. This sale proceeds may be accounted as other income or may be treated as credit entry in the printing & stationery head. So, the audit officer should check such expenses account to identify whether any supply is also clubbed in such expenses account or not.

**e.g.5: Accrual accounting:** The auditee may disclose revenue as per Accounting Standard 7 (AS 7), where the principles of accrual system of revenue are acknowledged. But, the auditee for GST purpose may disclose supply value from such works contract on certified bill basis. In this situation there may be difference in turnover as per books and as disclosed in GST return. While dealing with these cases the audit officer should know the exact provisions of time of supply and time limit to issue tax invoice to ensure whether there is any under reporting of supply value or not [Ref: Sec 13, Sec 31 and Rule 47].

**e.g.6:** As per Ind AS, excise duty is included in value of supply but, GST is not included [Sec 15(2)(a) of CGST/SGST Act]. For the first three months of 2017-18 revenue would be presented at Gross for Excise Less Excise Duty paid, and for the subsequent period it would be shown only the net.

## **2. AS 2 / IND AS 2: VALUATION OF INVENTORY**

As per AS-2 the costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and similar items are deducted in determining the costs of purchase.

In the CGST/SGST Act several provisions are there for the availment of input tax credit and refund of input tax credit in specified situations. Thus, to the extent credit is available or refund is available, it would not form part of the cost of inventory. But, in following situations input tax is not available for credit:

- (i). Input / input services / capital goods are used for other than business purposes.
- (ii). Tax paid on inward supplies by the composition tax payers.
- (iii). Restricted credits u/s 17(5) of the CGST/SGST Act;
- (iv). Depreciation claimed on tax element;
- (v). Input/input services/capital goods used for exempted supply.

(vi).Any other ineligible input tax credit.

Thus, a systematic evaluative process is required to determine “what” credit is claimed and “what is” part of the cost of inventory as per the applicable accounting standard.

**e.g.1:** Goods and or services are procured where basic value is Rs. 1,00,000/- and tax paid @ 18% is of Rs. 18,000/-. Now, if ITC is available for set off against this inward supply, the cost would be recorded to the tune of Rs. 1,00,000/- only in the books whereas if availability of ITC is restricted u/s 17(5), the entire bill value of Rs. 1,18,000/- will be recorded as cost in the books as per AS 2.

**e.g.2:** A proprietor of a business having purchased face-masks distributes some to his office staffs and keeps a few for his home consumption. In that case, as per the AS2, the cost of such goods for business use as well as for personal use cost needs to be segregated keeping in mind that ITC is not available for goods used for personal use. Accordingly, the cost of goods is to be calculated and recorded in the books.

### **3. AS 3 / IND AS 7: CASH FLOW STATEMENTS**

The AS 3 deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a Cash Flow Statement which classifies cash flows during the period from operating, investing and financing activities.

The Cash Flow Statement reports the cash flows during the period for the following activities:

- (i).**Operating activity:** Principal revenue producing activities and other activities that are not investing or financing activities.
- (ii).**Investing activity:** Acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- (iii).**Financing activity:** Activities that result in changes in the size and composition of the owners’ capital (including preference share capital in the case of a company) and borrowing.

However, out of the operating activities as stated above, the principal revenue producing activities and other activities that are not investing or financing activities, i.e. sale of goods or services or both will have GST implication except in a case where purely money is dealt with. This is because money is not goods as per the CGST/SGST Act(s).

Again, relating to investing activities, permanent transfer or disposal of business assets where input tax credit has been availed on such assets have been termed as an activity to be treated as supply even if made without consideration.

Furthermore, where financing activities are concerned, services by way of (a) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services) and (b) *inter se* sale or purchase of foreign currency amongst banks or authorised dealers of foreign exchange or amongst banks and such dealers are exempted from GST.

As per the GST Laws, interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised.

So, acquisition of capital, taking a loan, payment/receipt of interest or dividend will not attract GST, but any service charge or /processing fee incurred at the time of a loan will attract GST.

**e.g.1:** A business firm receives Rs. 10,00,000/- as dividend from its investments in share capital. This will be reflected in the cash flow statement as per AS 3 but will not have any GST implication.

**e.g.2:** A business firm borrows Rs. 10 crore from the bank for its business expansion. It pays Rs. 10 lakh as processing charge and starts repaying the loan with principal and interest components. Both the inflow of fund (as loan) and outflow (as EMI and processing charge) will be reflected in the cash flow statement as per AS 3 out of which, the firm has to pay GST only on the service charge part.

#### **4. AS 4 / IND AS 10: CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence or nonoccurrence, of one or more uncertain future events.

A contingent asset is a *potential* asset that is associated with a potential gain. The asset and gain are contingent because they are dependent upon some future event occurring or not occurring.



For example, Company X has filed a lawsuit claiming for Rs. 1 crore from another Company Y. Even if it is probable that Company A will win the lawsuit it cannot be held as certain till a favourable judgement is declared. Thus, the probable gain of Rs. 1 crore is a contingent asset and a contingent gain. As such, it will not be recorded in Company A's general ledger accounts until the lawsuit is settled.

As per AS 4, a contingency gain is reported only when realised/earned. If a specific event causing such gain occurs and the gain is realised, then only the gain is disclosed.

In terms of GST, in this case, the contingent gain of Rs. 1 crore will be against services provided by Company X to Company Y as agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act and will be subject to GST only after actual occurrence of the event.

Similarly, contingent Liability is that kind of a liability which is non-existent as on date, but it may become an actual liability in the future.

For example, a customer has filed a suit against the company for compensation. This can become an actual liability in the future if the firm loses the case. However, as on date, it is not a liability as the outcome is not known today. Now, let's assume that the company's legal department thinks that the claimant has a strong case, and the business estimates a Rs. 2 lakh loss if the firm loses the case.

Since this liability is estimated, the firm will disclose this liability in its books as a footnote below balance sheet.

Product warranties given by the company can also be considered a contingent liability, since there is no certainty about the exact number of units that will be returned by customers for repair or replacement.

## **5. AS 5/ IND AS 8 : NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES**

AS 5 mainly deals with the following items:

- (i). Net Profit or Loss for the Period – These can be categorized into Profit/Loss from ordinary activities and from extraordinary activities.
- (ii). Prior Period Items - While preparing the financial statements, there are certain items which actually correspond to prior accounting periods. The income or losses due to these items are a result of error or omission in the financial statements of the prior period. By nature, these items are not frequent.

