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# **PRACTICAL ASPECTS OF GST ANNUAL RETURN & AUDIT**

**AIFTP CENTRAL ZONE**

**18.08.2020**

**CA S.Venkataramani**

## SOME ASPECTS IMPACTING OBSERVATIONS / QUALIFICATIONS / DISCLOSURES / REMARKS / NOTES / RECOMMENDATIONS / MANAGEMENT CERTIFICATES

- Basis of information not in alignment viz., accrual Vs Cash Vs Hybrid Vs Matching
- Expansion of GST into newer areas;
- Turnover validation;
- Turnover responsibility – dealt with separately;
- Turnover inclusion;
- Turnover expansion;
- Turnover reversal;
- Turnover doubling;
- Double benefits
- Some issues :-
  - GST not paid on royalty – whether quid pro quo is seen;
  - Entity donates assets – what to do;
  - Credits on CSR initiatives - ???
- Connecting statements - Importance of notes to accounts and cash flow statements;
- Objectives of annual returns
- Audit objectives
- Credit – right or benefit
- Credit eligibility
- Credit ineligibility
- Provisional credit
- Year of Credit
- Credit correction



**GSTR 9**

# OUTWARD SUPPLIES

- Some Outward supplies of December 2017 disclosed in Form GSTR 3B 2018-19. 2017-18 TO which was disclosed in Form GSTR 3B of 2018-19 is disclosed in Form GSTR 9 of 2017-18
- In above situation in 2018-19 Form GSTR 9 TO of December 2017 disclosed in Form GSTR 3B 2018-19 should be excluded
- Form GSTR 9 does not provide any disclosure for such adjustment. Appropriate workings to be kept to reply to any questions which the revenue will raise subsequently
- At present the annual return Form GSTR 9 in Part V provides table 10 to 12 provides to show adjustment for 2018-19 shown in 3B of 2019-20 but no table is provided to show adjustments made in Form GSTR 3B of 2018-19 for supplies made 2017-18
- In order to arrive at total turnover of 2018-19, Form No.9 must contain a separate table to show adjustment of OUTWARD Tax made in Form GSTR 3B of 2018-19

# INWARD SUPPLIES

SCENARIO				Impact in GST audit of 2018-19
Scenario head	Treatment in 2017-18 (July 2017 to March 2018)	Treatment in FY 2018-19	Treatment in FY 2019-20	
<u>ITC Availment (other than RCM and imports)</u>  ITC availed pertaining to July 2017 to March 2018 (2017-18) claimed during the tax period April 2018 to March 2019 (2018-19)	DISCLOSED/NOT DISCLOSED IN TABLE NO.13 of Form GSTR-9 of 2017-18	Availed in Form GSTR-3B	NA	Ensure that such ITC forms part of: <ul style="list-style-type: none"> <li>Table no.6A of Form GSTR-9 of 2018-19 i.e., 'Input tax credit availed in Form GSTR-3B' (auto populated) and then forming part of subsequent disclosure on classification of ITC i.e., Table no.6B/6C/6D/6G (as the case may be) of the said Form GSTR-9.</li> <li>Table no.8B of Form GSTR-9 of 2018-19 (if it is part of Table no. 6B of the said form))</li> <li>Table no.12A of Form GSTR-9C of 2018-19 if claimed in books in 2018-19. If already claimed in books in 2017-18 but claimed in GSTR 3B in 2018-19 it will not form part of Table 12 A of Form GSTR 9C</li> <li>Note to be given in Annexure I stating that 8A may contain credit of 2017-18 and there is no column in Table 8 to disclose 2017-18 ITC claimed in 2018-19</li> </ul> <p>Note: Assuming the credits pass eligibility test</p>

