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Agenda for

48th GST Council Meeting

17th December 2022

Volume – II

माल और सेवा कर परिषद
GOODS AND SERVICES TAX COUNCIL

GST Council Secretariat

New Delhi

5th Floor, Tower-II, Jeevan Bharti Building, New Delhi

25th November, 2022

OFFICE MEMORANDUM

Subject: Notice for the 48th Meeting of the GST Council scheduled to be Convened on 17th December, 2022

The undersigned is directed to refer to the subject stated above and to convey that the 48th Meeting of the GST Council will be held on **17th December, 2022** through virtual mode (Video Conferencing). The schedule of the Meeting is as follows:

- **Saturday, 17th December, 2022**: 11:00 A.M. onwards

2. In addition, an **Officers Meeting** will be held on 16th December, 2022 as per the following schedule:

- **Friday, 16th December, 2022**: 11: 00 A.M. onwards

3. The agenda item and other details for the 48th Meeting of the GST Council will be communicated in due course of time.

4. Kindly convey the invitation to Hon'ble Members of the GST Council to attend the Meeting of the GST Council.

Sd/-

(**Tarun Bajaj**)

Secretary to the Govt. of India and ex-officio Secretary to the GST Council

Tel:011 23092653

Copy to:

1. PS to the Hon'ble Minister of Finance, Government of India, North Block, New Delhi with the request to brief Hon'ble Minister about the above said meeting.

2. PS to the Hon'ble Minister of State (Finance), Government of India, North Block, New Delhi with the request to brief Hon'ble Minister about the above said Meeting.

3. The Chief Secretaries of all the State Governments, Union Territories of Delhi, Puducherry and Jammu and Kashmir with the request to intimate the Minister in charge of Finance/Taxation or any other Minister nominated by the State Government as a Member of the GST Council about the above said meeting.

4. Chairman, CBIC, North block, New Delhi, as a permanent invitee to the proceeding of the Council.

5. Chairman, GST Network.

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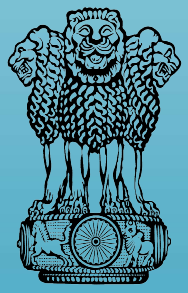
Agenda Item 14 : Report of Group of Ministers (GoM) on Capacity Based Taxation and Special Composition Scheme in certain sectors on GST

The GST Council, in its 42nd Meeting, held on 5th and 12th October 2020, decided that a **Group of Ministers (GoM)** may be formed to discuss and analyze the issues pertaining to the Capacity based taxation on Pan Masala, Reverse Charge Mechanism in mentha oil, special composition scheme on brick kilns, stone crushers, etc**.**

2. Accordingly, a Group of Ministers (GoM) on Capacity-based Taxation and Special Composition Scheme in Certain Sectors in GST had been constituted on 24.05.2021, with **Shri Niranjan Pujari, Hon'ble Minister for Finance, Odisha, as the Convener of the GoM**. The GoM comprises of Minsters from Delhi, Haryana, Kerala, Madhya Pradesh, Uttar Pradesh and Uttarakhand. The Group of Ministers had three detailed meetings on 6th July, 2021, 31st August, 2021, and 07th July, 2022. Inputs to GoM were also provided by a Group of Officers after its meeting that was held on 17.08.2021.

3. The Interim Report on two issues, namely, special composition scheme for brick kiln sector and imposition of levy of GST on reverse charge basis on mentha oil & allowing its exports only against LUT with the consequential refund of accumulated input tax credit was placed and considered by the GST Council in its 45th Meeting held on 17th September, 2021 [Agenda Item 9: Volume 2].

4. Thereafter, the 3rd detailed meeting of GoM was held on 07th July, 2022, wherein the GoM deliberated comprehensively including on challenges associated with and complexities involved in the implementation of capacity based levy on pan masala, gutkha, chewing tobacco and other similar tobacco products, need to curb evasion to plug the tax leakages with a view to augment the revenue and study alternate possible systemic & administrative mechanisms to enhance compliance & enforcement measures. The Final Report of the Group of Ministers (GoM) on capacity-based taxation and Special Composition Scheme for certain sectors is placed in the **Annexure** for the consideration of the Council.



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FINAL REPORT

GROUP OF MINISTERS
On
Capacity based taxation and Special Composition Scheme in Certain Sectors in GST

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I. Context

1. In the existing GST legal framework, GST is a destination-based tax that is levied on supply of goods or services or both as per the Article 366(12A) of the Constitution of India.

2. However, on the basis of the observations made by certain states regarding the fall in the revenue realization after the roll-out of the GST regime from certain evasion prone commodities, a need was felt to examine the possibility to levy GST based on the capacity of manufacturing unit and introduce special composition schemes in such evasion-prone sectors like pan masala, gutkha, brick kilns, sand mining etc., and to explore any other suitable administrative or systemic mechanism(s) to plug the existing leakages in these sectors in order to augment the revenue realised from such sectors.

3. Further, certain other issues were raised pertaining to the Mentha Oil sector. These issues were regarding fraudulent exports/fake invoicing menace, tax incidence falling on the mentha farmers, among others, a need was felt to examine the impact of levy of GST on reverse charge basis on mentha oil, with a view to augment the revenue from the sector.

4. While discussing these issues in its 42nd Meeting, held on 05th October, 2020, the GST Council considered it appropriate to form a Group of Ministers (GoM) for looking into the possibility of Capacity based taxation and Special Composition Scheme in certain sectors in GST.

II. Group of Ministers and its Terms of Reference

5. On the basis of the recommendation made by the GST Council in its 42nd Meeting, a Group of Minsters (GoM) was constituted under the Chairmanship of Shri Niranjan Pujari, Hon'ble Finance Minister of Odisha. The constitution of GoM is given at **Annexure - A**.

6. As per the Terms of Reference (ToR) given to the GoM, it has to–

6.1. To examine the possibility to levy GST based on the capacity of manufacturing unit and special composition schemes in certain evasion-prone sectors like pan masala and gutkha, brick kilns, sand mining, etc. with reference to the current legal provisions.

6.2. To examine whether any change is required in the legal provisions to allow such levy.

6.3. To examine the impact of such levy on the destination nature of the current GST design.

6.4. To examine any other administrative or systemic mechanism to plug leakages in these sectors.

6.5. To examine the impact of levy of GST on reverse charge on mentha oil and to examine if there could be other class of supplies that could be subjected to reverse charge to augment revenue.

III. Deliberations of the GoM

7. The Group of Ministers had three detailed meetings on 6th July, 2021, 31st August, 2021, and 07th July, 2022. Inputs to GoM were also provided by a Group of Officers after its meeting that was held on 17.08.2021.

8. In the 2nd Meeting of the GoM, held on 31st August 2021, it was decided that an Interim Report containing the recommendations of the GoM on two issues, namely, special composition scheme for brick kiln sector and imposition of levy of GST on reverse charge basis on mentha oil & allowing its exports only against LUT with the consequential refund of accumulated input tax credit may be submitted to the GST Council. It was felt that further discussion is required on the remaining mandate of the GoM regarding the capacity-based taxation on pan masala, gutkha, chewing tobacco, etc., and the same may be included in the final report of the GoM to be issued at a subsequent date after further deliberations.

9. Accordingly, an Interim Report was placed for the consideration of the GST Council in its 45th Meeting held on 17th September, 2021 [Agenda Item 9: Volume 2]. The Interim Report of the GoM is placed at **Annexure-B**.

10. Thereafter, the 3rd detailed meeting of GoM was held on 07th July, 2022, to deliberate on the remaining mandate of the GoM.

11. The Group of Ministers while emphasising the rampant evasion in the sector consisting of pan masala, gutkha, chewing tobacco, etc., felt an immediate need to put in additional intervention(s) to plug the tax leakages with a view to augment the revenue from these commodities.

12. The GoM extensively deliberated on the issues like broad challenges associated with and complexities involved in the implementation of capacity based levy in the sector and the alternate possible systemic & administrative mechanisms to curb evasion and enhance compliance & enforcement measures; the revenue realization figures [pre and post GST rollout] and the inferences thereof; the international best practices to curb illicit trade in tobacco sector like track and trace mechanism; specific tax based compensation cess levy to boost first stage [manufacturer level] collection of revenue.

13. The deliberations held in the GoM in its third meeting, leading up to its recommendations, are summarized in the foregoing paragraphs.

IV. Capacity based taxation

14. The following challenges associated with, and complexities involved in the implementation of capacity-based taxation were considered by the GoM:

a) The current legal framework for GST, including the relevant constitutional provision, provides supply as the taxable event and does not appear to provide authority for capacity-based levy;
b) Capacity-based levy enhances the interface between the taxpayer unit and the officers and such interface confines to jurisdictional officers only, that is therefore distortionary and could be a cause of collusion.
c) Capacity-based taxation is extremely complex and requires frequent changes in rate structure, without any guarantee of commensurate increase in the revenue [as was observed in the Central Excise regime];

d) It suppresses competition and goes against the small producers, who are not capable of making huge investment in capital infrastructure.;
e) Experience of capacity-based regime in excise regime was not encouraging. It leads to disputes/litigations, tapering followed by a sharp fall in revenue after initial jump in revenue. In later years, revenue improved for the reason that the duty was raised manifold.
f) It is the evasion prone industry that is seeking imposition of capacity-based levy and mostly pushed by the larger players in the sector. This in itself does not provide assurance as regards to the effectiveness of the capacity-based taxation, and in fact, it could be construed otherwise; and
g) Globally, other countries are also facing challenges of tax evasion in tobacco products. However, capacity-based levy is not resorted to for curbing such evasion. Instead, countries have opted for technological solution to track and trace such products in the entire supply chain.

15. It was observed by the GoM that the overall revenue realization from the sector after the rollout of GST has increased significantly, wherein most of the major producing and consuming states have witnessed a sizable increase in their revenue realization from the sector in comparison to the VAT regime. In view of these revenue figures, it was inferred that the effectiveness of GST with its inherent supply chain tracking nature and associated technological mechanisms like e-way Bill, e-invoicing, etc. was superior in comparison to the erstwhile capacity-based levy of the central excise regime for strict enforcement and to augment the revenue from this evasion-prone sector. It was also seen from the experience of the erstwhile capacity-based taxation, which was in place during the Central Excise regime, that the revenue realisation from these products from FY 2009-10 to FY 2014-15 reflected a negative Compound Annual Growth Rate (CAGR), despite frequent restructuring and upward revision of the then duty structure. Thus, to summarize, it was observed by the GoM that the features that has come in with the roll-out of GST has not only helped to overcome most of the above-mentioned challenges associated with and complexities involved in the erstwhile capacity-based taxation but has also significantly boosted the revenue realisation from these products in comparison to the Central Excise and VAT regime.

16. The Members echoed the view that the idea behind examination of the issue was to suggest measures to plug leakages as there is rampant evasion in the sector. In this context, the option of capacity-based levy came up as an idea in absence of any better option before the GoM. However, if there are better options available, it would be prudent to deploy those measures rather than going for capacity-based levy, which, as felt, does not fit with GST and also may not be in tune with the Constitutional mandate in GST.

17. The GoM deliberated the whole issue at length and examined all possible options for enhancing the compliance in the sector. The GOM identified certain additional compliance measures with respect to different aspects of production and supply, namely: -

a. **Registration and Details of Machines**: Any person who deals with pan masala, chewing tobacco and such other tobacco products, as specified, in any manner, shall in addition to his registration, take registration of the machines used in relation to such goods, in the manner as prescribed;
b. Thus, **there would be a mandatory registration of each machine**; this would require disclosure of the details like make and model of each machine, number of tracks, packing capacity of each track, total packing capacity of each machine, total number of machines installed in the factory;
c. **Special Monthly Return:** Maintaining of records and periodic filing of Special Monthly Return with details such as Machine wise production, Shift wise production, machine

disposed off with all its details, machine added with all its details, Inputs procured and utilized in quantity and value terms, Product-wise and brand-wise details of clearance in quantity and value terms, shift-wise records of reading of electricity meters and DG set meters,waste generation stock, etc., in the manner as prescribed;

d. **Certification of production capacity**: Production capacity and quantity in unit per pouch/container shall be duly certified by registered Chartered Engineer.
e. **Copy of declaration in respect of production capacity** submitted to other department/agency/organization (if any), etc.;
f. **Disclosure of details of non-working**/partially working machines, etc.;
g. If required, installation of 24*7 CCTV cameras by the manufacturers [it was however felt that this may be intrusive and be considered carefully];
h. Prescribing a heavy penalty for running any unregistered machine.
i. Gradually, the requirement of unique identification marking such as QR code or stamps, on each packet/pouch will be prescribed. The unique identifier shall enable determination of the following:
   (a) the date, place and factory of manufacture;
   (b) the machine used to manufacture;
   (c) the production shift or time of manufacture;
   (d) the product description, quantity and maximum retail sale price;
   (e) any other relevant information, as may be prescribed.

18. The GoM also suggested that there is a need to further strengthen the tracking measures along the supply chain of these evasion-prone commodities through measures like mandatory e-invoicing [irrespective of turnover], mandatory e-way bill [irrespective of invoice value], mandatory FAST tag/RFID on the vehicle, vehicle tracking through Vahan app & GPS installation, priority alert in E-Way Bills for such products, and mandatory e-invoicing including B2C invoices under GST for such suppliers. These features would help for stricter enforcement in these sectors.

19. The issue of fake invoicing and fraudulent exports thereof for claiming undue refund was also taken up for discussion by the GoM and it was suggested that for commodities like pan masala, gutkha, chewing tobacco, and similar other goods, the IGST refund route on exports be closed, similar to the recommendation made for Mentha Oil and if necessary, exports may only be allowed against LUT with the consequential refund of accumulated input tax credit.

20. The GoM simultaneously emphasized that the Ease of Doing Business shall not be hampered on account of above suggested measures, and they shall be implemented on system based interface, to the maximum extent feasible, in order to avoid any potential harassment of the concerned suppliers.

V. Track and Trace Mechanism

21. Since illicit trade in tobacco sector is a global phenomenon, the GoM deliberated on the international best practices to tackle this menace.

22. In this Context, it was observed by the GoM that, in June 2018, India has submitted its instrument of accession to the Protocol to Eliminate Illicit Trade in Tobacco Products, which builds upon and complements Article 15 [Measures relating to the reduction of the supply of tobacco: Illicit trade in tobacco products] of the WHO Framework Convention on Tobacco Control (WHO FCTC), and that has entered into force on 25th September, 2018. The Article 8 of the said Protocol requires a time bound action under which India is committed to put in place a technology driven Track and Trace

system for Cigarettes by September, 2023, and for all tobacco products by September, 2028. The objective of the Protocol is the elimination of all forms of illicit trade in tobacco products.

23. The basic requirements of implementation of Track and Trace Mechanism was taken note of by the GoM like a unique, secure and non-removable identification markings, such as codes or stamps on all unit packets of tobacco; date and location of manufacture; manufacturing facility; machine used to manufacture tobacco products; production shift or time of manufacture; the name, invoice, order number and payment records of the first customer who is not affiliated with the manufacturer; the intended market of retail sale; product description; any warehousing and shipping; the identity of any known subsequent purchaser; the intended shipment route, the shipment date, shipment destination, point of departure and consignee, etc.

24. An illustration of the tobacco tracking and tracing mechanism is depicted in the picture below:

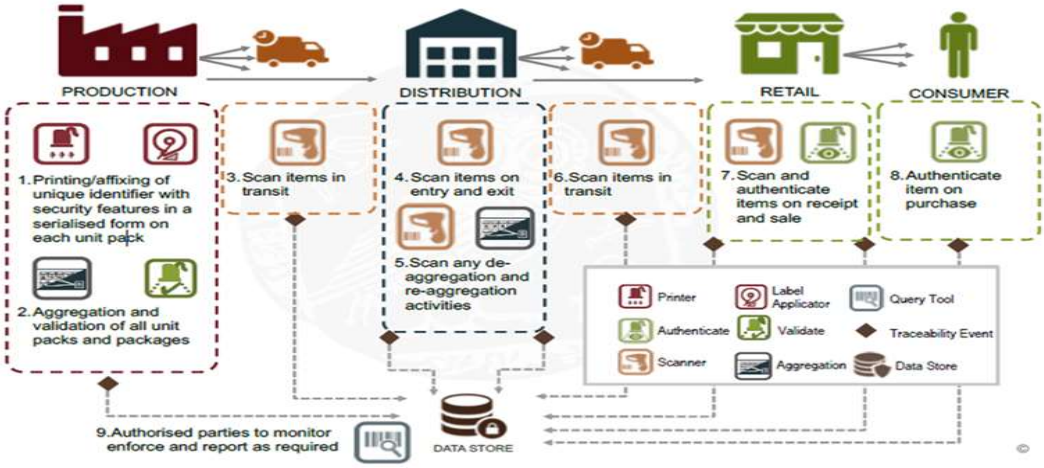


Figure 14: Tobacco Traceability Solution

Source: Guidebook on Implementing Article 8: Tracking & Tracing, WHO FCTC

25. It was further observed that the Track and Trace is a technology driven mechanism that has successfully been adopted by European Union, countries in Latin America, Africa (like Kenya) to curb tax evasion in the tobacco sector.

26. Accordingly, GoM suggested that efforts shall be made to implement Track and Trace Mechanism for all the tobacco products, preferably by the end of 2023, while carrying out the associated infrastructural, systemic & legal feasibility studies to implement the same.

VI. Conversion of *ad valorem* compensation cess rate to specific rate

27. The GoM observed that there exist greater leakages in the revenue at the later stages of the supply chain of such products and most of the end retailers of these products are below the threshold limit for mandatory GST registration. Consequently, the GoM recommended that the compensation cess levied on such evasion-prone commodities like Pan masala, gutkha, chewing tobacco, etc., shall be changed from the current *ad valorem* tax to specific tax based levy to boost the first stage [manufacturer level] collection of the revenue. Additionally, such a specific tax shall be linked to the retail sale price to maintain revenue buoyancy. Further, the tax structure for compensation cess levied on such commodities shall be further simplified by reducing the number of tax slabs and associated differential tax rates.

28. The GOM , in its extensive deliberations, also observed that these changes can be made in the compensation cess component of tax, as in the subsequent stages, there is no other ITC than the compensation cess paid in the previous stages.

29. An illustration of the same is depicted below:

Assuming a pouch of Pan Masala [HS 2106 90 20] with Retail Sale Price of Rs. 5	
EXISTING ***Ad valorem tax*** ***[GST @ 28%, Compensation Cess @ 60%]***	***PROPOSED*** ***Specific tax*** ***[GST @ 28%, Compensation Cess @ 'x' specific tax]***
(i) Retail price (incl of GST) = Rs 5 *(ii) The distribution and retail margin (@ 20% of retail price), including all post manufacturing expenses ~Rs 1* *(iii) Tax amount on the above margin (@ 88%)= Rs 0.88* *(iv) Factory gate price = (i)- (ii +iii) = Rs 3.12* *(v) Manufacturer pays GST+CC= (iv)*0.88/1.88=Rs 1.46* *(vi) Distributer and retailer to pay GST+CC=(iii)=Rs 0.88* *(vii) Total tax=(iii)+(v)=2.34* *(viii) However, this Rs 0.88 (refer v) may not be getting collected in several cases because of the fact that it is evaded, or retailer is small.* *(ix) It may be feasible to convert CC to specific rate, like cigarettes. Doing so may not be feasible for GST because of ITC chain.*	*(i) Retail price (incl. of GST) = Rs 5* *(ii) The distribution and retail margin and post manufacturing expense (@ 20% of retail price) ~Rs 1/-* *(iii) Only GST rate being ad valorem, the GST on distributor and retailer margin= (ii)*0.28=0.28* *(iv) Factory gate price=(i)- (ii +iii) = Rs 3.72* *(v) Tax that will be paid by manufacturer:* *GST at ad valorem rate of 28% and Compensation cess at specific rate.* *(I) Thus CC, specific rate =(i)*0.6/1.88=1.6=32% of RSP* *(II) GST by manufacturer = ((i)-(ii+iii+1.6))*0.28/1.28=0.46* *Thus, manufacturer will pay GST plus Cess equal to Rs 1.6 (CC) + 0.46 (Cess)= Rs 2.06* *(vi) Distributor to pay addl. tax= 0.28* *(vii) Therefore, in this instance a tax of Rs 2.06 is collected from manufacturer instead of Rs 1.46 in the existing payment mechanism [41.1% extra] Hence feasibility of post manufacturing leakage is quite less.* *Hence under specific rate for CC, in the case of these items, i.e., pan masala, tobacco, etc., the tax collection is likely to increase significantly.*

30. The details of the tax structure for such evasion-prone commodities along with the suggested specific tax-based levy is given in **Annexure-C**.

VII. Recommendations of the GoM

31. Based on the discussions outlined above, with a view to plug the leakages and improve the revenue collection from the concerned evasion-prone commodities like pan masala, gutkha, chewing tobacco, etc., the GoM has made the following recommendations:

a. Measures needs to be taken on priority to curb evasion on pan masala, chewing tobacco and similar products.

b. Capacity based levy may not be prescribed. Capacity based levy is not in the spirit of GST levy and may not be permissible in terms of the Constitutional mandate in GST and statutory provisions thereof.

c. To plug leakages/evasion of GST for these items, the measures as stated in Para 17 & 18 be taken on priority. These measures essentially entail registration of machines; special monthly return with details of machine, inputs, clearance, etc.; special compliance requirements like mandatory e-invoicing, mandatory e-way bill, mandatory FAST tag/GPS installation, mandatory unique identification marking, installation of CCTV cameras (after careful consideration), etc.; heavy penal action.

d. The exports shall only be allowed against LUT with the consequential refund of accumulated input tax credit, similar to the recommendation made for Mentha Oil, to curb fake invoicing and fraudulent exports [Para 18].

e. The Compensation Cess levied on such evasion-prone commodities like pan masala, gutkha, chewing tobacco, etc., shall be changed from the current *ad valorem* tax to specific tax-based levy to boost the first stage [manufacturer level] collection of the revenue [Details in Annexure-C].

f. Efforts shall be made for implementation of Track and Trace Mechanism for all the tobacco products, preferably by the end of year 2023, while carrying out the associated infrastructural, systemic & legal feasibility studies to implement the same. and

g. To ensure that interface remains minimal, the above measures may, to the extent feasible, be implemented on system-based interface in order to avoid any potential harassment of the concerned suppliers.

***

ANNEXURE-A

S-31011/12/2021-DIR(NC)-DOR
Government of India
Ministry of Finance
Department of Revenue
*****

New Delhi, dated 24th May, 2021

OFFICE MEMORANDUM

Subject: Constitution of Group of Ministers (GoM) on Capacity based taxation and Special Composition Scheme in Certain Sectors on GST– reg.

In pursuance of the decision of the GST Council a Group of Ministers (GoM) on Capacity based taxation and Special Composition Scheme in Certain Sectors in GST has been constituted. The GoM shall consist of the following members:

Sl. No.	Name	Designation and State	
1.	Sh. Niranjan Pujari	Minister for Finance, Odisha	Convener
2.	Sh. Manish Sisodia	Deputy Chief Minister, Delhi	Member
3.	Sh. Dushyant Chautala	Deputy Chief Minister, Haryana	Member
4.	Sh. K N Balagopal	Minister for Finance, Kerala	Member
5.	Sh. Jagdish Devda	Minister for Finance, Madhya Pradesh	Member
6.	Sh. Suresh Kumar Khanna	Minister for Finance, Uttar Pradesh	Member
7.	Sh. Subodh Uniyal	Minister for Agriculture, Uttarakhand	Member

2. The terms of reference (ToR) for the GoM on capacity based taxation and special composition schemes in certain sectors in GST shall be as follows:

a. To examine the possibility to levy of GST based on the capacity of manufacturing unit and special composition schemes in certain evasion prone sectors like pan masala and gutkha, brick kilns, sand mining etc with reference to the current legal provisions.

b. To examine whether any change is required in the legal provisions to allow such levy.

c. To examine the impact of such levy on the destination nature of the current GST design.

d. To examine any other administrative or systemic mechanism to plug leakages in these sectors.

ANNEXURE-A

e. To examine the impact of levy of GST on reverse charge on mentha oil and to examine if there could be other class of supplies that could be subjected to reverse charge to augment revenue.

3. The GoM on Capacity based taxation shall be assisted by a Committee of officers from Centre and States as convened by the GoM.

4. The secretarial assistance to this GoM will be provided by Joint Secretary (TRU-I), CBIC.

5. The GoM shall submit its recommendation to the Council within six months for consideration of GST Council.

(Dinesh Bouddh)
Director
Tel.011-23092686

To

1. All Members of GoM and Officers
2. Revenue Secretary, North Block, New Delhi
3. Chairperson, CBIC, North Block, New Delhi
4. Joint Secretary, TRU-I, Department of Revenue, North Block, New Delhi
5. GST Council Secretariat, New Delhi
6. PS to Hon'ble Minister of Finance, Government of India, North Block, New Delhi
7. PS to Hon'ble Minister of State (Finance), Government of India, North Block, New Delhi.

ANNEXURE-B

Agenda Item 9: Agenda Note on the basis of the Interim Report of the Group of Ministers (GoM) on capacity-based taxation and special composition scheme for certain sectors

The GST Council, during its **42nd Meeting** held on 05th and 12th October 2020, decided that a Group of Ministers may be formed to discuss and analyse the issues pertaining to the Capacity based taxation on Pan Masala, Reverse Charge Mechanism in mentha oil, special composition scheme on brick kilns, stone crushers, etc.