Now, Profit or loss from ordinary activities is such which arise in the normal course of business, i.e. they are a part of business and related activities. Examples: Profit/loss on sale of goods, services.

Profit or loss from extraordinary activities is such which do not arise under the normal course of business. These activities do not occur regularly. Example: – Profit on sale of fixed assets, Loss due to theft.

As, profit out of normal business activities have GST implication, the point of concern can be whether the goods/services dealt with are exempted or taxable and whether the turnover for which such profit element has been disclosed is at par with the Turnover on which GST liabilities have been fulfilled or not.

Similar is the case for profit out of extraordinary activities. Even if such activities are extraordinary, they will form a part of the Turnover for GST Audit and accordingly tax should be paid.

However, it may be stated that permanent transfer/disposal of fixed assets will be treated as supply even if made without consideration where input tax credit has been availed on such assets.

Again, availment of ITC will be blocked for goods lost, stolen, destroyed, written off.

So, any profit/loss arising out of extraordinary events will indicate a counter-check of such transactions from the GST angle.

Furthermore, there are certain estimates which are used while preparing the financial statements for any period. For example estimate on the useful life of machinery, estimate on the realisable value of an item in inventory. At times, these estimates are required to be revised due to any reason Accounting policies are the accounting principles and method of applying those principles while preparing the financial statements. A change in accounting policy should be undertaken only in two cases: (i) If the change is required by law or accounting standard; or (ii) If the change helps in better presentation of financial statements

Any change in an accounting policy which has a substantial/material effect is also disclosed as per AS 5.

**e.g. 1,** There was a theft of goods in the warehouse of ABC Pvt. Ltd. in the 2018-19 amounting to Rs. 40 lakh. The same has been detected in the year 2019-20 at the time of physical verification of inventory. The theft is not expected to take place on a frequent or regular basis and is not in a normal course of business of ABC Pvt. Ltd. Thus, the same qualifies to be an extraordinary item. Also, the theft took place in the financial year 2018-19 but was discovered in 2019-20. This suggests that although the loss related to

prior period, it was not shown and the profit was overstated by such amount i.e. Rs. 40 lakh. While taking the effect of such loss in the current year, this is a prior period item. Thus, such loss will be disclosed in the current year's financial statements as per AS 5. Accordingly, appropriate ITC already enjoyed on such goods is to be reversed as per GST Laws.

**e.g. 2,** the rate of depreciation of a particular asset is changed from 7% to 10% due to a statutory change. The business firm charges depreciation in his books which is inclusive of GST. Such tax portion depreciated is not entitled for ITC. Accordingly in the changed scenario where the depreciation amount will be enhanced as per AS 5, the amount of ITC reversal will also increase as per the GST Laws.

## **6. AS 6 & 10/ IND AS 16: PROPERTY, PLANT AND EQUIPMENT (PPE) & DEPRECIATION ACCOUNTING AND ACCOUNTING FOR FIXED ASSETS**

As per AS 6 & 10, at the time of recognition, an item of property, plant and equipment (PPE) that qualifies for recognition as an asset should be measured at its cost.

Elements of cost include Purchase cost i.e. purchase price including import duties after deducting applicable discounts/rebates + Directly attributable and necessary costs to bring the asset to the location and condition necessary for it to be operating + costs of dismantling and restoration.

Some examples of directly attributable costs are – (i) Costs of employee benefits arising directly from the construction or acquisition of the item of PPE; (ii) Costs of site preparation; (iii) Initial delivery and handling costs; (iv) Installation and assembly costs; (v) Professional fees; (vi) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) Administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset. However, in some circumstances, such expenses as are specifically attributable to the construction of a project or to the acquisition of a fixed asset or bringing it to its working condition, may be included as part of the cost of the construction project or as part of the cost of the fixed asset.

In this case, three sections of the GST laws, viz. S. 16(1), S. 16(3) and S. 17(5) need to be referred to. S. 16(1) of the CGST/SGST Act(s) mandates that to enjoy ITC on the asset (i.e. PPE in terms of the AS), the related goods

or services or both need to be of the nature of being used or intended to be used in the course or furtherance of business. This is also to mention that business is also defined in the GST Laws.

At the same time, S. 17(5), lays down conditions where ITC is not available.

So, although an asset may be booked and accordingly depreciated as per AS 6 & 10, the same may not qualify for ITC.

**e.g.** Company X manufacturing processed food receives works contract service for constructing a warehouse. The same property will be recognized in the books as per AS 6 & 10, but ITC on the same will not be available as per Sec. 17(5) of the CGST/SGST Act(s).

Now, as per AS 6 & 10, the cost of Fixed Assets is the amount of cash paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition or construction. Where applicable, that amount recorded as per the books may be the amount attributable to that asset when initially acquired in accordance with the specific requirement of other Indian accounting standards.

From the GST perspective, as per Section 16(3) where the registered person 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, the input tax credit on the said tax component shall not be allowed. In nutshell, Input tax credit shall not be allowed on the tax component of the cost of capital goods and plant and machinery if depreciation on such tax component has been claimed under the provisions of the Income Tax Act, 1961.

## **7. AS 7/ IND AS 11: CONSTRUCTION CONTRACT**

AS 7 Construction Contract describes the accounting treatment of the revenue and of a construction contract. There are different types of construction contract like fixed price contract, cost-plus contract etc. Fixed price contract is very common where the contract between the contractee and contractor is agreed against a fixed price. In some cases, there may be a clause of escalation in the contract which is mutually agreed for various reasons like increase of the cost of raw materials, delay in completion etc.

**Divisible contract and indivisible contract:** In divisible contract the elements of each contracts are clearly segregated. But in indivisible contract both the contractor and contractee agree lump-sum consideration for the entire contract. The word "Turnkey" is commonly used in the construction industry

in case of indivisible contract. It represents an indivisible composite contract with “single point Turnkey responsibility”. According to this single point turnkey responsibility the Contractor undertakes all the things necessary for the project implementation from design to procurement of materials and construction of Works, from inception to completion, and makes ready for the use of the Owner. Here, only one entity takes the total responsibility for design, supply and execution of a project and provides a fully-equipped facility, ready for operation “at the ‘turn of the key’”.