# INWARD SUPPLIES

SCENARIO				Impact in GST audit of 2018-19
Scenario head	Treatment in 2017-18 (July 2017 to March 2018)	Treatment in FY 2018-19	Treatment in FY 2019-20	
<u>ITC Availment (other than RCM and imports)</u>  ITC availed pertaining to July 2017 to March 2018 (2017-18) claimed during the tax period April 2019 to March 2020 (2019-20)- Beyond the time limit	NA	NA	Availed in Form GSTR-3B  AND  Reversed in Form GSTR-3B  <u>OR</u>  Not reversed in Form GSTR-3B	<p><u>The ITC for 2017-18 has been availed beyond the time limit of March 2019 thus being ineligible</u></p> <p>Two scenarios can be possible:</p> <ul style="list-style-type: none"> <li>➤ <u>If the same has been reversed in Form GSTR-3B of 2019-20 (on subsequent identification by client):</u> No impact needs to be given in GSTR-9C of 2018-19</li> <li>➤ <u>If the same has not been reversed in Form GSTR-3B of 2019-20:</u> No impact needs to be given in GSTR-9C of 2018-19</li> </ul>

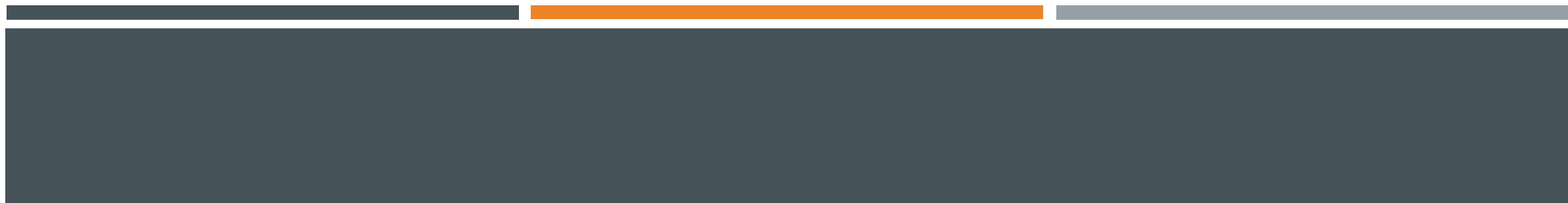
# INWARD SUPPLIES

SCENARIO				Impact in GST audit of 2018-19
Scenario head	Treatment in 2017-18 (July 2017 to March 2018)	Treatment in FY 2018-19	Treatment in FY 2019-20	
<b><u>ITC Reversal (Scenario A)</u></b> <i>ITC pertaining to July 2017 to March 2018 (2017-18) availed during the tax period April 2018 to March 2019 (2018-19) reversed later.</i>	DISCLOSED/NOT DISCLOSED IN TABLE NO.13 of Form GSTR-9 of 2017-18 <i>(for availment of credits in subsequent tax periods from April 2018 to March 2019)</i>	Availed in Form GSTR-3B	Reversed in Form GSTR-3B	<b><u>Availment</u></b> <b>Ensure that such ITC availment forms part of:</b> <ul style="list-style-type: none"> <li>Table no.6A of Form GSTR-9 of 2018-19 <i>i.e., 'Input tax credit availed in Form GSTR-3B'</i> (auto populated) and which is forming part of subsequent disclosure on classification of ITC i.e., Table no.6B/6C/6D/6G (as the case may be) of the said Form GSTR-9</li> <li>Table no.8B of Form GSTR-9 of 2018-19 <i>if it is part of Table no. 6B of the said form, otherwise in the relevant classification of table no.8 which is self-explanatory)</i></li> <li>Table no.12A of Form GSTR-9C of 2018-19</li> </ul> <b><u>Reversal in 2019-20</u></b> <b><u>Table no.14 – To be shown as unreconciled difference with a note that the credits have been reversed in 2019-20</u></b> (To be mentioned in observation in GSTR 9C)

