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Guidance Notes on “ GST Audit under Sec.65 read with Rule 101 and Sec.66 Read with 102 of Goods and Services Tax Act,2017”.

Dear Colleagues, Good day to you.

I have received suggestions to prepare “**Guidance Notes on “ GST Audit under Sec.65 read with Rule 101 and Sec.66 Read with 102 of Goods and Services Tax Act,2017”.** I have prepared these guidance notes on the topics of “ **Scope of the Audit, Statutory Provisions, Administration of GST Audit Wing, Concept of Audit, Procedure of Selection of cases for Audit, Preparation and Verification of Audit file and Construction of Audit Report and Decision of Audit Officer**” under Section 65 (1) read with Rule 101(1) to Sec. 65(7)read with Rule 105) of CGST Act and CGSR Rules,2017,for your easy reference. I am trying to prepare this article to the best of my knowledge, based on today’s Act position on the above subject matter for your reference purpose. Kindly refer and provide your suggestions to the mail i.d. sitapathirao@yahoo.co.in or send to what’s app no.9848099490.

Definition of Audit under CGST Law,2017:

As per Section 2(13) of the CGST Act, 2017, ‘Audit’ means the examination of records, returns and other relevant documents prescribed in the CGST Act,2017, whether the tax payer has maintained or furnished by the registered person under this Act or the rules made thereunder to verify correctness of turnover declared and taxes paid there on, input tax claimed by the tax payer and followed compliance with the provisions of the CGST Law.

SEGMENT-1.

Section.1. Scope of the Audit:

Audit is a systematic and independent examination of books of accounts, statutory records, and documents as required by the relevant law applicable to the taxpayer. Audit by the tax authorities entails a deeper scrutiny of tax compliance by a taxpayer from such examination and the effort is not only to ensure that the books of accounts and documents etc., of a taxpayer are maintained as required under the law but they also reflect the correct liability and its compliance thereof.

The objective of audit is not to ensure uniform tax compliance but also to educate the taxpayer and facilitate more voluntary compliance. It is critical and important to ensure compliance in tax administration and prevent revenue leakage and audit is a mechanism in this administration.

The reason of this guidance notes on GST Audit is to outline the principles and policies of audits conducted under CGST Act,2017 and Rules made thereunder. The guidance notes provided at this moment is intended to ensure that the audit of taxpayers is carried out in a invariable, efficient and broad manner substance to the stipulated principles, policies and as per the best practical manner.

This guidance notes is an effort to bring together various aspects of audit under the CGST Law for the benefit of Tax Professionals, Tax Payers and GST Audit Team.

What is the necessity and importance of Audit under CGST Law.

Tax liability of a registered person on supply of goods and services or both under CGST Law,2017 is computed by the taxpayer under self-assessment scheme of the Act as provided U/s. 59 of the CGST Act,2017. But, the correctness of such self-assessment on the part of the taxpayer needs to be certify by the tax authority through periodical audit of books of accounts, returns and other relevant documents maintained and furnished by such person to unsure the correctness of turnovers reported, tax liability, claim of ITC in the returns filed and payments of taxes thereon from time to time.

SEGMENT-2.

Statutory Provisions:

Section 65 of Chapter XIII under the heading “**AUDIT**” of the CGST Act, 2017, and Rule 101 of Chapter XI under the heading “**Assessment and Audit**” of CGST Rules,2017. Here with I am providing legal provisions relating **AUDIT** under CGST Act, 2017 and CGST Rules,2017 for your ready reference.

(a). Section 65(1) of the CGST Act,2017, the Chief Commissioner or an officer authorized by him, may undertake audit of any registered taxpayer by issuing a “**General or a Special Order**”.

- (i). General Order shall specify the criteria and all the registered persons fulfilling those criteria shall get covered in the scope of Audit.
- (ii). Special Order for audit shall be issued in the name of of a particular registered taxpayer and only such taxpayer shall be subject to audit.

According to Rule 101(1) of the CGST Rules,2017, the period of audit to be conducted under Sec.65(1) shall be a financial year or part thereof or multiples thereof. Consequently, audit need not be conducted for a part of the financial year in normal circumstances. Period to be covered under the audit can be a single financial year or 2 or 3 financial years.

According to Section 65(2) of CGST Act,2017, the authorized officer may conduct audit either at the place of business of the registered person or his own office.

According to Section 65(3) of CGST Act,2017 read with Rule 101(2) of CGST Rules,2017, the registered person shall be informed by way of notice in Form GST ADT-01 at least 15 working days prior to the conduct of audit.

According to Section 65(4) of the CGST Act,2017, audit of a registered person shall be completed within 3 months from the date of commencement of audit. However, if the Commissioner is satisfied that audit of the registered person can't be completed within 3 months, he may extend the time period for a further period not exceeding 6 months after recording the reasons for doing so in writing.

Commencement shall means the date on which the books of accounts, records and other documents asked by the audit officer, are made available by the registered person or the date of actual institution of audit at the place of business, whichever is later.

According to Section 65(5) of the CGST Act,2017, the authorized officer, during the course of audit, may require the registered person to (i).provide necessary facility to verify the books of accounts and other documents relating the taxpayer's business required by him, and (ii). To provide such information as may be required by him for the conduct of audit and to provide assistance for timely completion of audit.

- (i) According to Rule 101(3) of the CGST Rules,2017, the proper officer who has been authorized to conduct the audit of the records and books of accounts of the registered taxpayer shall, with the assistance of his team of officers, verify these below records and The documents on the basis of which the books of accounts are maintained,
- (ii) The returns and statements furnished under the provisions of the Act and Rules of CGST,
- (iii) The correctness of the turnover , exemptions and deductions claimed,
- (iv) The correctness of rate of tax applied in respect of supply of goods or services or both,
- (v) The ITC availed and utilized,
- (vi) The correctness of the refund claimed, and
- (vii) Other relevant documents etc. and write down his observations in his audit note.

According to Rule 101(4) of the CGST Rules,2017, the proper officer may inform the registered taxpayer of the discrepancies, if any, noticed,. The registered taxpayer may file his explanation to discrepancies in his reply. Afterwards, the proper audit officer shall finalize the findings of the audit after contemplation of the reply filed if any.

According to Section 65(6) read with Rule 101(5) of the CGST Act and Rules,2017, the audit officer, on conclusion of audit, shall ,within 30 days , inform to the registered taxpayer, whose records are audited, about the findings, his rights and obligations and the reasons for such findings in Form GST ADT-02.

According to Section 65(7) of CGST Act,2017, where audit conducted results in detection of tax not paid or short paid or erroneously refunded or ITC wrongly availed or utilized, the audit officer may initiate action under Section 73 or 74.

According to Section 70 of CGST Act,2017,"Power to summon persons to give evidence and produce documents:-

- (i) The proper officer under this Act shall have power to summon any person whose attendance he considers necessary either to give evidence or to produce a document or any other thing in any inquiry in the same manner, as provided in the case of a civil court under the provisions of the Code of Civil Procedure,1908 (CPC) Central Act No.5of 1908.
- (ii) Every such inquiry referred to in sub-section (1) shall be deemed to be a "Judicial Proceeding" within the meaning of Section 193 and Section 228 of the Indian Penal Code (IPC) Central Act 45 of 1860.

The audit officer shall exercise these powers judiciously and shall record reasons for issue of summons and draw proceedings relating to the subsequent appearance of such person or production of the documents sought.

According to Section 71 of CGST Act,2017," Access to business premises:-

- (i) Any officer under this Act, authorized by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programs, computer software whether installed in a computer or otherwise and such other things as he may require and which may be available any such place, for the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.
- (ii) Every person in charge of place referred to in sub-section(1) shall, on demand, make available to the officer authorized under sub-section (1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under Section 66:-
 - (i) Such records as prepared or maintained by the registered taxpayer 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(Central Act 18 of 2013)
 - (v) The Income tax audit report, if any under Section 44AB of the Income-tax Act,1961 (Central Act 43 of 1961), and
 - (vi) Any other relevant records.

For the scrutiny by the audit officer or audit party or the chartered accountant or cost accountant within a period not exceeding 15 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.

The audit officer should draw appropriate proceedings relating to demand of any record, statement etc., and their production of otherwise. While non-production of any records etc., sought may result in drawing adverse interference in appropriate cases, action to deal with such non-production may also be initiated.

According to Section.66 of CGST Act,2017. "Special Audit:-

- (1) If at any stage of scrutiny, inquiry, investigation or any other proceedings before him, any officer not below the rank of Assistant Commissioner having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal limits, he may, with the prior approval of the Chief Commissioner, direct such registered person by a communication in writing to get his records including books of accounts examined and audited by a chartered accountant or a cost accountant as may be nominated by the Chief Commissioner.
- (2) The chartered accountant or cost accountant so nominated shall, within the period of 90 days, submit a report of such audit duly signed and certified by him to the said Assistant Commissioner mentioning therein such other particulars as may be specified,

Provided that the Assistant Commissioner may, on an application made to him in this behalf by the registered taxpayer or the Chartered Accountant or Cost Accountant or for any material and sufficient reason, extend the said period by a further period of 90 days.

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

According to Rule,102 of the CGST Rules,2017, "Special Audit":-

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

According to Section 73 of the CGST Act,2017," Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilized 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 utilized 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, 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.
- (2) The proper officer shall issue the notice under sub-section (1) at least 3 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 utilized 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 sub-section (5) fall 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.
- (9) Pays the said tax along with interest payable under section 50 within 30 days of issue of show cause notice shall be deemed to be concluded.
- 10 The proper officer shall , after considering the representation, if any, made by person chargeable with tax, determine the amount of tax, interest and penalty equivalent to 10% of tax or Rs.10,000/- , whichever is higher, due from such person and issue an order.
- 11 The proper officer shall issue the order under sub-section(9) within 3 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 utilized relates to or within 3 years from the date of erroneous refund.
- 12 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 30 days from the due date of payment of such tax.

According to Section 74 of CGST Act, 2017:-“Determination of tax paid or short paid or erroneously refunded or input tax credit wrongly availed or utilized by reason of 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 utilized 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 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 equivalent to the tax specified in the notice.
- (2) The proper officer shall issue the notice under sub-section (1) at least 6 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 utilized 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 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), pay the amount of tax along with interest payable under Section 50 and penalty equivalent to 15% 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 sub-section (5) falls short payment 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 25% of such tax within 30 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 5 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 utilized relates to or within 5 years from the date of erroneous refund.
- 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 50%, of such tax within 30 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.

According to Rule 101(2) of CGST Act, 2017, Form GST ADT-01 .

The audit officer after verification books of accounts and observations, prepare and issued Form GST ADT-01. After service of Form GST ADT-01 if the taxable person fails to comply with the terms of notice if Form GST Audit-01 or seeks adjournment, further opportunity may be provided by issuing an endorsement as given in the below illustration.

Notice seeking additional information/documents:-

On verification of the books of accounts and documents produced for audit, if the audit officer requires any additional information/documents the same may be sought by issuing a notice to the taxable person.

- I. Audit of a registered person shall be completed within 3 months from the date of commencement of audit. However, if the Commissioner is satisfied that audit of the registered person cannot be completed within 3 months, he may extend the time for a further period not exceeding 6 months after recording the reasons for doing so in writing. Maximum period available for completion of audit is 9 months, subject to the extension of time by the Commissioner.
- II. Commissioner shall mean the date on which the books of accounts, records and other documents, asked do by the tax authorities are made available by the registered person or the date of actual institution of audit at the place of business, whichever is later.
- III. Authorized officer, during the course of audit , may require the register person to:-
 - (a) Afford him necessary facility to verify the books of accounts or other documents required by him,
 - (b) Furnish such information as may be required by him for the conduct of audit and to provide assistance for timely completion of audit.
- IV. The proper officer who has been authorized to conduct the audit of the records and books of account of the registered person shall, with the assistance of his team of officers and officials, verify:-
 - (i) The documents on the basis of which the books of account are maintained,
 - (ii) The returns and statements furnished under the provisions of the Act and Rules,
 - (iii) The correctness of the turnover, exemptions and deductions claimed,

- (iv) The correctness of rate of tax applied in respect of supply of goods or services or both,
- (v) The input tax credit availed and utilized,
- (vi) The correctness of refund claimed and
- (vii) Other relevant issues as per Rule 101(3) of CGST Rules,2017.

V. The proper officer shall record the observations in his audit notes,

VI. The proper officer may inform the registered person of the discrepancies, if any notice furnishing the audit.

After verification, Proper officer shall be issued notice under 65(6) of CGST Act,2017 read with Rule 101(4) of CGST Rules,2017.

Draft Format of Notice :

Government of Central / State

No. Audit- 1 , Dated. XX/ Year. Office of the -----of C.T/S.T.