1.2 Accordingly, a Group of Ministers (GoM) on Capacity-based Taxation and Special Composition Scheme in Certain Sectors in GST has been constituted on 24.05.2021, comprising of the following members:

S.No.	Name (Shri)	Designation and State
1.	Niranjan Pujari	Minister for Finance, Odisha (Convener)
2.	Manish Sisodia	Deputy Chief Minister, Delhi
3.	Dushyant Chautala	Deputy Chief Minister, Haryana
4.	K N Balagopal	Minister for Finance, Kerala
5.	Jagdish Devdea	Minister for Finance, Madhya Pradesh
6.	Suresh Kumar Khanna	Minister for Finance, Uttar Pradesh
7.	Subodh Uniyal	Minister for Agriculture, Uttarakhand

1.3 The Terms of Reference (ToR) provided to the GoM are as follows:

i. To examine the possibility to levy of GST based on the capacity of manufacturing unit and special composition schemes in certain evasion prone sectors like pan masala and Gutkha, brick kilns, sand mining etc. with reference to the current legal provisions.
ii. To examine whether any change is required in the legal provisions to allow such levy.
iii. To examine the impact of such levy on the destination nature of the current GST design.
iv. To examine any other administrative or systemic mechanism to plug leakages in these sectors.
v. To examine the impact of levy of GST on reverse charge on Mentha oil and to examine if there could be other class of supplies that could be subjected to reverse charge to augment revenue.

2. **Meetings of the GoM:** -

2.1 In pursuance to the mandate provided to the GoM, the GoM has met twice till date through video conferencing mode. The first meeting of GoM was held on 06th July, 2021, which was followed by a meeting of Group of Officers deputed to assist the GoM on 17th August, 2021. Thereafter, the second meeting of the GoM was held on 31st August, 2021.

2.2 During these meetings, there was a lengthy deliberation and broad based consideration by the GoM, assisted by the Officers of DoR and the member states, on the proposals formulated on the basis of the Terms of Reference.

3. Based on the above, the GoM has submitted an Interim Report. The main proposals based on the Interim Report are as under:

a Capacity Based levy on Pan Masala and Tobacco products:

- The GoM has at length discussed the feasibility of Capacity based levy on pan masala and tobacco products.
- It was felt by the GoM that there exists a need for a deeper data analysis in this respect, through comparative state wise and product wise revenue figures in the pre and post GST regime in order to draw a clearer picture on revenue implications of such a move. In pursuance to this, such figures have been sought from all the states and UTs.
- Accordingly, considering the sensitivity of the matter and the quantum of revenue involved, the Group of Ministers has requested for an extension of three months for submitting its report on the issue of Capacity Based levy on Pan Masala and Tobacco products.

b. Special Composition Scheme in the sector of Brick Kiln, Sand mining, etc.: -

- The GoM, afterlong deliberation, and taking into account the various options including capacity based levy on production, decided that in order to augment the revenue realization from the sector, the most appropriate solution would be introduction of a special composition scheme in the brick kiln sector.
- Accordingly, the GoM has made the following recommendations in the brick kiln sector:
  i. Special composition scheme may be instituted in the Brick Kiln sector prescribing a GST rate of 5%/6% (without ITC), along with a revised GST rate of 12% (with ITC);
  ii. Threshold exemption limit in the sector may be reduced to Rs. 10 lakhs in order to increase the tax base, keeping in view the fact that majority of the firms in the sector are small and unorganized;
  iii. This scheme may be instituted with effect from 01.04.2022;

- The feasibility of imposition of a similar special composition scheme in the sector of stone crushing/sand mining is still under examination by the GoM.

c. Reverse Charge Mechanism in Mentha Oil: -

- The proposal for implementation of Reverse Charge Mechanism (RCM) on Mentha oil to curb irregular refunds on exports was examined in a detailed manner by the GoM.
- Accordingly, the GoM has made the following recommendations:
  i. Reverse Charge Mechanism on the first stage in the sector, as a measure to improve compliance;
  ii. IGST refund route may be closed for mentha, and only refund by ITC route may be allowed with a predetermined ceiling on refund of ITC (in terms of per kg of Mentha exports, to be determined in an objective manner), as and when an amendment in the section 16 of the IGST Act comes into effect;
  iii. The modalities for implementation of such changes may be worked out by the state of Uttar Pradesh.

4. **Accordingly, an Agenda is placed before the GST Council for approval to the following proposals**:

i. Introduction of a Special Composition Scheme in the Brick Kiln sector with effect from 01.04.2022, prescribing a GST rate of 6%, without ITC, similar to the rate in the services sector. **The Council may deliberate on the GST rate;**

ii. Increasing the GST rate on supply of bricks from 5% to 12% (with ITC), with effect from 01.04.2022;

iii. Introducing the payment of GST liability under Reverse Charge Mechanism on the supply of Mentha, at the first stage of the supply;

iv. Blocking of the IGST refund route on export of mentha, and allowing refund by ITC route only with a predetermined ceiling on refund of ITC (in terms of per kg of Mentha exports, to be determined in an objective manner), as and when amendment in the section 16 of the IGST Act comes into effect. In the interim, the exact modalities would be worked out by the state of Uttar Pradesh;

v. Extension of the term of the GoM by **another 3 months** in order to further examine the remaining issues.

ANNEXURE-C

Sl. No. of notification No. 1/2017-Compensation Cess (Rate) dated 28.06.2017	Chapter / Heading / Subheading / Tariff item	Description of Goods	Current *ad valorem* rate	Proposed specific rate for compensation cess*
1	2106 90 20	Pan Masala	60%	0.32R
5	2401	Unmanufactured tobacco (without lime tube) – bearing a brand name	71%	0.36R
6	2401	Unmanufactured tobacco (with lime tube) – bearing a brand name	65%	0.36R
7	2401 30 00	Tobacco refuse, bearing a brand name	61%	0.32R
19	2403 11 10	Hookah or gudaku tobacco bearing a brand name	72%	0.36R
20	2403 11 10	Tobacco used for smoking 'hookah' or 'chilam' commonly known as 'hookah' tobacco or 'gudaku', not bearing a brand name	17%	0.12R
21	2403 11 90	Other water pipe smoking tobacco, not bearing a brand name	11%	0.08R
22	2403 19 10	Smoking mixtures for pipes and cigarettes	290%	0.69R
23	2403 19 90	Other smoking tobacco bearing a brand name	49%	0.28R
24	2403 19 90	Other smoking tobacco not bearing a brand name	11%	0.08R
25	2403 91 00	“Homogenised” or “reconstituted” tobacco, bearing a brand name	72%	0.36R
26	2403 99 10	Chewing tobacco (without lime tube)	160%	0.56R
27	2403 99 10	Chewing tobacco (with lime tube)	142%	0.56R
28	2403 99 10	Filter khaini	160%	0.56R
29	2403 99 20	Preparations containing chewing tobacco	72%	0.36R
30	2403 99 30	Jarda scented tobacco	160%	0.56R
31	2403 99 40	Snuff	72%	0.36R
32	2403 99 50	Preparations containing snuff	72%	0.36R
33	2403 99 60	Tobacco extracts and essence, bearing a brand name	72%	0.36R
34	2403 99 60	Tobacco extracts and essence, not bearing a brand name	65%	0.36R
35	2403 99 70	Cut tobacco	20%	0.14R
36	2403 99 90	Pan masala containing tobacco ‘Gutkha’	204%	0.61R

37	2403 99 90	All goods, other than pan masala containing tobacco 'gutkha', bearing a brand name	96%	0.43R
38	2403 99 90	All goods, other than pan masala containing tobacco 'gutkha', not bearing a brand name	89%	0.43R

*** "R" stands for retail sale price**

Explanation 1. *- For the purposes of this Annexure, "retail sale price" means the maximum price at which the above-mentioned goods in packaged form may be sold to the ultimate consumer and includes all taxes, local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like and the price is the sole consideration for such sale:*

Provided *that in case the provisions of the Legal Metrology Act, 2009 (1 of 2010) or the rules made thereunder or under any other law for the time being in force require to declare on the package, the retail sale price excluding any taxes, local or otherwise, the retail sale price shall be construed accordingly.*

Explanation 2. *- For the purposes of this Annexure, -*
(a) where on the package of any above-mentioned goods more than one retail sale price is declared, the maximum of such retail sale prices shall be deemed to be the retail sale price.
(b) where the retail sale price, declared on the package of any above-mentioned goods at the time of its clearance from the place of manufacture, is altered to increase the retail sale price, such altered retail sale price shall be deemed to be the retail sale price.

Agenda Item 15 : Recommendations of the 17th IT Grievance Redressal Committee for approval/ decision of the GST Council:

The 17th meeting of the IT Grievance Redressal Committee (ITGRC) was held on 2ndDecember, 2022 at 10.30 AM in online mode over WebEx platform to resolve the grievances of the taxpayers arising out of the technical problems faced by them on the GSTN portal in relation to GST Compliance filings.

The agenda for the 17th ITGRC meeting covered the following issues:

1. Technical Issues requiring data fixes through back- end utilities
2. Agenda on reversal of interest on delayed filing of statement in Form GSTR-8 by e-commerce operators due to technical glitches

2. Recommendations of ITGRC on Data Fix issues:

As per the SOP approved in the 15th ITGRC meeting for Technical issues requiring data fix of the processed incorrect data through backend utilities, GSTN identified twenty-eight (28) cases which required data fixes. However, one case was withdrawn by the GSTN.

The ITGRC then took note of the aforementioned cases of which 10 (ten) cases were of Category-1(Technical issues with no financial implication where data was known), 13 (thirteen) cases were of Category-2 (Technical issues where there was financial implications and the correct data was also known) and 04 (four) cases were of category-3 (Technical issues affecting locally with financial implication and where data was not known) and thesewere unanimously approved by the Committee.

3. Recommendations of ITGRC on Agenda on reversal of interest on delayed filing of statement in Form GSTR-8 bye-commerce operators due to technical glitches:

The Committee observed that while filing statement in Form GSTR-8 for the month of February 2022, three taxpayers who were registered on the same PAN in different States, could not file the said statement due to system glitches.

All three impacted operators have deposited the liability for the month of February, 2022 by due date. For the month March, 2022, all operators have deposited the liability after due date but before fixing the defect.ForApril, 2022,only one operator has deposited the liability before fixing the defect but this was after the due date of liability. Since, there was no glitch in depositing the liability through challan, therefore, interest paid on delayed filing of statement may not be refunded in those cases who have paid the liability while filing the statement or before filing the statement but after fixing of the glitch.

In earlier cases also, the 15th ITGRC had adopted this approach in its meeting held on 12-08-2021. Based on the decision, Government had issued Notification No. 08/2022 dated 07-06-2022 for refunding the interest to those who had deposited the liability before filing the statement.
The ITGRC took note of the data fix and that interest waiver be recommended to GST Council for these taxpayers.

The recommendations of ITGRC as per attached Minutes of the 17th meeting of the ITGRC are placed for information of the GST Council as Annexure - A (Attached below)

The GST Council may give its approval on the issues mentioned in Paras 2 and 3 above.

Annexure-A

Minutes of the 17th Meeting of the IT Grievance Redressal Committee (ITGRC) held on dated 02.12.2022 in online mode over WebEx Platform

The 17th meeting of the IT Grievance Redressal Committee (ITGRC) was held in online mode over WebEx platform on 02nd December, 2022 at 10.30 AM. The list of officers who attended the meeting is attached as **Annexure-1**. The agenda and annexure to agenda circulated for the meeting are attached as **Annexure-2 and Annexure-4.**

2. The Joint Secretary, GST Council Secretariat, welcomed all the members and gave a brief introduction that there were two (02) agenda points which included Data fixes and waiver of interest due to delay in filing the form GSTR-8 for e-commerce operators because of technical glitches. She further informed that in the 15th ITGRC meeting, a SOP on the mechanism to fix various glitches by the GSTN was approved. She also informed that data fixes having global financial implications needed prior approval of the ITGRC where as data fixes which had local implications would be fixed by GSTN and after fixation would placed before the ITGRC and that all these data fixes had local nature with or without financial implications. That is why these were fixed by the GSTN and were being placed before the ITGRC for perusal. Thereafter JS, GSTCS requested the GSTN to present the agendas before the Committee.

3. Sh. Dheeraj Rastogi, Executive Vice President, GSTN informed the ITGRC that most of the return filing got affected because of some inconsistency in the data due to some unforeseen scenarios or duplicating the return which required data fixes and GSTN carried out these data fixes. Thereafter, he requested Shri Nirmal Kumar, Executive Vice President, GSTN to explain each of the cases regarding data fixes as to what kind of data error was found and what kind of data fixes had been done.

4. Sh. Nirmal Kumar, Executive Vice President, GSTN informed the Committee that the agenda comprised of the following three categories technical issues where data fix was done.

i. Technical issues with no financial implication where data was known. There were ten such cases.

ii. Technical issues where there was financial implications and the correct data was also known. In this category, there were thirteen cases.

iii. Technical issues affecting locally with financial implication and where data was not known. There were only five such cases.

He then made a power point presentation which is attached as **Annexure-5**.

5. First category of technical issues with no financial implication where data was known as follows:

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
1	Duplicate invoice issue in GSTR6 form. At the time of submission of return, the portal is showing "Error in Submission“.	1	GSTR6	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing "Error in Submission". The error report is showing that the ISD Invoices and ISD credit notes are duplicate but there is no duplication in either ISD invoices or ISD credit notes. Taxpayer is getting "Error in Submission" while filing the GSTR6 but then after generating Error report it is showing 'Duplicate ISD invoice’. Reason: According to the code flow invoice should be inserted into “UPLOADED_ISD_NOTES”, “UPLOADED_ISD_INVOICES”, “ISD_INVOICES” tables during save. But for this user data is inserting into “ISD_INVOICE_DTL”, “ISD_NOTE_DTL”, “GSTR6SUBMIT” table also. When user submitting the form user getting the error as duplicate invoice because invoice is present in below DTL Hbase table.	This happened for only one TP and due to that code fix was not taken. Data fix done by ICR.
2	Late fee reversal of GSTR6 taxpayer. Taxpayer was unable to file GSTR6 form in production environment for return period July, 2021 due to “Error in Submission”.	1	GSTR6	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing "Error in Submission" and the report is showing that the ISD Invoices and ISD credit notes are duplicate. But there is no duplication in either ISD invoices or ISD credit notes. Reason: Taxpayer were unable to submit the GSTR6 due to the error “Duplicate ISD Invoice” displayed on the portal.	This happened only once so code fix was not taken. Data fix was done by Utility on 10th Feb 2022 via ICR:14811
3	Duplicate entries present in RTN_FILING_STAUS table. At the time of Filling,	1	GST0R1	Tax payer is getting error “Latest Summary is not available, Please generate summary and try again”. Tax payer has already deleted history from the browser and tried different computer also but	Permanent fix will be deployed in production on Dec 2022.

	GSTR-1 summary not generated by the system and there is no consolidated summary shown while filling GSTR-1.			getting the same error and unable to file the return. Reason: There are 2 entries presents in Return Filing Status table for GSTN 24AXLPT8085E1ZZ for return period 042022, hence tax payer is not able to proceed with filing.	
4	While filing GSTR-4/ GSTR3B- "Error! Payment amount should not exceed the outstanding liability"– RQM: 14189. While filing GSTR4 some of taxpayer are getting the error " Issue while filing GSTR-4 - "Error! Payment amount should not exceed the outstanding ".	2	GSTR4/3	GSTR4 calculates applicable late fees at the time of submit (or in the new model at the time of Offset). The late fee thus calculated has three components. Reason: Negative late-fee has been applied to the ledger due to the logic. Further, as per the logic in GSTR-4 and GSTR-3B any negative liability is carried forward to the next return period using a pair of Credit/Debit entries.	GSTR4 quarter form is disabled in prod. Permanent fix needs to be analyzed. Utility is used to fix the data.
5	GSTR9 || Users have filed R9 but form status is RTF in DB and not filed on annual dashboard. Taxpayer has filed GSTR9 form, but status is still not filed on portal.	1	GSTR9	User has claimed that he has filed the form, but status is still not filed on portal. It is due the issue that entries got posted to ledger tables and cash is also debited for user's late fee. However, corresponding record is not updated from Ready To File to File in Return Filing Status table in return database. Therefore, user is still seeing form status as not filed even after filing and paying the late fee. Reason: Transaction handling between different data sources is not properly done.	Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt this solution after discussion. Data fix in such cases is done through ICR.
6	Duplicate Amendable column in INVOICE_DTL table of Hbase.	83	GSTR1	On Analysis it is found that AMDBL column is present twice in "INVOICE_DTL" table for the same invoice. Hence while user trying to amend invoice from Upper case to lower case he	It is fixed in production on 26th April 2022.

	When Taxpayer is trying to amend EXPORT invoices from upper case to lower case records stuck in "In-Progress" Due to duplicate Amdbl column present in "INVOICE_DTL" Table.			is getting invoice in "In-Progress". Reason: While analysing logs it is found that at the time of submit, since invoice column were present with upper case, system validated it as different and inserted AMDBL column with lower case.	
7	When Taxpayer is validating the statement in Refund, system is giving error "RF-FCAS1007" and not allowing to file the Refund.	32	GSTR1	While analyzing, it is found that Meta Data (MD) column is not present in "Invoice Detail" table. The invoices went to error while adding to GSTR1 form due to which Meta column was not inserted to "Invoice Detail" Table though it is present in "Invoices" table. Reasons: - Since MD column is not present in " Invoice Detail " table hence user will not be able to raise refund for affected invoices, validation will fail at time of initiating refund. - It is also noticed that due to connection errors while inserting data to Invoice Detail table, invoices went to error.	It is fixed in production on 26th April 2022.
8	CMP08||The end user is unable to file GST CMP-08 as error is reflecting "Data for the internal Transaction Id Already Posted"– RQM: 21266. The taxpayer is unable to file GST CMP-08 as error is reflecting "Data for the internal Transaction Id Already Posted" while filing.	64	CMP-08	Filing status is 'Not Filed' and taxpayer is not allowed to File GST CMP-08 again, as error is reflecting "Data for the internal Transaction Id already Posted" while filing. Reason: For few taxpayers, all ledger tables were updated successfully but request status did not change from RTF to FIL in RTN_FILING_STATUS table. Partially fixed on 14th Jun 2021 in production. Another RCA is Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt after discussion.	Partially fixed on 14th Jun 2021 in production. Another RCA is Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt after discussion.
9	Issue prior to Migration of Tamil Nadu. Clean up of recovery Cases	88	Recovery	The multiple recovery cases were created for single demand id through event_dtl job. The user was facing a system error, as the mentioned CRN's do not have the demand details mapped to it.	Issue was before Migration of Tamil Nadu from Modal 1 to Modal 2. Issue was

	created in Case management folder, where recovery cases have no reference to the Demand order (for the 33-state code – Tamil Nadu SR#601295). Tax officers are facing System error while fetching the recovery cases for 86 CRN's (Case Reference Number).			Reason: Due to some technical issues in event Job process, Multiple recovery cases were created without a reference of demand id in case management folder. As a result, the case management folder had unmapped recovery id which does not require any action to be taken. We do not have logs of that time to cross verify what was exact issue.	permanently fixed by executing a utility job on 25th Feb 2022.
10	Partial Data movement i.e. Data missing in INV_DETL table of Hbase. System is throwing error in GSTR-1 table 9A and not allowing to submit amended invoice while amending export invoices from "without payment" to "with payment" type.	6	GSTR1	This is a partial data movement issue before GSTR1 code improvement, where data is present in "INVOICES" table of HBase however few columns (OSPD, TYPE) are missing in "INV_DETL" table. Permanent fix has been done via code improvement. However affected users, before code improvement, whose data is not sync for them, data fix is required. Reason: According to the older code flow invoice should be inserted from "INVOCES" to "INV_DETL"table during submit, However some column (OSPD,TYPE) are missing hence he is not able to amend the invoice.	It is fixed in production on 26th April 2022.

Discussion and decision:

EVP, GSTN informed that above cases were taken up on the request of either the taxpayer or the tax administration and required only data fixes which enabled the tax payer to file further returns or the tax administration was having certain orphan records which needed to be removed. There were no financial implications in these cases.

ITGRC took note of the data fixes done by the GSTN.

6. EVP, GSTN explained that in the second category, there were thirteen (13) cases having technical issues affecting locally with financial implications and where the correct data was known.

He then presented the cases with the help of a power point presentation which is attached as **Annexure-5**.

The details of the cases are mentioned as follows:

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
1	Issue in GSTR6 form. Taxpayers were unable to view ISD invoices in GSTR2A form, as GSTR2A form is a read only where Supplier can see the invoices added by the recipient. **Financial Implication-YES Whether Correct Data Known-YES**	88	GSTR 6	In this issue, ISD invoices are not reflecting in GSTR2A form when uploaded from GSTR6 form. There are Multiple GSTR6 users who have raised ticket against different supplier's GSTIN. Reason: While adding the multiple invoices through offline utility, due to the issue in code, only the last invoice was getting saved in ISD_UNIT_RelationShipHbase table and that is why user was unable to view all their invoices on the portal. An ISD credit of Rs 52, 33,708/- were made to be reflected in GSTR2A.	It is fixed in production on 15th Feb 2022 via RQM:22445

Discussion and Decision:

Additional Secretary (DoR) enquired whether only one cycle of return or multiple previous cycles of returns were affected and what the financial implications were.

EVP, GSTN informed that it was only one cycle of return as the problem was with the utility at that time and further that the financial implication was not really there as the invoices had to be shown in the counterparty's GSTR-2A so as to enable them to take credit.

Additional Secretary (DoR) instructed to provide financial implications while drawing the minutes.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
2	Recovery of TCS amount credited twice in cash ledgers of suppliers. (RQM: RET_R2X_18318). Suppliers have taken excess TCS credit than due, either by filing GSTR-2X more than once or by accepting the same record across two tax periods. **Financial Implication-YES** **Whether Correct Data Known-YES**	37	Cash Ledger	Due to change in status from filed to not filed or posting the records across two tax periods, taxpayer was able to get the credit twice. Reason: It is suspected that following scenarios may have caused the defect: Return filing status cache update issue could have caused the issue. Second scenario can be with XA transaction. The total amount of Rs 5,09,376 was debited in the Cash Ledger.	It is fixed in production.

Discussion and Decision:

EVP, GSTN informed that in this case, GSTN reversed one entry from the double entries in the cash ledger and it is pro revenue. Further, as the taxpayers did not utilize the credit, no interest arises.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
3	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Now reversal of late fee and Interest in GSTR5 form is requested. **Financial Implication-YES** **Whether Correct Data Known-YES**	2	GSTR5	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Reason: Due to the code issue (MYSQL upgrade), there was a delay in providing the correct resolution to the taxpayers, they were unable to file GSTR5 form within due date, so late fee and Interest were charged to the taxpayers. Although Taxpayers have filed the form along with their late fee and Interest, we have got the request of late fee and interest reversal from Daily ticket tracker. A late fee amount of Rs 1550 (CGST – 775 and SGST – 775) was waived and an amount of Rs 2, 17.466 interest (CGST 108733 , SGST 108733) is required post facto	Permanent fix on 16th Nov 2021 via RQM: 22058

				approval of GST Council for reversal.	

Discussion and Decision:

JS, GSTCS enquired whether late fee and interest waived by GSTN was suo-moto because only in once case, interest has been waived off by issue of notification.

EVP, GSTN informed that only late fee was reversed as the same was paid by taxpayer at the time of filing delayed return due to defect in the GST System. As regard interest, GSTN requested ITGRC to recommend its waiver to GST Council, as done in the past.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
4.	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. The negative liability was reduced by debiting the amount from negative liability statement. In some cases, the amount has been debited twice. **Financial Implication- YES** **Whether Correct Data Known- YES**	1028	Cash Ledger	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. **Reason:** Before recovery utility execution, a select query was executed to extract the impacted records for recovery. In that select query, we were ignoring those records which were already recovered. But in that select query, Return Type='CMP08' was missed while extracting the impacted records, only GSTR-4 (Annual) was considered. **Status:** It is fixed in production on 31st Mar 2022 via CR:21592_A. The total amount of Rs 2, 65, 67,031. (CGST 1,32,71,615 , 1,32,71,615, IGST – 23801) was re credited.	It is fixed in production on 31st Mar 2022 via CR:21592_A

Discussion and Decision:

Additional Secretary, GSTCS requested to explain the case in details.

EVP, GSTN explained that at the time of filing the annual return, the taxpayer had not filled up table 6 of GSTR-4 (Annual) due to which liability paid through Form GST CMP-08 became excess tax paid and credited to Negative Liability Statement. Some taxpayers have thereafter utilized the amount so credited, which was recovered by debiting their cash ledgers. In some cases, the amount was recovered twice, hence, the same was re-credited to their cash ledgers. To avoid such mistakes at the level of taxpayer, a reconciliation table has been provided for the convenience of taxpayers while filing the said return. An alert is shown if the taxpayer tries to file the said return without filling up table 6 in case of negative liability & he would not be able to file the return if the table is left blank and further informed that the issue of negative liability had been fixed in production permanently.

Additional Secretary, DoR enquired about the past negative recoveries.

EVP, GSTN informed that after the incident of data fix and noise in the social media, negative balance recoveries cases were assigned to the tax officers.

Additional Secretary, DoR observed that that was a revenue positive step.

EVP, GSTN informed that more than Rs. 100 crore had been recovered from the past cases where there was negative balance and the fix is pro revenue.