# INWARD SUPPLIES

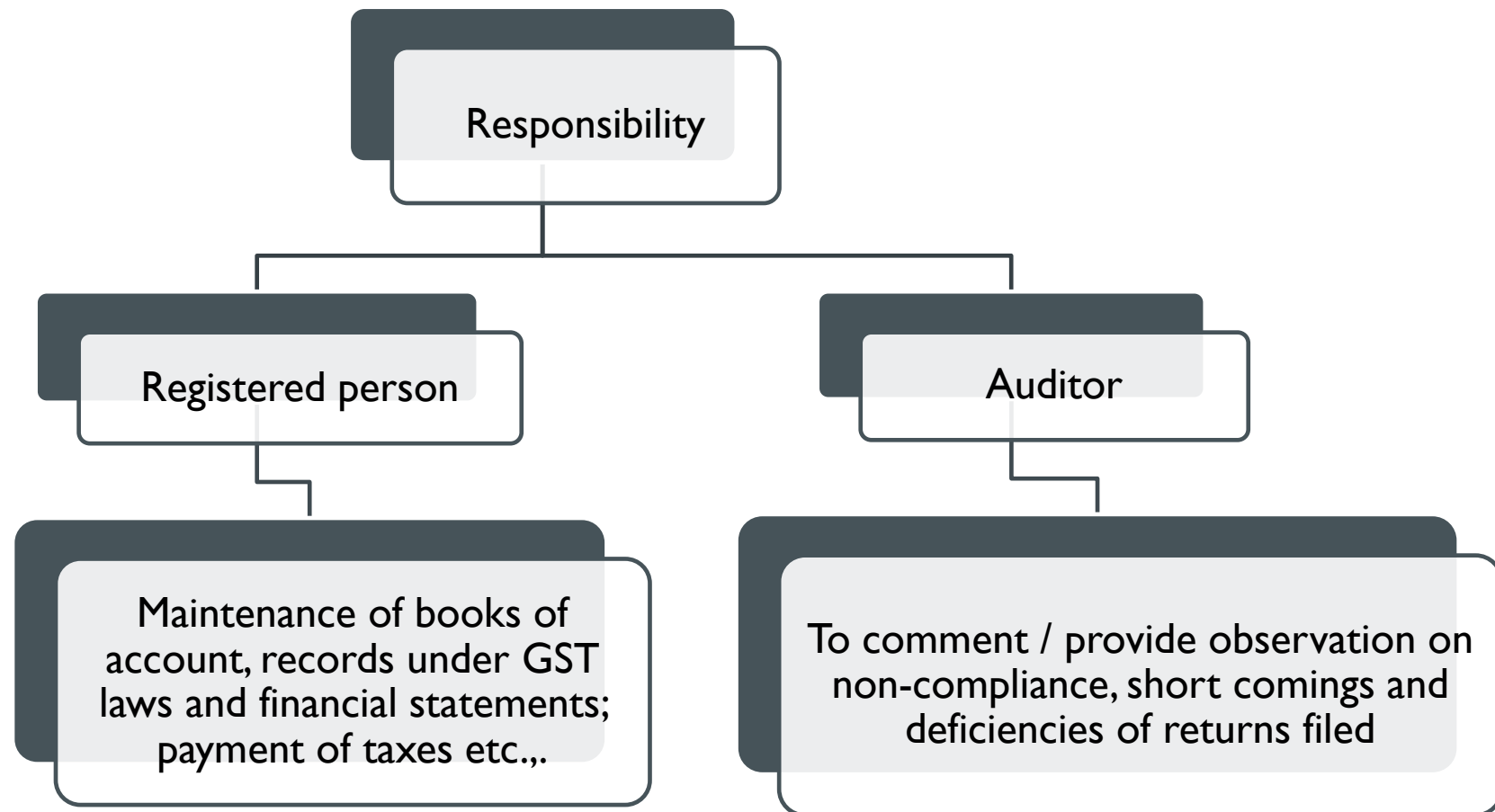
SCENARIO				Impact in GST audit of 2018-19
Scenario head	Treatment in 2017-18 (July 2017 to March 2018)	Treatment in FY 2018-19	Treatment in FY 2019-20	
<b>ITC Reversal (Scenario B)</b> <i>ITC availed pertaining to July 2017 to March 2018 (2017-18) reversed during the tax period April 2018 to March 2019 (2018-19)</i>	<p>DISCLOSED in Table no.6A of GSTR-9 of 2017-18 i.e. 'Input tax credit availed in Form GSTR-3B'</p> <p>DISCLOSED/NOT DISCLOSED IN TABLE NO.12 of Form GSTR-9 of 2017-18 (for reversal of credits in subsequent tax periods from April 2018 to March 2019)</p>	Reversed in Form GSTR-3B	NA	<p>➤ <b><u>In case of reversal, if the amount stated in Table 4D of FORM GSTR-3B (ineligible ITC) of 2018-19</u></b></p> <ul style="list-style-type: none"> <li>Eligible ITC (Net of Ineligible Credits) disclosed in Table No.4A of GSTR-3B will be disclosed as part of Table No.6A of GSTR-9 of 2018-19 i.e., 'Input tax credit availed in Form GSTR-3B' (auto populated) and then forming part of subsequent disclosure on classification of ITC i.e., Table no.6B/6C/6D/6G (as the case may be) of the said Form GSTR-9 Ineligible Credits need not be disclosed as Part Of GSTR-9</li> </ul> <p>➤ <b><u>In case of reversal, if amount mentioned in Table no. 4D of FORM GSTR-3B was also reversed in Table 4B of FORM GSTR-3B of 2018-19</u></b></p> <p>If the same is reversed in GSTR-3B, then the reversal will be shown as part of Table no.7 H (others) of GSTR-9 of 2018-19</p>