- 1.** Name of the taxable person: -----,
- 2.** GSTN No: -----,
- 3.** Status : -----,
- 4.** Style of Business:----- (Individual, Partner- ship firm, Company),
- 5.** Date of Visit:-----,
- 6.** Tax Periods: ----- (Form Month & Year to Month & Year),
- 7.** Financial Year: -----(Financial Year),
- 8.** Represented by :----- (Name of the authorized person).

Date:-----

Present:--Sri.-----

Designation:-----

M/s.----- with GSTN ----- having place of business at----- is a registered taxable person under the provisions of the CGST/SGST Act,2017. On audit of the books of accounts maintained and verification of other records and documents, the following discrepancy is noticed.

1. (Explain and look over the para with supporting facts and law substantiating the point of observation including the liability of interest. Each issue may be discussed para-wise with facts and law and liability to be recorded. More than one issue may also be clubbed in the same notice).
2. -----

3. -----
4. Details of the additional tax liability accruing out of the above observations made are as under,:

Description	IGST	CGST	SGST/UTGST	Cess
Tax				
Interest				
Penalty				
Fees				
Others				
Total				

5. Objections if any may be filed before this authority on or before----- (Date) along with evidence in support of such objections for the consideration in this audit. If no objections are filed, it shall be presumed that you do not have any objections to offer and the above para shall be incorporated in the audit report in Form GST ADT-02, which may please be noted.

Signature of the Proper Officer.

The registered person may file his explanation to discrepancies in his reply. Thereafter, the proper officer shall finalize the findings of the audit after due consideration of the reply furnished under Rule 101(4). The proper officer, on conclusion of audit, shall within 30 days inform the registered person, whose books of accounts and records are audited, about the findings, his rights and obligations and the reasons for such findings in Form GST ADT-02, along with the detailed report as per Sec.65(6) read with Rule 101(5) of CGST/SGST Act/Rules, 2017. However, the audit file of the proper officer should be preserved with the observations made and decisions taken after verifying the objections filed if any and such file may be called in proceedings under Section 108 of the revision authority.

If the audit results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilized, the proper officer may initiate action under Sec.73 or Sec.74 of CGST/SGST,UTGST Act, 2017, after obtaining the authorization from the authorizing officer or any other authorized officer. The authorizing officer may give the authorization to initiate action under Sec.73 or Sec.74 of CGST/SGST/UTGST Act, 2017 to the same officer who has audited or to a different officer.

SEGMENT.3:

Administration of Audit Wing .

Management at State/ Jurisdiction Level of Audit Wing:

The Commissioner (Audit) / Additional Commissioner of State Taxes (Audit) and Joint Commissioner (Audit) are required to ensure efficient and effective implementation of the audit system and discharge and improve audit techniques and procedures through a periodic review.

Commissioner/ Additional Commissioner of Central/State/UTGST (Audit) shall regularly monitor GST audits conducted by the audit officers/audit teams to ensure that the coverage of taxpayers is adequate in number and is reflective of their risk profile and to ensure that these audits are conducted in accordance with the letter and spirit of this manual and as per the established practices and policies.

Once the Audit begins the following procedure shall be followed by the audit officer:-

- i. The proper officer who has been assigned the audit shall inform the registered person in the format Form GST ADT-01 and fix up the date and time for visit of audit of the case,
- ii. All the names and designations of the Proper officer and other officers and officials authorized to visit the place of business premises for audit shall be recorded in the proceedings sheet with date and time of visit and time of conclusion with signature of the person representing the case on behalf of the registered person and also the signature of the proper officer who is conducting the audit,
- iii. The details of the records verified shall be noted separately in the verification report As per the below Format,(Draft) ,
- iv. Proper officer shall record in the proceedings, the discrepancies noted in the records along with relevant provisions/rules/notifications/orders and issue observations to the taxpayer and those observations shall contain details of the tax and other liabilities which are noticed. The taxpayer must be allowed an opportunity to file his reply with regard to the discrepancies and liabilities accruing out of such discrepancies,
- v. Proper officer shall conclude the proceedings of audit after consideration of the reply filed. Principles of natural justice shall be followed before concluding the proceedings,
- vi. The proper officer , after conclusion of audit, shall inform, the findings of audit to the registered person in Form GST ADT—02 with the details of discrepancy, nature of lapse, if any, with reference to the provisions and quantum of liability along with interest and penalty,
- vii. Copy of the audit report served on the registered person in Form GST ADT-02 shall be forwarded to the JC /CGST/SGST/UTGST with the details of the assignment no, file no, quantum of liability and nature of discrepancy etc.,

Draft Format of Verification Report:

1. Audit Period and Year:
2. Name of the Proper Officer:
3. Designation:
4. Assignment No:

5. Team members:1)
2).
3).

This verification report is required to be maintained in duplicate where in the original is to be retained by the proper officer and the copy shall be furnished to the person in charge of the business premises or the authorized representative who presented the taxable person.

I.General:

S. No	Description	
01	GSTIN	
02	Name	
03	Addresses	
04	Status	
05	Type of Registration	
06	Nature of Business (Manufacture, Whole Seller, Retailer, ECO ,Commission Agent, Service Provider, Service Recipient etc.,	
07	Commodities dealt/ Services (Major 5 items)	
08	HSN /SAC Codes (Major 5)	
09	Date/s Audit	
10	Time of entry to the business premises/ Time of commencement of audit.	

II. Details of the person in charge of the business premises or the authorized representative who presented the taxable person.

S.NO.	Details of the person appeared for Audit	
01	Name of the proprietor/Managing Partner/Managing Director/GSTP/ or others	
02	Designation	
03	Mobile Number	
04	Office Phone No	
05	E- Mail i.d.	
06	Id GSTP (GSTP Enrolment No)	
07	Other Details	

III. Other Places of Business of the taxable Person:

S. No.	Details	
01	Name of the proprietor/Mg. Partner/ M.D,GSTP, OR other representing that place of business	
02	Designation	
03	Mobile NO.	
04	Office Phone number	
05	E-Mail	
06	If GSTP (Enrollment NO)	
07	Other details	
08	Turnovers for the Audit Period	
09	Input Tax Credit availed for the audit period	
10	Output Tax Paid for the audit period	

Note: Separate information for each place of business within the State, Outside of the State or Outside the Country or business verticals as C-1, C-2,C-3,C-4 and C-5.

IV. Books of Accounts and Documents verified:

S. NO.	Books of accounts and documents produced.	Produced / Not produced (Say Y/N)
01	Day Book	
02	General Ledger, Subsidiary Ledger/s	
03	Journal book	
04	Balance Sheet	
05	Inward supply register	
06	Outward supply register	
07	Register containing the details of tax payable, tax collected and paid including RCM input tax, ITC claimed, together with invoices, debit notes, credit notes, receipt vouchers, payment voucher, Bill of supply, Delivery Challans, and refund vouchers including goods and services imported or exported	
08	Accounts showing quantitative details if goods used in the provision of services, details of input services utilized and the services supplied in respect of service provider.	

V. Opening stock of goods: (Values in Rs.):

S.No.	Description of Goods / services	Imports	Inter-State	Intra-State	Intra-State from Un-Registered Persons	Others
01						
02						
03						
04						
05						

VI . Inward Supplies of Goods (In Rs.):

S.No.	Description of Goods / services	Imports	Inter-State	Intra-State	Intra-State from Un-Registered Persons	Others
01						
02						
03						
04						
05						

VII.Inward Supplies of Services: (In Rs):

S.No.	Description of Goods / services	Imports	Inter-State	Intra-State	Intra-State from Un-Registered Persons	Others
01						
02						
03						
04						
05						

VIII. Closing Stock of Goods: (In Rs.):

S.No.	Description of Goods / services	Imports	Inter-State	Intra-State	Intra-State from Un-Registered Persons	Others
01						
02						
03						
04						
05						

X. Input Tax Credit Details on Capital Goods.(In Rs.):

S.No.	Description of Capital Goods	IGST	CGST	SGST/UTGST	Cess	Others	Total
01							
02							
03							
04							
05							
06							
Total							

XI. Input Tax Credit Details on Goods (in Rs.):

S.No.	Description of Capital Goods	IGST	CGST	SGST/UTGST	Cess	Others	Total
01							
02							
03							
04							
05							
06							
Total							

XII. Input Tax Credit Details on Services (in Rs.):

S.No.	Description of Services	IGST	CGST	SGST/UTGST	Cess	Others	Total
01							
02							
03							
04							
05							
06							
Total							

XIII. Output Tax Details on Goods (In Rs.):

S.No.	Description of Services	IGST	CGST	SGST/UTGST	Cess	Others	Total
01							
02							
03							
04							
05							
06							
Total							

XIV. Output Tax Details on Services (In Rs.):

S.No.	Description of Services	IGST	CGST	SGST/UTGST	Cess	Others	Total
01							
02							
03							
04							
05							
06							
Total							

XV. Description of Transactions:

- i. Regarding Transition Credit,
- ii. Regarding Opening Stock of Goods,
- iii. Regarding Closing Stock of Goods,
- iv. Applicability of RCM,
- v. Utilization of ITC on Capital Goods,
- vi. Utilization of ITC relating to Goods,
- vii. Utilization of ITC relating to Services,
- viii. Applicability of rate of tax with regard to supply of goods and services,
- ix. Calculation of output tax with regard to supply of goods and services,
- x. Utilization of ITC for discharging liabilities,
- xi. Utilization of E-Way bills,
- xii. Output Tax paid.

XVI. Details of filling of all Statutory Returns under GST (Y/N) , If no interest and Late Fee details:

- I. Form GSTR-3B,
- II. Form GSTR-1,
- III. Form GSTR-4,
- IV. Form GSTR-5,
- V. Form GSTR-6,
- VI. Form GSTR-7,
- VII. Form GSTR-9,
- VIII. Form GSTR-9A (If applicable),
- IX. Form GSTR-9C
- X. Form GSTR-11,
- XI. Form CMP-08,
- XII. Form ITC-01,
- XIII. Form ITC-02,
- XIV. Form ITC-02A,
- XV. Form ITC-03,
- XVI. Form ITC-04.

XVII. Proper officer & Team observe and noted difference, if any between these following Forms and aspects:-

- (i) Form GSTR-1 vs. Form GSTR-3B,
- (ii) Form GSTR-3B vs Form GSTR-2A /Form GSTR-2B,
- (iii) Values mentioned in E-Way Bills vs Values in Tax Invoices and Form GSTR-3B,
- (iv) Refund Claimed/Sanctioned under “Excess Balance in Cash Ledger”,
- (v) Refund Claimed/Sanctioned under “Any Other’ Category.

XVIII. Proper officer & Team verify If any inspection or Audit or Penal Actions by Other Authorities like I.T. , Customs, FERA ,FEMA etc.,

- (i).
- (ii).
- (iii).
- (iv).

XIX. Proper Officer shall attestation of the books of accounts produced with details ,

- (a). Day Book.
- (b). General Ledger and Sub-Ledgers,
- (c) . Stock Ledger,
- (d). Godown Registers etc.,
- (e) . I.T.Reports,

(f). ROC records of the taxable person etc.

XX. Proper officer & Team verified further documents/ Reports if any furnished by the taxable person for further verification:-

- (i). ----,
- (ii).----,
- (iii)-----.

XXI.Declaration of the Taxpayer (Draft):

I----- (Name of the taxpayer/Authorized Representative) representing
----- (Name of the business entity)----- for the audit do hereby state that, the audit proceedings were concluded in a fair and justifiable manner by the proper officer and his team, and they were courteous during the proceedings. I hereby state that the details furnished and recorded above are true to the best of my knowledge and belief and do hereby acknowledge the receipt of the verification report as above.

Place: Signature of the Taxpayer/ Authorized person

Date:

Time:

NOTE: List of Documents to be submitted/to be kept ready for verification by the taxpayer as per GST-ADT-01 is enclosed as Annexure-1 as attached at the end of this guidance notes:

SEGMENT.4:

CONCEPT OF AUDIT:

The intention of audit of taxpayers is to measure the level of compliance of the taxpayer in the light of the provisions of the GST Act,2017 and the rules made thereunder. It should be consistent with departmental instructions and should make use of professional audit methodology and procedures.

The basic concept of audit is:

- a) The audit should be conducted in a systematic manner,
- b) Emphasis should be on the identified risk areas and on scrutiny of records maintained in the normal course of business,
- c) Audit efforts should be based on materiality and the degree of scrutiny will depend on the nature of risk factors identified,
- d) Recording of all checks and findings,

- e) Audit should normally be distinct from enforcement activity in as much as it can detect irregularities only to the extent of their reflection in the books of accounts and other documents.