Revenue of a contract and costs of a contract are two important areas for the audit officers. Revenue of a contract includes agreed initial revenue as well as revenue from escalation. In cost plus remuneration or cost plus a margin type of agreement both the cost and the remuneration and percentage amount on such cost will form part of revenue. Even claim of incentive for completion of project before time or for various reasons will also form part of revenue. The treatment of such revenue may vary in GST.

**e.g.1:** A contractor received mobilization advance of Rs.50 lakh on 30.08.2017. it will form part of GST revenue. The time of supply is the date of raising receipt voucher or 30.08.2017 whichever is earlier. If, this advance is adjusted with any RA bill within one year it will be treated as liability of the contractor though it is a revenue in GST.

**e.g.2:** A contractor maintaining books as per AS 7 booked revenue for FY 2017-18 for Rs.1.5 Cr for which revenue accrued on 25.11.2017 but no invoice is generated (commonly known as unbilled revenue). Whether it will be part of GST Turnover for the FY 2017-18?

Yes, it will be part of GST turnover. As per provisions of sec 13 read with sec 31 and rule 47 the time of supply of this service in this case is the date of payment or provisions of service whichever is earlier. Provision of service is made on 25.11.2017. As per provisions of rule 47 the contractor was supposed to raise invoice within 30 days of provisions of service. But, he failed. So, 25.11.2017 is the time of supply.

**e.g.3:** A contractor received an incentive of Rs.55 Lakh due to completion of construction project before the agreed time. Whether it will be part Turnover in GST? Then which type of supply is this?

Yes, it will form part of turnover in GST, since there is a supply of service. But, this is not any construction service. This is nothing but 'agreeing to the obligation to do an act' which is a kind of service as per 5 (e) of Sch. II under sec 7 of the CGST/SGST Act.

e.g.4: There may be a situation when the contractee may claim a penalty from the contractor for various reasons like delay in completion, inferior quality of works, construction machinery used not as per specification of the agreement etc. Whether this penalty will also be part of turnover in GST? If so, then what kind of service is it and who is the supplier of service?

Yes, it will form part of turnover in GST, since there is a supply of service. But, this is not any construction service. This service is nothing but 'agreeing to the obligation to tolerate an act' which is a kind of service as per 5 (e) of Sch. II under sec 7 of the CGST/SGST Act. The contractee is the supplier of such service to the contractor in this case.

**Work-in-progress** – As per AS 7 when a contractor incurs costs that relate to future activity in a contract. Such costs are recognized as an asset if it is probable that they will be recovered.

In such cases the RTP as a contractor is eligible to claim ITC on such costs subject to fulfillment of conditions and restrictions of the Acts and Rules made there under.

## **8. AS 13/ IND AS 40: ACCOUNTING FOR INVESTMENTS**

A business entity may have investments for various diverse reasons such as, operations, where the assessment of the performance of the business may largely, or solely, depend on the results of such investment activity.

Some investments are intangible e.g., shares while others exist in a physical form e.g., land & buildings. By nature, an investment may be in the form of a debt, other than a short- or long-term loan or a trade debt, representing a monetary amount owing to the holder and usually bearing interest. Again, it may be in the form of results and net assets of an enterprise such as equity shares.

As per this AS 13, the financial accounts are required to disclose the acquisition and disposal of all the investments.



Accordingly, the P/L A/c is required to include the following items:

- Income from interest & dividends;
- Profits and losses on disposal of current investments;
- Profits and losses on disposal of investments;

Now, as money is not covered under goods as per the GST Act(s).

Again, relating to investing activities, permanent transfer or disposal of business assets where input tax credit has been availed on such assets have been termed as an activity to be treated as supply even if made without consideration.

Furthermore, where financing activities are concerned, services by way of (a) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services) and (b) inter se sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers are exempted from GST.

As per the GST Laws, interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized.

So, acquisition of capital, taking a loan, payment/receipt of interest or dividend will not attract GST, but any service charge or /processing fee incurred at the time of a loan will attract GST.

## **9. AS 15/ IND AS 19: EMPLOYEE BENEFITS**

The objective of this Standard is to prescribe the accounting treatment and disclosure for employee benefits in the books of employers except employee share-based payments.

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees. This may be in the form of long/short term employee benefits, post-employment benefits, termination/retirement benefits etc.



Now, as per entry no. 1 of Schedule III, Services by an employee to the employer in the course of or in relation to his employment, is an activity which is treated neither as a supply of goods nor as a supply of services. Thus the employee benefits provided to an employee and recorded as per AS 15, does not come under the purview of GST.

e.g. 1, Mr. A receives an arrear payment of Rs. 70,000/- after retiring from Company X. Here, the expense will be recorded as post-employment benefit as per AS 15. From the GST perspective it may be said that, although at the time of recording of such expense, there exists no employer-employee relation between A & X, the said expense will not attract any GST as it is an accrued expense for Company X in terms of employer-employee relation only.

The guiding factor in this case will be the term “employee”. If the expenses are borne on a person who is not an employee as per the pay-roll, the same will be treated as a consideration paid against receipt of supply of services from that person.

e.g. 2, Salary paid to a full-time Director of a company is a consideration paid to him out of employer-employee relationship. Hence such will not attract GST. But, remuneration paid to independent director and remuneration other than salary to employee director (such as, sitting fees) are not considerations out of employer-employee relationship. Hence, such will be treated as consideration paid against receipt of supply of services as per the GST Act(s) and will be taxable @ 18%.

Furthermore, as per the provision to entry no. 2 of Schedule I, gifts of value upto Rs. 50,000/- in a financial year by an employer to an employee shall not be treated as supply of goods or services or both. Otherwise, such gift whose value exceeds Rs. 50,000/- will be treated as a supply even though made without a consideration.

e.g. 3, Company X gives a mobile phone worth Rs. 25000/- to each member of its sales team as a gift in 2018-19. This will not be treated as a supply. But if the same Company X gives a high-end laptop worth Rs. 60,000/- to the head of the sales team, the same will be treated as a supply.

## **10. AS 16/ IND AS 23: BORROWING COSTS**

This Standard is applied in accounting for borrowing costs. Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. This includes:

- Interest and commitment charges on borrowings
- Discounts and premiums related to borrowings
- Ancillary costs incurred in connection with arrangement of borrowings
- Finance charges in respect of assets acquired under finance lease
- Exchange differences arising from foreign currency borrowings to the extent they are regarded as adjustment to interest costs.