**GSTR 9C**

# FORM GSTR 9C



## PRESS RELEASE 03.07.2019 - CBIC

- **Role of chartered accountant or a cost accountant in certifying reconciliation statement**

There are apprehensions that the chartered accountant or cost accountant may go beyond the books of account in their recommendations under FORM GSTR-9C. The GST Act is clear in this regard. With respect to the reconciliation statement, **their role is limited to reconciling the values declared in annual return (FORM GSTR-9) with the audited annual accounts of the taxpayer**

# COMPARISON

## Certification of Form 9C by person who had conducted the audit

Books of accounts, records and documents as required by the IGST/CGST/ <<>> GST Act, 2017 / Rules which are not maintained to be mentioned

Report observations/ comments / discrepancies / inconsistencies; if any

Report information and explanations which, to the best of knowledge and belief, were necessary for the purpose of the audit were not provided/partially provided

Opinion on proper books of account have / have not been kept by the registered person on examination of the books

Certify that the balance sheet, the \*profit and loss/income and expenditure account and the cash flow Statement (if available) are \*in agreement/not in agreement with the books of account maintained

Particulars given in the said Form No.GSTR-9C are true and fair subject to following observations/qualifications

## Certification of Form 9C by person who has not conducted the audit

Books of accounts, records and documents as required by the IGST/CGST/ <<>> GST Act, 2017 / Rules which are not maintained to be mentioned

Particulars given in the said Form No.GSTR-9C are true and fair subject to following observations/qualifications

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If a Chartered Accountant is not satisfied with the maintenance of books and records whether he should:

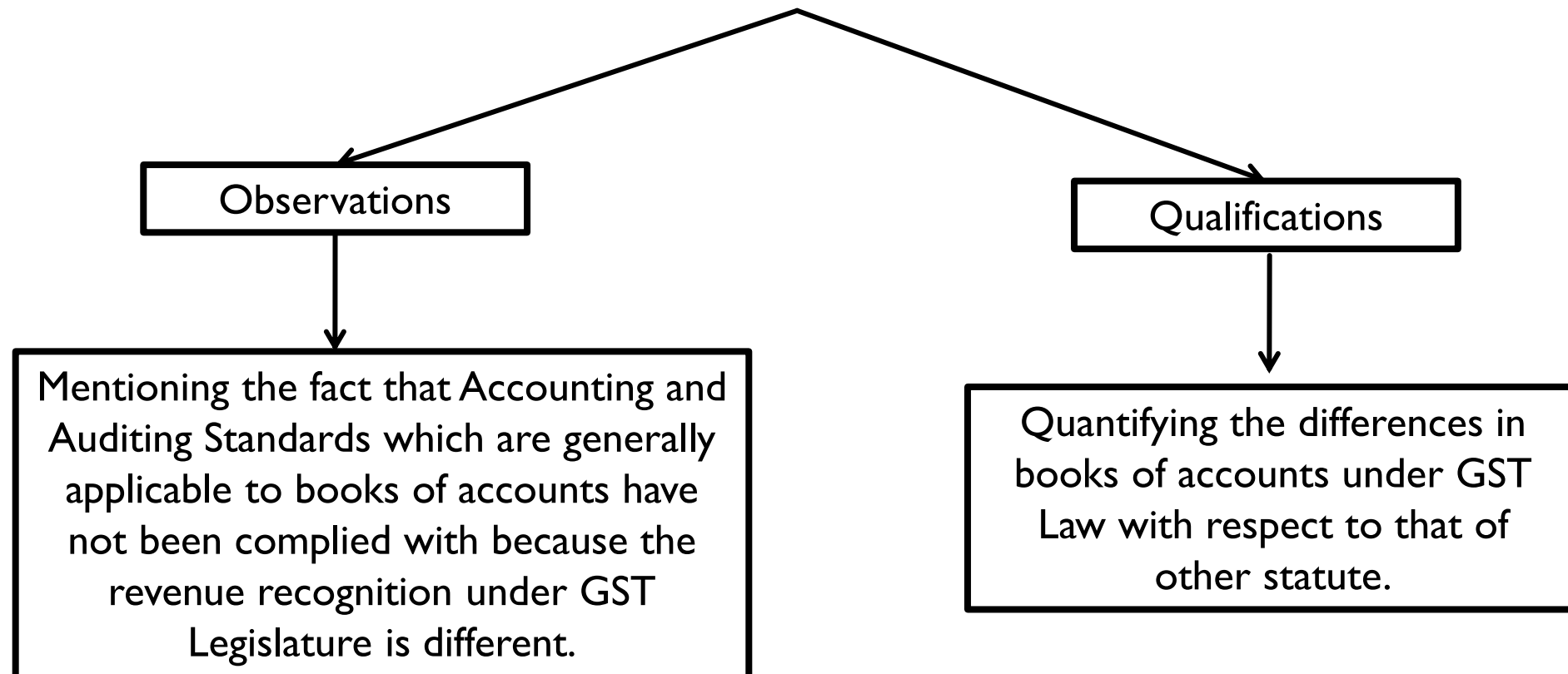
**Make Observations**  
**Make Disclosures**  
**Furnish notes**  
**Furnish Recommendations**

**OR**

**Qualifications**

# WHAT SHOULD THE AUDIT REPORT CONTAIN?

Therefore, the report should contain –



# BASIC UNDERSTANDING

- Understanding of –
  1. Allied Laws – IT Act, 1961, Companies Act, 2013 etc.
  2. Principles of Revenue recognition
  3. Accounting standards
  4. Methodology of preparation of financial statements
  5. Reading and understanding
    - a. Notes
    - b. Disclosures
    - c. Recommendation
    - d. Qualifications
    - e. Observations

# LANGUAGE OF THE REPORT

- Avoid camouflaging the reports.
- The reports should be clear on the facts one intends to state.
- The auditor should consider and go by-
  1. Maximum knowledge he has, of the law.
  2. What the client believes is the law.
  3. Conclusion whether the client's interpretation is correct.



# LANGUAGE OF THE REPORT

- Conflict of opinion with the dealer must be resolved in order to avoid unnecessary litigation.
- However, if conflicts still continue, the opinions must be backed up by giving references of advance rulings, case laws to support the judgment.
- Basic conflict in the language of report under the GST law and any other statute should be resolved to avoid persecution to the dealer.

## Chartered Accountants / Cost Accountants should not take shelter under the following:

- **Management certificates** obtained from the client should not be considered as prima facie evidence.
- Reporting as '**Not possible to verify**' a certain area or item, will not absolve you from your responsibility.
- A requirement or compliance under the GST Law cannot be avoided on a mere reason that the same has not been followed by any other business.

## Chartered Accountants / Cost Accountants should not take shelter under the following:

- **Time constraint** must be considered before going deep into a transaction.
- One **cannot escape from his responsibility of reporting on** –
  1. The books of accounts
  2. Items covered under Section 35 of CGST Act, 2017-
    - (i) Outward supplies
    - (ii) Inward supplies
    - (iii) Output tax
    - (iv) Input tax

# REQUIREMENTS UNDER GST LAW

- Requirements mentioned under **Section 35 read with Rule 56 of CGST Act, 2017** must be complied with.
- **Materiality concept** must be considered while forming an opinion.
- Verify whether the **registration formalities** have been completed and requisites certificates have been obtained.
- **Verification of the products**, the dealer deals in.