Additional Secretary, DoR instructed that financial implications whether positive or negative needed to be mentioned before finalization of the minutes.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
5	Cash ledger entries have been missed out or omitted after filing R2X. Credit entry to be made in the cash ledger (Table: CASH_LDG) of taxpayers. **Financial Implication- YES** **Whether Correct Data Known- YES**	2	Cash Ledger	Taxpayers having GSTIN 18AAACH0351E1Z4 and 19ALIPD4105A1ZS have accepted the TDS credit of return period 02/2022, 03/2022 respectively but the credit entry is not available in CASH_LDG table even though filing is done. Reason: Due to the mismatch of row check value, credit entry was not made to the cash ledger (Table: CASH_LDG). A total amount of Rs 49,062 (CGST 24531, SGST 24531) was credited to the cash ledger.	It is fixed in production.

Discussion and Decision:

Additional Secretary, DoR enquired how only two taxpayers were effected despite being a generic problem.

GSTN informed that only two taxpayers had entered the values up to decimal places while others had entered up to integers.

Additional Secretary, DoR instructed that permanent fix for this may be done.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
6	Taxpayers are not able to file GST CMP-08 for the subsequent tax period. **Financial Implication- YES** **Whether Correct Data Known- YES**	3	CMP-08	It has been noticed that few composition taxpayers who have attempted to file statement in Form GST CMP-08 between 15th June' 21 to 8th July' 21, got redundant entries in their respective ledger tables and out of these cases, taxpayers who have liability open in any of the previous tax periods are unable to file non-nil statement for subsequent tax period. Reason: Due to XA removal, data for few taxpayers got impacted as rollback was not happening from ledger tables (RTN_LIAB_LDG/RTN_LIAB_MSTR/RTN_LIAB_MSTR_HIST) in case of any issue/exception like. An excess liability debited in the ledger of Rs 2,10,210 (CGST 1,05,105, SGST 1,05,105) was corrected.	Permanent fix is deployed in production on 9th Jul 2022.

Discussion and Decision:

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
7	Re-credit of interest paid on late filing of statement in Form GSTR-8 by e-commerce operators due to system glitches. (Defect: RQM: RET_R8_19830). The post filing process for GSTR-8 in the previous month could not be completed due to which filing of next month was blocked. **Financial Implication- YES** **Whether Correct Data Known- YES**	116	GSTR-8	Since, filing of the statement is not mandatory every month, some operators have not filed the statement. The operators who have deposited the amount due by the due date but paid interest due to late filing of statement, are eligible for reversal of the interest paid. Reason: Upon analysis, it was seen that operator has filed statement and message posted for Kafka queue for post filing process. On processing of post filing process, transaction stuck-up in IP/ ER. When operator tried to file his next period's statement, application blocked him with the error message " Return filing process is not yet completed for the earlier period ". In 116 cases an interest amount of IGST Rs 76,01,603, CGST – Rs 27,23,696 and SGST/UTGST – Rs 27,23,696 was reversed which was approved by GST Council for credit to the Cash Ledgers of the impacted Operators vide notification 08/2022 and hence it was implemented.	It is fixed on production.

Discussion and Decision:

Additional Secretary, DoR enquired how interest was charged when payment was done on due date.

EVP, GSTN explained that after taxpayers filed GSTR-8 form, the record of 116 taxpayers got stuck in message queue itself due to technical issues and GSTR-8 could not be processed further. Therefore, system calculated the interest.

EVP, GSTN further informed that problem in GSTR-8 was due to some unforeseen scenarios. Interest reversal was required to be approved by GST Council for credit to the Cash Ledgers of the impacted Operators and notification 08/2022 was issued by the Govt. It was done therefore in compliance to that notification and no further waiver request was required to be made to GST COUNCIL, as done in the past, in this case.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
8	While filing GSTR4 Annual form, few taxpayers are getting incorrect auto populated amount in Table 5 where one quarter's data is missing. **Financial Implication- YES** **Whether Correct Data Known- YES**	12	GSTR4	Taxpayer is getting incorrect amount in table 5 of GSTR4 Annual form due to which taxpayers are not able to file their return as system is asking additional liability to be paid. This is an Adhoc exercise which will take some time and due to that, we have to apply data fixes on urgent basis considering ageing of tickets. Reason: Under analysis. An amount of Rs 32,55,026 (CGST – 16, 01,300, SGST – 16, 01,300, IGST – 52,426) was posted in Table 5 of Form GSTR-4.	Analysis for permanent fix is under progress.

Discussion and Decision:

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
9	TDS amount is credited to their Cash Ledger by filing the TDS & TCS Credit received form twice for same tax period. **Financial Implication- YES** **Whether Correct Data Known- YES**	141	Cash Ledger	Cases where the amount of tax deducted and reported in GSTR-7 differs from the amount credited to cash ledger of deductee through TDS/TCS credit received form. **Reason:** • When user login to the TDS and TCS credit received form, status is displayed from the cache details. As there is a problem with the cache, user was able to see status as 'Not filed'. But, in the Return Filing Status table, the status was existing as filed. • In the second scenario, while amending the TDS record in R7, the status of the earlier TDS / TDSA record is verified in R2X related table	Issue is fixed in production via RQM: RET_R7_19111

				to check whether it is accepted and filed or not. The amount of Rs 36.27 lakhs (CGST+SGST) was debited in the Cash Ledgers of concerned taxpayers.	

Discussion and Decision:

Additional Secretary, DoR enquired as to the number of taxpayers who filed GSTR-7 and asked why only 141 taxpayers were affected. He further asked whether these were a technical glitch or a mistake of the taxpayer.

EVP, GSTN informed that some technical glitches occurred.

Additional Excise & Taxation Commissioner, Haryana observed that for TCS and TDS, concept of rejection or acceptance issue should not be there.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
10	Correction in cash ledger balance due to credit and debit happened simultaneously. The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. **Financial Implication- YES** **Whether Correct Data Known- YES**	03	Cash Ledger	The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. Reason: The issue had occurred due to debit and credit entry in the cash ledger happening at the same time, which led to incorrect cash balance in the cash ledger. The reason for occurrence of the issue is due to dirty read where the two transactions happened simultaneously and read the same record. An amount of Rs 689468 (CGST + SGST – Rs 6,87,622, Interest – Rs 1296, Fee – Rs 550) was corrected in the cash Ledger.	CR#21982 has been raised for permanent fix. This CR is aligned with REAP team but yet to be picked up for development.

ITGRC took note of the data fixes done by the GSTN. As regard interest, GSTN requested ITGRC to recommend its waiver to GST COUNCIL, as done in the past in these 3 cases.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
11	R4X || Few taxpayers are able to file their return without clearing liabilities in case the liability amount is already present in negative liability table. Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. **Financial Implication- YES** **Whether Correct Data Known- YES**	24	R4X	Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. If error persists quote error number LG9048 when you contact customer care for quick resolution." **Reason:** This issue started coming post one recent major CR 21592 implementation. In this CR, 'is Negative Value Allowed' flag was introduced to check whether credit entry of negative liability should be posted into Return Negative Liability Statement History table or not. But this new flag also stopped posting debit entry to Return Negative Liability Statement History table if tax amount difference between Table 6 and table 5 (either outward supply or inward supply) of GSTR4X is greater than 10% or 1000 (whichever is less) A total amount of Rs 92,050 (CGST 46,025 , SGST – 46,025) was posted in the Liability Ledger.	It is fixed in production on 31st Mar 2022 via CR: 21592_A.

Discussion and Decision:

Additional Secretary, DoR enquired what kind of form taxpayer had to file in particular and what was the number.

EVP, GSTN explained that around14 lakh taxpayers filed GSTR-4 form which was a composition tax form.

Additional Secretary, DoR enquired why only 24 taxpayers were affected.

EVP, GSTN explained that that might be due to interruption in internet connection or logging out process while filing process was underway.

Additional Secretary, DoR asked the GSTN to provide exact technical glitch and the time line for which that persisted at the time of drawing the minutes.

ITGRC took note of the data fixes done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
12	Users are able to file GSTR4 without clearing liabilities -: Re-computation of liability– RQM: 17176 / 20801. GSTR-4: User has filed GSTR-4 without clearing the liability amount. GST CMP-08: As per the issue reported by user, he is not able to file CMP-08 as getting 'ERROR!! Liability for previous tax period is yet to be paid'. **Financial Implication- YES** **Whether Correct Data Known- YES**	01	GSTR-8	Transaction handling was not proper due to mix of Transaction Manager/ Non-Transaction Manager in GSTR-4. Due to this, in case of any failure rollback was not done completely from all the respective data sources. In this case, filing status has been updated as "Filed" in return filing status table without updating in ledger table besides the rollback of liability setoff entries in ledger. Reason: User has filed GSTR-4 without clearing the liabilities and due to this, user is unable to file statement in Form GST CMP-08 for next quarter. An amount of Rs 1500 (CGST – Rs 750, SGST – Rs 750) was posted to the liability ledger.	Partially fixed on 14th Jun 2021 in production on 14th Jun 2021 via ICR-12663. Another RCA is Known issue across the application. Analysis is under progress.

Discussion and Decision:

Additional Secretary, DoR enquired why only one taxpayer got affected.

EVP, GSTN explained that that was due to corner scenarios and not a regular issue.

ITGRC took note of the data fix done by GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
13	Taxpayer has saved invoices in ITC-03 & submitted the form with 'NULL' check but unable to offset the outstanding liabilities. **Financial Implication- YES** **Whether Correct Data Known- YES**	01	ITC Form	ITC03 form: Taxpayer has saved invoices in ITC-03 & submitted the form with 'NULL' check but unable to offset the outstanding liabilities. Reason: Taxpayer forgot to uncheck the NIL checkbox while submitting ITC03 form, however invoices were already added in the form. Now status is in 'Submitted" state and taxpayer is not ready to file the form as he is unable to offset the corresponding liabilities. An amount of Rs 3,68,778 (CGST – Rs 1,84,389 SGST – Rs 1, 84,389) will be paid on filing the said form.	It is a single Taxpayer issue, permanent fix not required. Data fix was done via ICR: 18439 executed on 4th Nov 2022.

Discussion and Decision:

Additional Secretary, DoR said that if someone did a mistake in submitting the form with NULL check despite saving invoices then NIL check should get cancelled.

EVP, GSTN agreed that and informed that the same should be the taxpayer's option to check it.

ITGRC took note of the data fixes done by the GSTN. The GSTN calculated the financial implications of the all the thirteen cases discussed above which is attached as **Annexure-3.**

7. In the third category, EVP, GSTN explained that there were five (05) cases having technical issue affecting locally with financial implications and correct data was not known with certainty.

He then presented the cases with the help of a power point presentation which is attached as **Annexure-5**. The details of the cases are mentioned as follows:

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
1.	Taxpayers raised tickets stating that they filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. Ledgers are updated on the basis of payment table whereas pdf is generated on the basis data entered. **Financial Implication- YES** **Whether Correct Data Known- NO**	07	GSTR3B	After login to the GSTN portal, taxpayer can open the GSTR-3B form window on multiple tabs at the same instant. There is no restriction to this behavior at present. Taxpayer have filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. **Reason:** Difference between data that was saved in HBASE and the one that was posted to ledger db in Return Liability Ledger and ITC Ledger tables.	Permanent fix is finalized and it is with REAP team. RQM:22721

Discussion and Decision:

Additional Secretary, DoR enquired whether this was a technical fault or a mistake of taxpayer and whether the jurisdictional GST Authorities were informed.

EVP, GSTN explained that such cases were of technical fault and as per the SOP, first GSTN rectifies the technical error as the future return filing gets affected and after the approval from ITGRC, GSTN forwards the MIS report to the Jurisdictional GST Authorities for a check.

Additional Secretary, DoR enquired as to why GSTN does not check the errors before correcting the same and why the same should be brought to notice of ITGRC before checking the errors.

EVP, GSTN explained that as the error affects the future return submission process, GSTN fixes the same before checking and that from the next time onwards GSTN would come before ITGRC after getting all the errors checked.

Chairperson said that there is no need to change the current practice when GSTN is sending after checking the errors.

Additional Secretary, DoR enquired when data fix is done on 18.08.2022 then when the same was sent to the jurisdictional GST authorities for verification.

EVP, GSTN informed that permanent fix for this is in the process of development and will appear in the production after1-1/2 month. He further informed that they have noticed the same error in many cases.

Actually, when the taxpayers file NIL return through SMS or API but there is data in their GSTR-2A/2B due to which same data reflects in GSTR-3B then the discrepancies arise. Additionally, he informed the ITGRC that GSTN is contemplating to fix this like when the taxpayer has filed the NIL return they will not allowed to file the NIL return if the taxpayer delete those invoices.

Chairperson agreed with this.

The ITGRC took note of the data fix done by the GSTN and approved the same.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
2.	Taxpayers stuck up in filing Form GST ITC-01 for claiming credit- RQM 23200. Newly registered taxpayers or taxpayers opting out of composition scheme or when exempted goods become taxable, claim credit on closing stock u/s 18(1) of Act through Form GST ITC-01. **Financial Implication- YES** **Whether Correct Data Known- NO**	23	ITC Form	ITC01 form has to be filed within 30 days of becoming eligible to claim credit. Few taxpayers were stuck up in filing the said form between 29th June, 2022 and 5thJuly, 2022. One taxpayer could not file the form as downtime started from 11:00 pm on 16th June, 2022. Reason: Few taxpayers were unable to file declaration in Form GST ITC-01 due to deployment of the change in topology. "System was showing following error – Your submit is in progress. Check after sometime."	This issue has been faced only once. Permanent fix not required. All impacted cases were executed on 25th Aug 2022 in production.

Discussion and Decision:

Additional Secretary, DoR enquired about the financial implication to which EVP, GSTN told that GSTN had not calculated the financial implication, however, GSTN would mention that in the minutes. He further explained that data fixing is required for processing and the financial implication would be known only after processing of the data.

Chairperson enquired about whether this impacted the eligibility of the taxpayers opting out of the composition scheme and asked for more care to be taken while verification.

EVP, GSTN replied in affirmative and informed that this time all the data is fixes are done and from the next meeting onwards GSTN will do the first check and then data fixes will be done.

Additional Secretary, DoR instructed that GSTN should get a post-facto verification or physical checking and get the record from the jurisdictional GST authorities. That whatever had been done, that should have been verified also.

The ITGRC took note of the data fix done by GSTN and approved the same.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
3.	Data issue due to partial commit happened on click of reset button (RQM: RET_3B_15222). **Financial Implication- YES** **Whether Correct Data Known- NO**	02	GSTR-3B	It may be recalled that initially, there was a four tier system of filing return in Form GSTR-3B, viz. Save, Submit, Offset liability and File . All saved entries used to become non-editable after clicking on 'Submit' button. Liability register and Credit ledger used to be updated at submit stage. In the beginning, lot of complaints were received due to freezing of entries before filing (at submit stage). In the beginning, returns lying at submit stage were reset from the backend as lot of complaints were received on account of inadvertent mistakes. Reason: This is an old issue when there used to be a reset button on the portal.	Permanent fix is not required because RESET button is removed from system. Old return periods data are being fixed by backend query.

Discussion and Decision:

During the discussion, GSTN withdrew the said case as they were not having the full details.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
4.	Form GST ITC-03 filed without debit in the ledgers - RQM 21652. Taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by the taxpayer while filing the said form. **Financial Implication- YES** **Whether Correct Data Known- NO**	38	ITC Form	After opting into composition scheme, taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by taxpayer while filing the said form. No ledger transactions had happened for the same. Reason: Due to some technical issues, the details added were not visible in UI. However, the NIL filing details were saved and transmitted at the time of filing. Therefore, due to this defect, the statement was filed as NIL. Invoice	It is fixed in production on 15th June 2022 via ICR: 16751

				details were still saved in the backend. However, it was not present in UI.	

Discussion and Decision:

ITGRC took note of the same and approved the data fix done by the GSTN.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
5.	Multiple Blocking of ITC credit – Details of impacted GSTINs. 27 GSTINs involving multiple blocking of ITC credits were shared for backend correction of the ITC ledgers by GSTN. **Financial Implication- YES** **Whether Correct Data Known- NO**	27	ITC Form	27 (21+6) GSTINs involving multiple blocking of ITC credits were shared for backend correction of the ITC ledgers by GSTN. Reason: Due to technical issue CBIC was unable to capture the response after blocking ITC by taxpayer. Officer tried multiple times with same GSTIN to block the ITC.	Out of 27 GSTINs, 26 GSTIN have been unblocked. Rest 1 GSTIN (33AAJFC7464K1Z5) was cancelled and now it is in active status so we are in process to unblock this GSTIN as well.

Discussion and Decision:

EVP, GSTN informed that the data fix was requested by CBIC and that was a technical issue of blocking of ITC multiple times. The ITGRC took note of the data fix and approved the same.

8. Agenda on reversal of interest on delayed filling of statement in form GSTR-8 by e-commerce operators due to technical glitches.

8.1. Background

8.1.1 Section 52 of the GST Act mandates an e-commerce operator to collect tax at the specified rate on the net value of the supplies made through it by other suppliers where consideration has to be collected by the operator. The operator has to file the details of tax so collected in a statement in Form GSTR-8 on monthly basis. On the basis of statement so filed by operators, the tax collected is made available to the concerned suppliers for taking the credit into their cash ledgers.

8.1.2 The operators are not required to file the aforesaid statement for the month in which no supply has been made by any supplier through his portal. But the details provided in a statement of the month can be amended at the time of filing statement of the subsequent month if supplier has not taken action for taking the credit till such time or supplier had rejected the details uploaded by the operator. Additional amount is paid by the operator in case of upward amendment and he gets credit of the reduced amount in liability if amendment is made downwards.

8.1.3 There was no late fee payable by operators before October, 2022 on delayed filing of the statement of a month but interest was payable for delayed filing. Interest is computed by system based on the net liability and the period of delay.

8.1.4 Tax collected and paid in a statement can be adjusted in subsequent statement if goods supplied are returned. It means that liability is paid on net of basis in GSTR-8. Details are provided GSTIN wise for a tax period.

8.2. System glitches

8.2.1 While filing statement in Form GSTR-8 for the month of February, 2022, three taxpayers registered on the same PAN in different States, could not file the said statement due to system glitches. After receiving the complaints from the ECOs, the system application was rectified on 29th July, 2022. Thereafter, the operators had filed the statements for the month of February, 2022 and subsequent months.

8. 2.2 Due date of filing GSTR-8 of a tax period is 10th of the following month. Due to the defect, the filing of the said statement was delayed. Though, there was no late fee on delayed filing of GSTR-8 (before October, 2022) but interest becomes payable after the due date and same is computed by system. The operators have filed the statements of tax periods which became due till rectification of the defect with interest.

8.2.3 All three impacted operators have deposited the liability for the month of February, 2022 by due date. For the month March, 2022, all operators have deposited the liability after due date but before fixing the defect. For April, 2022, only one operator have deposited the liability before fixing the defect but after due date only. Since, there was no glitch in depositing the liability through challan, therefore, interest paid on delayed filing of statement may not be refunded in those cases who have paid the liability while filing the statement or before filing the statement but after fixing of the glitch.

8.2.4 In earlier cases also, in the 15th ITGRC had adopted this approach in its meeting held on 12-08-2021. Based on the decision, Government had issued notification vide Notification No. 08/2022 dated 07-06-2022 for refunding the interest who had deposited the liability before filing the statement.

8.3. Interest paid

Summary of the interest paid by the operators who had deposited the liability by due date or those had deposited after due date but before fixing the defect is given as under:

Type of defect	Tax deposit status	No. of statements	Tax period	Amount of interest to be re-credited		
				IGST	CGST	SGST/UTGST
1	2	3	4	5	6	7
Problem faced in amendment of records	Deposited by due date	3	Feb, 2022	0	27335	27335
	Deposited after due date but before filing statement and fixing the defect	3	Mar, 2022	0	12668	12668
		1	Apr, 2022	0	2653	2653
TOTAL		**7**			**42656**	**42656**

Note – Liability deposited after fixing the defect but before filing the return have not been included in the above table for reversal on interest.

8.4. Proposal for refund of interest paid

8.4.1 ITGRC may take a view to refund the interest paid by the operators detailed at para 3 on the pattern of proposal approved earlier and notification issued by Government for the same. Amount of interest to be refunded will be credited to cash ledger under respective major/minor head.

EVP, GSTN presented the agenda with the power point PPT which is attached below as **Annexure-6**.

Discussion and Decision:

Additional Secretary, DOR asked about the amount involved in the issue at hand.

EVP, GSTN informed that about Rs.85 thousand is involved.

Additional Secretary, DOR said the same can be approved since the amount involved is small.

Chairperson said that if facts have been verified by GSTN then there should be no issue.

EVP, GSTN informed that in the 15th ITGRC meeting, same issue was taken up and approved by the ITGRC.

JS, GSTCS informed that a Notification No.08/2022-CT dated 07.06.2022 was also issued by GST Policy Wing.

Chairperson agreed with the same.

The ITGRC took note of the data fix and that interest waiver be recommended to GST Council for these taxpayers.

Annexure-1

Centre:

i. Member (GST), CBIC –Smt. V. Rama Matthew (Chairperson of ITGRC)

ii. Additional Secretary, DoR – Sh. Vivek Aggarwal

iii. Additional Secretary, GSTC- Sh. Pankaj Kumar Singh

iv. Pr. DG, DG Systems – Sh. S.R.Baruah

v. Pr. Chief Commissioner, CGST, Delhi Zone – Smt. Mallika Arya

States:

i. Commissioner, State Tax, West Bengal – Sh. Khalid Aizaz Anwar

ii. Additional Excise & Taxation Commissioner, Haryana – Sh. Siddharth Jain

iii. Joint Commissioner (Computer System), State Tax, Tamil Nadu – Sh.Thiru S. Ramasamy

iv. Joint Commissioner, State Tax, Gujarat – Sh. Mahesh Jani

GST Council Secretariat:

i. Joint Secretary, GSTCS- Smt. Ashima Bansal

Special Invitee:

i. Executive Vice President, GSTN- Sh. Dheeraj Rastogi

Annexure-2

Agenda on Data Fix issues

Technical Issues Requiring Data Fix of the Processed Incorrect Data through Backend Utilities

The changes in GST law / Rules, the representations received from taxpayers and other stakeholders require alterations to be continuously made in the GST System. GSTN has therefore adopted an agile methodology of developing applications for GST System keeping it modular to handle frequent changes in law and rules incorporated in a running application. This has necessitated integrating all new application changes downstream being dependent on the module undergoing the change and led to following concerns:

- Some corner scenarios owing to varying taxpayer actions and system behaviour, when subjected to heavy load, go unhandled leading to inconsistent data persisting in GST System.
- The data inconsistencies vary from ledger getting improper debits/credits, the return details stored in the system having incorrect information relating to situations where an irreversible commit has happened in the database.
- No option available to taxpayer to seek remedy in GST System leading to a need of performing data fixes through auditable utilities.

These issues generally have been noticed after

- A complaint is raised by taxpayer/ tax officer,
- Result of a periodic internal and external audits.

In order to resolve these issues, the processed incorrect data requires fixing, collecting correct data besides solving the software/platform issues being faced by respective stakeholders. Accordingly, GSTN has initiated fixing of technical issues identified, as per the SOP approved by the ITGRC in the15th meeting held on 12/08/2021, which is as below:

a. Analysis of data discrepancy.

b. Confirmation of discrepancy sought from MSP.

c. Upon confirmation, utility to be created by MSP to extract similar cases from GST System data.

d. A root cause analysis conducted to fix the issue and implemented by MSP in consultation with GSTN to rectify data inconsistency.

e. Scripts created for data fix and tested in multiple cycles by MSP and GSTN.

f. Approval note presented to competent authority to fix the issue.

g. After approval, audit entries created for each change affecting the data.

h. Scripts executed and post execution state of data stored for reference later.

i. List of all such changes to be presented and explained to GST policy wing & ITGRC and periodic internal audit also to be undertaken.

Data Fix cases are accordingly presented to ITGRC for deliberations and decision as mentioned in the attached Annexure.

