

Chapter 15 "Audit under Fiscal Laws" (Chart 1 – Audit under Income-tax Act, 1961)

Audit u/s 12A (Audit of Public Trust)

Audit u/s 44AB

1	Requirement of Audit u/s 12A	
	If the total income of a trust without giving effect the exemptions u/ss 11 & 12 exceeds the maximum exempted amount, the accounts of the trust for that year need to be audited by an accountant.	
2	Audit Programme	
Preliminary	Obtain the following from the trust: <ul style="list-style-type: none"> • Copy of resolution specifying the appointment so as to determine the scope of audit. • List of accounting records maintained by the trust. • Certified true copy of trust deed. • Trial Balance as at end of accounting period. • Balance Sheet and P & L account of the trust, authenticated by the trustee. 	
Compliance and Substantive testing	(i) Examine the system of accounting and internal control. (ii) Vouch the transactions of the trust so as to ensure the following: <ul style="list-style-type: none"> (a) transaction falls within the ambit; (b) transaction is properly authorized; (c) Proper accounting of all incomes and expenses; (d) Amount applied are covered within the objects of trust. (iii) Check whether the financial statements agree with the trial balance.	
Issuing Audit Report	<ul style="list-style-type: none"> • Audit Report shall be furnished in Form No. 10B. • Annexure to Form 10B requires certain information to be provided by the auditor, which need to be obtained from the trustees. 	

- (a) Assessee carrying on business where total sales or turnover or gross receipts exceeds ₹100 lakhs in any PY; or
 - (b) Assessee carrying on profession where gross receipts exceed ₹ 50 Lakhs in any PY; or
 - (c) Assessee carrying on the business referred to under section 44AE/44BB/44BBB and declaring lower income than prescribed under those sections in any PY; or
 - (d) Assessee carrying on profession covered u/s 44ADA and declaring lower income than deemed u/s 44ADA and his income exceeds the maximum exempted amount.
 - (e) Assessee carrying on the business covered u/s 44AD and shall not be eligible to claim the benefit of provisions of Sec. 44AD due to applicability of provisions of Sec. 44AD(4) and his income exceeds the maximum exempted amount.
- (i) Discount allowed in the sales invoice to be deducted from the turnover.
 - (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and should not be deducted from the figure of turnover.
 - (iii) Turnover discount is in the nature of trade discount and should be deducted from the turnover.
 - (iv) Special rebate allowed to a customer need to be deducted from the sales if it is in the nature of trade discount.
 - (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
 - (vi) Sale proceeds of fixed assets would not form part of turnover.
 - (vii) Sale proceeds of property held as investment property will not form part of turnover.
 - (viii) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

Chapter 15 "Audit under Fiscal Laws" (Chart 2 – Tax Auditor and Sec. 145)

Auditor

- The audit shall be conducted by an accountant as explained u/s 288.
- If accounts are audited under any other law, it shall be sufficient compliance, if the accounts get audited under such other law before the specified date and furnishes by that date, the report of the audit as required under such other law and a further report by an Accountant in the Form prescribed u/s 44AB.
- In the case of assessee like co-operative society where the accounts are allowed to be audited by a person other than a C.A., the statutory auditor need not be a C.A. However, tax audit can be carried out by an "Accountant" only.

Forms of Audit Report

- Form 3CA and Form 3CD for person carrying on Business or profession who is required under any other law to get his accounts audited; and
 - Form 3CB and Form 3CD* for others.
- * **cover details from main book**

Methods of Accounting and Accounting Standards (Sec. 145)