Excellence for conduct of audit:

In keeping with the principles of audit outlined above, audit has to be conducted in a transparent and systematic manner with focus on business records of the taxpayer and according to the audit plan for each taxpayer.

The taxpayer participation in the course of audit is also envisaged so that instead of raising purely technical discrepancies (without any revenue implications). Substantive issues are focused upon.

The audit officer should ensure that audit is conducted in a focused manner with optimum utilization of time and resources available at hand. The audit officer must use his judgment and experience to determine the materiality of any discrepancies and / or irregularities observed and decide what action is necessary under the circumstance.

SEGMENT-5.

Procedure of Selection of cases for Audit.

Given the large number of registered taxpayers under GST, it is neither possible nor desirable to subject every taxpayer to audit each year with the available resources. Further, emphasis placed merely on coverage of more number of Taxpayers and taxpayers would dilute the quality of audit and would be against the principles of GST, which is based on trust/voluntary compliance by the tax payers. Selection of taxpayers for audit in a scientific manner is extremely important as it permits the efficient use of audit resources i.e. manpower and skills for achieving effective audit results.

These taxpayers should be selected on the basis of assessment of the risk to revenue. This process, which is an essential feature of audit selection, is known as "Risk Evaluation. It involves the ranking and selections of taxpayers according to a quantitative indicator of risk known as a "RISK BASED SCRUTINY".

Central Data Analytics cell utilize different analytical tools like Tableau, BIFA etc., to select appropriate cases for conducting audit. Data Analytic Centre will comprise one Deputy Commissioner and two Data Analysts to be nominated by the I.T WING in the office of the Principle Chief Commissioner, CGST/Chief Commissioner of State Tax/UTGST.

SEGMENT-6.

Preparation and Verification of Audit file under AUDIT segment:

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

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

I. Profiling of taxpayer:

Audit requires a strong database for profiling each taxpayer so that risk-factors relevant to taxpayer may be identified in a scientific manner and audit is planned and executed accordingly. Some of the relevant data can be collected from the taxpayer during the course of audit, while the rest is to be extracted from the registration documents and a return filed by the taxpayer as well as from his annual report, reports/returns submitted to regulatory authorities or other agencies like Income Tax Returns, Contract Copies with his clients, audit reports of earlier periods as well as audits conducted by other agencies, internal audit reports etc.,

A Comprehensive database about taxpayer to be audited is an essential pre-requisite for selection of cases and also the issues for undertaking preliminary desk review and effective conduct of audit.

II. Taxpayer Master File :

The first step towards an effective audit is to collect all relevant information about the taxpayer from various sources, arrange it in a systematic manner so that the audit can be planned in a result-oriented manner. The Taxpayer Master File (TMF) should contain all the useful information about taxpayer, in the form of statistical data as well as in narrative form. This file should be useful not only for the future audits but also as a ready reckoner for other purposes i.e. **Litigation Management and General Management Information System (MIS) Reports.**

III. Audit Working Papers:

The working papers form the basis of audit observation. They also show the detailed steps undertaken by the audit officer during the preparation for and conduct of the audit. Therefore, they should be documented and maintained carefully, giving observations and conclusions of the audit officer duly supported by evidence/documents, wherever required.

- (i) Each part of the working paper should be filed on completion of the relevant audit step. The date on which such part is completed and working paper filed in should be mentioned. The working papers should be in the custody of the audit officers and must not be shared with taxpayer,
- (ii) The completed working papers shall be the basis for Audit Report in Form GST ADT-02,
- (iii) Copies of supporting documents/records/evidence referred to in the working papers must be annexed at the end. Each copy should have a cross reference to the relevant entry in the working paper.

IV. Desk Review:

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

This is the first phase of the audit programme done in the office. The idea is to gather as much relevant information about the taxpayer and its operations, as much as possible, before visiting the premises. A good desk review is critical to the drawing up of good audit plan.

The audit officer should immediately refer to the Taxpayer Master File (TMF) of previous audit conducted on the same taxpayer. Study of the Taxpayer Master File (TMF) could throw up important points, which may merit inclusion in the audit plan. In addition, the Audit officer should also obtain the latest Balance Sheet, Tax Audit Reports, Annual Financial Statement, Cost Audit Report or any such document prepared or published after the latest updating of Taxpayers Master File (TMF). From the scrutiny of these documents, certain points may further emerge for inclusion in the audit plan. The audit officer should also incorporate the result of any parameters brought to light by risk analysis into the desk review for pinpointing specific issues for scrutiny during audit.

From the Annual Financial Statements like Profit and Loss Account and Balance Sheet it is possible to work out important financial ratios. The said ratios should be compared with the ratios of earlier year and wherever significant variation is noticed,

these areas may be selected for audit verification . It may be kept in mind that any adverse ratio is only an indicator for verification of such an area and there may be valid reasons for the same.

Further, the audit officers have to obtain industry/sector specific data and information and compare with the taxpayer audited and any variations which need to be probed into must be included in the Audit Plan. Special emphasis may be laid on the financial ratios, manufacturing ratios etc., during the formulation of audit plan.

V. Reconciliation of data with third party information:

The payment shown in the GST returns can be reconciled with that shown in the financial accounts. Further, from the reconciled figure of GST payment, value of supplies can be worked out. This can then be compared with the supply figure shown in financial records. The difference, if any, must be analysed. The unit assessable value of the taxpayer can be compared with that of another taxpayer manufacturing/ supplying the same item. This method would give an idea whether the valuation system of the taxpayer is a high/low risk area.

The audit officer should check the data available in returns with other documents such as Gross Trial Balance, Income Tax Returns, Annual Audit accounts, Income Tax Audit Report etc., and carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped from the payment of GST.

VI. Trend Analysis:

For audit purposes, either absolute values or certain ratios should be studied over a period of time to see the trend and the extent of deviation from the average values during any particular period.

VII. Gathering of information of the taxpayer at Audit Visit:

Before start of audit verification , the audit officer should know about the functioning of various areas, such as nature of trade / manufacturing/service and also areas like marketing , production, purchase, stores and accounts. Such information can be gathered from the heads of various sections of the taxpayer during the visit his business premises. This is used to gather information about the systems adopted or followed by the taxpayer.

A physical tour of the unit/premises provides confirmation of much of the information gathered during previous steps and it also helps resolve issues noted earlier. Often, the tour brings out operations and technical details about inputs/input service used and products / by-products/wastes manufactured and types of services supplied, some of which may not have been considered during the discussions.

It provides clues about important aspects of the operations of the manufacturing unit of the taxpayer. If necessary, the audit officer should speak to the manager or supervisor/ foreman during the tour.

The audit officer should also go through the working papers prepared in the last audit in order to acquaint themselves with the broad procedures followed by various sections of the taxpayers as part of the desk review. The audit officers may fix appointment with various section heads and during discussions the overall functioning of the taxpayer's business can be found out and at the same time officers of the company can also explain various procedures adopted by them.

Various types of records maintained for internal control purpose and reports generated by the units can also be found out by the audit officers during discussions. Any important happenings like fire or natural calamity, introduction of new products, overall scenario of industry , new marketing technics, new discounts, action of competitors etc., can also be found out by the audit officer.

Points noticed during desk review can also be enquired at this stage. For this purpose, a sample questionnaire is required to be prepared for discussion in the areas like supply of goods/services w.r.t outward supply/inward supply , stores, tax accounting, job work etc., depending upon the nature of the industry/business .

The following guidelines should be kept in mind at the time of interview:

1. Stay in control of the interview,
2. Flow a pre-arrangement path of questioning but be flexible,
3. Explain questions clearly and ensure that the question has been understood,
4. Listen carefully and observe reactions,
5. Do not interrupt unless the interview appears to be deliberately changing the subject,
6. Avoid ambiguous and leading questions,
7. Display confidence and put the audited ease,
8. Summarize the interview at the end and seek clarification if necessary.

The purpose of the tour is to gather information from the taxpayer about the various systems followed by him in the different areas of inward and Outward supply, manufacturing, accounting etc., This information can be test-checked by conducting a walkthrough.

VIII. Assessment of the internal controls:

The purpose of review of controls is to assess whether the taxpayer has reliable systems and controls in place that would produce reliable accounting/ business records. Most medium to large companies has ERP systems in place , which account for all transactions from entry of raw material to clearance of final products.

Audit officers must have a look at these systems and more relevantly determine whether software being used exclusively for the transactions related to tax matters is integrated to the main ERP system or is running parallel to the main ERP. This assessment would be used by the Audit Officer to decide on the extent of verification required and to focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations of the taxpayer.

A small taxpayer might have little in terms of internal controls whereas a large taxpayer would have sophisticated internal controls in place.

If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the taxpayer. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. Audit should assess the soundness of internal control if sub-systems/areas like inward and outward supply and accounting etc.,

In this regard, an audit officer and his team should normally examine the following:

1. Characteristics of the taxpayer's business and its activity,
2. System of maintenance of records and accounts,
3. Identifying the persons handling records for accounting purposes,
4. Allocation of responsibilities at different levels,
5. System of internal checks,
6. System of movement of documents having relation to tax assessment,
7. Inter-departmental linkages of documents and information,
8. System of own internal audit.

IX. Techniques for assessment of the Internal Controls.

- a) **Walk Through:** This is a process by which the audit officer selects any transaction by sampling method and traces its movement from the beginning through various sub-systems to the end. The audit officer verifies this transaction in the same sequence as it had moved. By this method the audit officer can get a feel of the various processes and their inter linkages. It is also a useful method to assess the internal control system of a taxpayer. The audit officer can undertake walk through process of sales, purchase, account adjustment systems etc. Similarly, key controls may be examined for recording of all cash transactions, these controls may include scrutiny of numbered cash transaction invoices, daily reconciliation of cash invoices, separation of taxes etc., Undertaking a walk-through and analysis of internal inventory and input controls during in a scientific manner.

- b) **Preliminary Visit:** In all cases of Desk Audit, audit officer shall issue a notice for visit of the business premises and this visit should be invariably done to have a feel of the industry or business. Later on, the audit of the books of accounts can be carried out in the office of the audit officer.
- c) **Audit Plan:**
- (i) The purpose of preparing an audit plan is to outline a logical series of review and examination steps that would meet the goals and standards of an audit in an efficient and effective manner.
 - (ii) Audit plan is the most important stage before conduct of audit. All the previous steps are actually aimed at preparation of a purposeful audit plan. By now, the audit officer is in a position to take a reasonable view regarding the risk areas , the weak points in the systems, abnormal trends and unusual occurrences that warrant detailed verification. Certain unanswered or inadequately answered queries about the affairs of the taxpayer may also be added to this list.
 - (iii) Audit plan should be a detailed plan of action. The audit plan should be consistent with the complexity of the audit

X. Audit Verification: The intention of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate for audit objectives identified in the audit plan, it is important that in an audit, the objections that are raised are technically correct and stand up against scrutiny or challenge.

Law being open to interpretation and dynamic, it may be difficult to test the technical correctness of all discrepancies noticed / raised. However, it should be correct to the extent that any professional audit officer, working with and having access to the same research material would likely to come to the same conclusion. It also means that the audit officer must demonstrate, in writing, the research and reasoning used to base his/her application of legislation , policies and jurisprudence.

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

XII. Verification of points mentioned in the audit plan:

The audit officer should conduct the verification in a systematic manner, following the sequence of steps envisaged in the working papers. While conducting audit verification, special care should be taken to examine all those issues pointed out in the audit plan. The audit officer should try to determine whether the apparent weakness in the internal control system of the seller/distributor/ manufacturer /service provider have led to any loss of revenue. He should also identify the procedural infractions on part of the taxpayer, which are recurrent in nature and which may unknown a significant fact. During the process, he must cross check the entries made by the taxpayer in various records and note discrepancies , i

f any, in all cases involving discrepancies, the audit officer should make detailed enquires regarding the cause of the discrepancies and their revenue implication. The audit officer should also examine the documents submitted to various Government departments/Regulatory Authorities such as Customs, Income Tax, Banks etc., by the taxpayer. This should be used in cross verification of the information filed by the taxpayer for the GST assessment.

Substantial use of information available with open sources such as electronic and print media, internet etc., should also be resorted to for verification of information filed by the taxpayer.

The audit verification gives maximum opportunity to the audit officer to go through the taxpayer's records in his unit. Therefore, audit officer may come across a new set of information or documents, not earlier known, during any of the earlier stage. Further, while examining an issue, the audit officer may come across a fresh issue also requiring detailed examination. In such a situation, the audit officer should go beyond the scrutiny forecast under the audit plan and record the reasons for doing so.

In spite of audit verification being a structured process, it should be flexible enough to accommodate the needs on the spot.