Annexure to the Agenda

Technical Issues Requiring Data Fixes through Backend Utility (Period -1st Jan 2022 to 11th Nov 2022)

Cases Requiring Internal Approval of SVP, EVP/CEO or Post facto Approval of ITGRC									
S. No.	**Issue reported**	**Approved By**	**Date of Approval**	**No. of Cases Impacted**	**Financial Implication**	**Module**	**Correct Data Known / Not Known**	**Detail Description**	**Status**
1	Issue in GSTR6 form. Taxpayers were unable to view ISD invoices in GSTR2A form, as GSTR2A form is a read only where Supplier can see the invoices added by the recipient.	EVP (Services)	25-01-2022	88	Yes	GSTR6	Known	In this issue, ISD invoices are not reflecting in GSTR2A form when uploaded from GSTR6 form. There are Multiple GSTR6 users who have raised ticket against different supplier's GSTIN. Reason: While adding the multiple invoices through offline utility, due to the issue in code, only the last invoice was getting saved in ISD_UNIT_RelationShipHbase table and that is why user was unable to view all their invoices on the portal.	It is fixed in production on 15th Feb 2022 via RQM:22445
2	Duplicate invoice issue in GSTR6 form. At the time of submission of return, the portal is showing "Error in	EVP (Services)	10-02-2022	1	No	GSTR6	Known	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing "Error in Submission". The error report is showing that	This happened for only one TP and due to that code fix was not taken. Data fix

	Submission“.							the ISD Invoices and ISD credit notes are duplicate but there is no duplication in either ISD invoices or ISD credit notes. Taxpayer is getting "Error in Submission" while filing the GSTR6 but then after generating Error report it is showing 'Duplicate ISD invoice’. Reason: According to the code flow invoice should be inserted into “UPLOADED_ISD_NOTES”, “UPLOADED_ISD_INVOICES”, “ISD_INVOICES” tables during save. But for this user data is inserting into “ISD_INVOICE_DTL”, “ISD_NOTE_DTL”, “GSTR6SUBMIT” table also. When user submitting the form user getting the error as duplicate invoice because invoice is present in below DTL Hbase table.	done by ICR.
3	Issue prior to Migration of Tamil Nadu.Clean up of recovery Cases created in Case management folder, where recovery cases have no reference to the Demand order (for the 33-state code –	EVP (Services)	08-04-2022	88	Yes	Recovery	Known	The multiple recovery cases were created for single demand id through event_dtl job. The user was facing a system error, as the mentioned CRN’s do not have the demand details mapped to it. Reason: Due to some technical issues in event Job process, Multiple recovery cases were created	Issue was before Migration of Tamil Nadu from Modal 1 to Modal 2. Issue was permanently fixed by

	Tamil Nadu SR#601295). Tax officers are facing System error while fetching the recovery cases for 86 CRN's (Case Reference Number).							without a reference of demand id in case management folder. As a result, the case management folder had unmapped recovery id which does not require any action to be taken. We do not have logs of that time to cross verify what was exact issue.	executing a utility job on 25th Feb 2022.
4	Recovery of TCS amount credited twice in cash ledgers of suppliers. (RQM: RET_R2X_18318). Suppliers have taken excess TCS credit than due, either by filing GSTR-2X more than once or by accepting the same record across two tax periods.	EVP (Services)	24-05-2022	37	Yes	Cash Ledger	Known	Due to change in status from filed to not filed or posting the records across two tax periods, taxpayer was able to get the credit twice. Reason: It is suspected that following scenarios may have caused the defect: Return filing status cache update issue could have caused the issue. Second scenario can be with XA transaction.	It is fixed in production.
5	Late fee reversal of GSTR6 taxpayer. Taxpayer was unable to file GSTR6 form in production environment for return period July, 2021 due to "Error in Submission".	EVP (Services)	26-05-2022	1	No	GSTR6	Known	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing "Error in Submission" and the report is showing that the ISD Invoices and ISD credit notes are duplicate. But there is no duplication in either ISD invoices or ISD credit notes. Reason: Taxpayer were unable	This happened only once so code fix was not taken. Data fix was done by Utility on 10th Feb 2022 via ICR:14811

								to submit the GSTR6 due to the error "Duplicate ISD Invoice" displayed on the portal.	
6	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Now reversal of late fee and Interest in GSTR5 form is requested.	EVP (Services)	26-05-2022	2	Yes	GSTR5	Known	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Reason: Due to the code issue (MYSQL upgrade), there was a delay in providing the correct resolution to the taxpayers, they were unable to file GSTR5 form within due date, so late fee and Interest were charged to the taxpayers. Although Taxpayers have filed the form along with their late fee and Interest, we have got the request of late fee and interest reversal from Daily ticket tracker for the below mentioned taxpayers.	Permanent fixon 16th Nov 2021 via RQM: 22058
7	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to	EVP (Services)	26-05-2022	1028	Yes	Cash Ledger	Known	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. **Reason:** Before recovery utility	It is fixed in production on 31st Mar 2022 via CR:21592_A

	negative liability statement. The negative liability was reduced by debiting the amount from negative liability statement. In some cases, the amount has been debited twice.							execution, a select query was executed to extract the impacted records for recovery. In that select query, we were ignoring those records which were already recovered. But in that select query, Return Type='CMP08' was missed while extracting the impacted records, only GSTR-4 (Annual) was considered. **Status:** It is fixed in production on 31st Mar 2022 via CR:21592_A	
8	Duplicate entries present in RTN_FILING_STAUS table. At the time of Filling, GSTR-1 summary not generated by the system and there is no consolidated summary shown while filling GSTR-1.	EVP (Services)	07-06-2022	1	No	GSTR1	Known	Tax payer is getting error "Latest Summary is not available, Please generate summary and try again". Tax payer has already deleted history from the browser and tried different computer also but getting the same error and unable to file the return. Reason: There are 2 entries presents in Return Filing Status table for GSTN 24AXLPT8085E1ZZ for return period 042022, hence tax payer is not able to proceed with filing.	Permanent fix will be deployed in production on Dec 2022.
9	Cash ledger entries have been missed out or omitted after filing R2X. Credit entry to be made in the	EVP (Services)	07-06-2022	2	Yes	Cash Ledger	Known	Taxpayers having GSTIN 18AAACH0351E1Z4 and 19ALIPD4105A1ZS have accepted the TDS credit of return period 02/2022, 03/2022	It is fixed in production.

	cash ledger (Table: CASH_LDG) of taxpayers							respectively but the credit entry is not available in CASH_LDG table even though filing is done. Reason: Due to the mismatch of row check value, credit entry was not made to the cash ledger (Table: CASH_LDG).	
10	Taxpayers are not able to file GST CMP-08 for the subsequent tax period.	EVP (Services)	20-07-2022	3	Yes	CMP-08	Known	It has been noticed that few composition taxpayers who have attempted to file statement in Form GST CMP-08 between 15th June' 21 to 8 th July' 21, got redundant entries in their respective ledger tables and out of these cases, taxpayers who have liability open in any of the previous tax periods are unable to file non-nil statement for subsequent tax period. Reason: Due to XA removal, data for few taxpayers got impacted as rollback was not happening from ledger tables (RTN_LIAB_LDG/RTN_LIAB_MSTR/RTN_LIAB_MSTR_HIST) in case of any issue/exception like.	Permanent fix is deployed in production on 9th Jul 2022.
11	Partial Data movement i.e. Data missing in INV_DETL table of Hbase. System is throwing error in GSTR-1	EVP (Services)	25-07-2022	6	No	GSTR1	Known	This is a partial data movement issue before GSTR1 code improvement, where data is present in "INVOICES" table of HBase however few columns (OSPD,	It is fixed in production on 26th April 2022.

	table 9A and not allowing to submit amended invoice while amending export invoices from "without payment" to "with payment" type.							TYPE) are missing in "INV_DETL" table. Permanent fix has been done via code improvement. However affected users, before code improvement, whose data is not sync for them, data fix is required. Reason: According to the older code flow invoice should be inserted from "INVOCES" to "INV_DETL" table during submit, However some column (OSPD,TYPE) are missing hence he is not able to amend the invoice.	
12	Re-credit of interest paid on late filing of statement in Form GSTR-8 by e-commerce operators due to system glitches. (Defect: RQM: RET_R8_19830). The post filing process for GSTR-8 in the previous month could not be completed due to which filing of next month was blocked.	EVP (Services)	25-07-2022	116	Yes	GST R8	Known	Since, filing of the statement is not mandatory every month, some operators have not filed the statement. The operators who have deposited the amount due by the due date but paid interest due to late filing of statement, are eligible for reversal of the interest paid. Reason: Upon analysis, it was seen that operator has filed statement and message posted for Kafka queue for post filing process. On processing of post filing process, transaction stuck-up in IP/ ER. When operator tried to file his next	It is fixed on production.

								period's statement, application blocked him with the error message " Return filing process is not yet completed for the earlier period ".	
13	GSTR9 || Users have filed R9 but form status is RTF in DB and not filed on annual dashboard. Taxpayer has filed GSTR9 form, but status is still not filed on portal.	EVP (Services)	25-07-2022	1	No	GSTR9	Known	User has claimed that he has filed the form, but status is still not filed on portal. It is due the issue that entries got posted to ledger tables and cash is also debited for user's late fee. However, corresponding record is not updated from Ready To File to File in Return Filing Status table in return database. Therefore, user is still seeing form status as not filed even after filing and paying the late fee. Reason: Transaction handling between different data sources is not properly done.	Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt this solution after discussion. Data fix in such cases is done through ICR.

14	Duplicate Amendable column in INVOICE_DTL table of Hbase. When Taxpayer is trying to amend EXPORT invoices from upper case to lower case records stuck in "In-Progress" Due to duplicate Amdbl column present in "INVOICE_DTL" Table.	EVP (Services)	17-08-2022	83	No	GSTR1	Known	On Analysis it is found that AMDBL column is present twice in "INVOICE_DTL" table for the same invoice. Hence while user trying to amend invoice from Upper case to lower case he is getting invoice in "In-Progress". Reason: While analysing logs it is found that at the time of submit, since invoice column were present with upper case, system validated it as different and inserted AMDBL column with lower case.	It is fixed in production on 26th April 2022.
15	When Taxpayer is validating the statement in Refund, system is giving error "RF-FCAS1007" and not allowing to file the Refund.	EVP (Services)	17-08-2022	32	No	GSTR1	Known	While analyzing, it is found that Meta Data (MD) column is not present in "Invoice Detail" table. The invoices went to error while adding to GSTR1 form due to which Meta column was not inserted to "Invoice Detail" Table though it is present in "Invoices" table. Reasons: - Since MD column is not present in " Invoice Detail " table hence user will not be able to raise refund for affected invoices, validation will fail at time of initiating refund.	It is fixed in production on 26th April 2022.

								- It is also noticed that due to connection errors while inserting data to Invoice Detail table, invoices went to error.	
16	Taxpayers raised tickets stating that they filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. Ledgers are updated on the basis of payment table whereas pdf is generated on the basis data entered.	EVP (Services)	17-08-2022	7	Yes	GST R3B	Not Known	After login to the GSTN portal, taxpayer can open the GSTR-3B form window on multiple tabs at the same instant. There is no restriction to this behavior at present. Taxpayer have filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. **Reason:** Difference between data that was saved in HBASE and the one that was posted to ledger db in Return Liability Ledger and ITC Ledger tables.	Permanent fix is finalized and it is with REAP team. RQM:22721
17	Taxpayers stuck up in filing Form GST ITC-01 for claiming credit- RQM 23200. Newly registered taxpayers or taxpayers opting out of composition scheme or when exempted goods become taxable, claim	EVP (Services)	17-08-2022	23	Yes	ITC Form	Not Known	ITC01 form has to be filed within 30 days of becoming eligible to claim credit. Few taxpayers were stuck up in filing the said form between 29th June, 2022 and 5thJuly, 2022. One taxpayer could not file the form as downtime started from 11:00 pm on 16th June, 2022. Reason: Few taxpayers were unable to file declaration in Form	This issue has been faced only once. Permanent fix not required. All impacted cases were executed on 25th Aug 2022 in

	credit on closing stock u/s 18(1) of Act through Form GST ITC-01.							GST ITC-01 due to deployment of the change in topology. "System was showing following error – Your submit is in progress. Check after sometime."	productio n.
18	Data issue due to partial commit happened on click of reset button (RQM: RET_3B_15222).	EVP (Services)	17-08-2022	2	Yes	GST R3B	Not Known	It may be recalled that initially, there was a four tier system of filing return in Form GSTR-3B, viz. Save, Submit, Offset liability and File . All saved entries used to become non-editable after clicking on 'Submit' button. Liability register and Credit ledger used to be updated at submit stage. In the beginning, lot of complaints were received due to freezing of entries before filing (at submit stage). In the beginning, returns lying at submit stage were reset from the backend as lot of complaints were received on account of inadvertent mistakes. Reason: This is an old issue when there used to be a reset button on the portal.	Permane nt fix is not required because RESET button is removed from system. Old return periods data are being fixed by backend query.

19	Form GST ITC-03 filed without debit in the ledgers - RQM 21652. Taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by the taxpayer while filing the said form.	EVP (Services)	17-08-2022	38	Yes	ITC Form	Not Known	After opting into composition scheme, taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by taxpayer while filing the said form. No ledger transactions had happened for the same. Reason: Due to some technical issues, the details added were not visible in UI. However, the NIL filing details were saved and transmitted at the time of filing. Therefore, due to this defect, the statement was filed as NIL. Invoice details were still saved in the backend. However, it was not present in UI.	It is fixed in production on 15th June 2022 via ICR: 16751
20	While filing GSTR4 Annual form, few taxpayers are getting incorrect auto populated amount in Table 5 where one quarter's data is missing.	EVP (Services)	26-08-2022 28-08-2022	12	Yes	GST R4	Known	Taxpayer is getting incorrect amount in table 5 of GSTR4 Annual form due to which taxpayers are not able to file their return as system is asking additional liability to be paid. This is an Adhocexercise which will take some time and due to that, we have to apply data fixes on urgent basis considering ageing of tickets. Reason: Under analysis.	Analysis for permanent fix is under progress.

21	TDS amount is credited to their Cash Ledger by filing the TDS & TCS Credit received form twice for same tax period.	EVP (Services)	14-09-2022 15-09-202	141	Yes	Cash Ledger	Known	Cases where the amount of tax deducted and reported in GSTR-7 differs from the amount credited to cash ledger of deductee through TDS/TCS credit received form. **Reason:** • When user login to the TDS and TCS credit received form, status is displayed from the cache details. As there is a problem with the cache, user was able to see status as 'Not filed'. But, in the Return Filing Status table, the status was existing as filed. • In the second scenario, while amending the TDS record in R7, the status of the earlier TDS / TDSA record is verified in R2X related table to check whether it is accepted and filed or not.	Issue is fixed in production via RQM: RET_R7_19111
22	While filing GSTR-4/ GSTR3B- "Error! Payment amount should not exceed the outstanding liability"–	EVP (Services)	28-09-2022 29-09-202	2	Yes	GSTR4/3B	Known	GSTR4 calculates applicable late fees at the time of submit (or in the new model at the time of Offset). The late fee thus calculated has three components.	GSTR4 quarter form is disabled in prod. Permanent fix needs to be

	RQM: 14189. While filing GSTR4 some of taxpayer are getting the error “Issue while filing GSTR-4 - “Error! Payment amount should not exceed the outstanding “.							Reason: Negative late-fee has been applied to the ledger due to the logic. Further, as per the logic in GSTR-4 and GSTR-3B any negative liability is carried forward to the next return period using a pair of Credit/Debit entries.	analyzed. Utility is used to fix the data.
23	CMP08 || The end user is unable to file GST CMP-08 as error is reflecting "Data for the internal Transaction Id Already Posted"– RQM: 21266. The taxpayer is unable to file GST CMP-08 as error is reflecting "Data for the internal Transaction Id Already Posted" while filing.	EVP (Services)	03-10-2022	64	No	CMP-08	Known	Filing status is ‘Not Filed’ and taxpayer is not allowed to File GST CMP-08 again, as error is reflecting "Data for the internal Transaction Id already Posted" while filing. Reason: For few taxpayers, all ledger tables were updated successfully but request status did not change from RTF to FIL in RTN_FILING_STATUS table.	Partially fixed on 14th Jun 2021 in production. Another RCA is Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt after

									discussion.
24	Correction in cash ledger balance due to credit and debit happened simultaneously. The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application.	EVP (Services)	25-10-2022 26-10-2022	3	Yes	Cash Ledger	Known	The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. Reason: The issue had occurred due to debit and credit entry in the cash ledger happening at the same time, which led to incorrect cash balance in the cash ledger. The reason for occurrence of the issue is due to dirty read where the two transactions happened simultaneously and read the same record.	CR#21982 has been raised for permanent fix. This CR is aligned with REAP team but yet to be picked up for development.
25	R4X || Few taxpayers are able to file their return without clearing liabilities in case the liability amount is already present in negative liability table.	EVP (Services)	27-10-2022	24	Yes	R4X	Known	Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. If error persists quote error number LG9048 when you contact customer care for quick resolution."	It is fixed in production on 31st Mar 2022 via CR: 21592_A.

	Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid.							**Reason:** This issue started coming post one recent major CR 21592 implementation. In this CR, 'isNegativeValueAllowed' flag was introduced to check whether credit entry of negative liability should be posted into Return Negative Liability Statement History table or not. But this new flag also stopped posting debit entry to Return Negative Liability Statement History table if tax amount difference between Table 6 and table 5 (either outward supply or inward supply) of GSTR4X is greater than 10% or 1000 (whichever is less)	
26	Users are able to file GSTR4 without clearing liabilities -: Re-computation of liability– RQM: 17176 / 20801. GSTR-4: User has filed GSTR-4 without clearing the liability amount. GST CMP-08: As per the issue reported by user, he is not able to file	EVP (Services)	27-10-2022	1	Yes	GSTR4	Known	Transaction handling was not proper due to mix of Transaction Manager/ Non-Transaction Manager in GSTR-4. Due to this, in case of any failure rollback was not done completely from all the respective data sources. In this case, filing status has been updated as "Filed" in return filing status table without updating in ledger table besides the rollback of liability setoff entries in ledger. Reason: User has filed GSTR-4 without	Partially fixed on 14th Jun 2021 in production on 14th Jun 2021 via ICR-12663. Another RCA is Known issue across the application. Analysis is under progress.

	CMP-08 as getting 'ERROR!! Liability for previous tax period is yet to be paid'.							clearing the liabilities and due to this, user is unable to file statement in Form GST CMP-08 for next quarter.	
27	Taxpayer has saved invoices in ITC-03 & submitted the form with ' NULL' check but unable to offset the outstanding liabilities.	EVP (Services)	27-10-2022	1	Yes	ITC Form	Known	ITC03 form: Taxpayer has saved invoices in ITC-03 & submitted the form with ' NULL' check but unable to offset the outstanding liabilities. Reason: Taxpayer forgot to uncheck the NIL checkbox while submitting ITC03 form, however invoices were already added in the form. Now status is in 'Submitted" state and taxpayer is not ready to file the form as he is unable to offset the corresponding liabilities.	It is a single Taxpayer issue, permanent fix not required. Data fix was done via ICR:18439 executed on 4th Nov 2022.
28	Multiple Blocking of ITC credit – Details of impacted GSTINs. 27 GSTINs involving multiple blocking of ITC credits were shared for backend correction of the ITC	EVP (Services)	08-07-2022	27	Yes	ITC Form	Not Known	27 (21+6) GSTINs involving multiple blocking of ITC credits were shared for backend correction of the ITC ledgers by GSTN. Reason: Due to technical issue CBIC was unable to capture the response after blocking ITC by taxpayer. Officer tried multiple times with same GSTIN to block	Out of 27 GSTINs, 26 GSTIN have been unblocked. Rest 1 GSTIN (33AAJFC7464K1Z5) was cancelled and now it is in active

	ledgers by GSTN.							the ITC.	status so we are in process to unblock this GSTIN as well.

Annexure-3

The financial implications of category-2 cases

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
1	Issue in GSTR6 form. Taxpayers were unable to view ISD invoices in GSTR2A form, as GSTR2A form is a read only where Recipient can see the invoices added by the Supplier. **Financial Implication-YES Whether Correct Data Known-YES**	88	GSTR 6	In this issue, ISD invoices are not reflecting in GSTR2A form when uploaded from GSTR6 form. There are Multiple GSTR6 users who have raised ticket against different supplier's GSTIN. Reason: While adding the multiple invoices through offline utility, due to the issue in code, only the last invoice was getting saved in ISD_UNIT_RelationShipHbase table and that is why user was unable to view all their invoices on the portal. An ISD credit of Rs 52, 33,708/- were made to be reflected in GSTR2A.	It was fixed in production on 15th Feb 2022 via RQM:22445

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
2	Recovery of TCS amount credited twice in cash ledgers of suppliers. (RQM: RET_R2X_18318 – TDS/TCS Credit Received Form). Suppliers have taken excess TCS credit than due, either by filing GSTR-2X more than once or by accepting the same record across two tax periods. **Financial Implication-YES Whether Correct Data Known-YES**	37	Cash Ledger	Due to change in status from filed to not filed or posting the records across two tax periods, taxpayer was able to get the credit twice. Reason: It is suspected that following scenarios may have caused the defect: Return filing status cache update issue could have caused the issue. Second scenario can be with XA transaction. The total amount of Rs 5,09,376 was debited in the Cash Ledger.	It is fixed in production.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
3	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Now reversal of late fee and Interest in GSTR5 form is requested. **Financial Implication-YES** **Whether Correct Data Known-YES**	2	GSTR5	Taxpayers were unable to file GSTR5 form in production environment due to the error "Submission had some error". Reason: Due to the code issue (MYSQL upgrade), there was a delay in providing the correct resolution to the taxpayers, they were unable to file GSTR5 form within due date, so late fee and Interest were charged to the taxpayers. Although Taxpayers have filed the form along with their late fee and Interest, we have got the request of late fee and interest reversal from Daily ticket tracker. A late fee amount of Rs 1550 (CGST – 775 and SGST – 775) was waived and an amount of Rs 2, 17.466 interest (CGST 108733 , SGST 108733) is required post facto approval of GST Council for reversal.	Permanent fix on 16th Nov 2021 via RQM: 22058

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
4.	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. The negative liability was reduced by debiting the amount from negative liability statement. In some cases, the amount has been debited twice. **Financial Implication- YES** **Whether Correct Data Known-YES**	1028	Cash Ledger	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. **Reason:** Before recovery utility execution, a select query was executed to extract the impacted records for recovery. In that select query, we were ignoring those records which were already recovered. But in that select query, Return Type='CMP08' was missed while	It is fixed in production on 31st Mar 2022 via CR:21592_A

				extracting the impacted records, only GSTR-4 (Annual) was considered. **Status:** It is fixed in production on 31st Mar 2022 via CR:21592_A The total amount of Rs 2, 65, 67,031. (CGST 1,32,71,615 , 1,32,71,615, IGST – 23801) was re credited.	

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
5	Cash ledger entries have been missed out or omitted after filing R2X. Credit entry to be made in the cash ledger (Table: CASH_LDG) of taxpayers. **Financial Implication- YES** **Whether Correct Data Known- YES**	2	Cash Ledger	Taxpayers having GSTIN 18AAACH0351E1Z4 and 19ALIPD4105A1ZS have accepted the TDS credit of return period 02/2022, 03/2022 respectively but the credit entry is not available in CASH_LDG table even though filing is done. Reason: Due to the mismatch of row check value, credit entry was not made to the cash ledger (Table: CASH_LDG). A total amount of Rs 49,062 (CGST 24531, SGST 24531) was credited to the cash ledger.	It is fixed in production.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
6	Taxpayers are not able to file GST CMP-08 for the subsequent tax period. **Financial Implication- YES** **Whether Correct Data Known- YES**	3	CMP-08	It has been noticed that few composition taxpayers who have attempted to file statement in Form GST CMP-08 between 15th June' 21 to 8th July' 21, got redundant entries in their respective ledger tables and out of these cases, taxpayers who have liability open in any of the previous tax periods are unable to file non-nil statement for subsequent tax period. Reason: Due to XA removal, data for few taxpayers got impacted as rollback was not happening from ledger tables (RTN_LIAB_LDG/RTN_LIAB_MSTR/RTN_LIAB_MSTR_HIST) in case of any issue/exception like. An excess liability debited in the ledger of Rs 2,10,210 (CGST 1,05,105, SGST 1,05,105) was corrected.	Permanent fixis deployed in production on 9th Jul 2022.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
7	Re-credit of interest paid on late filing of statement in Form GSTR-8 by e-commerce operators due to system glitches. (Defect: RQM: RET_R8_19830). The post filing process for GSTR-8 in the previous month could not be completed due to which filing of next month was blocked. **Financial Implication- YES** **Whether Correct Data Known- YES**	116	GSTR-8	Since, filing of the statement is not mandatory every month, some operators have not filed the statement. The operators who have deposited the amount due by the due date but paid interest due to late filing of statement, are eligible for reversal of the interest paid. Reason: Upon analysis, it was seen that operator has filed statement and message posted for Kafka queue for post filing process. On processing of post filing process, transaction stuck-up in IP/ ER. When operator tried to	It is fixed on production.

				file his next period's statement, application blocked him with the error message "Return filing process is not yet completed for the earlier period ". In 116 cases an interest amount of IGST Rs 76,01,603, CGST – Rs 27,23,696 and SGST/UTGST – Rs 27,23,696 was reversed which wasapproved by GST Council for credit to the Cash Ledgers of the impacted Operators vide notification 08/2022 and hence it was implemented. I	

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
8	While filing GSTR4 Annual form, few taxpayers are getting incorrect auto populated amount in Table 5 where one quarter's data is missing. **Financial Implication- YES** **Whether Correct Data Known- YES**	12	GSTR4	Taxpayer is getting incorrect amount in table 5 of GSTR4 Annual form due to which taxpayers are not able to file their return as system is asking additional liability to be paid. This is an Adhoc exercise which will take some time and due to that, we have to apply data fixes on urgent basis considering ageing of tickets. Reason: Under analysis. An amount of Rs 32,55,026 (CGST – 16, 01,300, SGST – 16, 01,300, IGST – 52,426) was posted in Table 5 of Form GSTR-4.	Analysis for permanent fix is under progress.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status

9	TDS amount is credited to their Cash Ledger by filing the TDS & TCS Credit received form twice for same tax period. **Financial Implication- YES** **Whether Correct Data Known- YES**	141	Cash Ledger	Cases where the amount of tax deducted and reported in GSTR-7 differs from the amount credited to cash ledger of deductee through TDS/TCS credit received form. **Reason:** • When user login to the TDS and TCS credit received form, status is displayed from the cache details. As there is a problem with the cache, user was able to see status as 'Not filed'. But, in the Return Filing Status table, the status was existing as filed. • In the second scenario, while amending the TDS record in R7, the status of the earlier TDS / TDSA record is verified in R2X related table to check whether it is accepted and filed or not. The amount of Rs 36.27 lakhs (CGST+SGST) was debited in the Cash Ledgers of concerned taxpayers.	Issue is fixed in production via RQM: RET_R7_19111

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
10	Correction in cash ledger balance due to credit and debit happened simultaneously. The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. **Financial Implication- YES** **Whether Correct Data Known- YES**	03	Cash Ledger	The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. Reason: The issue had occurred due to debit and credit entry in the cash ledger happening at the same time, which led to incorrect cash balance in the cash ledger. The reason for occurrence of the issue is due to dirty read where the two transactions happened simultaneously and read the same record. An amount of Rs 689468 (CGST + SGST – Rs 6,87,622, Interest – Rs	CR#21982 has been raised for permanent fix. This CR is aligned with REAP team but yet to be picked up for development.