# REQUIREMENTS UNDER GST LAW

- Maintain **subsidiary books** reflection all the transactions.
- **Any rulings pending** against the business.
- Excel sheets extrapolated from the books of accounts should not be considered as a part of books of accounts.
- Maintain **stock registers** to keep a track of movement of goods.

# AUDITORS RECOMMENDATIONS

- Auditors recommendations to cover –
  - Discharge of additional tax liability
  - Tax liability on account of non reconciliation of turnovers
  - On account of non-reconciliation of ITC
  - Supplies not included in GSTR-9
  - Settlement of outstanding demands as recommended

# ACCOUNTS / RECORDS

- Outward and Inward supply of goods or services or both.
  - Input tax credit availed.
  - Output tax payable and paid
  - Stock of goods received and supplied – containing opening balance, receipts, supply, goods lost, stolen, written off, disposed by gift, free samples and closing stock
  - Invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers
  - Records of import or export of goods or services
  - Supplies attracting payment of tax on reverse charge along with the relevant documents.
  - Service provider to maintain details of goods used in providing services
  - Details of goods / capital goods sent to job worker and received back
- Manufacturer to maintain account of –

  - ✓ Production showing quantitative details of raw materials used in the manufacture
  - ✓ Quantitative details of the goods so manufactured including the waste and by products thereof.

## ACCOUNT / RECORDS

- Account of advances received, paid and adjustments made thereto.
- Details of tax payable, tax collected and paid, input tax, input tax credit claimed
- Register of tax invoice, credit note, debit note and delivery challan
- Particulars of -
  - (a) names and complete addresses of suppliers from whom he has **received the goods or services** chargeable to tax,
  - (b) names and complete addresses of the persons to whom he has **supplied goods or services**,
  - (c) the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein.



# OUTWARD SUPPLIES

- Outward supply registers to be verified with details GSTN wise TB, GSTR 3B, GSTR 9, e-way bills
- Reconciliation between GSTR 1, GSTR 3B, GSTR 9 and F/S (P&L and BS)
- Check if there is jump in invoice series
- Verify contents of tax invoice issued – Rule 46 of CGST Rules
- Cut off procedures for year end – goods dispatched but not delivered, goods made available but possession not taken
  - Time of supply under GST and revenue recognition policy
- Supplies made in lots / instalment
- Export / Supplies to SEZ without payment of integrated tax - LUT / Endorsement on tax invoice
- Advances received for services

# SPECIFIC DETAILS TO BE MAINTAINED BY A WORKS CONTRACTOR

Separate accounts of works contract

- The names and addresses of the persons on whose behalf the works contract is executed;
- Description, value and quantity (wherever applicable) of goods or services **received** for the execution of works contract;
- Description, value and quantity (wherever applicable) of goods or services **utilized** in the execution of works contract;
- The details of payment received in respect of **each** works contract; and
- The names and addresses of suppliers from whom he received goods or services.

# OUTWARD SUPPLIES

- Transfer of goods from one State to another State - it is a supply. This does not form part of F/S how to verify this
  - what is the implication if capital goods are transferred?
  - stationeries are purchased in bulk at head office and transferred to branches located in another State. How to verify ?