At the end of each entry in working papers, Audit Office must indicate the findings. If any of the planned verifications is not conducted, the reasons for the same must also be recorded. While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below:

XIII. General Steps in audit verification:

- a) **Physical Verification of Documents:** All important documents are already verified at the time of desk review. However, in case of any discrepancy noticed and pointed out in the Audit in the Audit Plan, a detailed scrutiny of the financial records of the taxpayer becomes imperative. The documents to be examined include Annual Accounts Containing Director's Report, Statutory Audit Officer's Report, Balance Sheet and Profit and Loss Account. If necessary, the audit officer must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine Trial Balance, Ledgers, Journal Vouchers and Invoices. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the taxpayer is maintaining the statutory records as required under various statutes especially under the Companies Act, 2013.

Audit objections raised must be fully supported by documentary and legal evidence. This will greatly help in explaining and discussing the objections with the taxpayer and other follow up action. It needs to be ensured that all audit documentation is complete, accurate and of professional quality.

Working Papers are a synopsis of audit operations conducted by the Audit Group. Entry of all items mentioned in the audit plan must be made in the working papers, during Audit Verification . Working papers should support the audit effort and result. They should:-

- a. Be clear, concise , legible , organised, indexed and cross –referenced,
- b. Disclose the audit trail and techniques used in the examination of each signification item,
- c. Support the conclusion reached and cover all queries raised,
- d. Include audit evidence (e.g. copy of a financial statement, an invoice, a contract, a bank statement, etc) to support the assessment,
- e. Link results to supporting working papers e.g. the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report,
- f. See that audit reports are clear and disclose all material and relevant information, and
- g. Take follow up action.

Apparently, the financial and other documents maintained by the taxpayer fr his private use and in compliance of other statutes are of great importance which may reveal substantial short/non-payments of tax. The Audit Officer may take note of the same during Gathering Information about the taxpayer and the system followed by him and goes through them during “Audit Verification”.

XIV. Inform to the taxpayer of irregularities noticed and obtaining his explanations:

It is important that the Audit Officer discusses all the discrepancies noticed with the taxpayer before preparing draft audit report. The taxpayer should have the opportunity to know the discrepancies and to offer explanations with supporting documents. This process will resolve potential disputes at an early stage and avoid unnecessary litigation. The ultimate aim of conducting an audit is to increase the level of tax compliance of taxpayer. Therefore, no audit can be considered to be complete unless the Audit Officer has made all efforts to ensure maximum recovery of short levy before leaving the premises of the taxpayer.

As the audit system adopts a transparent methodology , it is necessary that all the discrepancies notices by the Audit officer are recovered to the taxpayer with a view to obtain his explanations before preparing the Audit Report. Accordingly, the discrepancies noticed should be intimated in writing to the taxpayer, clearly stating that the same is not in the nature of any show cause notice and is only a part of participative and fact-finding audit scheme under which even the preliminary and tentative audit observations are being shared with the taxpayer for obtaining his explanations.

Where satisfactory explanation or evidence is submitted to the Audit Officer, the findings should be revised as necessary.

However, if a response from the taxpayer is not forthcoming, audit paras should be prepared on the basis of available records after citing the lack of cooperation on part of the taxpayer, in the audit report.

It is the Audit Officer's responsibility to explain all the observations to the taxpayer and to make all attempts to resolve any disagreements before those are finalized. It is also the audit officer's responsibility to make sure that the senior officers are aware of potential disagreement and the position taken by the taxpayer.

XV. Suggestions to Taxpayer for future compliance:

Before leaving the taxpayer's premises, the audit officer must discuss future compliance issues with the senior management of the taxpayer. The audit officer should also discuss the steps that management can take to reduce specific errors detected during the audit and to improve compliance by suggesting improvements in the accounting systems etc.. Written or verbal assurances as given by taxpayer should be recorded in the Audit Report. If, in any way, the department can assist the taxpayer to reduce errors and improve compliance, such offer of assistance should be made.

SEIGMENT- 7.

Preparation of audit report and determine tax liability of Taxpayer.

- I) After completion of audit verification, the Audit Officer should prepare the verification report for all issues identified in the Audit Plan. This document should record the results of verification conducted as per the audit plan. Any additional issue verified/point notices should also be mentioned. The audit officer would then discuss each of such issues with the taxpayer pointing out either non-payment or procedural infractions. The initial views of taxpayer must be recorded in the verification document. The audit officer should also apprise the taxpayer of the provisions relating to applicability of interest and encourage him to take advantage of those provisions in order to avoid disputes and litigation.
- II) Whether the taxpayer is in agreement with the short levy/ excess claim of Input Tax Credit (ITC), as noticed, the audit officer should explain the benefit available under Section 73(5) or Section 74(5) of the CGST Act, 2017, as case may be and use conversion as a measure of recovery of dues along with interest, if any, promptly. Details of spot recoveries and willingness of the taxpayer to pay short levy should also be recorded. This document would then become the basis for preparation of the draft audit report.
- III) The narrative of the observations in the audit report in the Form GST ADT-02 should be concise, to the point and self-contained and should convey the

adverse observations made. Where the observations are based on any circulars or clarifications issued by the CBIC or SGST department they should not be quoted. Cases, in which certain specified conditions are not fulfilling, giving rise to observations, should be clearly brought out. Similarly, where observations are backed by interpretations as decided by court judgment, decisions of Appellate Authorities or supported by technical literature, those should be cited.

- IV) The audit report should be finalized within the shortest time span. A copy of the audit report, even if it is a No Discrepancy Report. Should be sent to the taxpayer, by e-mail and / or letter and necessary records confirming such action should be kept in Taxpayer Master File (TMF).

Follow up action and issue of show cause notice:

An audit observation should be closed after requisite action, i.e. either recovery of amounts due or issuance of show cause notice, has been taken on it. After the issuance of Audit Report, wherever further action such as issue of Show Cause Notice is required, the audit officer should prepare the show cause notice and take assessment process U/s. 73 or 74 and recover the amount due.

I. Pre-Notice Consultation: (As per section 73(5) or 74(5) read with Rule 142(A) and Form DRC-01A).

- a) Every taxpayer has a right in law to be given "Final Opportunity" to discharge due "Before Any Notice" is issued. This is a statutory requirement under section 73(5) and Sec.74(5) of SGST Act,2017 for taxpayer to be given an opportunity to discharge dues without penalty or reduced penalty to put an end to the dispute about the said dues.
- b) Amount payable may be ascertained by taxpayer or by tax authority, As such, it is important for the computation of dues to be made by the authority. Statement in DRC-01A is the prescribed document to inform taxpayer about the tax, interest and penalty, if any, payable. Format of DRC-01A requires "grounds and quantification" of ascertainment by tax authorities to be provided. This would "Inform" taxpayer about the basis for such dues and based on this information, taxpayer may consider accepting to "pay dues without contest".
- c) Pre-notice consultations without disclosure of "Grounds and Quantification" will not be considered as legal and by-passing pre-notice consultation would lease the subsequent show cause notice as illegal. There have been decisions in other tax regimes where the show-cause notice consultation proceedings. For this reason, pre-notice consultations are mandatory for tax authorities to follow and it is an enforceable right of taxpayer.

- d) Once DRC-01 A is issued, taxpayer is permitted to make 'submission ' containing clarification with regard to the "Grounds" in respect of the said dues. If the submissions by taxpayer provide necessary clarification and thereby resolve the issue then, tax authorities may take the same on record and conclude proceedings initiated. If the clarifications are not completely satisfactory, the taxpayer's reply "accepting or rejecting" this final opportunity would then allow tax authority to proceed with show cause notice under section 73(1) or 74(1) of CGST /SGST Act,2017.
- e) Care must be taken that " Submission" in respect of DRC-01A does NOT mean that taxpayer will submit detailed arguments. Tax authority is free to initiate these proceedings under Sec.74(5) instead of Sec.73(5) without disclosing the reasons for invoking section 74 of the CGST/SGST Act,2017. Submissions by taxpayer in respect of DRC-01A must be confined to "Grounds" for the underlying dues to be raised and not on matters of law. These Pre-notice consultation proceedings are NOT a substitute for detailed adjudication proceedings. It is an opportunity to "INFORM" the grounds and seek "RESPONSE" from taxpayer on the dues involved. Taxpayer is free to "accept or reject" and then avail the "due process" of law in the form of show cause notice and adjudication.
- f) **Actions to be followed:** Include reference number of DRC-01A in show cause notice so that it is clear to taxpayer, adjudicating authority and appellate authorities that pre-notice consultations have been conducted and taxpayer has "rejected" the opportunity to resolve the dispute.
- g) **Actions NOT to be followed:**
- i). Show-cause notice may NOT be issued before issuing DRC-01A,
 - ii). DRC_01/DRC-01A must not be issued with "undisclosed" grounds for dues,
 - iii). DRC-01/DRC-01A is not an adjudication proceeding but an intimation proceeding to allow taxpayer to avail the concessional treatment in section 73(5) or Sec.74(5) of CGST /SGST Act,2017.

Show-cause Notice: (Refer Sections 73, 74 and 76 read with Rule 142 and Form DRC-01 and DRC-02):

- h) Every demand for tax or other sum under CGST/SGST Act must be accompanied by a show cause notice . Various provisions prescribe that show-cause notice is to be issued. When GST portal prescribes format of notice, generally, it DOES NOT refer to show cause notice. If a prescribed notice is applicable , then the notice may be issued in that format. But, if show cause notice is required to be issued, then points discussed in this

segment will be very helpful. Show cause notice is compulsory even if the demand for dues is obvious and there is no requirement for detailed hearing or discussion. After completion of pre-notice consultation, show cause notice is the first step to set the "Due Processes" of Law into motion.

- i) Show cause notice lays down the "Framework" for the rest of the life of that issue until it is finally resolved. No adjudicating authority or appellate authority can fill in any blanks in the show cause notice. If something important is missed out from the show cause notice, the demand must be dropped in adjudication and a fresh show cause notice will have to be issued but within the limitation time prescribed.

Communication and Service of Notice: (Refer Sections 169):

- j) While it is important to issue notices to set the law in motion and to put taxpayer at notice about the proceedings proposed to be undertaken, unless such notices "reach taxpayer, all effort would be wasted. Concept on reaching communication to taxpayer is called "served" of notice, that is, to verify whether the notice has been "served" on the taxpayer.
- k) GST regime has introduced "service by email" for audit purpose. When a taxpayer has submitted an "authorized email" then as per the Information Technology Act, 2005, service by email is valid service if sent to such email address.
- l) Section 169- Service of notice in certain circumstances:-
 - (i) Any decision, orders, summons, notice or other communication under this act or the rules made thereunder shall be served by anyone of the following methods, Namely:-
 - (a) By giving or tendering it directly or by a messenger including a courier to the addressee or the taxable person or to his manager or authorized representative or an advocate or a tax practitioner holding authority to appear in the proceedings on behalf of the taxable person or to a person regularly employed by him in connection with the business, or to any adult member of family residing with the taxable person.
 - (b) By registered post or speed post or courier with acknowledgment due to the person for whom it is intended or his authorised representative, if any, at his last known place of business or residence, or
 - (c) By sending a communication to his e-mail address provided at the time of registration or as amended from time to time, or
 - (d) By making it available on the common portal, or
 - (e) By publication in a newspaper circulating in the locality in which the taxable person or the person to whom it is issued is last known to have resided, arrived on business or personally worked for gain, or

- (f) If none of the modes aforesaid is practicable for any reason, then by fixing a copy thereof on the notice board of the officer of the concerned officer or authority who are which passed such decision or order or issued such summons or notice.
- ii). Every decision , order , summons, notice or any communication shall be deemed to have been served on that date on which it is tendered or published , or a copy thereof is affixed in the manner provided in sub-section(1).
- iii) . When such decision, order, summons, notice or any communication is sent by registered post or speed post, it shall be deemed to have been received by the addressee at the expiry of the period normally taken by such post in transit unless the contrary is proved.

Section 160(2) of CGST/SGST Act,2017, “ The service of any notice, order or communication shall not be called in question, if the notice, order or communication, as the case may be , has already been acted upon by the person to whom it is issued or where such service has not been called in question at or in the earlier proceedings commenced, continued or finalized pursuant to such notice, order or communication.

With this non-service cannot be challenged in appellate proceedings:

N) But where ex-parte orders are passed care must be taken to ensure that service of notices is well documented on the files. As discussed earlier about principles of natural justice, service of notice is a first step in giving the taxpayer an opportunity to defend on the proposition in such notice and to finally allow party to be heard. All these are part of one principle is “ listen to the other side”.