				1296, Fee – Rs 550) was corrected in the cash Ledger.	

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
11	R4X (GSTR 4 Annual) Few taxpayers are able to file their return without clearing liabilities in case the liability amount is already present in negative liability table. Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. **Financial Implication- YES** **Whether Correct Data Known- YES**	24	R4X (GSTR 4 Annual)	Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. If error persists quote error number LG9048 when you contact customer care for quick resolution." **Reason:** This issue started coming post one recent major CR 21592 implementation. In this CR, 'isNegativeValueAllowed' flag was introduced to check whether credit entry of negative liability should be posted into Return Negative Liability Statement History table or not. But this new flag also stopped posting debit entry to Return Negative Liability Statement History table if tax amount difference between Table 6 and table 5 (either outward supply or inward supply) of GSTR4X (GSTR 4 Annual) is greater than 10% or 1000 (whichever is less) A total amount of Rs 92,050 (CGST 46,025 , SGST – 46,025) was posted in the Liability Ledger.	It is fixed in production on 31st Mar 2022 via CR: 21592_A.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
12	Users are able to file GSTR4 without clearing liabilities -: Re-computation of liability– RQM: 17176 / 20801. GSTR-4: User has filed GSTR-4 without clearing the liability amount. GST CMP-08: As per the issue reported by user, he is not able to file CMP-08 as getting 'ERROR!! Liability for previous tax period is yet to be paid'. **Financial Implication- YES** **Whether Correct Data Known- YES**	01	GSTR-4	Transaction handling was not proper due to mix of Transaction Manager/ Non-Transaction Manager in GSTR-4. Due to this, in case of any failure rollback was not done completely from all the respective data sources. In this case, filing status has been updated as "Filed" in return filing status table without updating in ledger table besides the rollback of liability setoff entries in ledger. Reason: User has filed GSTR-4 without clearing the liabilities and due to this, user is unable to file statement in Form GST CMP-08 for next quarter. An amount of Rs 1500 (CGST – Rs 750, SGST – Rs 750) was posted to the liability ledger.	Partially fixed on 14th Jun 2021 in production on 14th Jun 2021 via ICR-12663. Another RCA is Known issue across the application. Analysis is under progress.

S. No.	Issue reported	No. of Cases Impacted	Module	Detail Description	Status
13	Taxpayer has saved invoices in ITC-03 & submitted the form with 'NULL' check but unable to offset the outstanding liabilities. **Financial Implication- YES** **Whether Correct Data Known- YES**	01	ITC Form	ITC03 form: Taxpayer has saved invoices in ITC-03 & submitted the form with 'NULL' check but unable to offset the outstanding liabilities. Reason: Taxpayer forgot to uncheck the NIL checkbox while submitting ITC03 form, however invoices were already added in the form. Now status is in 'Submitted" state and taxpayer is not in 'Ready to file' status in the form as he is unable to offset the corresponding liabilities. An amount of Rs 3,68,778 (CGST – Rs 1,84,389 SGST – Rs 1, 84,389) will be paid on filing the said form.	It is a single Taxpayer issue, permanent fix not required. Data fix was done via ICR: 18439 executed on 4th Nov 2022.

Annexure-4

Agenda for 17th ITGRC (Part II)

Reversal of Interest Paid on Delayed Filing Of Statement in Form GSTR-8 by E-Commerce Operators Due to Technical Glitches.

1. Background

1.1 Section 52 of the GST Act mandates an e-commerce operator to collect tax at the specified rate on the net value of the supplies made through it by other suppliers where consideration has to be collected by the operator. The operator has to file the details of tax so collected in a statement in Form GSTR-8 on monthly basis. On the basis of statement so filed by operators, the tax collected is made available to the concerned suppliers for taking the credit into their cash ledgers.

1.2 The operators are not required to file the aforesaid statement for the month in which no supply has been made by any supplier through his portal. But the details provided in a statement of the month can be amended at the time of filing statement of the subsequent month if supplier has not taken action for taking the credit till such time or supplier had rejected the details uploaded by the operator. Additional amount is paid by the operator in case of upward amendment and he gets credit of the reduced amount in liability if amendment is made downwards.

1.3 There was no late fee payable by operators before October, 2022 on delayed filing of the statement of a month but interest was payable for delayed filing. Interest is computed by system based on the net liability and the period of delay.

1.4 Tax collected and paid in a statement can be adjusted in subsequent statement if goods supplied are returned. It means that liability is paid on net of basis in GSTR-8. Details are provided GSTIN wise for a tax period.

2. System glitches

2.1 While filing statement in Form GSTR-8 for the month of February, 2022, three taxpayers registered on the same PAN in different States, could not file the said statement due to system glitches. After receiving the complaints from the ECOs, the system application was rectified on 29th July, 2022. Thereafter, the operators had filed the statements for the month of February, 2022 and subsequent months.

2.2 Due date of filing GSTR-8 of a tax period is 10th of the following month. Due to the defect, the filing of the said statement was delayed. Though, there was no late fee on delayed filing of GSTR-8 (before October, 2022) but interest becomes payable after the due date and same is computed by system. The operators have filed the statements of tax periods which became due till rectification of the defect with interest.

2.3 All three impacted operators have deposited the liability for the month of February, 2022 by due date. For the month March, 2022, all operators have deposited the liability after due date but before fixing the defect. For April, 2022, only one operator have deposited the liability before fixing the defect but after due date only. Since, there was no glitch in depositing the liability through challan, therefore, interest paid on delayed filing of statement may not be refunded in those cases who have paid the liability while filing the statement or before filing the statement but after fixing of the glitch.

2.4 In earlier cases also, in the 15th ITGRC had adopted this approach in its meeting held on 12-08-2021. Based on the decision, Government had issued notification vide Notification No. 08/2022 dated 07-06-2022 for refunding the interest who had deposited the liability before filing the statement.

3. Interest paid

Summary of the interest paid by the operators who had deposited the liability by due date or those had deposited after due date but before fixing the defect is given as under:

Type of defect	Tax deposit status	No. of statements	Tax period	Amount of interest to be re-credited		
				IGST	CGST	SGST/UTGST
1	2	3	4	5	6	7
Problem faced in amendment of records	Deposited by due date	3	Feb, 2022	0	27335	27335
	Deposited after due date but before filing statement and fixing the defect	3	Mar, 2022	0	12668	12668
		1	Apr, 2022	0	2653	2653
TOTAL		**7**			**42656**	**42656**

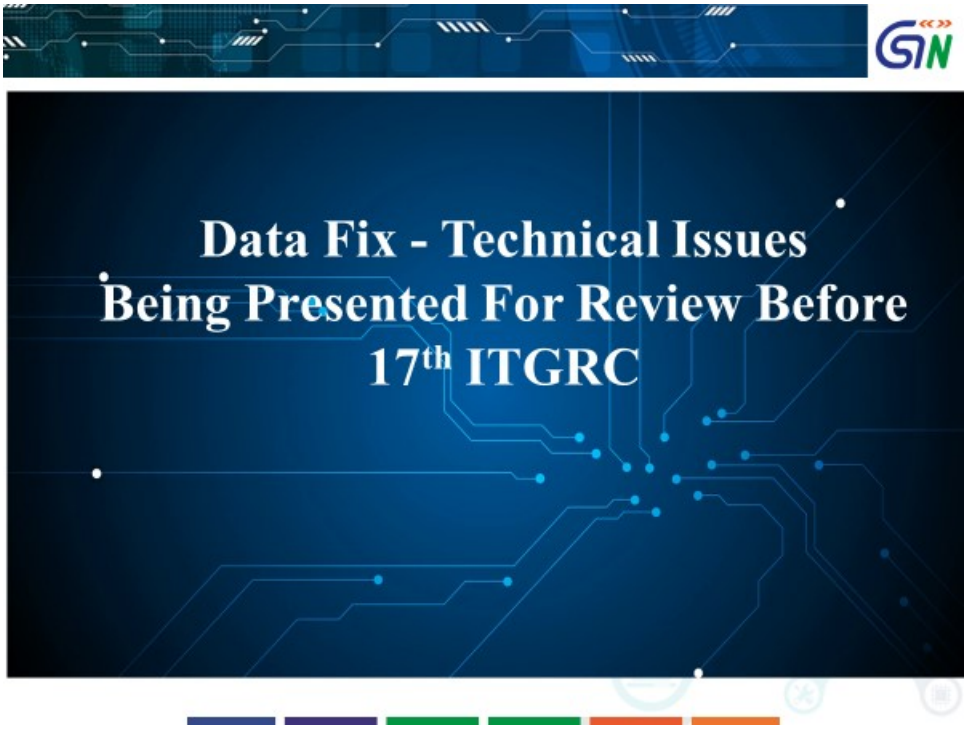
Note – Liability deposited after fixing the defect but before filing the return have not been included in the above table for reversal on interest.

4. Proposal for refund of interest paid

4.1 ITGRC may take a view to refund the interest paid by the operators detailed at para 3 on the pattern of proposal approved earlier and notification issued by Government for the same. . Amount of interest to be refunded will be credited to cash ledger under respective major/minor head.

Annexure-5

Power point presentation presented by GSTN before the 17th ITGRC



S. No.	Types of Issues	Count
1	Technical issue with no financial Implications – Correct data known	Slide No. 4 to 12
2	Technical issue affecting locally with financial implications – Correct data known	Slide No. 14 to 27
3	Technical issue affecting locally with financial implications – Correct data not known with certainty	Slide No. 29 to 33

1 : Duplicate Invoice Issue In GSTR6 Form

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
At the time of submission of GSTR6 return, the portal is showing error as "Error in Submission".	11-02-22	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing error as "Error in Submission" and the error report is showing that the ISD Invoices and ISD credit notes are duplicate but there is no duplication in either ISD invoices or ISD credit notes. Taxpayer is getting error "Error in Submission" while filing the GSTR6 but then after generating Error report it is showing 'Duplicate ISD invoice'. **Reason:** According to the code flow invoice should be inserted into "UPLOADED_ISD_NOTES", "UPLOADED_ISD_INVOICES", "ISD_INVOICES" tables during save. But for this user data is inserting into "ISD_INVOICE_DTL", "ISD_NOTE_DTL", "GSTR6SUBMIT" table also. When user submitting the form user getting the error as duplicate invoice because invoice is present in below DTL Hbase table. **Status:** This happens for only one TP and due to that code fix was not taken. Data fix done by ICR. **Financial Implication : No** **Taxpayers Impacted – 1**

2 : Late Fee Reversal Of GSTR6 Taxpayer

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayer was unable to file GSTR6 form in production environment for return period July, 2021 due to the error "Error in Submission".	27-05-22	The invoices and credit notes uploaded were processed by the portal while uploading the JSON. At the time of submission of return, the portal is showing error as "Error in Submission" and the error report is showing that the ISD Invoices and ISD credit notes are duplicate. But there is no duplication in either ISD invoices or ISD credit notes. **Reason:** Taxpayer were unable to submit the GSTR6 due to the error "Duplicate ISD Invoice" displaying on the portal. **Status:** This happens only once so code fix was not taken. Data fix was done by Utility on 10th Feb 2022 via ICR:14811 **Financial Implication : No** **Taxpayers Impacted – 01**

3: Duplicate Entries Present In Return Filing Status Table

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
At the time of Filling, GSTR-1 summary not generated by the system and there is no consolidated summary shown while filling GSTR-1.	08-06-22	Tax payer is getting error "Latest Summary is not available, Please generate summary and try again". Tax payer has already deleted history from the browser and tried different computer also but getting the same error and unable to file the return. **Reason:** There are 2 entry presents in Return Filing Status table for GSTN 24AXLPT8085E1ZZ for return period 042022, hence tax payer is not able to proceed with filing. **Status:** Permanent fix will be deployed in production on Dec 2022. **Financial Implication : No** **Taxpayers Impacted – 01**

4 : GSTR-4/ GSTR3B- : Error in Payment Amount

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
While filing GSTR-4/GSTR-3B some of user are getting the error " Issue while filing GSTR3B- "Error! Payment amount should not exceed the outstanding ".	25-07-22	While filing GSTR-4/GSTR-3B some of user are getting the error " Issue while filing GSTR3B- "Error! Payment amount should not exceed the outstanding ". **Reason:** The negative late-fee has been applied to the ledger due to the logic mentioned. Further, as per the logic in GSTR-4 and GSTR-3B any negative liability is carried forward to the next return period using a pair of Credit/Debit entries. **Status:** Permanent fix needs to be analyzed. Utility is used to fix the data. **Financial Implication : No** **Taxpayers Impacted – 04**

5 : Data Missing In Invoice Detail Table Of Hbase.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
System is throwing error in GSTR-1 table 9A and not allowing to submit amended invoice while amending export invoices from "without payment" to "with payment" type.	26-07-22	This is a partial data movement issue before GSTR1 code improvement, where data is present in "INVOICES" table of Hbase. However few columns are missing in "Invoice Detail" table. Permanent fix has been done via code improvement. However for affected users, before code improvement, whose data is not sync for them, data fix is required. **Reason:** According to the older code flow invoice should be inserted from "INVOCES" to "Invoice Detail" table during submit. However some column are missing hence he is not able to amend the invoice. **Status:** It is fixed in production on 26th April 2022. **Financial Implication : No** **Taxpayers Impacted – 06**

6 : GSTR9 Form Status Is Ready To File in Data Base But Status Not Filed On Annual Return Dashboard

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayer has filed GSTR9 form, but status is still not filed on portal.	26-07-22	User has claimed that he has filed the form, but status is still not filed on portal. It is due the issue that entries got posted to ledger tables and cash is also debited for user's late fee. However, corresponding record is not updated from Ready To File to File in Return Filing Status table in return database. Therefore, user is still seeing form status as not filed even after filing and paying the late fee. **Reason:** Transaction handling between different data sources is not properly done. **Status:** Known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt this solution after discussion. **Financial Implication : No** **Taxpayers Impacted – 01**

7 : Issue In Invoice Detail Table Of Hbase.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
When Taxpayer tried to amend EXPORT invoices from upper case to lower case, records stuck in "In-Progress" Due to duplicate Amendable column present in "Invoice Detail" Table.	18-08-22	On analysis it is found that Amendable column is present twice in "Invoice Detail" table for the same invoice. Hence while user trying to amend invoice from Upper case to lower case he is getting invoice in "In-Progress". **Reason:** While analyzing logs we found that at time of submit since invoice column were present with upper case and system validated it as different and inserted Amendable column with lower case. **Status:** It is fixed in production on 26th April 2022. **Financial Implication : No** **Taxpayers Impacted – 83**

8 : Meta Data Column Missing In Invoice Detail Table Of Hbase

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
When Taxpayer is validating the statement in Refund, system is giving error "RF-FCAS1007" and not allowing to file the Refund.	18-08-22	While analyzing, it is found that Meta Data (MD) column is not present in "Invoice Detail" table. The invoices went to error while adding to GSTR1 form due to which Meta column was not inserted to "Invoice Detail" Table though it is present in "Invoices" table. **Reasons:** - Since MD column is not present in " Invoice Detail " table hence user will not be able to raise refund for affected invoices, validation will fail at time of initiating refund. - It is also noticed that due to connection errors while inserting data to Invoice Detail table, invoices went to error. **Status:** It is fixed in production on 26th April 2022. **Financial Implication : No** **Taxpayers Impacted – 32**

9 : The User Unable To File GST CMP-08 As Error Is Reflecting "Data For The Internal Transaction Id Already Posted"

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
The taxpayer is unable to file GST CMP-08 as error is reflecting "Data for the internal Transaction Id Already Posted" while filing.	06-10-22	Filing status is 'Not Filed' and taxpayer is not allowed to File GST CMP-08 again, as error is reflecting "Data for the internal Transaction Id already Posted" while filing. **Reason:** For few taxpayers, all ledger tables were updated successfully but request status did not change from RTF to FIL in RTN_FILING_STATUS table. **Status:** Partially fixed on 14th Jun 2021 in production. Another RCA is known issue across the application. Analysis is under progress. GSTR1 has similar issue which is in UAT and will be deployed on production in 29th Nov 2022, other modules may adopt after discussion. **Financial Implication : No** **Taxpayers Impacted – 64**

2. Technical Issue Affecting Locally With Financial Implications – Correct Data Known

1. The ISD Invoices Not Reflecting In GSTR2A Form When Uploaded From GSTR6

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayers were unable to view ISD invoices in GSTR2A form - a read only form where Supplier can see the invoices added by the recipient.	26-01-22	The ISD invoices are not reflecting in GSTR2A form when uploaded from GSTR6 form. There are Multiple GSTR6 users who have raised ticket against different supplier's GSTIN. **Reason:** While adding the multiple invoices through offline utility, due to the issue in code, only the last invoice was getting saved in ISD_UNIT_RelationShip Hbase table and that is why user was unable to view all their invoices on the portal. **Status:** It is fixed in production on 15th Feb 2022 via RQM:22445 **Financial Implication : Yes** **Taxpayers Impacted – 88**

2 : System Error While Fetching The Recovery Cases For Case Reference Number.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Tax officers are facing System error while fetching the recovery cases for 86 CRN's (Case Reference Number).	09-04-22	As the multiple recovery cases were created for single demand id through event detail job. The user was facing a system error, due to the mentioned CRN's does not having the demand details mapped to it. **Reason:** Due to some technical issues in event Job process, Multiple recovery cases were created without a reference of demand id in case management folder. As a result, the case management folder had unmapped recovery id which does not require any action to be taken. We do not have logs of that time to cross verify what was exact issue. **Status:** Issue was before Migration of Tamil Nadu from Modal 1 to Modal 2. Issue was permanently fixed by executing an utility job on 25th Feb 2022. **Financial Implication : Yes** **Taxpayers Impacted – 88**

3 : Recovery Of TCS Amount Credited Twice In Cash Ledger.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Suppliers have taken excess TCS credit than due, either by filing GSTR-2X more than once or by accepting the same record across two tax periods.	25-05-22	Due to change in status from filed to not filed or posting the records across two tax periods, taxpayer was able to get the credit twice. **Reason:** It is suspected that following scenarios may have caused the defect: • Return filing status cache update issue could have caused the issue. • Second scenario can be with XA transaction. **Status:** It is fixed in production. **Financial Implication : Yes** **Taxpayers Impacted – 37**

4 : Late Fee And Interest Reversal For Taxpayer Of Form GSTR5

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayers were unable to file GSTR5 form in production environment due to the error " Submission had some error ". Now reversal of late fee and Interest in GSTR5 form is requested.	27-05-22	Taxpayers were unable to file GSTR5 form in production environment due to the error " Submission had some error ". **Reason:** Due to the code issue (MYSQL upgrade), there was a delay in providing the correct resolution to the taxpayers, they were unable to file GSTR5 form within due date, late fee and Interest were charged to the taxpayers. Although Taxpayers have filed the form along with their late fee and Interest, requests are received for late fee and interest reversal from Daily ticket tracker for the below mentioned taxpayers. **Status:** It is fixed in permanent on 16th Nov 2021 via RQM: 22058. **Financial Implication : Yes** **Taxpayers Impacted – 02**

5 : Re-credit Of Amount Debited Twice In Cash Ledger Of Composition Taxpayers

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. The negative liability was reduced by debiting the amount from negative liability statement. In some cases, the amount has been debited twice.	25-07-22	Due to non-filling details of liability in table 6 of GSTR-4, the amount paid through CMP-08 of the year became excess tax paid and credited to negative liability statement. **Reason:** Before recovery utility execution, a select query was executed to extract the impacted records for recovery. In that select query, we were ignoring those records which were already recovered. But in that select query, Return Type='CMP08' was missed while extracting the impacted records, only GSTR-4 (Annual) was considered. **Status:** It is fixed in production on 31st Mar 2022 via CR:21592_A **Financial Implication : Yes** **Taxpayers Impacted – 1028**

6 : Cash Ledger Entries Missed Out Or Omitted After Filing TDS TCS Credit Form (R2X).

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Credit entry is not available in the cash ledger (Table: CASH_LDG) of taxpayers	08-06-22	Taxpayers having GSTIN 18AAACH0351E1Z4 and 19ALIPD4105A1ZS have accepted the TDS credit of return period 02/2022, 03/2022 respectively but the credit entry is not available in CASH_LDG table even though filing is done. **Reason:** Due to the mismatch of row check value, credit entry was not made to the cash ledger (Table: CASH_LDG). **Status:** It is fixed in production. **Financial Implication : Yes** **Taxpayers Impacted – 02**

7 : Issue In Filing CMP-08 For The Subsequent Tax Period.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayers are not able to file GST CMP-08 for the subsequent tax period.	21-07-22	It has been noticed that few composition taxpayers who have attempted to file statement in Form GST CMP-08 between 15th June' 21 to 8th July' 21, got redundant entries in their respective ledger tables and out of these cases, taxpayers who have liability open in any of the previous tax periods are unable to file non-nil statement for subsequent tax period. **Reason:** Due to removal of transaction manager (XA), data for few taxpayers got impacted as rollback was not happening from ledger tables in case of any issue/exception. **Status:** Permanent fix is deployed in production on 9th Jul 2022. **Financial Implication : Yes** **Taxpayers Impacted – 03**

8 : Re-credit Of Interest Paid On Late Filing Of Statement In GSTR-8 Due To System Glitches

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
The filing process for GSTR-8 in the previous month could not be completed due to which filing of next month was blocked.	26-07-22	Since, filing of the statement is not mandatory every month, some operators have not filed the statement. The operators who have deposited the amount due by the due date but paid interest due to late filing of statement, are eligible for reversal of the interest paid. **Reason:** Upon analysis, it is seen that operator has filed statement and message posted for Kafka queue for post filing process. On processing of post filing process, transaction stuck-up in In Process/ Error. When operator tries to file his next period's statement, application blocked him with the error message " Return filing process is not yet completed for the earlier period ". **Status:** It is fixed on production. **Financial Implication : Yes** **Taxpayers Impacted – 116**

9 : CMP Summary Is Not Updated In GSTR4 Annual Form.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
While filing GSTR4 Annual form, few taxpayers are getting incorrect auto populated amount in Table 5 where one quarter's data is missing.	29-08-22	Taxpayer is getting incorrect amount in table 5 of GSTR4 Annual form due to which taxpayers are not able to file their return as system is asking additional liability to be paid. This is an Adhoc exercise which will take some time and due to that, we have to apply data fixes on urgent basis considering age of tickets. **Reason:** Under analysis. **Status:** Analysis for permanent fix is under progress. **Financial Implication : Yes** **Taxpayers Impacted – 12**

10 : Recovery Of TDS Amount Credited Twice In Cash Ledger Of Deductee

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
TDS amount is credited to their Cash Ledger by filing the TDS & TCS Credit received form twice for same tax period.	16-09-22	Cases where the amount of tax deducted and reported in GSTR-7 differs from the amount credited to cash ledger of deductee through TDS/TCS credit received form. **Reason:** • When user login to the TDS and TCS credit received form, status is displayed from the cache details. As there is a problem with the cache, user was able to see status as 'Not filed'. But, in the Return Filing Status table, the status was existing as filed. • In the second scenario, while amending the TDS record in R7, the status of the earlier TDS / TDSA record is verified in R2X related table to check whether it is accepted and filed or not. **Status:** Issue is fixed in production via RQM: RET_R7_19111 **Financial Implication : Yes** **Taxpayers Impacted – 141**

11 : Non Updation In Cash Ledger Balance Due To Credit And Debit Happened Simultaneously

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
The cash ledger balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application.	27-10-22	The balance could not be updated due to credit and debit happening simultaneously. It had happened due to defect in the system application. **Reason:** The issue had occurred due to debit and credit entry in the cash ledger happening at the same time, which led to incorrect cash balance in the cash ledger. The reason for occurrence of the issue is due to dirty read where the two transactions happened simultaneously and read the same record. **Status:** CR#21982 has been raised for permanent fix. This CR is aligned with REAP team but yet to be picked up for development. **Financial Implication : Yes** **Taxpayers Impacted – 03**

12 : Issue In Filing Of GSTR4 Annual Return

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayers are unable to file their further period returns and getting error message as "Liability for previous tax period is yet to be paid.	28-10-22	Taxpayers are unable to file their further return period and getting error message as "Liability for previous tax period is yet to be paid. If error persists quote error number LG9048 when you contact customer care for quick resolution." **Reason:** This issue started coming post one recent major CR 21592 implementation. In this CR, 'isNegativeValueAllowed' flag was introduced to check whether credit entry of negative liability should be posted into Return Negative Liability Statement History table or not. But this new flag also stopped posting debit entry to Return Negative Liability Statement History table if tax amount difference between Table 6 and table 5 (either outward supply or inward supply) of GSTR4X is greater than 10% or 1000 (whichever is less) **Status:** It is fixed in production on 31st Mar 2022 via CR: 21592_A. **Financial Implication : Yes** **Taxpayers Impacted – 24**

13 : GSTR-4|| Users Are Able To File GSTR4 Without Clearing Liabilities

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
User filed GSTR-4 without clearing the liability amount. GST CMP-08: As per the issue reported by user, he is not able to file CMP-08 as getting 'ERROR!! Liability for previous tax period is yet to be paid'.	28-10-22	Transaction handling was not proper due to mix of Transaction Manager/ Non-Transaction Manager in GSTR-4. Due to this, in case of any failure rollback was not done completely from all the respective data sources. In this case, filing status has been updated as "Filed" in return filing status table without updating in ledger table besides the rollback of liability setoff entries in ledger. **Reason:** User has filed GSTR-4 without clearing the liabilities and due to this, user is unable to file statement in Form GST CMP-08 for next quarter. **Status:** Partially fixed on 14th Jun 2021 in production on 14th Jun 2021 via ICR-12663. Another RCA is known issue across the application. Analysis is under progress. **Financial Implication : Yes** **Taxpayers Impacted – 01**