In this case, this is to mention that detailed discussions regarding GST implication on interests, other financial fees (processing fees etc) and that on foreign exchange have already been made in Paras 3 & 9 respectively.

## **11. AS 17/ IND AS 108: SEGMENT REPORTING**

The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates.

If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information needs to be presented only on the basis of the consolidated financial statements.

Here, the concept of related person and distinct person comes in under the GST Laws.

As per entry no. 2 of Schedule I, Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business is an activity to be treated as supply even if made without any consideration.

In the explanation provided to Section 15(5) of the CGST/SGST Act(s), persons will be “related” if:

- such persons are officers or directors of one another’s businesses;
- such persons are legally recognised partners in business;
- such persons are employer and employee;
- any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them;
- one of them directly or indirectly controls the other;
- both of them are directly or indirectly controlled by a third person;

- together they directly or indirectly control a third person; or
- they are members of the same family.

Again, as per Section 25(4) of the CGST/SGST Act(s), a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as “distinct persons”.

This means that two separate branches, or cost centres, or business segments (as per AS 17) of the same Company having two different GST registration numbers will be treated as related and distinct persons.

In this case, if such segmented accounting happen to be of two different cost centres having one single GST registration, special care needs to be taken to ensure that the summation of the segmented accounts have been duly reported in the GST Returns under the single registration and accordingly tax liability has been discharged.

## **12. AS 20/ IND AS 33: EARNINGS PER SHARE**

AS 20 prescribes principles for the determination and presentation of earnings per share for comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise.

In common parlance, earnings from shares means dividend. The term ‘dividend’ has not been defined under the GST law. However, Section 2(35) of the Companies Act, 2013 defines the term ‘dividend’ to include any interim dividend. It is an inclusive and not an exhaustive definition. In common parlance, ‘dividend’ means the profits of a company, not retained in the business but distributed among the shareholders in proportion to the amount paid-up on the shares held by them.

The Supreme Court in CIT vs. Girdhardas & Co. (Private) Ltd. [1967 SCR (1) 777] observed that the expression “dividend” has two meanings-

- As applied to a company which is a going concern, it ordinarily means the portion of the profits of the company which is allocated to the holders of shares in the company.
- In case of a winding up, it means a division of the realised assets among the creditors and contributories according to their respective rights.

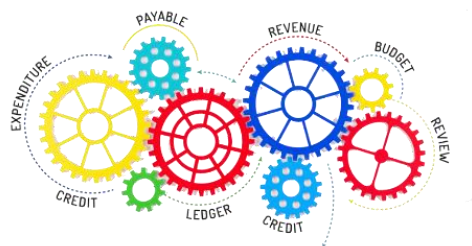
Now, as per S. 2(52) of the CGST/SGST Acts, “goods” means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

Thus, dividend Income may be treated as not being in the ambit of GST as such is a money income and money is excluded from goods.

Also, Section 17(3) of the CGST/SGST Act provides that the value of exempt supply under Section 17(2) shall be as prescribed and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

It is pertinent to note that Section 2(101) of the said Acts provides that “securities” shall have the same meaning as assigned to it in Section 2(h) of the Securities Contracts (Regulation) Act. The term ‘dividend’ in itself is not included in the said definition. However, it becomes relevant to examine if the earning of dividend on account of holding shares (qualifying as ‘security’ under the definition) is in any manner connected to the expression, “transaction in security”.

The above examples and discussion on accounting standards are indicative only. Audit officer may go through other accounting standards also if required.



## ANNEXURE 17 (p.xi)

### Recommendations for Model GST Audit Best Practices and Procedure as per the report of the sub-committee on point No, 1 of the Terms of Reference for the CoO on GST Audit

#### Recommendation – 01

##### Basis for selection of cases for audit

Identification of cases for audit is of threefold:

##### Based on risk assessment:

Selection of cases on the basis of compliance risks is very essential and integral to GST audit. Currently, the returns data of taxpayers i.e., GSTR-3Bs are being considered by various States and the Centre. The guiding principle of audit envisages selection of taxpayers for audit based on certain risk parameters. The Commissioner/Appropriate authority by a general or specific order may select any registered person for audit of his books of accounts for a specific period. on certain parameters as he may deem fit.

The Commissioner/ Appropriate Authority may fix the criteria of selection basis This turnover limit while fixing the selection criteria may vary from State to State, in different Zonal levels of a particular State and also for service sector when compared to that for goods.



EXHIBIT 52

All risk parameters are required to be identified and all probable aspects need to be considered to identify non- compliance and non-payment / short payment of tax, interest, late fee, penalty etc. availment of credit and claims for refund and evasion of tax. The taxpayers may be classified into three

segments, Large/Medium/Small based on the total turnover. The States can also be divided into three Categories, viz. I II and III based on the taxpayer's spread across various segments. By and large, the categorization may be uniform across the States subject to the availability of more risky taxpayers in a particular category. Example for categorization is given below. This may vary from State to State and in the Centre. An illustrative scheme of classification is discussed hereinbelow:

**Large** - taxpayers with turnover more than Rs. 40 Crore for category 1 Commissionerates, Rs. 30 Crores for category 2 Commissionerates and Rs. 20 crores for category 3 Commissionerates.

**Medium** – taxpayers with turnover Rs.10 Crores to Rs.40 Crores for category 1 Commissionerates, Rs. 7.5 Crores to Rs. 30 Crores for category 2 Commissionerates and Rs. 5 Crores to Rs.20 crores for category 3 Commissionerates.

**Small** – taxpayers with turnover below Rs. 10 Crores for category 1 Commissionerates, below Rs. 7.5 Crores for category 2 Commissionerates and below Rs. 5 Crores for category 3 Commissionerates.

The above schema is only indicative and should be adapted keeping in view the risk profiles, revenue involved and the resources available to conduct the audit.

The turnover includes total taxable, exempt and zero rated supplies of goods and services but excludes non-GST supplies during a financial year.

To select the taxpayers for audit in an effective manner, secondary data source (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be considered along with the primary data source (i.e. GST data).

The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit. Based on the average weight, considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.

The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one



RTP has the same final score, the parameter of declared liability will then be considered and a taxpayer with more declared liability will be selected first.