Relevant Date:

O). Section 73(2) of CGST Act, 2017, the proper officer shall issue notice under sub-section (1) at least 3 months prior to the time specified in sub-section (10) for issuance of order. Section 73(10) of CCST Act,2017, The proper officer shall issue the order under sub-section(9) of CGST Act,2017, within 3 years from the due date for furnishing of annual return for the financial year to which the tax not paid or short paid o input tax credit wrongly available or utilized relates to or within 3 years from the date of erroneous refund.

Section 74(10) of CSGT Act,2017, The proper officer shall issue the order under sub-section (9) within a period of 5 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 5 years from the date of erroneous refund.

P) Form GST DRC-01 is the summary of the show cause notice prescribed in rule 142 and must “accompany” a show cause notice. Show cause notice is incomplete unless accompanied by this summary in FORM GST DRC-01. There is a reference number for this summary of show cause notice, and both must be served simultaneously as a single document to the taxable person.

Q) Structure of show cause notice:- It must include all “ingredients” that will sufficiently be considered that taxable person is “put at notice” . The key ingredients required are:-

(i). Facts are defined to be “incident” , act, event, or circumstances. A fact is something that has already been done or an action in process. It is an event that has definitely and actually taken place, and is distinguishable from a suspicion, suggestion or belief. A fact is a truth as opposed to fiction or mistake”, and only undisputed facts are to be stated as “Fact”. Fact –in-issue is that fact which has a bearing on the issues involved in the show cause notice. Acts that are not relevant to the issues involved are not to be included in show cause notice. Undisputed facts do not require proof. But disputed facts or facts that are likely to be disputed need to be proved.

(ii). Actions that result in violations must be stated very clearly. What exactly has been done by taxable person can reply in defence whether the said actions have or have not been done and submit evidence to establish innocence. It is not sufficient to state “tax has not been paid”, that would be the result of this action. Action itself needs to be proved. Duty to prove (also called onus of proof) lies on person making assertion. In other words, allegation of violation of law requires revenue authorities to substantiate the allegation with proof. Higher the violation , greater is the required proof. Proof may be of different types depending on the source and quality. Proof varies in degree, but proof must establish allegation to the satisfaction of a court and not just in the opinion of Proper issuing show cause notice.

(iii). Allegation on taxable person must also be specific. It is not sufficient to approximately lay the charges. That is, if output tax is payable, the actions of taxable person must be clearly specified in the show cause notice . It is not enough to state that “taxable person has made supply is liable to tax”, it must go into more specific details about “form” of supply that is alleged to be made. And explain how that particular form stands satisfied in the “facts” of the case. From the actions., the violations by taxable person will emerge. That is, whether output tax is payable which has not been discharged or whether output tax which is collected has not been deposited. Clue may be taken from the words stated in Section 73 and Section 122 of CGST Act,2017, to frame the exact nature of violations and unclear description of violations are also not sufficient requirement in law.

iv). Cause of action refers to the exact provision of law that has been contravened by the violation and the course that the law prescribes to be taken in view of the said violation due to the action of taxable person.

This is very important ingredient in the show cause notice. If any cause of action is omitted, even if the demand is valid, it cannot be confirmed by an adjudicating authority or appellate authority or a Court.

Opportunity for personal hearing is a very important constitutional guarantee that must be allowed. Refusal to grant adjournment is not reasonable unless repeated adjournments are sought without any valid reasons.

Demand for tax on outward supply requires allegations to be specific not only regarding supply but the exact form of supply involved.

R. Limitation is the maximum time-limit or the “end date” by when show cause notice must be issued. If show cause notice is issued late, then demand will not be legally valid. As well understood, there are two limitation periods prescribed.

(i) For which the show cause notice may be issued under Sec.73 of CGST Act.

Care must be taken that a show cause must be issued under Sec.73 and not merely as “show cause notice”. The “substance and effect” may be that of a show cause notice but unless stated to be under a Section 73, not even Section 160 (1) of CGST /SGST Acts,2017 can come to the audit officer’s rescue; and

(ii). For which show cause notice may be issued under section 74 of CGST/SGST Act,2017.

Apart from the points made under Section.74, please note that a show cause notice must also allege and refer the “Special Circumstances” required for a show cause notice under Sec.74. These “special circumstances are, (i) fraud or (ii) wilful misrepresentation or suppression of facts to evade tax. If a show cause notice is issued under section 74 (due to allegation of special circumstances)are not proved by revenue then, such a show cause notice will be “deemed” to be a show cause notice under Sec.73. Refer Section 75(2) which makes this clear and demand to be now made will stand automatically readjusted to (i)reduced period of demand (ii) with full extent of reduction of penalty in section 73.

S. Issue of Statement and its summary in Form GST DRC-02 under Section 73(3) or Section 74(3): Issue of Statement and its summary in Form GST DRC-02 in a case where it is felt that the short payment of tax is suspected to be present in the periods other than tax periods covered in Form GST DRC-01, a Statement is prepared under Section 73(3) or Sec.74(3) and the same must observed along with the summary of such statement in Form GST DRC-02. This is deemed to be a notice issued under Section 73(1) or Sec.74(1) for the tax periods covered under Section 73(3) or 74(3) as per Section 73(4) or Sec.74(4) as the case may be.

T. Action to be followed:

- (i). Show cause notice along with summary in Form GST DRC-01 to be Issued,
- (ii).Statement under Sec.73(3) or Sec.74(3) along with Form GST DRC-02, where applicable , to be issued,
- (iii), Sections of law under which action is proposed must be correctly referred without omission as it can adversely affect outcome.
- (iv).All relevant evidence relied upon must be enclosed with show cause notice.

U. Actions NOT to be followed

Endorsement is not an accepted form of notice . Reference to Section or 74 or 76 of the CGST /SGST Acts,2017 is important to make such endorsements a valid “show cause notice”. Hence , it is suggested to call such notices as “show cause notice” relief instead of “endorsement”.

V. Order of the adjudicating authority must be detailed as it is the start of a long journey to its destination where the interpretation of the law and for appreciation of the facts of the case will be delivered through the process of appeal prescribed in the CGST/SGST Act,2017. The order of adjudicating authority must carefully capture all the ingredients narrated in the show cause notice , objections raised by the party, interpretation of law by the adjudicating authority to reach final findings on facts-in-issue and pass the orders. Such a combined narration of the conclusion of audit proceedings is referred as a “speaking order” by adjudicating authority. Some key aspects to reiterate before going into the components of a speaking order:

(i) The show cause notice which lays down the “framework” of the entire demand must be discussed in the order with extracts. This bring to the fore, the key issues that the adjudicating authority is required to reach a finding on facts and make a determination. Without this groundwork, it would be impossible for appellate authorities to come quickly to determine the issues (in appeal, if any). It also requires that key “Facts” and ‘basis” be recorded in the show cause notice along with the “grounds” which make up the boundaries within which the adjudicating authority has to reach findings as per restrictions placed in section 75(6) and Sec.75(7) of CGST/SGST Act,2017.

The adjudicating authority is barred from coming up with “new grounds” for confirming demand. Grounds missed in the show cause notice CANNOT be introduced during the adjudication proceedings to reach the final finding for supporting the demand. If grounds have been poorly considered in the show cause notice and demand cannot be confirmed on the basis of those same grounds then, adjudication fails. As mentioned earlier, if some grounds have been missed out, a fresh show cause notice should be issued.

(ii). “Grounds of show cause notice” must be carefully considered and should NOT be issued hurriedly without considering all the facts.

W. Order of adjudication may address the following aspects:

(i) Extracts from the show cause notice need to be referred in the adjudication order so that it can be seen by every reader of the order that adjudicating authority was fully aware of the facts, actions and violations, allegations and evidence, cause of action proposed to be taken against the taxpayer under specific provisions of law and fact that the adjudicating authority has been identified these in the said show cause notice to hear the case.

(ii).Objections by the taxpayer (more correctly called “Notice”) must be recorded. Not only the fact whether objections were /were not filed. But also in case it was detailed, details of the objections filed must be recorded. Entire objections need not be reproduced in the adjudication order, but salient features must be recorded. Objections may include decisions of the Tribunal or Courts also, treatment of the same will be discussed in ensuing paragraphs. Reply by taxpayer containing objections must be filed in Form GST DRC-06 under Rule 142(4) of the CGST/SGST Rules,2017.

(iii). Opportunity of hearing must be granted to the taxpayer as per Section 75(4), either in person or through authorized representative as per section 116 of the CGST/SGST Acts,2017. During the hearing, taxpayer may provide the summary of objections already submitted or provide addendum to the objections raised earlier. Refer format of “record of personal hearing” attached for reference. The adjudicating authority is expected to allow a fair hearing and give full attention to the arguments being made. There is no requirement for adjudicating authority to reply or counter the objections raised but only hear the taxpayer or his representative. However, it may be noted that the adjudicating authority is free to ask questions to clarify the objections being conveyed or bring up points where objections are unsubstantiated and vague. Please note that all the objections need not be accepted but are still points that are being raised and are to be discussed in the order. Powers of adjudication authority are not listed in CGST/SGST Acts,2017, but the duty of adjudication authority may be found in the show cause notice itself. It may be seen from Section 75(6) and 75(7) of the CGST/SGST Acts,2017, that the adjudication authority is to make a determination of the allegations/ propositions made in the show cause notice based on the grounds raised in such show cause notice .

Departmental representative may also be present during the hearing to counter the objections raised by the taxpayer, if required where the audit officer is not an adjudicating authority . Such officer who wants to be present may require to intimate the Adjudicating Authority beforehand. The adjudicating authority may sometimes require the departmental representative or the person who conducted the special audit to be present and hear the views of the department on the issues adjudicated. The Adjudicating authority should remain objective and unbiased. If the departmental representative is present and submits any counter-objections, the same may also be recorded in the record of personal hearing . Record of personal hearing may be signed, and copies delivered to all parties present against acknowledgement.

(iv). Position of law must be discussed in the adjudication order making regular reference to provisions referred in the show cause notice. A discussion of the legal interpretation that the adjudicating authority considers relevant on the issue involved to support the findings reached form the next part of the adjudication order. Case laws referred in the objections maybe listed with the ration of those decisions stated. It must be examined if these decisions are overruled by any later decisions of high Courts and discussed in this part of the order. Any additional decisions relevant to the case may be introduced in the order at this point which provides the correct position of law applicable to the present case.

(v). Findings by the adjudicating authority are (i) facts (ii) basis and (iii) grounds. It may be noted that if facts of the case are correct but the basis on which conclusions reached in show cause notice are not correct then, the adjudicating authority cannot make corrections, improvements or adjustments to support the demand. If facts and basis are agreeable by adjudicating authority but grounds in the show cause notice are nor agreeable then also, demand cannot be supported.

(vi). From the forging , it is to be noted that only if the adjudicating authority is agreeable on all the factors in the show cause notice, the demand raised be confirmed in order. Once the adjudicating authority accepts that all the facts are agreeable then, these factors)facts, basis and grounds) become the view of the adjudicating authority for purpose of later proceedings in appeal or review. Utmost care must be taken to ensure that the adjudicating authority records “findings” on all these factors in reaching the conclusion, The show cause notice contains the framework for demand and adjudicating authority must pass orders U/s. 73(9) or Sec.74(9) of the CGST/SGST Acts,2017, containing all the aspects referred in the show cause notice and pass the “speaking order”.

(vii). The adjudicating authority is required to pass above “orders” determining whether the demand proposed in the show cause notice is payable by taxpayer or is dropped in favour of taxpayer. This discussion must be made in a clear manner which is the conclusion of the adjudication process. It must cover all aspects of tax. Input tax credit, refunds, interest and penalty.