14 : Issue In Saving Invoices In ITC03.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayer has saved invoices in ITC-03 & submitted the form with ' NULL' check but unable to offset the outstanding liabilities.	28-10-22	ITC03 form: Taxpayer has saved invoices in ITC-03 & submitted the form with ' NULL' check but unable to offset the outstanding liabilities. **Reason:** Taxpayer forgot to uncheck the NIL checkbox while submitting ITC03 form, however invoices were already added in the form. Now status is in 'Submitted" state and taxpayer is not ready to file the form as he is unable to offset the corresponding liabilities. **Status:** It is a single Taxpayer issue, permanent fix not required. Data fix was done via ICR:18439 executed on 4th Nov 2022. **Financial Implication : Yes** **Taxpayers Impacted – 01**

3. Technical issue affecting locally with financial implications – Correct data not known with certainty

1 : GSTR3B Data Mismatch Issue Due To Saving Of Data From Multiple Tabs

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayers raised tickets stating that they filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. Ledgers are updated on the basis of payment table whereas pdf is generated on the basis data entered.	18-08-22	After login to the GSTN portal, taxpayer can open the GSTR-3B form window on multiple tabs at the same instant. There is no restriction to this behavior at present. Taxpayer have filed the GSTR-3B returns but there is mismatch in the data entered vis-à-vis payment made. **Reason:** Difference between data that was saved in HBASE and the one that was posted to ledger db in Return Liability Ledger and ITC Ledger tables. **Status:** Permanent fix is finalized and it is with REAP team. RQM:22721 **Financial Implication : Yes** **Taxpayers Impacted – 07**

2 : Issue In Filing Form GST ITC-01

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Newly registered taxpayers or taxpayers opting out of composition scheme or when exempted goods become taxable, claim credit on closing stock u/s 18(1) of Act through Form GST ITC-01.	18-08-22	ITC01 form has to be filed within 30 days of becoming eligible to claim credit. Few taxpayers were stuck up in filing the said form between 29th June, 2022 and 5th July, 2022. One taxpayer could not file the form as downtime started from 11:00 pm on 16th June, 2022. **Reason:** Few taxpayers were unable to file declaration in Form GST ITC-01 due to deployment of the change in topology. "System was showing following error – Your submit is in progress. Check after sometime." **Status:** This issue has comes only once. Permanent fix not required. All impacted cases were executed on 25th Aug 2022 in production. **Financial Implication : Yes** **Taxpayers Impacted – 23**

3 : Data Issue Due To Freezing Of Entries At Submit Stage.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Data issue due to partial commit happened on click of reset button, all saved entries became non-editable.	18-08-22	It may be recalled that initially, there was a four tier system of filing return in Form GSTR-3B, viz. Save , Submit , Offset liability and File . All saved entries used to become non-editable after clicking on 'Submit' button. Liability register and Credit ledger used to be updated at submit stage. In the beginning, lot of complaints used to be received due to freezing of entries before filing (at submit stage) and returns lying at submit stage had to be reset from the backend as lot of complaints were received on account of inadvertent mistakes. **Reason:** This is an old issue when there used to be a reset button on the portal. **Status:** Permanent fix is not required because RESET button is removed from system. Old return periods data are being fixed by backend query. **Financial Implication : Yes** **Taxpayers Impacted – 02**

4 : GST ITC-03 Filed Without Debit In The Ledgers

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by the taxpayer while filing the said form.	22-08-22	After opting into composition scheme, taxpayer had filed Form GST ITC-03 successfully but still it reflects as "NIL" Filed, even though invoices are saved by taxpayer while filing the said form. No ledger transactions had happened for the same. **Reason:** Due to some technical issues, the details added were not visible in UI. However, the NIL filing details were saved and transmitted at the time of filing. Therefore, due to this defect, the statement was filed as NIL. Invoice details were still saved in the backend. However, it was not present in UI. **Status:** It is fixed in production on 15th June 2022 via ICR: 16751 **Financial Implication : Yes** **Taxpayers Impacted – 38**

5 : Multiple Blocking Of ITC Credit.

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Due to technical problem during the integration of data between CBIC & GSTN, the CBIC system had thrown exceptions when consuming the ITC block/unblock API and the concerned job at the CBIC backend kept retrying the same request, which resulted in multiple blocking of the ITC Credit Ledger.	25-10-22	27 (21+6) GSTINs involving multiple blocking of ITC credits were shared for backend correction of the ITC ledgers by GSTN. **Reason:** Due to technical issue CBIC was unable to capture the response after blocking ITC by taxpayer. Officer tried multiple times with same GSTIN to block the ITC. **Status:** Out of 27 GSTINs, 26 GSTIN has been unblocked. Rest 1 GSTIN (33AAJFC7464K1Z5) was canceled and now it is in active status so we are in process to unblock this GSTIN as well. **Financial Implication : Yes** **Taxpayers Impacted – 27**

Annexure-6

Additional agenda on reversal of interest on delayed filling of statement in form GSTR-8 by e-commerce operators due to technical glitches

Issue Reported	Date Intimated MSP to perform Data Fix	Issue Description with No. of Cases Impacted
Three ECOs faced problem in filing monthly statement in Form GSTR-8	February to June,2022	Three ECOs could not file monthly statement in Form GSTR-8 for the month of February, 2022 due to technical glitch and examined raised tickets for the same. The defect was examined by technical team fixed the same on 29th July,2022. **Impacted tax periods**: February to June,2022 (5 tax periods). **Interest liability:** Interest on delayed filing of the said statement is computed by System and the same is non-editable. Though, defect was in filing the statement but there was no defect in depositing the due tax through challan. **Refund on interest:** In the 15th ITGRC meeting, it was decided that reversal of interest should be done in those cases where tax was paid by due date. Where tax was paid after fixing the defect or at the time of filing the statement may not be eligible for reversal of interest. **Financial Implication : Yes** **Taxpayers Impacted – 03**

THANK YOU!!

Goods And Services Tax Network

Agenda Item 16: Report of Committee of Officers (CoO) on GST Audit along with Draft Model All India GST Audit Manual

1. A Committee of Officers (CoO) on GST Audit was constituted in pursuance of discussion and decision in the 1st National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit and to follow uniform practices for GST Audit in Centre and State Tax administration.

2. Initially, the Terms of Reference (ToR) for CoO on GST Audit issued vide OM dated 21.02.2020 **(Annexure-VII)**, was to study, examine and draft an all-India GST Audit Manual but due to different administrative set up in the States no consensus could be reached out for the most of items of the ToR.

3. Subsequently, the Terms of Reference were revised vide OM dated 25.06.2021**(Annexure-VIII)**.

3.1 The revised Terms of Reference (ToR) are as under:

(i) To study audit policy and practices of the Centre and the States which have already implemented certain procedures;

(ii) To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability;

(iii) To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council;

(iv) Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit;

(v) To suggest measures of capacity building in Services for focused approach on the audit of services sector;

(vi) To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of the system-driven business process through SAP, Oracle, Tally, etc.

4. To explore each topic of the ToRs in greater detail, sub-committees were formed for each ToRs. After wide-ranging discussions and after obtaining inputs from many States, each of the six Sub-Committees submitted their report on all the six ToRs. The reports of the sub-committees are integrated into the final report of the committee. ToRs wise reports are as under:

4.1 **To study audit policy and practices of the Centre and the States which have already implemented certain procedures (ToR 1)**

The report of the sub-committee is the compilation of practices followed by the Centre and States in respect of the topics like identification of the risk parameters considered for selection of cases for audit, scope of audit, criteria for authorization of the officers for selection of cases for audit, basis/criteria for allocation of cases for audit etc.

The sub-committee has prepared its report in two parts. Part one of the report is the compilation of topic-wise practice followed by the Centre and States in respect of each of the topics

mentioned above. The second part is the model GST Audit best practices and procedures which are recommendatory in nature. The recommendations were agreed to by the Committee. The detailed report of the sub-committee is attached as **ANNEXURE-I**

4.2 **To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability (ToR 2)**

The sub-committee was constituted to compile the existing and desirable audit practices and to draft a model GST audit manual. The said sub-committee consisted of ADG, Audit (Headquarters), EVP, GSTN, State Tax officers from West Bengal, Bihar and Gujarat who were assigned the task to catalogue prevalent practices of audit in the Central and State Indirect tax administrations and adopt the best practices for GST Audit across the country.

The aforesaid draft Model All India GST Audit Manual 2022 has been agreed to by the Committee of Officers (CoO) and has been separately submitted for the consideration of GST Council as **Annexure-II.**

4.3 **To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of the Council (ToR 3)**

The sub-committee looked into the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council. The sub-committee recommended that for conducting thematic audit, GST Council may form a co-ordination committee at all India level which shall be responsible for selecting themes for conducting theme based audit at all India level in a coordinated manner. The co-ordination committee shall also be responsible for dissemination of the best practices being followed across Audit formations.

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

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

The recommendations were agreed to by the Committee. The detailed report of the sub-committee is attached as **Annexure-III**

4.4 **Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit (ToR 4)**

The sub-committee examined the capability of using data analytics developed by DGARM for identification of State taxpayers for audit and made the following recommendations:

a. There is capability and expertise with DGARM to identify the risky taxpayers for Audit falling in states' jurisdiction using approved risk parameters. If any State wants DGARM to select the risky taxpayers list for them, the State should make a specific request to DGARM.

DGARM will identify risky taxpayers based on approved parameters for them and share the list with the State along with risk scores and risk parameters.

b. For the States who opt, DGARM may evolve and establish permanent mechanism to identify risky tax payers falling under their jurisdiction.

c. If any State only wants risk parameters to be shared with them and they do not want DGARM to identify risky taxpayers for them, DGARM may share approved risk parameters with them.

d. Risk parameters keep evolving over a period of time with feedback and detection of newer modus operandi. Further there may be some local risk factors relevant in their jurisdiction. Thus, the States must have the authority to select its own additional risk parameters developed from their expertise, experience and knowledge from time to time. However, if any State wants to select the taxpayers list for audit by using expertise of DGARM, they have no objection in such matter.

The recommendations were agreed to by the Committee. The detailed report of the sub-committee is at **ANNEXURE-IV**

4.5 **To suggest measures of capacity building in Services for focused approach on the audit of services sector (ToR 5)**

The sub-committee on examined the measures for capacity building in Services for focused approach on the audit of services sector and the recommendations are as below:

a. The officers of State GST needs to be trained specifically in service sectors which needs to be identified by the States and NACIN will draw a program to train the Master Trainers for each state based on the requirements of those states.

b. Suggested that there are multiple services being offered by the business entities therefore there is a need to understand the various concepts like time of supply, place of supply, mixed vs. Composite supply, taxable and exempted supply etc. so that the model of the sector along with the taxability is clear to the officers.

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

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

This Committee shall decide the sectors that need to be focused upon.

d. Further the committee shall meet every quarter to review the specific sector areas. It is also recommended that the industry experts along with the officers may be involved in the training program to understand the specific sector model.

e. An institutional mechanism containing selected officers from States and Centre may be created by NACIN to identify training needs of all the audit officers, identification and maintain record of resource persons including website resources and developing periodic training calendar.

The aforesaid recommendations were agreed to by the Committee. The detailed report of the sub-committee is at **ANNEXURE-V.**

4.6 **To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of the system-driven business process through SAP, Oracle, Tally, etc. (ToR 6)**

The sub-committee observed that GST has facilitated coordinated functioning of Central and State tax administrations and that it is an opportunity as well as a challenge. The cumulative experience of the state and the central administration can either create a vast knowledge base or it may accentuate differences in practices and overlap in audit functions. The committee concluded that:

a. To overcome differences in practices and overlap in audit functions better coordination and sharing of information between the Centre and the States is required.

b. Standardization is the key. Appropriate Standard Operating Procedures need to be put in place for cross-jurisdictional issues. Frequency of audit, selection of taxpayers and number of taxpayers to be audited needs to be decided based on risk parameters.

c. As the actual audit needs to be done by the field staff, the officers and staff need to be prepared well with the help of proper training and development. Training of auditors in financial accounting, reading of contracts, use of accounting software etc. is imperative.

d. Finally, specialized software could be developed to cull out the relevant data from various business accounting systems so that the process of audit is made more system oriented.

The recommendations and conclusion were agreed to by the Committee. The detailed report of the sub-committee is at **ANNEXURE-VI**

5. The Committee of Officers (CoO) on GST Audit after extensive meetings, discussions and deliberations on the Terms of Reference (ToR) and reports submitted by each sub-committee on ToRs submitted its Report on GST Audit **(Annexure-A).** A Draft Model All India GST Audit Manual **(Annexure-II)** has also been a submitted by The Committee of Officers (CoO) separately.

6. Accordingly, the report of the Committee of Officers (CoO) on GST Audit along with the Draft Model All India GST Audit Manual is tabled before the GST Council for deliberation and approval.

Annexure-A

REPORT

of the

Committee of Officers (CoO)

on

GST Audit

2022

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PREFACE

The GST Council Secretariat constituted a Committee of Officers (CoO) on GST audits after discussions in the 1st National GST Conference held on 25.11.2019. Broadly the purpose of the CoO was joint and collaborative efforts for GST Audit, Capacity Building for audit and to follow uniform practices for GST Audit in Centre and State Tax administrations. An O.M. F. No. 350/Future Initiative/GSTC/2019 / 2050 dated 21.02.2020 was issued by the Council constituted a CoO with officers from Central and State GSTs, GSTN, and GST Council as Members. ADG, Audit, was the Convenor from Central GST and Shri Srikar M. S., Commissioner, Commercial Tax, Karnataka was the Convenor from the State. The CoO was required to study, examine and make suggestions in respect of six Terms of Reference.

However the State GST officers did not agree to the proposal of an all India GST Audit Manual and Joint & Collective audits by Centre and State in respect of taxpayers in selected Service Sectors. No consensus could be reached for the most important first three items of the ToR. Based on the discussions held and the reports of the sub-committee a Final Report of the CoO was prepared and submitted to the GST Council in June 2020. The said report interalia mentioned that the State GST officers did not agree to the proposal of an all India GST Audit Manual and Joint & Collective audits by Centre and State in respect of taxpayers in selected Service Sectors. The States pointed out several constraints in proceedings with the idea of an All-India Audit Manual. They were of the opinion that each

State had its own organizational and administrative structure that was different from the Centre. Tax administration in different states is a successor of respective VAT administrations, with different legacies, constraints, processes and procedures. Moreover, the GST Audit Manual prepared by the CBIC was already available with the States and each State could adapt and modify any procedure therein that was suited to their needs. It was decided that the matter may be discussed in the All India GST Council meeting or in such higher forum.

Thereafter, the GST Council Secretariat vide its OM dated 27.07.2021 reconstituted the Committee of Officers (CoO) on GST Audit again containing officers from Centre, States, GSTN and GST Council. Which was further reconstituted vide OM dated 26.05.2022.

The Terms of Reference (ToR) were also amended and notified vide their OM dated 25.06.2021.

The CoO held extensive discussions and took inputs from other States also who were not members of this Committee and arrived at a consensus on all the items of the ToR. It is with great satisfaction to record that the CoO has been able to achieve all the desired purpose for which it was created.

The Committee expresses its gratitude to Shri Yogendra Garg, Pr. ADG, NACIN, Shri Sanjay Mangal, Pr. Commissioner, GST Policy Wing, CBIC, Shri Gurusharan Singh, ADG, DGARM and Shri Nitish K. Sinha, ADG, DGGI, for providing reports of their respective sub-committees. Contribution of the officers States and all Members of the Committee is equally important and acknowledged.

It is also very heartening to note that the CoO has made substantive progress in studying audit policy and practices of the Centre and the States which have already

implemented certain procedures, in preparing the model GST Audit Manual and developing a paper on Joint and Thematic Audits. The officers of the States have played a pioneering role in preparing this document, particularly from Karnataka and West Bengal. It is expected that the Model GST Audit Manual, 2022 is an extensive and comprehensive document with a holistic approach of GST Audit and facilitate the Audit Officers of States and Centre.Such document will not only facilitate the audit officers but will also help in maintaining uniformity of audit in all levels

CONVENOR (Centre)
Dr. Amandeep Singh
Additional Director General
Directorate General of Audit (Hqrs.)
CBIC, New Delhi

Co - CONVENOR (State)
Dr. Ravi Kumar Surpur
Chief Commissioner,
Commercial Tax
Rajasthan

EXECUTIVE SUMMARY

The GST Council Secretariat constituted a Committee of Officers (CoO) on GST audits after discussions in the 1st National GST Conference held on 25.11.2019 for the purpose of joint and collaborative efforts for GST Audit, Capacity Building for audit and to follow uniform practices for GST Audit in Centre and State Tax administrations. An O.M. F. No. 350/Future Initiative/GSTC/2019 / 2050 dated 21.02.2020 (**Annexure 1)** was issued by the Council constituted a CoO with officers from Central and State GSTs, GSTN, and GST Council as Members. ADG, Audit, was the Convenor from Central GST and Shri Srikar M. S., Commissioner, Commercial Tax, Karnataka was the Convenor from the State. The CoO was required to study, examine and make suggestions in respect of below mentioned six Terms of Reference.

i. To prepare a comprehensive All India GST Manual taking into account procedures & practices in vogue in different States and Centre;
ii. To explore having joint and collective GST Audit by Centre & State for the taxpayers in many sectors that have all India presence like Telecom, Airlines, Banking, Railway etc.;
iii. To explore conducting thematic audit by both tax administration;
iv. Using capability of data analytics developed by DGARM for identification of State taxpayers for audit;
v. To suggest measures of capacity building in Services for focused approach on audit of Services sector; and

vi. To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.;

The said Committee held extensive deliberations and decided that in order to facilitate in-depth examination and to expedite the report sub-committees should be formed for each reference item. Regarding **Reference Point numbers 1 to 3**, however there was no consensus on the formation of sub-committees. The State GST officers did not agree to the proposal of an all India GST Audit Manual and Joint & Collective audits by Centre and State in respect of taxpayers in selected Service Sectors. No sub-committees on these issues were formed. The sub-committees on the remaining three reference points were duly constituted and they submitted their reports. Based on the discussions held and the reports of the sub-committee a Final Report of the CoO was prepared and submitted to the GST Council in June 2020 (**Annexure 2**). The said report interalia mentioned that the State GST officers did not agree to the proposal of an all India GST Audit Manual and Joint & Collective audits by Centre and State in respect of taxpayers in selected Service Sectors. The States pointed out several constraints in proceedings with the idea of an All-India Audit Manual. They were of the opinion that each State had its own organizational and administrative structure that was different from the Centre. Tax administration in different states is a successor of respective VAT administrations, with different legacies, constraints, processes and procedures. Moreover, the GST Audit Manual prepared by the CBIC was already available with the States and each State could adapt and modify any procedure therein that was suited to their needs.

It was decided that the matter may be discussed in the All India GST Council meeting or in such higher forum.

Thereafter, the GST Council Secretariat, vide its OM dated 27.07.2021 **(Annexure – 3)**, reconstituted the Committee of Officers (CoO) on GST Audit again containing officers from Centre, States, GSTN and GST Council with the following members:-

Centre	State	GSTN	GST Council
i. Addl. DG, DG Audit Headquarters, CBIC - **[Convenor]** ii. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC iii. Pr. Commissioner, Meerut iv. Principal ADG/ADG, DGGI Headquarters, CBIC v. Pr. ADG/ADG, DG Analytics & Risk Management vi. Pr. ADG/ADG, NACIN, Faridabad	i. Commissioner of Commercial Taxes, Rajasthan (Shri Ravi Jain) – **[Co-Convenor]** ii. Commissioner of Commercial Taxes, Karnataka (Smt. Shikha C.) iii. Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) iv. Special Commissioner of State Tax, NCT of Delhi (Shri Anil Banka) v. Additional Commissioner, State Tax, Uttarakhand (Shri Amit Gupta) vi. Additional Commissioner of Commercial Taxes, Karnataka (Shri Ravi Jesuraj S.) vii. Special Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) viii. Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi)	EVP, GSTN	i. Joint Secretary ii. Director iii. Deputy Director

	ix. Joint Commissioner, State Tax, Tamil Nadu (Shri C. Palani) x. Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) xi. Joint Commissioner, State Tax, Uttar Pradesh (Shri Vivek Singh) xii. Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)		

The said CoO was reconstituted vide OM dated 26.05.2022 and Shri Ravi Kumar Jain, the Co-Convenor was replaced with Dr. Ravi Kumar Surpur, Chief Commissioner, Commercial Tax, Rajasthan.

The Terms of Reference (ToR) were also amended and notified vide their OM dated 25.06.2021 **(Annexure-4)**and the same are asunder:-

i. To study audit policy and practices of the Centre and the States which have already implemented certain procedures;
ii. To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability;
iii. To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council;
iv. Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit
v. To suggest measures of capacity building in Services for focussed approach on the audit of services sector; and
vi. To build knowledge on financial accounting and focussed approach towards interpreting business contract/agreement and understanding of the system-driven business process through SAP, Oracle, Tally, etc.

(i) Reference No. 1 – "*To study audit policy and practices of the Centre and the States which have already implemented certain procedures".* A sub-committee was constituted to examine the topic. The task of studying and compiling the best audit policy and practices of Centre and States was entrusted to the officers of Karnataka State. The sub-committee identified certain points/topics that can be dealt with in studying the audit policies and practices of the Centre and States that have already implemented certain procedures and to design the Model GST Audit Policy.
These topics are as under:-

i. Identification of the risk parameters considered for selection of cases for audit / Basis for selection of cases for audit (Including any process of random selection of cases that may not be strictly covered by risk parameters)

ii. Scope of audit - whether restricted to only the flagged risk parameters or all business transactions of the auditee.

iii. Need for audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

iv. Need for audit of other years of the same auditee based on audit findings in selected cases.

v. Criteria for Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.

vi. Basis/criteria for allocation of cases for audit - cadre, turnover.

vii. Need for fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State?

viii. Any time limit to be set for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

ix. Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

x. Post-audit process - Any Committee for review of the audit report and recommendation for adjudication, who is the adjudicating authority.

xi. Any oversight of post-adjudication proceedings and its mechanism - follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defense in appeal, etc.

xii. Any central repository of audit outcomes

xiii. Co-ordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

xiv. Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

The Sub-committee decided to prepare its report in two parts. Part one of the report is the compilation of topic-wise practice followed by the Centre and States in respect of each of the topics mentioned above. Thirteen States sent in their feedback/suggestions and the inputs from CBIC were also examined and compiled. The States who provided inputs were :- Bihar, Himachal Pradesh, Kerala, Maharashtra, Nagaland, New Delhi, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand, West Bengal, and Karnataka.

The issues that are covered in the report may be termed as determinants of Model GST Audit Policy and Practices.

The report broadly covers the common Audit policy and practices adopted by the Audit jurisdictions across the country. The systemic approach to GST Audit

followed by the State GST administrations, prima-facie, differ in varying degrees due to the administrative architecture that was designed for erstwhile tax administration. Notwithstanding such variations, the commonalities inherent in their Audit policies and practices are inferred in the overall context of the GST Act and the Rules and this report is precisely premised on such 'inferred commonalities'. The report contains two parts, the first part is a documentation of the GST Audit practices and the policies of the Centre and the States that have implemented certain procedures and adopted certain practices. The second part is the model GST Audit best practices and procedures which are recommendatory in nature.

(ii) Reference No. 2 – "*To develop Model Audit Manual taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability*" –
For this purpose, a sub-committee of officers was constituted to compile existing and desirable audit practices and to draft a model GST audit manual. The said sub-committee consisted of ADG, Audit (Headquarters), EVP, GSTN, State Tax officers from West Bengal, Bihar and Gujarat which was assigned the task to catalogue prevalent practices of audit in the Central and State Indirect tax administrations and adopt the best practices for GST Audit across the country. Further, the activity of compiling the Model GST Audit Manual was allotted to West Bengal Member of the Committee based on thoroughly studying the Audit manual prepared by Central Government, GST Audit Manuals and Standard Operating Procedures prepared by various states like West Bengal, Punjab,

Maharashtra, Karnataka, Bihar, and Uttar Pradesh as well as the module developed by the GSTN and available to Model 2 states. The draft Model GST Audit Manual has been prepared after extensive discussions and taking inputs from all the Members of the CoO. This Model Audit Manual aims to be an extensive and comprehensive document with a holistic approach towards GST audit which will not only facilitate the Audit Officers of the Centre and the States/UTs but will also create an impact in facilitating the auditees during the exercise of audit. The objective of this manual is to provide insights into the principles and procedures of audit and to give a holistic view of the entire process to the users of this Manual.
It has been designed to cater to a systematic workflow of audit, ranging from brief criteria of selection to the completion of the process. The final Draft Model GST Audit Manual has been submitted for the consideration of the GST Council separately.

(iii) Reference No. 3 - "*To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council*"; - The recommendations of the sub-committee are as follows:-
For conducting thematic audit, GST Council may form a **co-ordination committee** at all India level which shall choose **themes** for conducting audit, establishing **Committee of Officers** for selecting Tax payers in a state for thematic audit, co-ordination among various Audit Authorities for evolving a common minimum audit plans for a given theme and, thereafter monitoring of actual audit by the field formations so as to ensure uniformity. The co-ordination committee shall also be

responsible for dissemination of the best practices being followed across Audit formations.