Sec. 145 (1)	Income chargeable under the head 'PGBP or 'Other sources' shall, be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee.																				
Sec. 145 (2)	The C.G. may notify in the Official Gazette from time to time Income Computation and Disclosure Standards to be followed by any class of assessee or in respect of any class of income.																				
Sec. 145(3)	Where the A.O. is not satisfied about the correctness or completeness of the accounts of the assessee, or where method of accounting provided u/s 145(1) has not been regularly followed by the assessee or income has not been computed in accordance with the Standards notified u/s 145(2), the A.O. may make an assessment in a manner provided in Sec. 144 of Income-tax Act.																				
ICDS notified by Central Government	<p>The C.G. has prescribed the following Income Computation and Disclosure Standard:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center;">I</td><td>Accounting Policies</td></tr> <tr><td style="text-align: center;">II</td><td>Valuation of Inventories</td></tr> <tr><td style="text-align: center;">III</td><td>Construction Contracts</td></tr> <tr><td style="text-align: center;">IV</td><td>Revenue Recognition</td></tr> <tr><td style="text-align: center;">V</td><td>Tangible Fixed Assets</td></tr> <tr><td style="text-align: center;">VI</td><td>Effects of Changes in Foreign Exchange Rates</td></tr> <tr><td style="text-align: center;">VII</td><td>Government Grants</td></tr> <tr><td style="text-align: center;">VIII</td><td>Securities</td></tr> <tr><td style="text-align: center;">IX</td><td>Borrowing Costs</td></tr> <tr><td style="text-align: center;">X</td><td>Provisions, Contingent Liabilities and Contingent Assets</td></tr> </table> <p>The above Standards are to be followed by all assessee following mercantile system of accounting for computation of income under the head "PGBP" and "Other Sources". Therefore, it is clear that those assesseees who are following cash system of accounting need not follow the ICDSs notified above.</p>	I	Accounting Policies	II	Valuation of Inventories	III	Construction Contracts	IV	Revenue Recognition	V	Tangible Fixed Assets	VI	Effects of Changes in Foreign Exchange Rates	VII	Government Grants	VIII	Securities	IX	Borrowing Costs	X	Provisions, Contingent Liabilities and Contingent Assets
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Chapter 15 "Audit under Fiscal Laws" (Chart 3 – GST Audit)

Definition of Audit – Sec. 2(13) of CGST Act, 2017

Audit means the examination of **records, returns and other documents** maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of

- turnover declared,
- taxes paid,
- refund claimed and input tax credit availed, and
- to assess his compliance with the provisions of this Act or the rules made thereunder.

Types of GST Audit

Audit Based on Turnover – Sec. 35(5) of CGST Act, 2017

Every registered person whose turnover during a financial year exceeds the prescribed limit shall get his accounts audited by a Chartered Accountant or a Cost Accountant and shall submit

- a copy of the audited annual accounts,
- the reconciliation statement u/s 44(2) and
- such other documents in such form and manner as may be prescribed.

- Rule 80(3) of CGST Rules, 2017: Every registered person whose aggregate turnover during a financial year exceeds ₹ 2 Cr. shall get his accounts audited and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C.
- Sec. 44(2) - Every registered person who is required to get his accounts audited u/s 35(5) shall furnish, electronically, the annual return along with a copy of the audited annual accounts & a reconciliation statement, reconciling the value of supplies declared in the return furnished for the financial year with the audited annual F.S., and such other particulars as may be prescribed.

Audit by Tax Authorities – Sec. 65

The Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed.

Special Audit – Sec. 66

1 Directions for Special Audit

If at any stage of scrutiny, inquiry or any other proceedings, any officer not below rank of Assistant Commissioner, having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal limits, he may, with the prior approval of the Commissioner, direct (in Form GST ADT-03) such registered person by a communication in writing to get his records including books of account examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.

2 Time Limit for Completion of Audit

Audit shall be completed with the period of 90 days and audit report shall be submitted, duly signed and certified, to the Assistant Commissioner.

3 Extension of Time Limit

Assistant Commissioner may,

- on an application made to him in this behalf by the registered person or the chartered accountant or cost accountant

or

- for any material and sufficient reason, extend the said period by a further period of 90 days

4 Audit Expenses and Remuneration

Expenses of examination and audit, including the remuneration, shall be determined and paid by the Commissioner and such determination shall be final.