(x). Adjudication must be completed before “end date” as applicable under Section 73(10) or Section 74(10) of CGST/SGST Act. If adjudication is kept pending beyond this date , then, as per Section 75(10) the proceedings will be “deemed to be concluded” and no adjudication is permitted to be carried our after this “end date” tax authorities is to take care that the proceedings do not extend beyond this date. Tax authorities to also note that where the same issues is pending in “ some other proceedings” before any appellate authority (Tribunal or Court) then, as per Section 75(111) of the CGST Act, 2017, the present show cause notice may be kept pending and the end date prescribed

will be “kept in abeyance” until disposal of that case by such appellate authority . Once that case is decided then, the time limit under Section 73(10) or Section 74(10) commences.

xi. Taxpayers must be served this order along with demand in final determination of liability I FORM DRC-07 under Rule 142 (5) of CGST/SGST Act,2017, to be uploaded online along with reference number of assessment order. Please note that summary in Form GST DRC-07 will automatically be considered as per Rule 142(6) as a notice for recover under Section 79 of the CGST/SGST Act,2017. It may be noted that even if demand or calculation of interest is missed out in the order, interest is still payable as per Section 75(9) of the CGST/SGST acts,2017. Consequently, if any amount other than interest is missed out in the order, taxpayer is not liable to pay other than that demanded. Please note that section 78 allows 3 months from date of order for any recovery action to be initiated under section 79 of CGST/SGST Acts,2017. That the time allowed for taxpayer to file an appeal under section 107(1) or for rectification under section 161 of the CGST/SGST Acts,2017. Before any recovery action is initiated (without any further notice to the taxpayer), it may be noted that Section 107(4) allows 1 month for condonation of delay, if allowed First Appellate Authority (FAA) for filling of appeal. Hence, any recovery action within 3 months is not admissible but recovery action in the 4th month must be taken due care taking note of any appeal filed by the taxpayer. However, where the proper officer considers it expedient in the interest of the revenue, he may, for the reasons to be recorded in writing, require the taxable person to make such payments within such period less than a period of 3 months as may be specified by him accordance with proviso to Section 78 . However, the recovery action needs to be suspended once the appeal is filed and admitted and this suspension should be limited to the amount of tax disputed, and the recovery action continues for the undisputed amount, please also note that in order to file an appeal, taxpayer is required to submit “Certified copy of order”. Under Rule 108(3) of the CGST/SGST Acts,2017.

xiii. In case there is any “ mistake apparent on record” in the order then, on a request by taxpayer or voluntary , the assessing authority may rectify the mistakes within 3 months under section 161 (and not beyond 6 months) from date of such order and upload a revised summary in Form DRC-08 under Rule 142(7) of the CGAT/SGST Rules,2017. However, the said period of 6 months shall not apply in such cases where the rectification is purely in the nature of correction of a clerical or arithmetical error arising from any accidental slip or omission. It is important to note that ‘ mistake apparent on record” Does Not” refer to “reconsideration of the facts or law” to change the conclusions reached in the assessment order. That would be a review of the decision taken which is not permitted and the remedy for aggrieved taxpayer is to file an appeal under Section 107 of the CGST/SGST Act,2017. However, if there is a mistake apparent on record, the assessing authority may take that into consideration and pass the correction by a rectification order and upload the revised demand in Form GST DRC-08 on the portal.

Xiii .While confirming the demand, interest and penalty may also be applicable , hence care must be taken to apply the appropriate provisions of the CGST/SGST Acts,2017.

- (i) Interest as applicable under Sec.50(1) for non-payment of tax and Section 50(3) for erroneous credit shall be collected. Care must be taken to inform the taxpayer by way of a notice about the interest payable on the right amount under the right provision of the CGST/SGST Acts,2017.
- (ii) Penalty is applicable under several provisions of CGST/SGST Acts,2017. Care must be taken to confirm demand for penalty under the right the CGST/SGST Acts. Here, it is important to refer to section 126 which provides “general Discipline” about imposing penalty. Although show cause notice may propose imposition of penalty, assessment order must consider the guidelines in section 126 and reach a finding based “ on the degree and severity” of violation . Section 126(4) specified that assessing authority must pass a “speaking order” for the purpose of imposing penalty.

xiv.Action to be followed:

- (i) Reply to the show cause notice to be received in Form GST DRC-06,
- (ii) Hearing must be granted, and adjournments must be granted for bona fide reasons as these are rights of taxpayer in adjudication.
- (iii) Oder of adjudication to be passed with summary in Form GST DRC-07,
- (iv) Speaking order must discuss demand and separately discuss reasons for imposing penalty.

xv. Actions Not to be followed.

- (i) Repeated adjournments are not to be entertained where sufficient reasons for seeking adjournment are not provided,
- (ii) Vague/mechanical non-speaking orders are NOT admissible as such orders are considered incomplete,
- (iii) Order of adjudication confirming demand must NOT be based on new grounds other than those in show cause notice.

xvi. Whenever the rights of a person are being affected by passing of an order the principles of natural justice must be followed. Adjudication without following these principles will leave the demand merely notional as the proceedings may be considered illegal. Following the procedures in the CGST/SGST Acts and Rules is necessary and once prescribed procedures are followed, taxpayer cannot claim that the demand is illegal on appeal on the grounds of absence of proper grounds, opportunity of hearing

and proper appreciation of facts and law. Principles of natural justice are in-built in the above procedures of adjudication and passing of “Speaking Order”.

Suggestive list of documents to be submitted/ to be kept ready for verification by dealer as per DRC-01.

- (i) Financial statement and reports i.e. Balance Sheet, Profit and Loss Account, Tax Audit Report, Annual Financial Statement, Cost Audit Report, Trial Balance,
- (ii) Summary statement of inward and outward supply of goods or services,
- (iii) Ledger copy of RCM along with supporting documents,
- (iv) Invoice Copies of Inward and Outward supply of goods and services,
- (v) Due to any reason cancelled invoices copies,
- (vi) Register of Goods return along with relevant Credit /Debit Notes copies etc.,
- (vii) Register of Inward supply Soft Copy,
- (viii) Register of Outward supply Soft Copy,
- (ix) Register of Zero rates supply and relevant documents like commercial invoice, shipping bills, bill of lading copies, EGM, BRS (Bank Realization Certificate or inward remittance certificates etc.),
- (x) Details of Exempted supply/ supplies to SEZ dealers,
- (xi) Refund claim/ availment details if any (export of goods and services, inverted duct stricture etc., any type of refund claimed by the taxpayer),
- (xii) TDS payments ,if any,
- (xiii) TRAN-1 details (details regarding credit carried forwarded from previous Act to GST ACT),
- (xiv) Details of Form GSTR-2A(Mismatch, Unmatched transactions),
- (xv) Summary Statement of E-Waybills transactions moth wise along with corresponding ledger,
- (xvi) If taxpayer is a Service provider, Copies of service contract agreements, Invoices, AMC contract copies and FIRC (Foreign Inward Remittances) etc.,
- (xvii) Ledger copy of Advances received along with tax payments details,
- (xviii) Details and Ledger of Other Income shown in Profit & Loss Account,
- (xix) Details of Input Tax Credit (ITC) Reversal/Reduction along with documentary evidence,
- (xx) If the taxpayer is having any outward supply of Scrap Sales etc.,a long with documentary evidence.
- (xxi) Ledger copy and details of Exempted Outward supply of goods or services,
- (xxii) Ledger copy and details of Zero rated supply of goods or services,
- (xxiii) Ledger copy and details of Non-GST Supply of goods,
- (xxiv) Ledger copies and details of Job work of Inward and Outward supply of goods or services,
- (xxv) Ledger copy and details of Credit Ledger/ ITC availment and summary of Capital Asset,
- (xxvi) Copy of Cash Ledger and summary of availment of cash ledger,

(xxvii) Details of Reversal of ITC within 180 due to non-payment in 180 days.

These following Important Documents prepare and to be submit to the Audit Officer for Scrutiny at Desk Review :

Document-1: Ratio Analysis (Goods):

S.No.	Nature of Ratio/ Method of Calculation	Utility of the Ratio	Source of Document
1	Input Tax Credit availed : (a). Total Tax paid through (Electronic Cash Ledger+ ITC), (b)= (a)/(b).	a) To identify wrong availment of ITC, b) To identify under valuation of goods as value addition should involve involve adequate difference between the two, c) To identify removal of goods without payment of duty, d) To identify claiming of ITC on inputs used in exempted products	Annual (GSTR-9)or Monthly GST Returns (GSTR-3B),(as applicable)
2	Total Inward supply cost: Total outward supply value.	a) This ration shows the part of outward supply value represented by inward supply cost. The balance outward supply value represents the value addition on account of non-taxable elements like wages, overheads, depreciation and interest. b) Theoretically , this ratio should have a bearing on the ration of input tax credit: Total tax payment (S.No.a), c) If this ration is lower than ration at S.No.a or more than previous year's ration, it may be on account of the following: (i) Wrong availment of credit like cases of availing value of goods as credit or availment of credit of basic customs duties in case of import or double credit on the same account, (ii) Fraudulent availment of credit like availment of credit without receipt/actual use of input, (iii) Rejection /return/ clearances of input without reversal of credit, (iv) Receipt of inputs and availment of credit but	Annual (GSTR-9)or Monthly GST Returns (GSTR-3B),(as applicable), Trial Balance, Profit & Loss Account and Notes to the accounts.

		<p>clearances of finished goods without payment of duty, (v) Under valuation of finished goods, important points to be considered: 1) Only taxable goods sales value should be considered, 2) Export value to be excluded from sales value, if export is under bond(if export was on payment of duty, in that case, export value should be included), 3) Excluded the GST Tax from sales value, if details are available.</p>	
3	Input Tax Credit availed on Capital Goods purchased during the year; Addition to Capital Goods.	Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance Sheet.	Balance Sheet (Schedule of Fixed Assets) and GST Returns Form GSTR-3B or Annual Returns GSTR-9)
4	Other Incomes : Sales as per P&L A/c.	<p>1) If this ration is higher than previous period, it may be on account of the following: (i) Under valuation of finished goods by non-inclusion of other Income like recovery of advertisement expenses, Packing and Forwarding Expenses in the assessable value, (ii) Non-Payment of duty on scrap/ rejects/Job Work. 2) GST Liability on Other income may also be examined.</p>	Balance Sheet & GST Returns Form GSTR-3B or Annual Returns GSTR-9)
5	Outward Supply of Scrap: Total outward supplies made.	<p>If ratio in the current year is lower, it may be on account of the following: (a) Outward supply of scrap made without payment of duty, (b) Non receipt of Scrap from Job Worker.</p>	Trial Balance /Profit & Loss account.

6	Value of exempted outward supply: Value of total outward supplies made.	<ul style="list-style-type: none"> a) To identify outward supplies made in the form of exempted supplies, b) To identify supply of essential parts of outward supply as exempted supplies, c) To identify under valuation of outward supplies by overvaluing exempted outward supply. 	Profit & Loss account.
7	Input Tax Credit availed on inputs: Purchase price of inward supplies.	Non reversal of credit/ payment of duty on inputs rejected/short received/ cleared to other units/ cleared as spare during warranty period.	Annual (GSTR-9)or Monthly GST Returns (GSTR-3B),(as applicable)
8	Value of Zero Rated supply: Total Supply.	<ul style="list-style-type: none"> a) To identify outward supplies made in the form of Zero Rated supplies, b) To identify under valuation of outward supplies by overvaluing Zero rated supply of outward supply 	Profit & Loss account.
9	Non-GST Supply: Total Supply	<ul style="list-style-type: none"> a) To identify outward supplies made in the form of Non-Gst Supplies, b) To identify supply of essential parts of outward supply as non-GST supplies, c) To identify under valuation of outward supplies by overvaluing NON-GST outward supply 	Profit & Loss account.

Document-II: Ratio Analysis (Services) :

S.No.	Source of Documents.	Utility of the Ratios in GST Audit and manner of Use.	Nature of Ration/Method of Calculation.
1	i).Profit & Loss Account, ii). Income & Expenditure a/c, iii).GST Returns.	<p>Compare the ration over a period of 3 to 4 years. If the ration is increasing three is possibility of the following irregularities:</p> <ul style="list-style-type: none"> a) Rendering of unaccounted outward supply , b) Undervaluation of outward supply,, c) Diversion of outward supply income into non-taxable income. <p>Compare this Ratio (I) with (II) If ration II is greater than ration I , then there is a possibility of wrong availment of credit either due to</p>	<p>Total cost of inputs received (both Goods & Services): Value of Taxable outward supply (i.e. I) Credit availed: Total GST payable (i.e. II)</p>

		calculation mistake or availment of credit on inward supply being not used properly in outward supply.	
2	i).Profit & Loss Account, ii).Income & Expenditure A/c (in case of Non-Profit organisations like clubs and iii). GST Returns.	Compare the ration over a period of 3 to 4 years or with the Taxable person rendering the same services. If the Ration is increasing over a period of time or it is more when compared to other supplies, then there is a possibility of under valuation by showing outward supply income as non-taxable /exempted income.	Other incomes not charged to GST: value of taxable outward supply.
3.	Balance Sheet.	Comparison of this Ration with the rate of growth of the value of taxable outward during the year maybe useful in verifying whether the value of taxable outward supply has been correctly declared. It is particularly to be checked in cases where the additions to plant &machinery /fixed assets directly impact the volume of outward supplies.	Additions to plant &machinery / fixed assets during the year : Total value of assets at the beginning of the year.
4	GST Returns	Compare the ratio over a period of 3 to 4 years . If the ration is increasing there is the possibility of the following irregularities: i) Rendering of unaccounted outward supply, ii) Under valuation of outward supply, iii) Showing outward supply income as non-taxable outward supply income, iv) Inflation of inward supply credit.	Amount of input tax credit availed on inward supply: Total tax liability on outward supply.
5	GST Returns	a) To identify wrong availment of input tax credit , b) To identify under valuation of outward supply as value – addition should involve adequate difference between the two. c) To identify outward supplies made without payment of GST, d) To identify claiming of input tax credit on inward supplies used in exempted outward supplies.	Input Tax Credit (I):Total Tax Paid through (Electronic cash ledger + Input Tax Credit)(II)=(I/II).