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

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

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

- Parameters which emerge from the systematic and methodical risk analysis conducted by GSTN, DGARM, ADVAIT and the state revenue intelligence units/economic intelligence units.
- Economic indicators;
- Third party information from Tax authorities and other Regulatory authorities;
- Sensitive nature of the commodity and / or service;

- Risky sectors in news for frauds for e.g., E-commerce, online gaming, jewelers etc;
- Sectors directly involved in providing services to a large consumer base, such as banking, insurance, air and land travel, utilities etc.

The said report also provides for determining local themes based on identified Risk Parameters. Further for coordination of actual audits it is suggested that the Coordination Committee may constitute a Committee of Officers for each State/UT. Furthermore, the Report prescribes role of Audit Field Formations for conducting such audits and a Standard Operating Procedure has also being laid down for conducting Theme Based Audit. The Report contains similar suggestions for conducting Joint Audits by Centre and States.

(iv) Reference No. 4 - '*Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit*'. The recommendations of the sub-committee are as follows:

a) If any State wants DGARM to select the risky taxpayers list for them, the State should make a specific request to DGARM. DGARM will identify risky taxpayers based on parameters approved for them and share the list with the State along with risk scores and risk parameters.
b) DGARM may evolve and establish a permanent mechanism to identify risky taxpayers falling under the jurisdiction of State GSTs, just as they do for risky taxpayers under the jurisdiction of Central GST.

c) If any state only wants risk parameters to be shared with them and they do not want DGARM to identify risky taxpayers for them, DGARM may share approved risk parameters with them.

d) If any State wants to select the taxpayers list for audit by using expertise of DGARM, necessary expertise would be provided.

(iii) Reference Point No. 5 - '*Suggest measures of Capacity Building in services for focused approach on audit of Services sector*'. The recommendations of the sub-committee are as follows:

The officers of State GST needs to be trained specifically in service sectors which needs to be identified by the states and NACIN will draw a program to train the Master Trainers for each state based on the requirements of those states. NACIN through its Zonal Campus are already conducting bi-monthly training course on GST Audit & Accounting.

This training program will identify

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

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

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

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

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

It is also recommended that the industry experts along with the officers may be involved in the training program to understand the specific sector model. An institutional mechanism containing selected officers from States and Centre may be created by NACIN to identify training needs of all the audit officers, identification and maintain record of resource persons including website resources and developing periodic training calendar.

(iv) Reference No. 6 – "*Build knowledge on financial accounting and focused approach towards interpreting business contract / agreement and understanding of systems driven business process through SAP, Oracle, Tally etc.*" The recommendations of the sub-Committees are as follows:

- For the first time, GST has brought the Central and State Tax administration to work in tandem with each other. This is an opportunity as well as a challenge. On the one hand, the cumulative experience of the state and the central administration can create a vast knowledge base. On the other hand, it may accentuate difference of practices and overlapping in audit functions.
- To overcome this issue, a better coordination and sharing of information between the Centre and the States is required.
- Standardization is the key. Appropriate Standard Operating Procedures need to be put in place for cross-jurisdictional issues. Frequency of audit, selection of taxpayers and number of taxpayers to be audited needs to be decided based on risk parameters.
- As the actual audit needs to be done by the field staff, the officers and staff need to be prepared well with the help of proper training and development. Training of auditors in financial accounting, reading of contracts, use of accounting software etc. is imperative.
- Finally, specialized software could be developed to cull out the relevant data from various business accounting systems so that the process of audit is made more system oriented.

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REPORT

The GST Council Secretariat vide its OM dated 27.07.2021 reconstituted the Committee of Officers (CoO) on GST Audit containing officers from Centre, States, GSTN and GST Council. The CoO was reconstituted vide The CoO was again reconstituted vide OM dated 26.05.2022. The following are the members of the reconstituted Committee:-

Centre	State	GSTN	GST Council
i. Addl. DG, DG Audit Headquarters, CBIC - **[Convenor]** ii. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC iii. Pr. Commissioner, Meerut iv. Principal ADG/ADG, DGGI Headquarters, CBIC v. Pr. ADG/ADG, DG Analytics & Risk Management vi. Pr. ADG/ADG, NACIN, Faridabad	i. Chief Commissioner of Commercial Taxes, Rajasthan (Dr. Ravi Kumar Surpur Jain) – **[Co-Convenor]** ii. Commissioner of Commercial Taxes, Karnataka (Smt. Shikha C.) iii. Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) iv. Special Commissioner of State Tax, NCT of Delhi (Shri Anil Banka) v. Additional Commissioner, State Tax, Uttarakhand (Shri Amit Gupta) vi. Additional Commissioner of Commercial Taxes, Karnataka (Shri Ravi Jesuraj S.) vii. Special Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) viii. Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi) ix. Joint Commissioner, State Tax, Tamil Nadu (Shri C. Palani) x. Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) xi. Joint Commissioner, State Tax, Uttar Pradesh (Shri Vivek Singh) xii. Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)	EVP, GSTN	i. Joint Secretary ii. Director iii. Deputy Director

The Terms of Reference (ToR) were also amended and notified vide their OM dated 25.06.2021 and the same are asunder:-

i. To study audit policy and practices of the Centre and the States which have already implemented certain procedures;
ii. To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability;
iii. To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council;
iv. Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit
v. To suggest measures of capacity building in Services for focussed approach on the audit of services sector; and
vi. To build knowledge on financial accounting and focussed approach towards interpreting business contract/agreement and understanding of the system-driven business process through SAP, Oracle, Tally, etc.

Due to COVID 19 Pandemic conditions, physical meetings of the Committee could not be held. It was decided to hold the meetings of the Committee and its sub-committees through video-conferencing. One meeting to discuss and finalise the Draft Model GST Audit Manual was held physically as well as online.

7. The first meeting of the Committee was held through video-conference on CISCO WEBEX Tool on 27/08/2021. The agenda for the said meeting was as under:-

S. No.	Item	SPEAKER
1.	Introduction and welcome address	Dr. Amandeep Singh, ADG, DG Audit – **Convenor**, (Centre) & by Shri Ravi Jain, Commissioner of Commercial Tax, Rajasthan – **Co-Convenor**
2.	Introduction of the Members – from Centre and States and giving details of the Modified Terms of Reference	Joint Secretary, GST Council Secretariat
3.	Feedback giving salient points of the report of the earlier CoOs on GST Audit formed on 21.02.2020	ADG Audit
4.	Best Practices of GST Audit in States	States*
5.	Best Practices / Principles of GST Audit in Centre	ADG Audit
6.	GSTN related issues of GST Audit	EVP, GSTN
7.	Law and Policy related issues of GST Audit	PrCommr GST Policy
8.	Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit	ADG DGARM
9.	Suggest measures of capacity building in services for a focused approach on the audit of the Services sector	Pr. ADG NACIN
10.	To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of systems driven business process through SAP, Oracle, Tally, etc.	Pr. ADG DGI
11.	Formation of sub-committees with the distribution of tasks	ADG Audit
12.	Closing Remarks	Director GSTC Sect

*As below.

	Presentation by the States (Sl. No, 4 of the agenda)	State	Document
1	Karnataka (presentation on e-audit system)	Karnataka	
2	Rajasthan	Rajasthan	
3	Bihar (presentation)	Bihar	
4.	Gujarat	Gujarat	
5.	Maharashtra	Maharashtra	
6.	Uttar Pradesh	Uttar Pradesh	
7.	West Bengal	West Bengal	
8.	Uttarakhand (presentation of a study)	Uttrakhand	

9.	Puducherry	Pondicherry	
10.	NCT of Delhi	Delhi	
11.	Tamil Nadu	Tamil Nadu	

8. During the discussions in the meeting it was decided that to explore each topic of the ToRs in greater detail, sub-committees should be formed for each ToR. The reports of the sub-committees will be integrated into the final report of the committee

9. Accordingly, the following sub-Committees were formed. **(Annexure 5)**

S. No.	Task	Centre	State	Issues to be covered
1.	(a) To study audit policy and practices of the Centre and the States which have already implemented certain procedure (b) To develop model Audit Manual taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by the State administrative suitability. (c) To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with approval of the Council.	ADG, Audit, Pr. Commr. GST Policy Wing. Pr. Commr, Meerut EVP, GSTN	i. Rajasthan ii. Gujarat iii. Karnataka iv. Bihar v. Maharashtra vi. West Bengal vii. Uttar Pradesh	− A team of officers to study the audit policy and practices of the Centre and States that have already implemented certain procedures. − A team of officers to develop a model Audit Manual documenting audit policy and procedures adopted by Centre and States. − Mechanism to be created to develop a policy

				and procedure to identify themes for joint and thematic audits, including the mechanism for its supervision.
2.	Using capability of data analytic developed by DGARM for identification of State Taxpayers for audit	Pr. ADG DGARM JS, GSTN (Representative)	i. NCT Delhi. ii. West Bengal. iii. Karnataka	− DGARM to evolve and establish a permanent mechanism to identify risky task payers. − Mechanism should allow the States to add risk parameters as per their knowledge and experience. − Feedback format to be developed and frequency to be provided.
3.	Suggest measures of capacity building in services for focused approach on audit of Services sector	ADG NACIN	i. Tamil Nadu ii. Uttrakhand,	− Training Capacity and frequency of training to be identified. − Nodal officers from States and ZTIs of NACIN to be identified for the

				training needs. – Specific service sectors to be identified and its training needs and resources to be finalised. - A Committee of officers to be created to prepare training modules for specific identified sectors in consultation with the states. – Access to relevant training modules in iGOT to be provided to the States. – Faculty for imparting training needs to be identified.
4	To build knowledge on financial accounting and focused approach towards interpreting business contract / agreement and understanding of systems driven business process through SAP, Oracle, Tally etc.	Pr. ADG DGI	i. Puducherry	– Training Capacity and frequency of training to be identified. – Nodal officers from States and ZTIs of NACIN to be identified for the training needs.

				− Specific service sectors to be identified and its training needs and resources to be finalised. - A Committee of officers to be created to prepare training modules for specific identified sectors in consultation with the states. − Access to relevant training modules in iGOT to be provided to the States. − Faculty for imparting training needs to be identified.

10. The sub-committee of the above item Nos. 1 to 3 of the ToRs was further divided into three sub-committees (**Annexure – 6)** as under:-

S. No.	**Task**	**Centre**	**State**	**Issues to be covered**
(a)	To study audit policy and practices of the Centre and the States which have already implemented certain procedure	Pr. Commr, Meerut	Rajasthan Karnataka	Study the audit policy and practices of the Centre and States that have already implemented certain procedures and to

				provide a report on the study.
(b)	To develop model Audit Manual taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by the State administrative suitability.	ADG, Audit EVP, GSTN	Gujarat West Bengal Bihar	To provide an outline of developing a model Audit Manual documenting audit policy and procedures adopted by Centre and States.
(c)	To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with approval of the Council.	Pr. Commr. GST Policy Wing.	Maharashtra Uttar Pradesh	Provide a document containing mechanism to be created to develop a policy and procedure to identify themes for joint and thematic audits, including the mechanism for its supervision.

11. The sub-committees were requested to meet amongst themselves to discuss the tasks and provide their draft reports for circulation to all the members.

12. The Record of Discussions (RoD) of the meeting held on 27/08/2021 was circulated to all the members. (**Annexure 7)**

Thereafter, the meetings of Committee and the Sub-Committees were held on 13/09/2021, 06.10.2021, 27/10/2021, 16/11/2021, 11/01/2022, 18/01/2022 and 12.05.2022 to discuss ToR-wise progress made and the status of draft reports of the respective sub-committees. The Record of Discussions of each meeting was circulated amongst the Members ((**Annexure – 8 to Annexure – 14 respectively)**.

13. A meeting of the CoO on GST Audit was held on 27/05/2022 in offline as well as online mode, to discuss the draft Model All India GST Audit Manual. The meeting was facilitated by the GST Council Secretariat vide their OM dated 24.05.2022 and held in the Meeting Hall of GST Council Secretariat, New Delhi.

The RoD of the said meeting were circulated amongst the Members **(Annexure 15)** After wide-ranging discussions and after obtaining inputs from many States, each of the six Sub-Committees submitted their report on all the six ToRs. The reports of the respective five sub-committees are annexed hereto. (**Annexure 16 to 20 respectively**)

Recommendations:-

(i) The sub-committee on Reference No. 1 – "To study audit policy and practices of the Centre and the States which have already implemented certain procedures" submitted their report with salient features as below:-

The report of the sub-committee is the compilation of topic-wise practice followed by the Centre and States in respect of each of the topics mentioned below. The States are Bihar, Himachal Pradesh, Kerala, Maharashtra, Nagaland, New Delhi, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand, West Bengal, and Karnataka.

These topics are as under:-

i. Identification of the risk parameters considered for selection of cases for audit / Basis for selection of cases for audit (Including any process of random selection of cases that may not be strictly covered by risk parameters)

ii. Scope of audit - whether restricted to only the flagged risk parameters or all business transactions of the auditee.

iii. Need for audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

iv. Need for audit of other years of the same auditee based on audit findings in selected cases.

v. Criteria for Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.

vi. Basis/criteria for allocation of cases for audit - cadre, turnover.

vii. Need for fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State?

viii. Any time limit to be set for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

ix. Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

x. Post-audit process - Any Committee for review of the audit report and recommendation for adjudication, who is the adjudicating authority.

xi. Any oversight of post-adjudication proceedings and its mechanism - follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defense in appeal, etc.

xii. Any central repository of audit outcomes

xiii. Coordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

xiv. Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

The Sub-committee decided to prepare its report in two parts. Part one of the report is the compilation of topic-wise practice followed by the Centre and States in respect of each of the topics mentioned above. Thirteen States sent in their feedback/suggestions and the inputs from CBIC were also examined and compiled. The States who provided inputs were :- Bihar, Himachal Pradesh, Kerala, Maharashtra, Nagaland, New Delhi, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand, West Bengal, and Karnataka.

The issues that are covered in the report may be termed as determinants of Model GST Audit Policy and Practices. The report broadly covers the common Audit policy and practices adopted by the Audit jurisdictions across the country. The systemic approach to GST Audit followed by the State GST administrations,

prima-facie, differ in varying degrees due to the administrative architecture that was designed for erstwhile tax administration. Notwithstanding such variations, the commonalities inherent in their Audit policies and practices are inferred in the overall context of the GST Act and the Rules and this report is precisely premised on such 'inferred commonalities'. The report contains two parts, the first part is a documentation of the GST Audit practices and the policies of the Centre and the States that have implemented certain procedures and adopted certain practices. The second part is the model GST Audit best practices and procedures which are recommendatory in nature.

The aforesaid recommendations were agreed to by the Committee.

The report of the sub-committee is attached as **ANNEXURE 15.**

(ii) The sub-committee for item No. 2 was "To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability" For this purpose, a sub-committee of officers was constituted to compile existing and desirable audit practices and to draft a model GST audit manual. The said sub-committee consisted of ADG, Audit (Headquarters), EVP, GSTN, State Tax officers from West Bengal, Bihar and Gujarat which was assigned the task to catalogue prevalent practices of audit in the Central and State Indirect tax administrations and adopt the best practices for GST Audit across the country. Further, the activity of compiling the Model GST Audit Manual was allotted to West Bengal Member of the Committee based on thoroughly studying the Audit manual prepared by Central Government, GST

Audit Manuals and Standard Operating Procedures prepared by various states like West Bengal, Punjab, Maharashtra, Karnataka, Bihar, and Uttar Pradesh as well as the module developed by the GSTN and available to Model 2 states. Extensive meetings, in which members from the Centre, States, GSTN and GST Council Secretariat participated were held for detailed discussions and deliberations.

A draft copy of the Model GST Audit Manual was circulated to all the members inviting their inputs and the draft Model Audit was modified accordingly. Thereafter, the modified draft of the Model GST Audit Manual was shared once again for final reading and deliberations with all the Members. After incorporating the suggestions, the final draft of the Model GST Audit Manual has been prepared and approved by the CoO. The Manual tries to take into account the differential structure of GST revenue administration prevailing in different States and the Centre.

Chapters on Thematic audit, Financial Accounting - Building Knowledge on Financial Accounting and Recommendations for Model GST Audit Practices & Procedures have been added to the draft Manual.

The aforesaid **draft Model GST Audit Manual 2022** has been agreed to by the Committee and has been separately submitted for the consideration of GST Council.

(iii) The sub-committee for item No. 3 was "To broadly outline the procedural aspects of joint and thematic audit, if and as and when they are undertaken with the approval of Council: and it has recommended as under:-

For conducting thematic audit, GST Council may form a **co-ordination committee** at all India level which shall choose **themes** for conducting audit, establishing **Committee of Officers** for selecting Tax payers in a state for thematic audit, coordination among various Audit Authorities for evolving a common minimum audit plans for a given theme and, thereafter monitoring of actual audit by the field formations so as to ensure uniformity. The co-ordination committee shall also be responsible for dissemination of the best practices being followed across Audit formations.

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

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

The co-ordination committee shall be responsible for selecting themes for conducting theme based audit at all India level in a coordinated manner. For

selecting the Audit themes, the Committee may consider using the following parameters/ data sources:

- Parameters which emerge from the systematic and methodical risk analysis conducted by GSTN, DGARM, ADVAIT and the state revenue intelligence units/economic intelligence units.
- Economic indicators;
- Third party information from Tax authorities and other Regulatory authorities;
- Sensitive nature of the commodity and / or service;
- Risky sectors in news for frauds for e.g., E-commerce, online gaming, jewelers etc;
- Sectors directly involved in providing services to a large consumer base, such as banking, insurance, air and land travel, utilities etc.

The said report also provides for determining local themes based on identified Risk Parameters. Further for coordination of actual audits it is suggested that the Coordination Committee may constitute a Committee of Officers for each State/UT. Furthermore, the Report prescribes role of Audit Field Formations for conducting such audits and a Standard Operating Procedure has also being laid down for conducting Theme Based Audit. The Report contains similar suggestions for conducting Joint Audits by Centre and States.

The aforesaid recommendations were agreed to by the Committee.

The Report of the sub-committee is at **ANNEXURE 16**

(iv) The sub-committee for item No. 4 was 'Using capability of data analytics developed by DGARM for identification of State taxpayers for audit' recommended as follows:

a) There is capability and expertise with them to identify the risky taxpayers for Audit falling in states' jurisdiction using approved risk parameters. If any State wants DGARM to select the risky taxpayers list for them, the State should make a specific request to DGARM. DGARM will identify risky taxpayers based on approved parameters for them and share the list with the State along with risk scores and risk parameters.
b) For the States who opt, DGARM may evolve and establish permanent mechanism to identify risky tax payers falling under their jurisdiction.
c) If any State only wants risk parameters to be shared with them and they do not want DGARM to identify risky taxpayers for them, DGARM may share approved risk parameters with them.
d) Risk parameters keep evolving over a period of time with feedback and detection of newer modus operandi. Further there may be some local risk factors relevant in their jurisdiction. Thus the States must have the authority to select its own additional risk parameters developed from their expertise, experience and knowledge from time to time. However, if any State wants to select the taxpayers list for audit by using expertise of DGARM, they have no objection in such matter.

The aforesaid recommendations were agreed to by the Committee.

The report of the sub-committee is at **ANNEXURE 17**

(v) The sub-committee on Reference Point No. 5 - 'To suggest measures of capacity building in Services for focussed approach on the audit of services sector' recommended as follows:

The officers of State GST needs to be trained specifically in service sectors which needs to be identified by the states and NACIN will draw a program to train the Master Trainers for each state based on the requirements of those states. NACIN through its Zonal Campus are already conducting bi-monthly training course on GST Audit & Accounting.

This training program will identify

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

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

taxable and exempted supply etc. needs to be focused upon so that the model of the sector along with the taxability is clear to the officers.

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

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

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

It is also recommended that the industry experts along with the officers may be involved in the training program to understand the specific sector model. An institutional mechanism containing selected officers from States and Centre may be created by NACIN to identify training needs of all the audit officers, identification and maintain record of resource persons including website resources and developing periodic training calendar.

The aforesaid recommendations were agreed to by the Committee.

The report of the sub-committee is at **ANNEXURE 18.**

(vi) The sub-committee on Term of Reference No. 6 - 'To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of the system-driven business process through SAP, Oracle, Tally, etc.' recommended as follows:

a) For the first time, GST has facilitated coordinated functioning of Central and State tax administrations. This is an opportunity as well as a challenge. On

the one hand, the cumulative experience of the state and the central administration can create a vast knowledge base. On the other hand, it may accentuate differences in practices and overlap in audit functions.

b) To overcome this issue, better coordination and sharing of information between the Centre and the States is required.

c) Standardization is the key. Appropriate Standard Operating Procedures need to be put in place for cross-jurisdictional issues. Frequency of audit, selection of taxpayers and number of taxpayers to be audited needs to be decided based on risk parameters.

d) As the actual audit needs to be done by the field staff, the officers and staff need to be prepared well with the help of proper training and development. Training of auditors in financial accounting, reading of contracts, use of accounting software etc. is imperative.

e) Finally, specialized software could be developed to cull out the relevant data from various business accounting systems so that the process of audit is made more system oriented.

The aforesaid recommendations were agreed to by the Committee.

The report of the sub-committee is at **ANNEXURE 19.**

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Annexure-I

DRAFT REPORT OF THE SUB-COMMITTEE (CoO)

on

"GST AUDIT POLICY AND PRACTICES OF THE CENTRE AND THE STATES THAT HAVE ALREADY IMPLEMENTED CERTAIN PROCEDURES"

Prepared by

The Department of Commercial Taxes,

Government of Karnataka

Under the guidance of

Smt. SHIKHA.C, IAS

Commissioner of Commercial Taxes

(Karnataka)

19-03-2022

WITH INPUTS FROM –

- Bihar
- Himachal Pradesh
- Kerala
- Maharashtra
- Nagaland
- New Delhi
- Punjab
- Rajasthan
- Tamil Nadu
- Uttar Pradesh
- Uttarakhand
- West Bengal
- Karnataka
- CBIC

FOREWORD

Prior to the introduction of GST from 1st July, 2017, even with the VAT regime prevalent in the States, there were considerable variations in the laws and rules providing for taxation on sale of goods and a few services (entertainment etc.). The thresholds for registration and tax liability, rates of tax, point of levy, formats of returns and the periodicity of their filing, etc. varied. While a few States provided for self-assessment with a provision for audit and reassessment in selected cases, others provided for mandatory assessment by the Departmental officers. The process and procedures of assessment and reassessment of taxpayers varied widely to suit the local laws and regulations as well as the local trade practices which moulded such law and regulations. Similarly, while in a few States the entire process of registration , return filing, tax payment, processing of returns filed etc. was digital and automated, in others it was predominantly paper based and manual. Neither were there any commonalities in the process and procedures adopted by the different State tax administrations for assessment or reassessment of taxpayers nor was there any necessity. Consequently, the need and enabling ecosystem did not exist for a structured exchange of experience and knowledge gained by the different States tax administrators in assessment and reassessment or other areas.

One of the main objectives of GST introduction was to create one common market in the country by totally removing the wide disparities and compliance complexities among the States in taxation of goods and services that had led to not only tax inefficiency but also interfered in investment decisions. GST has provided a uniform structure in taxation of goods and services throughout the country. There is total uniformity in taxable event, tax rates, point of levy, provisions for registration, return filing, tax payment, refunds, audit, adjudication, appeals etc. GSTN has created the necessary digital backbone to ensure seamless uniformity in the process and procedures relating to registration of taxpayers, return filing, tax payment, refunds etc.

Self-assessment/self-compliance is the edifice upon which GST eco-system is built. Though it provides for audit of taxpayers, it does not make it mandatory in all the cases. It is well accepted that Audit is a suboptimal solution to

enforce tax compliance. Unless the processes and procedures of selection of cases for audit and the consequent proceedings are grounded on sound principles of neutrality, transparency, accountability and sustainability, and outcome of audit is analyzed and appreciated, the purpose of audit would not be served and it would amount to wasteful deployment of limited human resources. It is imperative that audit should be transformed into an effective tool to mould corrective policy decisions to create a positive environment for total compliance. With implementation of GST the States have readily accepted that uniform taxation policies will create an enabling conducive environment for trade and industry to flourish with equal opportunities. Uniform adoption of the tried and tested best practices of audit procedures and processes by all the States as well as the Centre would enable consolidation of the outcomes of the individual States and the Central Authorities and their analysis for any consequential policy decisions, thereby sub-serve the primary objective of GST and ensure stable revenues to the States. The sharing of experience and knowledge gained can be efficiently and gainfully shared among the States and replicated, if the procedures and processes adopted are uniform. There can be an efficient deployment of limited human resources by the States in focused and productive activities.

It is precisely for these reasons that the Department of Commercial Taxes, Government of Karnataka brought out a comprehensive **KGST Audit Manual Version-1 on 01-01-2021.** The purpose was to delineate the principles and policies of audit conducted under the KGST Act, 2017 and the rules made there under. The guidelines provided in the manual are intended to enable audit officers to carry out effective audit in a uniform, efficient and comprehensive manner adopting the best international practices. The Audit Processes envisaged under the GST regime are ably assisted by technological tool named "***e-Shodhane Audit Module***" which complements and enhances the domain knowledge of the Audit officers. The name ***E-Shodhane*** is comprehensive in its expression conveying the meaning of verification, examination, investigation, scrutiny and the like. As a fillip to our efforts to have a robust GST Audit Mechanism and to contribute the experience that we have gained in the GST regime, constitution of Committee of Officers (CoO) on GST Audit by the GST Council and inclusion of Karnataka in the CoO as a member came at an opportune time and was a significant development in the overall context of GST.