A Selection Committee may be constituted to identify various risk parameters for selection for audit considering all the aspects where there are chances of lack of compliance of the Act resulting in short payment of tax etc. such as: Entity level risks (e.g. Turnover, Tax, ITC, Refund, Commodity such as Iron & Steel, Paints & Chemicals, Textiles, Cement, Medicine, Footwear, Branded food grain, Automobiles etc., Service: Works contract, Real Estate, Information Technology, Consultancy service, Manpower service, Hospitality, Travel & Tourism, Leasing etc.).

Risks associated with compliance behaviour (e.g. late filing of return, non-submission of Form GSTR-1, Form GSTR-3B, Form GSTR-9 Form GSTR-9C).

**Certain representative selection criteria that can be considered for risk assessment are given below:-**

1. Ratio of Taxable turnover – present year vis-à-vis previous year.
2. Ratio of ITC reversed vis-à-vis Total ITC availed during the year.
3. Ratio of total ITC availed in this year vis-à-vis previous year. Ratio of IGST payment at the time of import vis-à-vis Total
4. ITC availed ({Col.2 of table 4(A) (1) & (2) of GSTR-3B} in corresponding period).
5. Ratio of tax paid through ITC to total tax liability
6. Ratio of nil/exempt supplies (Col.2 of Table 3.1(C) of GSTR- 3B) to total turnover (excluding non GST supplies ) (col.2 of Table 3.1(a) + (b) + (c) of GSTR-3B).
7. Ratio of Zero-rated supplies (col.2 of Table 3.1(b) of GSTR-3B) to total turnover (excluding non-GST supplies) (col.2 of Table 3.1 (a)+(b) + (c) of (GSTR-3B).
8. Ratio of Non-GST supplies to total turnover. {(Col.2 of Table 3.1(e) / (col.2 of Table 3.1 (a) + (b) +(c) of GSTR-3B)}.
9. Ratio of inward supplies (liable to reverse charge) to total turnover [col.2 of Table 3.1(d)]/Col.2 of 3.1 (a)+(b)+(c) of GSTR-3B)].
10. Ratio of ITC shown in Table 4A(5) of GSTR 3B and ITC as per GSTR-2A.
11. Ratio of tax paid under reverse charge (as per {Col.3+4+5+6 of Table



3.1(d)} to ITC taken on import of services/other reverse charge (other than import of goods) {Col.2+3+4+5 of Table 4A (2+3) of GSTR 3-B}.

12. Ratio of ISD credit {Col.2+3+4+5 of Table 4A (4) of GSTR-3B} to total ITC taken {Col.2+3+4+5 Table 4A of GSTR-3B}.

13. Ratio of ITC reversed {Col.2+3+4+5 of table 4(B) of GSTR 3B} to ITC taken {Col.2+3+4+5 of table 4(A) of GSTR-3B}.

14. Ratio of zero-rated supply to SEZ as per Table 6(B) of GSTR-1 to total GST turnover.

15. Ratio of deemed exports as per Table 6(C) of GSTR-1 to total GST turnover.

16. Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1.

17. Claim of ITC from cancelled RTPs, aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return.

18. Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS deducted as reflected in Form GSTR-7 submitted by TDS deductor.

19. Turnover declared by RTP in Form GSTR-3B compared to turnover on which TCS collected as reflected in Form GSTR-8 submitted by TCS collector.

20. Refund claimed against purchase from taxpayer having no auto-population of ITC in Form GSTR-2A.

21. Purchases from non-existent RTPs.

22. RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.)

23. In case, the RTP selected for audit has multiple registrations under the same PAN / TAN in the State, it is suggested that all such registration numbers may be selected for audit.

24. 10% of the selection of the taxpayers may be done on a random basis.

25. Relating to compliance behaviour-based risk (e.g. late filer of return)– RTPs defaulting in filing GSTR-3B for 3 months will be marked 5, those defaulting for 2 months will be marked 3.33 & those defaulting by 1 month will be marked 1.67.

26. Taxpayers claiming ITC of more than the amount from eligible ITC.

27. Taxpayers who have filed all returns and tax adjusted from cash ledger is less than an amount.

28. Taxpayers who have filed all returns and difference in tax liability in

GSTR-1 > GSTR-3b by n amount.

29. Composition tax payers having turnover more than 1.25 crore.
30. Newly registered taxpayers with high turnover more than an amount.
31. Newly registered taxpayers with turnover exceeding a pre-decided threshold and cash payout percentage below a certain threshold
32. Taxpayers with (a) multiple use of pan (b) multiple use of email id (c) multiple use of mobile no.
33. Refund amount is greater than the amount.
34. Shipping bill/export proof submitted by taxable person not verified from Ice gate.
35. Turnover declared in GSTR 3b must be compared with TDS/TCS deducted (it should be more than 100 times than TCS deducted and more than 50 times than TDS deducted).
36. Taxable persons dealing in evasion-prone commodities/services as per HSN/SAC code.
37. High spike by n amount in e-way bill value in n months.
38. Ratio of Output Tax paid in cash to the total turnover in the current year is n percentage higher to the ratio of the same in the previous year.
39. Ratio of Output Tax paid to Net Profit in the current year is “n” percent higher to the ratio of the same in the previous year.
40. Taxable Person whose Turnover is less than “n” percentage of turnover from previous year.
41. Ratio of expenses to turnover in the current year is greater than by “n” percent than the ratio of the same in the previous year.
42. Inward supply from bogus dealers.
43. Zero cash set-off against tax liability.
44. Inward supply received but no outward supply.
45. GSTR-1 submitted but GSTR-3B not submitted.
46. Manufactures whose cash set-off is less than 5 per cent.
47. Three or more cases apprehended by mobile squad.
48. Cancellation of E-way bill is more than 2 per cent.

### **Based on Local Risk parameters/wild card entry:**

Several State GST Departments have mobile squads for checking the correctness of the documents carried in support of the goods transported in the state and it is an integral part of their enforcement activity to supplement

their efforts to prevent and check tax evasion. It is the experience of the States that tax is evaded by businesses by transporting goods without documents or with fake/ invalid documents or by recycling of old documents that were not checked earlier, enabling them not to record and declare the corresponding transactions in their books. Apart from the seller and purchaser, unscrupulous transporters also form part of the network indulging in tax evasion. Based on the inputs gathered from mobile squad vigilance, risk parameters can be identified by the Officers of Anti-evasion/Enforcement wings and the corresponding tax payers may be selected for audit based on the above risk assessment. Percentage of taxpayers that may be selected on the basis of the above risk assessment may be left to the decision of the State GST Departments.