6	Balance sheet & GST Returns.	Additional to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance Sheet.	Input Tax credit available on Capital Goods purchased during the year: Additional to Plant & Machinery.
7	Profit & Loss Account.	If this ratio is higher than previous period, it may be on account of the following: i) Under valuation of outward supply by non-inclusion of other incomes, ii) GST liability on Other Income.	Other Income : Outward supplies.

Supply of Services:- Method of Verification of transaction and documents during the Audit:

A. Supply of Services and Income verification:

- i) File of correspondences with the Client,
- ii) Quotation /Tender Files,
- iii) Cost sheet to work out approximate cost of service (e.g. Cost of AMC, Advertisement cost),
- iv) Price List (in cases where price of services are fixed as in case of Insurance Premiums, Cable Operators, Coaching Centres),
- v) Booking Register (i.e.in case of Mandap Keeper, Convention Centre, Tour Operators),
- vi) Service Agreements/Contract copies like agreements for Technical Consultancy etc.,
- vii) Job Cards/work statements (e.g.in case of AMC or repair of vehicle, Job card may show value of srvcies and material used),
- viii) Invoices/ Receipts,
- ix) Income Register/Debit Notes,
- x) Customer's ledger Account (to verify total amount billed, by way of invoice, debit note, payment received and Credit Note Issued),
- xi) GST Returns (GSTR-9, GSTR-1 and GSTR-3B, GSTR-4, GSTR-5,GSTR-7, GSTR-8)

B. Receipts of Inputs (including goods and services- Inward supplies) abd availement of Input Tax Credit thereon:-

- i) List of Vendors/Suppliers,
- ii) Correspondence with Vendor /Supplier,
- iii) Tender/Quotation documents,
- iv) Purchase Orders copies,
- v) Copies of Purchase invoices/bills etc.,

- vi) Copies of Debit Notes (relating to return of input services),
- vii) Copy of the Purchase Ledger,
- viii) Copies of Ledger Accounts of inward supplies (to verify the date of payment for inputs),
- ix) Copies of Bank Accounts/Cash Account,
- x) eVerify use of inputs (eg. Use of telephone for output services or for non-taxable work, insurance for property used for output services),
- xi) Verify Input Tax Credit (ITC) register maintained, if any,
- xii) Verify relevant Form GSTR- 3B and GSTR-9/GSTR-9C,

C. Financial Record Scrutiny: (From Trial Balance) :

- i) Check all Income Accounts (Showing Credit balance) in Trial Balance – Compare value of Income Account with value of taxable services shown in relevant GST returns,
- ii) Verify invoices/bills/ other documents of Income Accounts on which GST is not paid,
- iii) Verify major expenses accounts to confirm whether any recoveries made from customer/client are adjusted in the expenditure account,
- iv) Check Journal Vouchers/Debit Notes to verify recoveries for Customers on which GST is not paid.

D. Use of inputs/Input Services in Exempted Services:

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

Risk Parameters for selection of taxpayers for AUDIT under GST Law:

The Audit Wing at the time of selection of audits may consider all or some of the below norms, depending on available data and resources and resources and may also use additional criteria not listed below:

1. The taxpayer did not provide or delayed in providing documents sought by the Audit Team,
2. The taxpayer was not previously audited,
3. The taxpayer is newly registered,
4. Length of time since last audit,
5. The taxpayer had/ did not have substantial assessment during previous audits,
6. The volume of the taxpayer's turnover/net profit,
7. The volume of the taxpayer's loss, if any,

8. The volume of the taxpayer's refund, if any,
9. The volume of change in the taxpayer's turnover/net profit from the previous year,
10. The volume of the impact detected mistakes had on the Taxpayer's turnover/net profit,
11. The ratio of expenses/turnover,
12. The ratio of turnover/total assets,
13. The ratio of loans/total assets,
14. The volume of income from high risk activates (e.g. real estate income),
15. The volume of exemptions, if any,
16. The percent of the net profit in comparison to the activity average,
17. The percent of the total profit compared to the activity average,
18. The taxpayer requested waivers or is bankrupt,
19. The taxpayers files inconsistently,
20. The taxpayer is currently involved in legal disputes,
21. The taxpayer's return was previously investigated for evasion,
22. The taxpayer received notices from other government entities,
23. The quality of the taxpayer's books nad records (manual/automated, not well kept),
24. The taxpayer's returns is prepared by questionable accountants,
25. The special sector, in which the taxpayer operates (e.g. typical high-risk activates include restaurants and hotels, apartment rentals, professionals, car rental, spare parts for vehicles, chemicals, telecommunications, retail),
26. The form of the legal entity (e.g. corporate/ partnership),
27. The multitude of the taxpayer's legal relationships with other entities,
28. Tax taxpayer has multiple branches ,
29. The taxpayer has multiple activities,
30. Audit differences (past audit assessments),
31. The taxpayer has supplied goods on which there has been reduction in rate of duty, in order to examine the possibility of profiteering under Sec.171 of the CGST/SGST Act,2017,
32. The taxpayer has stopped filling GST returns,
33. The taxpayer has applied for surrender of its registration,
34. Where there is increase in ration of Exempted Supplies/Total supplies of a taxpayer over time,
35. Where higher incidence of supplies without issuance of E-Way Bills have been noticed,
36. The taxpayer who does not file periodical returns but issues E-Way Bill regularly,
37. The tax payer who was not audited in the Pre-GST era for the last 4 to 5 years,
38. Tax taxpayer whose turnover increased substantially after enactment of GST,
39. Tax taxpayer who is not filling GSTR-3B but in their electronic cash ledger, amount of TDS us reflected.

Annexure-I

Important Documents to be submit for Scrutiny at the time of DESK Audit or DESK Review Stage.

Part-1: GOODS:

1.Verification of Documents during DESK Stage:-

S.No.	Name of the Document	Importance documents and Checks to be done
1.	Annual Report & Director's Report.	<p>The Annual Report prepared by a company inter alia contains the following;</p> <p>a) Director's Report (ii) Statutory Auditor's Report (iii). Balance Sheet and Profit & Loss Account (iv). Financial Statement of subsidiary companies, if any.</p> <p>Director's Report: This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc., reported in the report may be useful to the auditor.</p> <p>Auditor's Report: These may be reports of statutory auditor or Internal Auditors or C&AG Audit. In the case of statutory audit, a separate report under CARD (Companies Auditor's Report Order,2003/2015) is required to be given.</p> <p>Nature of Verification: (i).The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. For ex: 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>(ii). Company Auditor's Report Order (CARO) may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of inward supplies and goods meant for outward supply was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods.</p>

	<p>iii). CARO also shows disputed tax liabilities separately for Customs, iv). In the case of Public Sector unit, C&AG report and comment of the company available in the Annual Report should be examined.</p>
<p>2.</p>	<p>Profit & Loss Account:</p>
	<p><u>Nature of the Account:</u> The Profit and Loss account shows major items of expenditure and income. This is one of the important documents used during desk audit to review and to find out the overall working of the unit.</p> <p>Types of Verification: (i). Scrutiny of supplies: Supplies may include inter-state supplies, intra-state supplies, Zero rated supplies including supplies to SEZ. Study of the pattern of supplies will give a idea about the volume of indigenous/ internal market for the registered person's supplies.</p> <p>(ii).Other Income: Other income like scrap, insurance claims, receipts, profit on sale of fixed assets, commission received, erection and commission , freight and insurance recovered etc., may be examined in details 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> <p>(iii).Expenditure side: Value of inward supplies on which GST is payable under RCM as per Sec.9(3) should be examined in detail, for this purpose, the relevant ledger account may be scrutinized as discussed under the head of General Ledger. Ratios like (a). Inputs consumed to inputs purchased,(ii). ITC availed on inputs to outward supplies, raw material purchased and ITC taken on inputs etc., may be worked out.</p> <p>(iv). Notes given along with the said schedule should be studied carefully to find out cases of use of material for non-production activities.</p> <p>(v). The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations.</p>

3.	Balance Sheet.
	<p>Nature of document: Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance Sheet.</p> <p>Types of verification: (i). Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are supplies between holding company and subsidiary company & vice versa, valuation aspects need to be examined in the light of CGST/SGST Rules,2017.</p> <p>(ii).Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate GST has been paid.</p>
4.	Notes on Accounts.
	<p>These notes are part of the Profit & Loss Account and Balance Sheet. These notes may be inserted by the Company as per the requirement of the companies Act or may be added at the instance of Statutory Auditor. These notes are very important to a Tax Auditor as these reveal important transactions or the important accounting policies followed by the unit.</p>
	<p>Nature of Verification:</p> <p>(i).Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue recognition or determination of obsolete stock.</p> <p>(ii). Notes on quantitative information on inward and outward supplies may reveal number of interesting aspects. Cases of use of inputs for other purposes (not in the course of business or furtherance of business) may also be noticed from the study of such information, Adjustment for shortages, losses etc., may also be reported in the said</p>

	<p>information.</p> <p>(iii). Any important transaction/happening during the year like non-reconciliation of accounts of inputs lying with job worker, major expenditure on research and development, destruction of record and reconstruction of duplicate records may also be noticed from the study of such notes,</p> <p>(iv). As per the Accounting standard issued by the Institute of Chartered Accountant of India, the specified companies are required to disclose transactions with the related parties under the Companies Act as part of the Notes to the Accounts. The said information gives all types of transactions, payments made or payments received from various related parties. Such information is very useful to find out the details of the related parties and the type of transactions made by them. However, the related parties as per the Companies Act may not be considered as “related person” under the GST Law.</p>
5.	Trial Balance.
	<p><u>Nature of documents:</u></p> <p>Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger accounts maintained by a Taxable Person. The final accounts, namely Profit & Loss Account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together, and these are transferred to the Profit& Loss Account and Balance Sheet.</p> <p>Types of verification: (a). Acquaint with account coding system and understanding the grouping of sub-account under main account for the purpose of summarization into Profit & Loss Accounts and Balance Sheet.</p> <p>(b). Main purpose is to select the accounts for further scrutiny as a part of audit plan ,Accounts which have a prima facie relevance for GST payment or availment of ITC need to be identified during Desk review. There might be some of the ledger accounts whose exact</p>

	<p>nature may not be clear on reading of Trial Balance and these accounts may also be identified for further inquiry during the further course of audit,</p> <p>(c). Unusual ledger accounts like loss of inputs or unusual income accounts may also be noticed in the Trial Balance , However, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny.</p> <p>(d). Various income accounts (credit balances) available in the Trial Balance like Job Work , Income Account, Erection and Commissioning Income Account, Commission Account, Recovery of Freight/Advertisement Charges Account, Technical Consultation Income Account etc., should be selected to verify whether this income can be added to the assessable value for payment of GST or whether these are liable for payment of GST.</p>	
6.	Cost Audit Report.	
	<p>Cost Audit Report provides quantitative and financial details regarding productions, clearance, capacity utilization, input-output ration, related party transaction, valuation of production along with reconciliation of annual turnover with taxable value of Goods produced as per the GST returns.</p> <p>The Cost Auditor in his report gives the information /details on the cost data for the company as a whole as well as in the respect of each plant /unit of the company located at different location/details across the plants and units. The details of relevant paras useful for GST Audit are given in the table below:</p> <p>The auditor may examine the following aspects from the Cost Audit report.</p>	
	S. No. in Anne to the Cost Audit Report and	What us to be seen

	Subject	
	1,2 & 3 – General Information.	Auditors may use this information at the time of Desk Review.
	4-Quantitative Details	It contains details of: <ul style="list-style-type: none"> i. Total available quantity, ii. Samples/Quantity Captive consumed, iii. Outward supplies- with breakup of Export & domestic clearance, Auditors should reconcile this data with GST Return and major variation (if noticed) should be looked into.
	5- Cost Statement/Cost of production statement.	Separate cost statement would be available in respect of each product/activity group. Auditors may utilize the same for valuation aspects. It also helps to compute taxable value under cost Construction method under Rule 30 of CGST/SGST Rules,2017.
	6. Operating ration analysis.	Auditors may use the same for comparison of operating costs of each group, over a period of time.
	10-Related transactions.	Auditors may use this information with regard to valuation of related party transactions under Rule 28 of CGST/SGST Rules,2017
7.	Scrutiny of the Tax Audit Report.	
	<ol style="list-style-type: none"> 1. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Sec.32 of Income Tax Act,1961 and that of ITC availed on capital goods, 2. Clause 27(a) of the Tax Audit Report gives the details of ITC claimed. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the GST returns with the information provided in terms of this clause. 3. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax Audit . The Auditor shall ensure that GST on such supplies is paid on these amounts as per the provisions of Time of Supply under CGST/SGST Act,2017. 	