Practices to be adopted for GST Audit

Auditor should evaluate internal control so as to identify the areas to be focused. For this purpose, following practices may be adopted:

- (1) Auditor may verify the following:
 - (a) Statutory Audit report which has specific disclosure w.r.t. to maintenance of record, stock and fixed assets.
 - (b) Information System Audit report and the Internal Audit Report.
- (2) Internal Control questionnaire may be designed for GST compliance.
- (3) Generalised audit software may be used for GST audit which would ensure adoption of modern practice of risk based audit.
- (4) Reconciliation of the books of account or reports from the ERP's to the return is also useful.
- (5) Trial balance should be reviewed for detecting any set off of expenses against incomes.
- (6) Purchases/expenses are to be reviewed to examine applicability of reverse charge applicable to goods/services.
- (7) Reconciliation of foreign exchange outgo would also be necessary to identify the liability of import of services.
- (8) Ratio analysis may also provide important information on areas of non-compliance.

Chapter 15 "Audit under Fiscal Laws" (Chart 4 – GST Audit)

GST Audit - Planning, Programming and Execution

1	<p>Preparation for GST Audit</p> <p>Steps auditor can take in connection with the GST audit may be listed as below:</p> <ol style="list-style-type: none"> 1. Applicability of the GST audit to be informed to the concerned assessee. 2. Confirm the eligibility to be the GST auditor under the related legislation. 3. Understand the nature of business, the products or services, requirements of records to be maintained, and advise the client to maintain accounts & records so required. 4. Prepare a questionnaire to understand the operations/activities of the auditee. 5. Preparation of the detailed audit program and list of records to be verified. 6. Host of relevant reconciliations.
2	<p>Audit approach under GST Audit</p> <p>No specified approach is required for conducting GST audit. Audit may be conducted on the basis of approach followed in Tax Audit u/s 44AB of the Income-tax Act and audit under the Companies Act, 2013. GST Auditor is not required to express his opinion on true and fair view of the financials when it is audited by others. In any case, he is required to certify the correctness and completeness of certain reconciled data.</p> <ol style="list-style-type: none"> 1. Various methods that can be followed are listed below: 2. Obtaining knowledge of business & comparing them with similar businesses; 3. Preparing a master file of the clients (permanent master file); 4. Discussing on with the audit team on the methodology to proceed with the audit; 5. Studying and evaluating systems (including business systems) and internal control of the business entity; 6. Assessing the audit risks and deploying of suitable personnel; 7. Assessing the risk appetite of the business entity; 8. Preparing of an audit plan/audit program and conducting the audit accordingly; 9. Reviewing meetings with the audit team; 10. Drawing conclusions on the basis of audit evidence; 11. Obtaining various management certificates; 12. Reporting the observations in the prescribed statutory format, if any, or evolving a suitable format of reporting; 13. Maintaining Audit working papers file (Filing of documents either in permanent file or working papers file); 14. Concluding the audit and intimating the management.

3	<p>GST Audit in Computerised Environment</p> <ul style="list-style-type: none"> • Compliances under the GST law are dependent upon technology because of large numbers of transactions. In the GST regime, Information Systems have become an integral part of a business entity day-to-day operation, such as return filing, payment of taxes, rectification of returns filed, reconciliation of multiple returns GSTR 1, GSTR 2A, GSTR 3B, e-Way Bill, GSTR 9 etc. • The primary responsibility of the GST Auditor is to assess the entire CIS environment and get macro perspective of data availability and systems reliability. • GST audit processes for big size entities is carried out by using Computer Systems and Technology. For example, verification for the matching of Input Tax Credit availed with the Outward Supply declared by the supplier being large in numbers, cannot be done manually. Hence different computerized tools and methods have to be used for the purpose. • So, it may be concluded that computerized tools and methods have to be used for conducting the GST audit. At the same time, it is important that the GST auditor is aware of CIS Environment, and the audit risks involved therein.
4	<p>Audit Planning</p> <p>The auditors should obtain an understanding of the organization processes w.r.t.:</p> <ol style="list-style-type: none"> (i) accounting of Transactions (ii) reporting to the GSTN Portal (iii) reconciliation of filed data and (iv) internal control systems implemented <p>In planning the portions of the audit which may be affected by the client's CIS environment, the auditors should obtain an understanding of the significance and complexity of the CIS activities and the availability of data for use in the audit. Before starting his work, the GST Auditor shall conduct a preliminary review to assess the CIS controls and the risks that could impact his work by considering the following points:</p> <ol style="list-style-type: none"> (i) Knowledge of the Business (ii) Understanding the technology deployed (iii) Understanding Internal Control System (iv) Risk assessment and Materiality