### **Random selection:**

Tax payers (roughly around 10%) may also be selected randomly on the basis of local intelligence networks which otherwise may not be covered strictly by the overall risk parameter selection. The discretion for selecting cases may rest with the appropriate authority of a Zone or a Division.

## **Recommendation – 02: Scope of audit**

Whether restricted to only the flagged risk parameters or all business transactions of the auditee.

Risk parameters are meant for determining the total risk score based on which registered persons would be selected for audit. When, once a registered person is selected, the audit should be carried out as per definition of 'Audit' (under Section 2(13) of the CGST Act/ KGST Act). Thus, audit would not be restricted only to the flagged risk parameters and audit should be taken up based on desk review conducted by the audit team and audit plan prepared accordingly. An efficient and effective Audit system in all aspects based on a checklist will increase voluntary compliance. A focused audit increases taxpayers' cooperation, shortens audit and improves audit yield.

### **Recommendation – 03: Norms for audit and co-ordination among audit officers.**

Audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

State audit jurisdictions do not have an annual scheduling of Audit for a financial year. Such elasticity in planning Audit of related registered persons in the value chain based on audit findings in selected primary cases is possible. Whereas, in the CGST audit manual, the annual Schedule for audits for a financial year would be drawn at the beginning of the year and there is a need to adhere to such schedule, taking up the audits of other registered persons in the value chain based on audit findings, may not be possible during the same year. Furthermore, taking up audit of other persons in the value chain may not always yield good results unless they are part of a fake credit chain. However, if the risk scores of such registered persons in the value chain are identified to be higher, the same can be taken up for audit during subsequent audit years. Whether to have the same Audit Officer for all such cases including monitoring the same may be left to the discretion of the divisional heads or any officer authorized by the State Commissioner.

### **Recommendation – 04: Open ended assignment for Audit.**

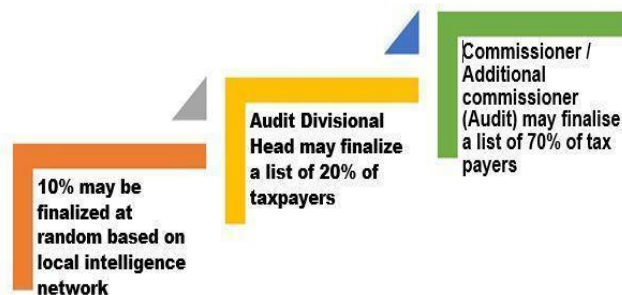
**Audit of other years of the same auditee based on audit findings in selected cases.**

In general, when a registered person is selected for audit based on risk scores arrived at for a financial year or multiples thereof, the audit is to be taken up for the entire period for which previous audit (GST audit) is not covered. It need not be restricted to a particular financial year, a complete audit by clubbing more than one financial year is to be done. In other words, a taxpayer may be subject to Audit from the un-audited period till the last return filed up to the date of visit. The Parameters to analyze data base can be ascertained by adopting the following method as -



## Recommendation 05 - Authorization for Audit.

Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.



Commissioner/Additional Commissioners in-charge of Audit work or any other wing entrusted with the task of monitoring audit mechanism in a State may finalize a list of 70% of the taxpayers to be taken up for audit by each Joint Commissioner (Divisional Head), based on risk scores arrived at State level. Joint Commissioner (Divisional Head), may be authorized to select 20% of the tax payers for audit based on local risk parameters and 10% of the tax payers at random based on local intelligence network. However, all such selections must be ratified by the Commissioner/Pr. Commissioner head of Audit before the audit is authorised. The issue of overall number of cases that could be taken up for audit is dealt separately. These numbers may be changed from one year to the next based on audit detections and recoveries in each of these categories.

**Note: The practice followed in CGST Audit is as under:-**

The registered persons are 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 ranking of the registered persons according to a quantitative indicator of risk known as a 'risk parameter'. Risk Assessment Programme jointly run by DG (Audit) & DGARM. Lists of

category– wise taxpayers provided by DGARM. Allocation of units as per Large, Medium and Small amongst the audit teams. Allot to the Audit teams 70% of the taxpayers out of the 80% list of Taxpayers provided by DGARM. Allot 10 % of taxpayers out of the Random list of Taxpayers amongst the Audit Teams. The remaining 20% of the taxpayers to be audited should be selected by the Audit Commissionerate based on local risk factors, after obtaining approval from the jurisdictional Chief Commissioner.

#### **Recommendation – 06 -Basis/criteria for allocation of cases for audit-cadre, turnover**

Taxable turnover-wise allocation of cases or pecuniary jurisdiction for audit may be considered based on the corresponding State's GST department's administrative architecture. Audit officers in many States are in the cadres of Deputy Commissioner, Assistant Commissioner and Commercial/State Tax Officer, while it may not be so in others. In keeping with the hierarchical structure in a State, taxpayers for audit may be assigned to the officers. Allocation of cases for audit may be based on the turnover as may be decided by the appropriate authority.

#### **Recommendation – 07 Numerical targets for Audit**

##### **Fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State**

For conduct of audits in a State, targets may be fixed for every year depending upon the number of officers allocated/available for conduct of audits. The calculation of target can be made by taking into account the total number of working days in a year, the norms for number of days required to complete the audit of different years and the working strength of the audit officers.

#### **Recommendation – 08: Time limit for completion of Audit**

Time limit for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

Section 65 (4) of the CGST Act/ SGST Act specifies that the audit initiated shall be completed within three months from the date of Commencement. The word commencement of audit as explained under the said subsection is the date on which the records and other documents called for by the authorities



are made available by registered person or date of actual institution of audit whichever is earlier. However, it would be reasonable to fix a lesser duration for Audit depending upon the volume and complexity so that the limited audit resources are utilised optimally. Reliance on documents already available in the system and devising a simpler procedure for audit for certain classes of taxpayers, such as small taxpayers would also enable earlier completion of audit.