	<p>4. Clause 38 of the Tax Audit Report provides the information relating to Cost Audit, if such an audit has been carried out, the Auditor should examine the Cost Audit Report.</p> <p>5. Clause 40 of the Tax Audit Report provides the important accounting ratios.</p>
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Part-II. SERVICES.

<u>Sr.No.</u>	<u>Name of the Document</u>	<u>Importance of the documents and checks to be done.</u>
<u>1.</u>	<u>Annual Report & Director's Report.</u>	<p>The Annual Report prepared by a company inter alia contains the following: 1). Director's Report, (2). Statutory Auditor's Report (3). Balance Sheet and Profit and Loss account (4) . Financial Statements of Subsidiary Companies, if any.</p> <p>1). Director's Report:- Director's report may, inter alia , contain information about:-</p> <p>i). Foreign Exchange earned during the year, ii). Foreign Exchange paid during year , e.g. may be on account of taxable services provided by the Registered person / Taxpayer where he is liable to pay GST under RCM, iii). Information on the operations carried out by the Registered person/Taxpayer during the year under report. This may help in finding the exact nature of services provided by the Registered person /Taxpayer, iv). The facts stated in Director's Report Should be reconciled with the GST Returns.</p> <p>2.Auditor's Report: It is the most important report contained in the Annual Accounts of a Company. The statutory auditor certifies as to whether the books of accounts of the company are properly maintained or not and also whether internal control mechanism is commensurate with the size of and extent of business of the company. Any adverse noting of the Statutory Auditor has to be replied by the management of the Company.</p> <p>Nature of Verification: (a). The Auditor's Report should be studied to find out any qualified /adverse opinion given by the auditor's which may have impact on GST liability.</p> <p>(b). CARO Report may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of capital goods was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged capital goods or not,</p> <p>(c) . CARO Report also shows disputed tax liabilities separately for Customs and income Tax, Cases booked under Income Tax Act may be examined to find out any implication on the GST.</p> <p>(d). In the case of Public Sector unit. C&AG report and comment of te company available in the Annual Report should be examined.</p>

2.

Profit & Loss Account.

Nature of Account: The profit and Loss Account shows major items of expenditure and income . This is one of the important documents used during desk review to find out the overall working of the unit. In the main body of the Profit & Loss Account, only 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. The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations.

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

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

- a. Reverse charge mechanism:- Under this mechanism, the recipient of services is liable to pay GST (e.g. GTA services, services received from abroad, Services notified under Section 9(3) of & 9(4) of CGST/SGST/Acts,2017. Therefore, nothing appears on the credit side of the P&L account . However, GST has to be calculated on the amount paid towards taxable services received.
- b. Reimbursement: -Unless the concept of "Pure Agent" is applicable a stipulated under Rule 33 of CGST.SGST Act,2017, reimbursements are included in the value of Taxable supplies. Reconciliation should cover all receivables including reimbursements, supply of goods etc.,

1.Income Accounts: Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources, According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately,

To begin with, auditors should call for the groupings of business income shown in the Profit & Loss Account. The said grouping would show the different heads under which the incomes have been accounted for. They should carefully study the nature of these services may be determined from the supporting documents such as vouchers, bills or contracts. In doing so, auditors need to be guided by the nomenclature (used for each service) in the Trial Balance or Annexures to the Profit and Loss Account. It is possible that the true nature of the services may be obscured or disguised by using a nomenclature that us either non-taxable or exempted.

	<p>Other incomes like insurance claims receipt, sale of capital goods, commissions received, erection and commissioning income, freight and insurance recovered etc., may be examined in detail to find out the exact nature of such income and whether these are liable for GST and have any bearing on ITC utilisation.</p> <p>(2).Expenses Account:- Scrutiny of expense accounts would enable the Audit to identify major expenditure heads. In specific terms, such, scrutiny may be useful in the following manner:</p> <p>(a). Useful for verification of out-of-pocket expenses where deductions for these have been claimed from the value of taxable supplies,</p> <p>(b). Correlation between expenditure head and value of taxable supplies e.g. fuel expenses and the value of taxable service in the case of tour operators.</p>
3.	Balance Sheet.
	<p><u>Nature of document:</u> Balance sheet is statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined form the study of a Balance Sheet.</p> <p><u>Types of Verification:</u></p> <p>(a) Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company , in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are transactions with the holding /subsidiary company, in that case, the valuation of such supplies needs to be examined in the light of Valuation Rules.</p> <p>(b) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year, For the deductions made during the year, verification may be made as to whether appropriate GST was paid, if the ITC was availed in the past.</p>
4.	Notes to the Accounts:
	<p>These notes are part of the Profit & Loss Account and Balance Sheet. These notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax Auditor as these reveal important transactions or the important accounting policies followed by the unit.</p>

Nature of verification:

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

Scrutiny of Notes will also reveal as to whether there was any change in the system of accounting. For example: a taxable person changes from cash system of accounting to mercantile system. The notes also indicate the impact of accounting Policies on various liabilities including the tax liability of the Taxable Person. Therefore, the auditor must read the notes carefully.

5.	Trial Balance.
	<p><u>Nature of Document:-</u></p> <p>Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by a Taxable Person. The final accounts, namely, Profit & Loss Account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance , similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet.</p> <p>The perusal of the Trial Balance could achieve the following:</p> <ul style="list-style-type: none">a). Familiarization with chart of accounts/ account code and understand as to what extent the information is detailed and integrated with other subsystems, few samples Journal Vouchers may also be seen to understand the information mentioned therein.b). Understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet,c). Identification of accounts, which have a prima facie relevance for GST payment (may be direct or indirect). These accounts may have to be seen in details at later stage of audit depending upon the result of subsequent audit processes.d). Understand the tax accounting system in so far as it pertains to Tax payment and treatment of credit of GST on input services.

	<p>During the study of the Trial Balance Sheet/ Profit and Loss Account all income accounts should be studied in detail. The most important use of Gross Trial Balance is that it contains balances of individual accounts whereas in Balance sheet and Profit and Loss Account many accounts are grouped together, e.g.</p> <p>i). In the Profit & Loss Account all the incomes are clubbed together under the head "Gross Receipts, "Sales" as case may be. However, Trial Balance shows income earned under each category of revenue separately.</p> <p>ii). Not only the Trial Balance is important in relation to income side, but it is very important in relation to expenditure side also. For instance, Payment made towards sponsorship services may be clubbed in the category of Advertisement and Sales Promotion Expenses which can be identified only form the Trial Balance.</p> <p>iii). Similarly, freight paid may be clubbed with Purchases or Fixed Assets.</p>
6	Cost Audit Report.
	<p>Cost Audit Report provides quantitative and financial details regarding related party transaction, valuation of services rendered as per GSTR-9/Periodical return under GST. The auditor may examine the following aspects from the Cost Audit Report.</p>
	S .No. in Annexure to the What is to be seen Cost Audit Report and subject.
	<p>1&3 – Auditors may use this information at time of Desk Review. General information.</p> <p>5 – Royalty & as the information contain in product wise , the auditor may find it Technical Know- useful in determining the tax liability of the Taxable person under how Charges RCM if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to asses the tax compliance on Royalty & Technical Know- How.</p> <p>10 – Related party Auditors may use this information with regard to valuation of transactions, related party transactions.</p>
7.	Scrutiny of the Tax Audit Report.
	<ol style="list-style-type: none"> 1. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act,1961 and that of ITC availed by the service providers on capital goods.. 2. Clause 27(a) of the Tax Audit report gives the details of ITC claimed. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in

	<p>the GST returns with the information provided in terms of this clause.</p> <ol style="list-style-type: none"> 3. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax Audit. The Auditor shall ensure that GST is paid on these amounts in case they are subject to GST. 4. Clause 39 of the Tax audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. 5. Clause 40 of the Tax Audit Report provides the important accounting ratios.
8	Scrutiny of Tax Deducted at Source (Income Tax TDS) Certificates or Form 26AS.
	<p>The total receipts can be verified from TDS certificates in the following manner:-</p> <ol style="list-style-type: none"> a). BY deducting the amount of GST from the value on which tax has been deducted at source, the receipts appearing in the books of accounts can be reconciled. b). The nature of supplies can also be confirmed form these certificated and in case of any discrepancy in the categorization of services under proper head, elaborate checks need to be carried out by the Auditor. c). Details of TDS credit claimed in the Income Tax Return may also be examined.

COMPARATIVE CHART OF TEMS FROM FINANCIAL STATEMENT RETURNS. ANNEXURE-II

Only for those registrants who are required to file Annual return U/s. 44 of the CGST/GST Act,2017. Goods:

S. No.	Item	Registers/Acc accounts maintained U/s.35 of CGST/SGST Act,2017 read with Rule 56 of CGST/SGST Rules,2017 (+)	GSTR-9 (++)	Cost Audit Report (Annual)	I.T.R. Sec.44 AB of I.T.Act,1961	Trial Balance (annual)	Annual report (B.S.P&L a/c.	ITR-6 Annual I (@@)
1	Quantity Manufactured	Production/ Manufacture account.	-	-	28 bB(iii)	-	Schedule to B.S.	Part-A-QD@ (5)
2	Goods cleared							
	a).Quantity	Inward & Outward A/c of goods	17(3)+18(3)	S.No.4(8) of Annexure	28bB(iv)	-	Sch.to B.S	Part A-QD(c)(6)
	b).Value	Do	17(4)+18(4)	S.No.8(1) of Annexure	-	-	Sch.to B.S	-
3	GST Paid	-	9	-	-	-	-	-
	(i).Cash	-	9(3)	-	-	-	-	-
	(ii). ITC	9(4+5+6+7)	-	-	-	-	-	-
	(iii)Credit Ledger	-	-	S.NO.11 of Annexure	22(a)	-	-	-
	(iv).Cash Ledger	-	-	S.No.11 of Annexure	-	-	-	-
	Total GST Paid	-	9(3)+9(4+5+6+7)	-	-	-	-	-
4	Exports (Value & Quantity)	-	4(C+D+E)5 (M)	S.No.4(8) of Annexure	-	-	-	-
	i).Under Bond							
	a).Quantity	-	-	-	-	-	-	-
	b). Value	-	-	-	-	-	Sch.to B.S.(Earning in Foreign Exchange -FOB of Export	-
	On payment							

	of GST							
	i).Quantity	-	-	-	-	-	-	-
	ii).Value	-	4(C+D)	-	-	-	-	-
5	Details of ITC taken and utilized							
	Opening Balance							
	i).ITC Taken	-	6D	-	22(a)	-	-	-
	ii).ITC Utilized	-	9(4+5+6+7)	-	22 (a)	-	-	-
	iii). Payment of duty on Goods	-	-	-	-	-	-	-
	iv).Payment of duty on Services	-	-	-	-	-	-	-
	v).Removal of Inputs & Capital Goods as such	-	-	-	-	-	-	-
6	Consumption of major Raw Material in Manufacture							
	i).Quantity				28(b)(A)(iii)	-	Sch to B.S	Part A-QD(b)(4)
	ii). Value	-	-	-	-	-	Sch.to P&LA/c. and B.S.	-
7	Sale of Waste & Scrap							
	i). Quantity	-	-	-	-	-	-	-
	ii). Value	-	-	-	28(b)(A) VIII 28(b)(B) VI	Under head ""Other Income	-	-
8	Power & Fuel	-	-	-	-	Under Head of Expenditure, Power & Fuel	Annexure to Director's Report Sch.to P&L A/c	-
9	Written off stocks	Accounts of Stock of Goods	-	-	28(b)(A) VIII 28(b)(B) VI	Expense s for Written off	Obsolete	-

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

#-Specified assesses among the notified industries under Cost Accounting Record Rules, Under Sec.233B of Companies Act,1956,

##- Units whose turnover is more than Rs.40 Lakhs , return under Sec.44AB of Income Tax Act,1961

@-Under Section 211 of the Companies Act,1956,

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

@@@- Unit's manufacturing Bulk Drugs & Formulations under Drugs (Prices Control) Order,2013,

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

(++) – Annual Return to be filed the Registered Person, under Rule 80 of CGST/SGST Rules,2017 other than an Input Service Distributor, other than an ISD, a person paying tax as TDS/TCS, a Casual taxable person and a non-resident taxable person,

NOTE: Wherever it is possible , the data may be download from GSTIN Portal.

ACKNOWLEDGMENT:

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THANK YOU.