Chapter 15 "Audit under Fiscal Laws" (Chart 5 – GST Audit)

Returns under GST Audit

1	Types of returns
GSTR 9	GSTR 9 should be filed by the regular taxpayers filing GSTR 1, GSTR 2, GSTR 3.
GSTR 9A	GSTR 9A should be filed by the persons registered under composition scheme under GST.
GSTR 9B	GSTR 9B should be filed by the e-commerce operators who have filed GSTR 8 during the financial year.
GSTR 9C	Should be filed by the taxpayers whose annual turnover exceed ₹ 2 Crores during the financial year. All such taxpayers are also required to get their accounts audited and file a copy of audited annual accounts and reconciliation statement of tax already paid and tax payable as per audited accounts alongwith GSTR 9C.
2	GSTR 9
	GSTR 9 form is an annual return to be filed once in a year by the registered taxpayers under GST. It consists of details regarding the supplies made and received during the year under different tax heads i.e. CGST, SGST and IGST. It consolidates the information furnished in the monthly or quarterly returns during the year.
3	GSTR 9C*
	<p>GSTR-9C is a statement of reconciliation between:</p> <ul style="list-style-type: none"> the Annual returns in GSTR-9 filed for an FY, first being 2017-18 and the figures as per Audited Annual Financial statements of the taxpayer. <p>It is certified by the CA. It can be considered to be similar to that of a tax audit report furnished under the Income-tax act.</p> <p>It will consist of gross and taxable turnover as per the Books reconciled with the respective figures as per the consolidation of all the GST returns for an FY. Hence, any differences arising from this reconciliation exercise will be reported here along with the reasons for the same.</p> <p>The certified statement shall be issued for every GSTIN. Hence, for a PAN there can be several reports of GSTR-9C.</p>

* cover details from main book.

Points of comparison	GSTR-9 Annual Return	GSTR-9C Reconciliation Statement
Nature	Informational/a consolidation of all GST Returns for FY 2017-18	Analytical statement on GST returns certified by GST Auditor
Who must file	GST Registered taxpayer	GST registered taxpayer to whom GST Audit is applicable
Not applicable to	<ul style="list-style-type: none"> Casual Taxable Person Non-Resident Taxable Person Input Service Distributor UIN Holders Online Information and Database Access Retrieval Service providers Composition Dealers Persons subject to TCS or TDS provisions 	Those mentioned under GSTR-9 but also a registered person whose aggregate turnover in an FY is less than Rs. 2 Crores
Format of the return	Consolidated summary details of the turnover, ITC and tax paid, late fees as per the GST returns filed between July 2017 and March 2018. Further, declaration of demands/refunds, supplies from composition dealers, Job works, goods sent on an approval basis, HSN wise summary of outward and inward supplies, late fees payable is required.	Part-A: Reporting of reconciliation needed between turnover, tax paid and ITC. Part A also includes Report on Auditor's recommendation of any additional tax liability. Part B: Certificate by GST Auditor.
Who must certify/ attest	No certification required by CA/CMA but must be attested by the taxpayer using a digital signature.	Certification of GST Auditor is required who is either a CA/CMA through digital signature and must be attested by the taxpayer using a digital signature.
Annexures	No annexures to be attached	Annexure of Audited financial statement is required