### **Recommendation – 09: Feedback mechanism**

Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

Feedback mechanism under the GST Audit is an important component of the GST eco-system itself; feedback obtained from the taxpayer fraternity in regard to the strength and weakness of the audit system itself will go a long way in not only fixing the rough edges, but also establishing a vibrant and robust audit system. Feedback exercise should be a regular feature in the GST administrative calendar in each and every State. Feedback can be through various modes of taxpayer engagement, such as Third Party surveys, analysis of social media feeds for keywords related to taxpayer's experience of audit, interactive online and physical sessions with taxpayers through industry chambers and associations etc.

Further feedback from each exercise should also be made systematically available to their tax managers in order to enable refinement of targeting practises, increasing audit quality and performance, and to identify areas in which audit capacity can be augmented.

### **Recommendation – 10: Audit Monitoring Committee**

Post-audit process –

- (i) Committee for review of the audit report
- (ii) recommendation for adjudication and the adjudicating authority.

**Audit is treated to be completed**, when an audit report which may contain objections detected during the audit is finalised by the Department. But before finalising the objections, the initial objections being raised by the audit officer



may be taken up for discussion by a Committee of officers in a monthly/periodical meeting (which could be called “Audit Monitoring Committee”) with regard to the sustainability/correctness or otherwise in respect of each objection. This system of AMC that may be instituted in each State department will probably reduce unproductive disputes and also standardise practices. The Audit Monitoring Committee may consist of the Joint Commissioner (Divisional Head), Deputy Commissioner, Assistant Commissioner and GST Officer (Commercial Tax Officer, Sales Tax Officer as the case may be). However, the constitution of such a committee may be decided by the State Commissioner to suit the administrative architecture in the State.

In addition to such a committee, an online exchange of Inter -zonal / Inter-divisional audit insights / findings may also be a useful knowledge sharing platform. Any zone or a division which has come across interesting audit findings may make use of the said platform and update it once in fifteen days (or such frequency that can be decided by State gst administration). such information sharing would be important for identifying productive areas of audit, documents and records required for supporting a particular line of audit inquiry. it would also help to build capacity by enabling exchange of knowledge.

Adjudication authority can be established as per the administrative arrangement of each state/centre. It should be ensured that the show cause notice for the recovery of tax as decided by the audit monitoring committee may, preferably, be raised within a period of one month of the meeting. the adjudication of such show cause notices maybe completed within a period of six months. Principles of natural justice should be followed in the adjudication proceedings.

### **Recommendation – 11: Post-adjudication proceedings follow- up**

Mechanism for post-adjudication proceedings and follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defence in appeal, etc.

Section 108 of the CGST Act/ SGST Act empowers a revisional authority to take up review of any decision taken by his subordinate officers. a Revision or Review wing under the supervisory control of jurisdictional Chief

Commissioner (CGST) or the State Commissioner (SGST) should take up review of all adjudication orders so as to ensure there is no loss of revenue on account of some incorrect interpretations/orders. existing Revisional Authorities in the State Administration can also be entrusted with the task of review of adjudication orders. review should end in full, partial or non-acceptance of the adjudication orders, with appropriate subsequent action in each of the three events.

## **Recommendation – 12: A Central repository of audit outcomes**

### **CENTRAL REPOSITORY OF AUDIT OUTCOMES:**

At the Central Government level, the Director General-Audit is preparing a monthly/quarterly audit bulletin containing important audit objections raised during each quarter. The same may be considered for circulation amongst the audit officers of all the States too. **The State of Karnataka** maintains a compilation of interesting audit paras that are discussed in the **‘IDEA-i Meet’ platform (Inter Divisional Exchange of Audit insights)** held once in a fortnight. Similarly, each State may have its own mechanism of maintaining and circulating Audit outcomes. gst administrations may consider creation of a joint knowledge sharing platform that would enable exchange of knowledge, audit findings and other relevant information. such a repository would go a long way in driving convergence of taxpayer experience of audit under different GST administrations.

## **Recommendation – 13: Coordination between State an Central audit officers**

**Coordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.**

A coordination cell may be established by the GST Council consisting of senior officers from the Centre and the State in order to have collaborative and cohesive strategies for audit and also to share various initiatives developed by the Centre and the State and this will certainly usher in regular sharing of best practices.

## Recommendation – 14: E-Audit Module

**Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.**

It is recommended that the e-audit module should attempt to capture as many functions as possible and senior administration should be able to extract all mis reports related to audits.

From the feedback submitted by various States, it is found that some of the States are preparing software requirement specification for Audit backend, based on the workflow system of Audit. Several states are also using the audit workflow created by GSTN. Some States and CGST already have functional audit modules. The functionalities that may be designed by the States should cover the entire Audit processes such as Selection, Planning, and actual conduct of Audit, Reporting, Payment, Closure and Adjudication. Capturing the data electronically at each stage of audit will probably enhance the performance of the Audit team and create intellectual and professional atmosphere.

2. The Department of Commercial Taxes, **Karnataka** has developed an automated online Audit module called ***E-Shodhane Online Audit module*** in collaboration with NIC, Bengaluru, *i.e.*, [www.gst.kar.nic.in/gstprime](http://www.gst.kar.nic.in/gstprime) whereby registered persons are selected for scrutiny based on risk evaluation method and the audit officers seek assignment for audit electronically. It's an end-to-end digital back office application which covers the entire audit process starting from the selection of cases to the finalisation of audit report and adjudication process with the exception of on-premises audits physically carried out by designated Audit teams. To be more precise, the Audit module is not 100% seamlessly connected electronically. Certain audit processes are to be carried out by the audit officers physically and results of such audit processes are to be uploaded onto the system.

3. The GSTN has also developed the GST Audit Module which is an end-to-end digital back-office application that helps in carrying out the entire GST audit process electronically (with the exception of on-premises audits physically carried out by the designated Audit teams). Right from selection of

taxpayers for auditing and assigning the same to various Audit Teams to serving the Final Audit report and/or SCN to the Taxpayer, every Audit proceeding is seamlessly connected electronically.

Some of the Model-II States are found to have adopted the GSTN Audit Module. GST Audit Modules developed by GSTN and the State of Karnataka broadly have the same features with minor tweaks as the GST Audit process is partly dictated by the GST Act itself. Therefore, E-audit Modules that may be developed by States may have these common audit tools with tweaks that conform to their administrative structure.

## **AUDIT MIS APP**

MIS APP is a tool which focuses on the need for sound information for decision making and which aims to find the relationship between an audit officer and their audit practice.