Laptops are carried by employees from branch to another branch –

- for temporary purpose say for a project in another State and returns back after project is it supply? How will one verify this?
- Employee is transferred – is it a supply? How to verify this?
- Goods sent for job work – inputs / capital goods
- CGST / SGST wrongly disclosed as IGST in GSTR 3B and return filed.
- 5D Deemed supply under Schedule I ***without consideration***
  - Permanent transfer or disposal of business assets where input tax credit has been availed on such assets
  - Supply between related persons or between distinct persons (branches)

# CREDIT NOTES

1. A register of credit notes issued against invoices raised
2. Check the conditions whether conditions for issue of credit notes is fulfilled
3. The Credit notes should be bifurcated into Credit notes having GST impact and credit notes issued without GST impact.
4. The GST credit notes should be linked to the original invoice.
5. Credit notes issued only till September 2019 is to be considered for the purpose of GSTR 9C.
6. Credit note issued for discounts post supply
  - a. Supporting agreements to establish the same and links to invoices for which discount is given
  - b. Confirmation from the recipient that ITC has been reversed by the recipient

## TABLE 5A – TURNOVER AS PER AUDITED F/S - ANALYSIS

- ❑ Turnover for each GSTIN should be derived internally in case of multiple GSTINs (State-wise) registration
- ❑ Turnover as per audited Annual Financial Statements *only* to be declared
- ❑ Should not include “Deemed supplies under Schedule I” as Sl. No. 5D separately covers this provision.
- ❑ Care to be taken to include other indirect income like interest, miscellaneous income.
- ❑ Trial Balance of each State / GSTIN will be a good source
- ❑ GSTN wise invoice series details
  - ❑ check various series maintained,
  - ❑ check if there is jump in serial number of invoice



## TABLE 5A – TURNOVER AS PER AUDITED F/S - CHECK POINTS

### Check Points:

- ❑ Ensure that **turnover declared for different registrations** under same PAN (across India) matches with the total turnover of the entity – different auditors may be involved
- ❑ If the **financial statements are not required to be audited** under any other law, then the auditor must engage himself based on financial statements provided and make suitable disclosure
- ❑ Turnover declared in the GST returns may have to be reconciled with the turnover declared in the Income Tax return as a precaution.

## TABLE 5B & 5H– UNBILLED REVENUE

- **5B Unbilled revenue at the beginning of FY (Add)** which was recorded in the books of accounts on the basis of accrual system of accounting in the last financial year and GST was payable in the current financial year to be declared in Table 5B.

Unbilled revenue – some cost is incurred but mile stone for raising invoice is not reached

Eg. If Rs. 10 crores of unbilled revenue existed for the previous year and during the current financial year GST was paid / payable on Rs. 4 crores, than value of Rs. 4 crores shall be declared here.

- **5H Unbilled revenue at the end of Financial Year (deduct)** - Those on which GST is not payable to be recorded in Table 5H

### **Check Points:**

- Adequate attention to “Notes to Accounts” and “Significant Accounting policies” where entity needs to adhere to audit provisions under allied laws.
- 5B – Financial statement of 2017-18
- 5H - Financial statement of 2018-19

## TABLE 5C & 5I ADVANCES RECEIVED

- **5 C Unadjusted advances at the end of the Financial Year** (Add)- Advances received during the financial year on which GST has been paid but the same is not recognized as revenue in the financial statements to be declared in Table 5C and vice-versa in Table 5I.
- Analysis of Time of Supply of goods and services becomes crucial
- **Supply of goods:** Taxation on advances received by all registered persons relaxed w.e.f. 15.11.2017 only (Notification No. 66/2017-CT dated 15<sup>th</sup> Nov 2017).
- **Supply of services:** Advances are taxable even when received before supply.
- **5 I - Unadjusted Advances at the beginning of the FY** for which invoices have not been issued to be reduced
- Check if receipt voucher is issued / maintained for advances received for services – Section 31(3)(d) / Rule 50
- Link of advances and tax invoice issued subsequently to ensure taxes are remitted twice in Form GSTR 3B



# DEEMED SUPPLIES

- 5D Deemed supply under Schedule I ***without consideration***
  - Permanent transfer or disposal of business assets where input tax credit has been availed on such assets
  - Supply between related persons or between distinct persons (branches)
- Disposal of asset - Board resolution or appropriate authority for disposal of asset, FAR entries
- Stock transfer – delivery challan, tax invoices, e-way bills, e-way bill register
- Activities which qualify as supply even without consideration as specified under Schedule I shall be declared here
- However, those forming part of turnover in financial statements need not be declared here.
- The related party transactions annexed in the notes to accounts have to be critically examined. Verify TP report for services provided by/to associated enterprise without consideration
- Staff welfare expenses and incentive provided to employees reported under the financial statements have to be critically examined