MIS and Audit processes are targeted at satisfying the information required for appraisal of performance of Audit Divisions on a real time basis.

MIS is a system that enables the Audit Divisional head and the Head Office or Audit Commissionerate to have access to dependable information for planning and decision making. This information could be either qualitative or quantitative or both depending on the method employed in the process.

An MIS APP Tool on the lines mentioned herein may be developed exclusively for audit officers to upload the day- to-day activities with respect to the findings of the Audit, Audit observations made, demand created, collected and the recovery made thereof. Benefits for MIS: -

MIS plays the role of information generation, communication, decision making, management, Administration, and operation of an organisation. The benefits accruable from an effective MIS could be reiterated thus:

- 1) The MIS App fulfils the informational needs of an Individual or a group of individuals.
- 2) MIS satisfies a variety of systems such as query system, analysis system, modelling system & decision support system. The MIS helps in strategic planning, management control and operational control.

3) MIS helps in target setting like Audit disposals, recovery and Refund.

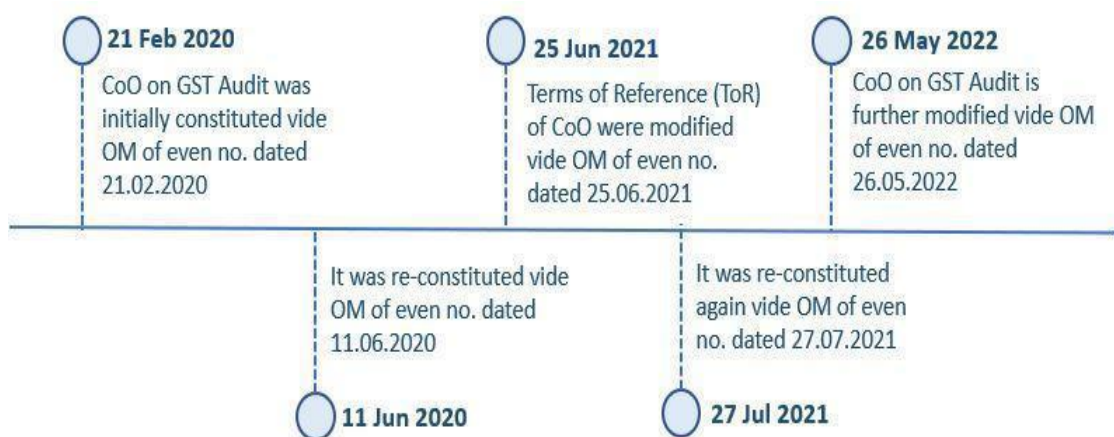
The MIS assists the Head Office or Audit Commissionerate in goal setting, strategic planning , evolving audit plans and implementation of the same.

## ANNEXURE 18 (p.x)

### Constitution and purpose of the Committee of Officers (CoO) on GST Audit<sup>1</sup> and modified Terms of reference.

#### Purpose of the formation of the Committee:

Committee of Officers (CoO) on GST Audit was constituted in pursuance of discussion and decision in the 1st National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit and to follow uniform practices for GST Audit in Centre and State Tax administration. Timeline with respect to the Committee of Officers is presented below.



#### Initial Terms of Reference (ToR)

To prepare a **comprehensive All India GST Manual** taking into account procedures & practices in vogue in different States and Centre;

To explore having **joint and collective GST Audit** by Centre & State for the taxpayers in many sectors that have all India presence like Telecom, Airlines, Banking, Railway etc.;

To explore **conducting thematic audit** by both tax administration;

Using capability of **data analytics** developed by DGARM for identification of State taxpayers for audit;

To suggest measures of **capacity building in Services** for focused approach on audit of Services sector; and

To **build knowledge on financial accounting** and focused approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.;

<sup>1</sup> (From the Presentation of Ashima Bansal, Joint Secretary GST Council)



## Modified Terms of Reference (ToR):



To study audit policy and practices of the Centre and the States which have already implemented certain procedures;



To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability;



To broadly outline the procedural aspects of joint and thematic audit, if and as and when they undertaken with approval of Council;



Using capability of data analytics developed by DGARM for identification of State taxpayers for audit;



To suggest measures of capacity building in Services for focussed approach on audit of services sector; and



To build knowledge on financial accounting and focussed approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc

## Members (State):

Sl. No.	Name of the Member	Designation
1	Dr. Ravi Kumar Surpur [Co-Convenor]	Commissioner of Commercial Taxes, Rajasthan
2	Smt. Shikha C.	Commissioner of Commercial Taxes, Karnataka
3	Shri Samir Vakil	Special Commissioner, State Tax, Gujarat
4	Shri Anil Banka	Special Commissioner of State Tax, NCT of Delhi
5	Shri Amit Gupta	Additional Commissioner, State Tax, Uttarakhand
6	Shri Ravi Jesuraj S.	Additional Commissioner of Commercial Taxes, Karnataka
7	Shri Arun Kumar Mishra	Special Secretary, State Tax, Bihar
8	Shri Prasad Joshi	Joint Commissioner, State Tax, Maharashtra
9	Shri C. Palani	Joint Commissioner, State Tax, Tamil Nadu
10	Shri Narayan Chandra Guriya	Joint Commissioner, State Tax, West Bengal



11	Shri Vivek Singh	Joint Commissioner, State Tax, Uttar Pradesh
12	Shri K. Sridhar	Deputy Commissioner (ST), Puducherry

## Members (Centre/GSTC/GSTN)

Sl. No.	Name of the Member	Designation
1	Dr. Amandeep Singh [Convenor]	Addl. DG, DG Audit Headquarters, CBIC - [Convenor]
2	Shri Sanjay Mangal	Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC
3	Shri Rajiv Jain	Pr. Commissioner, Meerut
4	Shri Nitish Kumar Sinha	Principal ADG/ADG, DGGI Headquarters, CBIC
5	Shri Gurusharan Singh	Pr. ADG/ADG, DG Analytics & Risk Management
6	Shri Yogendra Garg	Pr. ADG/ADG, NACIN, Faridabad
7	Shri Dheeraj Rastogi	EVP, GSTN
8	Smt. Ashima Bansal	Joint Secretary, GST Council Secretariat
9	Shri Kshitendra Verma	Director, GST Council
10	Shri Karan Chaudhary	Under Secretary, GST Council