# OTHER ADJUSTMENTS

## 5 O Adjustments in turnover due to reasons not listed

- ❑ Following **head of adjustments can be considered** under Table 5O.
  - turnover considered as 'supply' under GST but not considered as income in the audited Annual Financial Statements
  - turnover discovered as 'supply' during the course of audit, but not considered in the books of account and Form GSTR 9
- ❑ Illustration – Notice pay recovery, Inward supply returns inadvertently considered as Outward supply, Outward supply inadvertently considered as Inward supply, cash accounting system by partnership firms
- ❑ Adjustments should not be made under Table 5O merely to bring Table 5R to '**Nil**'.
- ❑ NIL rated supplies, Non-GST supply, exempt supply and Zero rated supplies without payment of tax ***should not*** be reduced as an **adjustment under Table 5O**

# RCM

- RCM does not form part of outward supplies
- Verify expenses for RCM applicability viz GTA, sponsorship, Legal services from advocate, Director services, security service
- Import of services – verify payments made in FOREX
- Self invoices for RCM on domestic services received and payment voucher for domestic / import service

# ITC VERIFICATION

- Detailed examination of purchase register and Input GST ledgers must be carried out GSTIN wise
- Reconciliation between GSTR 3B, GSTR 2A, GSTR 9 and F/S (P&L and BS)
- Cases where consideration is not paid within 180 days from the date of invoice have to be verified. What happens when goods are received late due to floods etc. date should from receipt of goods or date of invoice?
- For goods check GRN, delivery challan for receipt of goods . Cut off procedure for March 31 transactions to be done
- Goods received on lots / instalments – ITC to be claimed on last receipt of last lot

## ITC VERIFICATION

- Obtain reconciliation of ITC claimed in GSTR 3B with GSTR 2A report. – check the credit pertains to the registered persons - say If a supplier in GSTR 1 wrongly uploads goods supplied to another RP but uploads GSTN of some the person under audit
- ITC of capital goods – to check depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961 has not been claimed

# ITC VERIFICATION

- Verify vendor wise invoices to check the contents of tax invoice
- ISD invoices where credit is distributed
- Check eligibility of ITC credits claimed viz. any blocked credits have been availed.
- Verify credits are claimed correctly i.e.. CGST / SGST is not claimed as IGST or vice versa
- Check application of Rule 42 / 43 for reversal of credits
- Check reversal of ITC – inward supply returns
- Check reversal of ITC – credit notes received for discounts given by the supplier

# OTHERS

- Analytical review procedures
  - Ratio analysis
  - Comparison with previous period F/S, reports, 9 , 9C
- Sampling
- Documentation
- Opinion of experts, if any, obtained by the entity
- Management representation
- Erroneous refund repayment if any – check refund received provisionally and final refund order
- Obtain copies of notices issued by tax office, reply filed and order
- Check if any appeal has been filed and status of the same

## SOME ISSUES

- Whether additional liability determined is binding on the assessee eg. HSN based classification issues; time of supply and place of supply issues, eligibility of credits
- What is the scope / limitations of auditors recommendations?
- What would be the impact if there is a disagreement between auditor and registered person in respect of rate of tax?
- What is the mechanism of payment of additional tax based in auditors recommendation?
- What will be the position if during the course of an audit, an auditor realizes that there are unavailed credits as well as payment of tax? What is the treatment?
- What would be the position if 2 different auditors have different opinions in case of multi location / multi GSTIN entities?



# INWARD SUPPLIES

## Teething issues

- In part V, table 12 and 13 Form GSTR 9 provides adjustments of ITC of subsequent year. Similar table be provided for adjustments of ITC of the year 2017-18 shown in 3B of the year 2018-19 which is currently not there.
- In table 8 for 2A reconciliation, a separate table may be provided to show adjustment of ITC claimed for 2017-18 shown in 3B of 2018-19, to arrive the total amount of ITC for the year 2018-19 claimed in 3B of 2018-19



# THANK YOU

**CA S.Venkataramani**