On behalf of Karnataka, I wish to place on record my sincere gratitude to the GST council for giving the State an opportunity to be part of the Committee and Sub-committee of Officers constituted "To study audit policy and practices

of the Centre and the States which have already implemented certain procedures". The sub-committee was an offshoot of the Committee of Officers on Audit constituted by the GST Council on 27.07.2021, which was done after recognizing the importance of Audit in the GST system. It was found imperative that an effective audit mechanism comprising of the best practices and procedures tried and tested by the various indirect tax authorities in the country needs to be adopted to deter any misuse of the self-assessment feature and promote total compliance.

My compliments to **Shri. Ravi Jesuraj S, Additional Commissioner of Commercial Taxes, (Audit, Intelligence and Co-ordination) (K)** and his team of officers of this Department for their earnest efforts in preparing this report. My special thanks to Dr. Amandeep Singh, Additional Director General, DG Audit Headquarters, CBIC, convener of CoO, who facilitated online Webex Meetings and for giving his valuable inputs. I hope the best practices and procedures in GST Audit documented in **Part-I** and proposed by way of recommendation in **Part-II** will determine the GST Audit policy across GST Audit Jurisdictions in the country.

Ms. Shikha. C IAS.,

Commissioner of Commercial Taxes,
Department of Commercial Taxes,
Government of Karnataka,
Bangalore.

EXECUTIVE SUMMARY

GST, as universally understood, is a trust-based taxation system anchored strongly on self-compliance/self-assessment by the tax payers. In order to validate such self- assessments and to correct any non-compliance of/non-adherence to the GST law and rules that adversely impact revenue legitimately due, whether unintentional or otherwise, an effective audit mechanism comprising of the best practices and procedures tried and tested by the various indirect tax authorities in the country needs to be adopted. Such a mechanism should be moulded on a structured audit process. Needless to emphasize that GST Audit in principle should be systematic, coherent and comprehensive primarily premised on identified risk areas, unexplored compliance verification parameters and eventually educating and empowering the Tax Payers in voluntary compliance while making the tax authorities more effective and efficient.

To achieve the above objective, the GST Council re-constituted a Committee of Officers (CoO) vide File No. 350/Future Initiative/GSTC/2019 Dated: 27-07-2021 on GST Audit, which held its first meeting on 27-08-2021 on WebEx platform. It initiated a discussion on the Audit policy and practices adopted by the various States and the Centre and their administrative suitability for uniform adoption across the country. In pursuance of the discussion held thereon, the aforesaid CoO was further split into sub- committees vide Order Dated: 31-08-2021 and the task of this sub-committee was "*To study audit policy and practices of the Centre and the States which have already implemented certain procedures*".

The Sub-committee comprised of members from the State of Karnataka and the Officers from the Central GST and was required to study the audit policy and practices of the Centre and States that have already implemented certain procedures adopted certain practices and to provide a report on the study.

In consequence thereof, a meeting of the aforesaid sub-committee was convened by Dr. Amandeep Singh, Additional Director General, DG Audit Headquarters, CBIC. In the online meeting held, the officers from Karnataka had identified certain points/topics that can be dealt with in studying the audit

policies and practices of the Centre and States that have already implemented certain procedures and to design the Model GST Audit Policy.

These topics are as under: -

i. Identification of the risk parameters considered for selection of cases for audit / Basis for selection of cases for audit (including any process of random selection of cases that may not be strictly covered by identified risk parameters)

ii. Scope of audit - whether restricted to only the flagged risk parameters or all business transactions of the auditee.

iii. Need for audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for co-ordination among different audit officers, oversight etc.

iv. Need for audit of other years of the same auditee based on audit findings in selected cases.

v. Criteria for authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.

vi. Basis/criteria for allocation of cases for audit - cadre, turnover.

vii. Need for fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State

viii. Any time limit to be set for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

ix. Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

x. Post-audit process - Any Committee for review of the audit report and recommendation for adjudication and who is the adjudicating authority.

xi. Any oversight of post-adjudication proceedings and its mechanism follow-up of additional demand created, ascertaining the correctness of the adjudication order for its sustainability, putting up proper defense in appeal, etc.

xii. Any central repository of audit outcomes.

xiii. Co-ordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

xiv. Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by the States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

The Sub-committee held several intensive discussions, moderated by Dr. Amandeep Singh, Additional Director General, DG Audit Headquarters, CBIC, on the above topics to identify the best practices and procedures of the States and the Centre that would probably determine model audit policy and practices and there was a broad agreement on the issues covered. However, inclusion of point no. 14 namely the Role of technology in automating audit process was suggested by the Additional Director General, DG Audit, Headquarters CBIC. The sub-committee concurred with the suggestion of the learned ADG and it was taken as an additional topic for consideration in this report.

Further, it was decided unanimously by the members of the subcommittee that feedback/suggestions from all the State Departments on the aforesaid topics could be sought so as to understand their audit policy and practices. Accordingly, a letter dated 12- 10-2021 was emailed to the Commissioners of all the States and Central GST. Some States have sent in their feedback/suggestions which are documented in this report.

This document broadly covers the common Audit policy and practices adopted by the Audit jurisdictions across the country. The systemic approach to GST Audit followed by the State GST administrations, prima-facie, differ in varying degrees due to the administrative architecture that was designed for erstwhile tax administration. Notwithstanding such variations, the commonalities inherent in their Audit policies and practices are inferred in the overall context of the GST Act and the Rules and this report is precisely premised on such 'inferred commonalities'. The issues that are covered in this report may be termed as determinants of Model GST Audit Policy and Practices.

The report contains two parts, the first part is a documentation of the GST Audit practices and the policies of the Centre and the States that have implemented certain procedures and adopted certain practices. The second part is the model GST Audit best practices and procedures which are recommendatory in nature.

I wish to express my grateful thanks to the Learned Commissioner of Commercial Taxes (K) for her kind guidance and unstinted support. I am indebted to Dr. Avinash Rajendran Menon IAS Additional Commissioner of Commercial Taxes (Services Analysis Wing) (Former) for his invaluable inputs and guidance. I also wish to express my sincere appreciation to my supportive colleagues Shri. Rajeev S E, Deputy Commissioner of Commercial Taxes, Smt. Shruthi Chethan, Deputy Commissioner of Commercial Taxes and Dr. Deepthi Suresh, Commercial Tax Officer (Probationary Officer).

Ravi Jesuraj. S

Additional Commissioner of Commercial Taxes,
(Audit, Intelligence & Co-ordination),
Government of Karnataka,
Bangalore.

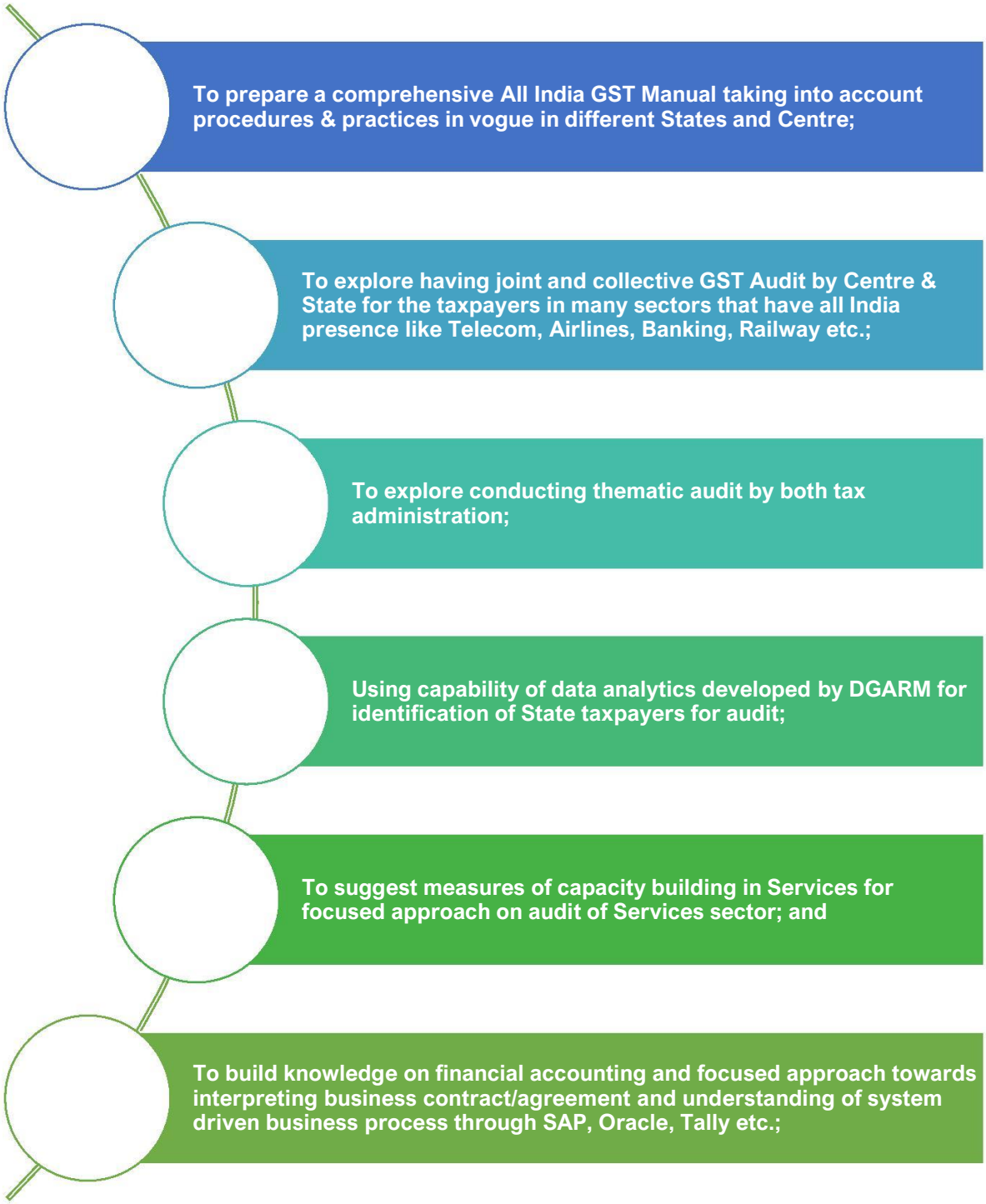
COMMITTEE OF OFFICERS (CoO) ON GST AUDIT

INITIAL CONSTITUTION:

Committee of Offices (CoO) on GST Audit has been constituted in pursuance of discussion and decision in the First National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit and to follow uniform practices for GST Audit in Centre and State Tax administration

Centre	State/UT	GSTN	GST Council Sectt.
1. Addl. DG, DG Audit Headquarters, CBIC - [Convenor] 2. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC 3. Pr. Commissioner, Meerut (Shri S.V. Singh) 4. Principal ADG/ADG, DGGI Headquarters, CBIC 5. Pr. ADG/ADG, DG Analytics & Risk Management 6. Pr. ADG/ADG, NACIN, Faridabad	Commissioner of Commercial Taxes, Karnataka (Shri Srikar M. S.)-[Convenor] Special Commissioner of State Tax, NCT of Delhi (Shri Udit Prakash Rai) Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) Additional Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi) Joint Commissioner, State Tax, Assam (Shri Gautam Dasgupta) Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) Joint Commissioner (TRU), Commercial Tax HQ, Lucknow, Uttar Pradesh (Shri Sanjay Kumar Pathak) Deputy Commissioner, State Tax, Uttarakhand (Shri Praveen Gupta) Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)	EVP, GSTN	Joint Secretary (Shri Dheeraj Rastogi) Director (Ms. Ujjaini Datta) Under Secretary (Shri Rakesh Agarwal)

INITIAL TERMS OF REFERENCE (TOR):



RE-CONSTITUTION:

Centre	State/UT	GSTN	GST Council Sectt.
1. Addl. DG, DG Audit Headquarters, CBIC - [Convenor] 2. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC 3. Pr. Commissioner, Meerut (Shri S.V. Singh) 4. Principal ADG/ADG, DGGI Headquarters, CBIC 5. Pr. ADG/ADG, DG Analytics & Risk Management 6. Pr. ADG/ADG, NACIN, Faridabad	1. Commissioner of Commercial Taxes, Karnataka (Shri Srikar M. S.)-[Convenor] 2. Commissioner of Commercial Taxes, Rajasthan (Dr Preetam B. Yashvant) 3. Addl Commissioner of Commercial Taxes, Karnataka (Shri. Ravi Jesuraj S) 4. Special Commissioner of State Tax, NCT of Delhi (Shri Udit Prakash Rai) 5. Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) 6. Additional Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) 7. Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi) 8. Joint Commissioner, State Tax, Tamil Nadu (Shri C. Palani) 9. Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) 10. Joint Commissioner (TRU), Commercial Tax HQ, Lucknow, Uttar Pradesh (Shri Sanjay Kumar Pathak) 11. Deputy Commissioner, State Tax, Uttarakhand (Shri Praveen Gupta) 12. Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)	EVP, GSTN	Joint Secretary (Shri Dheeraj Rastogi) Director (Ms. Ujjaini Datta) Under Secretary (Shri Rakesh Agarwal)

MODIFIED TERMS OF REFERENCE (TOR)

- To study audit policy and practices of the centre and the States which have already implemented certain procedures
- To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability.
- To broadly outline the procedural aspects of joint and thematic Audit, if and as and when they undertaken with approval of Council.
- Using capability of data analytics developed by DGARM for identification of State tax payers for Audit.
- To suggest messures of capacity building in services for focussed approach on Audit of services sector.
- To build knowledge on financial accounting and focussed approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.

FURTHER RE-CONSTITUTION:

Centre	State/UT	GST N	GST Council Sectt.
1. Addl. DG, DG Audit Headquarters, CBIC - [Convenor] 2. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC 3. Pr. Commissioner, Meerut 4. Principal ADG/ADG, DGGI Headquarters, CBIC 5. Pr. ADG/ADG, DG Analytics & Risk Management 6. Pr. ADG/ADG, NACIN, Faridabad	1. Commissioner of Commercial Taxes, Rajasthan (Shri Ravi Jain) – [Co-Convenor] **2. Commissioner of Commercial Taxes, Karnataka (Smt. Shikha C.)** 3. Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) 4. Special Commissioner of State Tax, NCT of Delhi (Shri Anil Banka) 5. Additional Commissioner, State Tax, Uttarakhand (Shri Amit Gupta) **6. Additional Commissioner of Commercial Taxes, Karnataka (Shri Ravi Jesuraj S.)** 7. Special Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) 8. Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi) 9. Joint Commissioner, State Tax, Tamil Nadu (Shri C. Palani) 10. Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) 11. Joint Commissioner, State Tax, Uttar Pradesh (Shri Vivek Singh) 12. Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)	EVP, GSTN	Joint Secretary Director Under Secretary

MEMBERS (STATE):

SL No.	Name of the Members	Designation
1	Shri. Ravi Jain	Commissioner of Commercial Taxes, Rajasthan
2	Smt. Shikha C	Commissioner of Commercial Taxes, Karnataka
3	Shri. Samir Vakil	Special Commissioner, State Tax, Gujarat.
4	Shri. Anil Banka	Special Commissioner, State Tax, NCT of Delhi.
5	Shri. Amit Gupta	Additional Commissioner, State Tax, Uttarakhand.
6	Shri. Ravi Jesuraj S	Additional Commissioner of Commercial Taxes, Karnataka
7	Shri. Arun Kumar Mishra	Special Secretary State tax, Bihar.
8	Shri. Prasad Joshi	Joint Commissioner, State tax, Maharashtra
9	Shri. C Palani	Joint Commissioner, State tax, Tamilnadu
10	Shri. Narayan Chandra Guriya	Joint Commissioner, State tax, West Bengal.
11	Shri. Vivek Singh	Joint Commissioner, State tax, Uttar Pradesh.
12	Shri. K Shridhar	Deputy Commissioner (ST), Puducherry

MEMBERS (CENTRE/GSTC):

SL No.	Name of the Members	Designation
1	Dr. Amandeep Singh-Convener	ADG, DG Audit Headquarters, CBIC.
2	Sh. Sanjay Mangal	Pr. Commissioner, GST Policy Wing CBIC.
3	Sh. Rajiv Jain	Pr. Commissioner, Meerut.
4	Sh. Sunil Tated	Principal ADG/DGGI Headquarters, CBIC.
5	Sh. Gurusharan Singh	ADG/DG analytics and Risk Management
6	Sh. Ashutosh Banwal	Pr.ADG, NACIN, Faridabad
7	Sh. Dheeraj Rasdogi	EVP, GSTN
8	Smt. Ashima Bansal	Joint Secretary, GST Council
9	Sh.Kshitendra Verma	Director GST Council
10	Sh. Karan Choudhary	Under Secretary, GST Council

FORMATION OF SUB-COMMITTEE:

In pursuance to the formation of Sub-committee is formed vide Order dated:31-08-2021 and to further facilitate and accelerate the reports, the following further sub-committee are formed for items numbers 1, 2 and 3 of the modified Terms of Reference.

Sl No.	Task	Centre	State	Issues to be covered
(a)	To study Audit policy and practices of the Centre and States which have already implemented certain procedures.	ADG Audit, Pr.Commr, Meerut(S,h.Sunil Jain, Commissioner of Customs, Mumbai-Co-opted).	Karnataka	Study Audit policy and practices of the Centre and States which have already implemented certain procedures and to provide a report on the study.
(b)	To develop Model Audit Manual taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by the State Administrative suitability.	ADG, Audit EVP,GSTN, (Sh.Ravneet Singh Khurana, Spl.Secretary, Government of Punjab - Co-opted).	Gujarat West Bengal Bihar	To propose a model Audit manual documenting Audit policy and procedures adopted by Centre and State.
(c)	To broadly outline the procedural aspects of joint and thematic audit, if and as when they are taken with approval of the Council	(O.P.Patel, Jt.Commissioner, GST Policy Wing-Co-opted).	Maharashtra Uttar Pradesh	Propose a document containing mechanism to be created to develop a policy and procedure to identify themes for joint and thematic audits, including the mechanism for its supervision.

PART -1

Compilation of GST Audit best practices and policies of the Centre and the States that have already implemented certain procedures.

I Identification of the risk parameters considered for selection of cases for Audit/Basis for selection of cases for Audit

(Including any process of random selection of cases that may not be strictly covered by risk parameters

1. Tamil Nadu

A set of risk parameters like registration, nature of commodity, return filing, e way bill, refund, ITC, payment pattern, external data are considered to identify the tax payers for the purpose of audit. The data is further classified as follows:

a) High Risk
b) Medium Risk
c) Low Risk
In addition to the above, a random selection of 5% cases which are not part of any of the above risk categories and 1% of the case from those which are already audited are also considered.

2. Rajasthan

The following are the main risk parameters which are predominantly considered by the State for identification of cases for audit-

A. Taxpayers claiming itc of more than an amount from eligible itc.

B. Taxpayers who have filed all returns and tax adjusted from cash ledger is less than an amount.

C. Taxpayers who have filed all returns and difference in tax liability in gstr-1 > gstr-3b by an amount.

D. Composition taxpayers having turnover of more than 1.25 crore.

E. Newly registered taxpayers with high turnover of more than an amount.

F. Taxpayers with (a) multiple use of pan (b) multiple use of email ids (c) multiple use of mobile nos.

G. Refund amount is greater than an amount.

H.Taxpayer having purchases from registration cancelled taxpayers.

I. Shipping bill/export proof submitted by taxable person not verified from Icegate.

J. The taxpayers whose tcs/tds is deducted and are defaulters in filing their gstr 1 and gstr 3b.

K. Turnover declared in gstr 3b must be comparable with tds/tcs deducted (it should be more than 100 times than tcs deducted and more than 50 times than tds deducted).

L. Taxable persons dealing in evasion prone commodities/services as per HSN/SAC code.

M. Taxpayer having tax liabilities of an amount and discharging it 100 percent by using ITC.

N. High spike by n amount in e-way bill value in n months.

O. Ratio of Output Tax paid in cash to the total turnover in the current year is n percentage point higher to the ratio of the same in the previous year.

P. Ratio of Output Tax paid to Net Profit in the current year is n percentage point higher to the ratio of the same in the previous year.

Q. Taxpayers whose loss is greater than n amount.

R. Taxable Persons whose turnover is less than n percentage point turnover from the previous year.

S. Ratio of expenses to turnover in current year is greater than the ratio of by n than same in the previous year.

T. Audit not done in last n years.

U. The ratio of exempted supply of services or goods to total turnover in the current year is n percentage point higher when compared to the ratio of the same in the previous year.

V. Taxpayers filing return late by n months.

W. Taxpayers against whom the orders u/s 74, 129 & 130 have been passed in the previous/current year.

X. Taxable persons who have not filed all returns during the year and whose turnover in the previous year is greater than by an amount.

3. Delhi

A list of risky Tax payers falling within the jurisdiction of Delhi State are being provided by the Directorate General of Analytics and Risk Management (DGARM)/BIFA for the audit purpose. Risk score is assigned to the taxpayers by (DGARM)/BIFA based on certain parameters, such as sales turnover is less than the purchase turnover, high ratio of zero rated turnover to total turnover, very high ratio of tax paid through ITC to total tax payable as per GSTR-3B, decline in average monthly taxable turnover as per GSTR-3B, positive difference between ITC shown in GSTR-3B and ITC as per GSTR-2A, etc., Active taxpayers are being selected from such list for conducting Audit based on the category within which such taxpayers fall(i.e. large/medium/small) as well as their risk score.

4. Uttar Pradesh

The following risk parameters are considered for audit:

a. Inward supply from bogus dealers.
b. Zero cash set-off against tax liability.
c. Inward supply received but no outward supply.
d. Difference between GSTR-1 and GSTR-3B.
e. GSTR-1 submitted but GSTR-3B not submitted.
f. Manufactures whose cash set-off is less than 5 percent.
g. GSTR-9 not filed.
h. ITC difference between GSTR-2A and GSTR-3B.
i. Three or more cases booked by mobile squad.
j. Cancelation of E-way bill is more than 2 percent.

Note :- Other than above risk parameters, some dealers of services and manufactures of sensitive goods are also included by the State.

5. Kerala

The Risk-based taxpayer's selection for conducting the audit is done at the Commissionerate level. The target followed by the State for audit is 30% each for Large tax payers, Medium Taxpayers and the Small Taxpayers. The balance will be reckoned from the suggestions or recommendations made by other wings of the Department. It is the responsibility of the Audit Commissionerate to prepare an audit schedule for a whole year and review the audit progress in participation with the taxpayer's services unit and the audit wing. The audit plan so designed shall be implemented from April 1st of each year.

6. Nagaland

The State follows certain identified risk parameters for selection of cases for audit.

7. Himachal Pradesh

The State analyzes normal taxpayers based on return data for 9 months i.e., July 2017 to March 2018. Total 4.06 lakhs GSTR 3B returns and unique 63842 normal taxpayers are covered for analyses. It also considers taxpayers other than normal taxpayer, (Source of data SFTP Server, GST Pro/Prime, BO web portal and BIFA/GSTINs.). Top 500 out of above normal taxpayers were shortlisted on different parameters for audit. These parameters are:

A. Segregation of normal taxpayer under State jurisdiction on different parameters like –

i. Taxpayer's nature of business (manufacturer, wholesaler, retailer, and service sectors etc.),

ii. registration status (active/cancel),

iii. registration type (new/migrated),

iv. jurisdiction-wise, zone/district-wise,

v. -revenue to State-wise (contributor / dragger / neutral).

B .Turnover

C. Net contributions

D. BIFA/GSTIN indications

E. Ratio(s)

F. Refund reports

G. Annual return GSTR9 & 9C

(For details please refer HP GSTAM-2019)

8. Uttarakhand

The selection of tax payers is being done by the State, on the following parameters-

Evasion-prone Goods and Services – Iron and Steel, Pan Masala, tobacco, Plywood, Works Contractor etc

Higher rate of Tax

Output Liability Vs Cash Set Off Ratio

DGARM Data

In addition to the above, Human Intelligence, previous track record of the tax payers in the VAT regime/Central Excise and Service Tax are also considered.

9. Punjab

For the year 2017-18 parameters as deployed by CBIC as well as that of the internal SAS tool and GSTN risk score were employed for identification of cases for audit. For the year 2018-19, the risk parameters as detailed in BIFA have been proposed to be utilized for the selection of cases for audit. The outcome of 2017-18 audit cases will also be used as input for selection of cases for 2018-19.

10. West Bengal

The Commissioner by a general or specific order may select any registered person for audit of his books of accounts for a specific period. The Commissioner may fix the criteria of selection based on certain parameters as he may deem fit.

Selection based on Return related Risk Parameters: The list of potential high-risk taxpayers may be prepared by selecting one or multiple criteria under different major risk heads from the available options, viz.: Specific benchmarks may be fixed against the risk criteria for each of the above major heads such as:

Only the normal taxpayers under the State/Central jurisdiction, i.e., the taxpayers who are required to file Form GSTR- 3B and Form GSTR-1, may be selected by the Commissioner.

Those tax-payers who have filed at least 06 (selection criteria for 2017-18) & 09 (selection criteria for each subsequent year) Form GSTR-3B in the financial year may be selected.

The taxpayers' pool may be divided into 3 segments namely Large, Medium & Small based on turnover in the State, where Large taxpayers will be those having Turnover in the State> Rs. 100 crores, Medium tax payers will be those having aggregate Turnover in the State ranging from Rs. 10 crores to Rs. 100 crores and Small taxpayers will be those having Turnover in the State< Rs. 10 crores. This turnover limit while fixing the selection criteria may vary from State to State, in different Zonal levels of a particular State and also for service sector when compared to that for goods.

All risk parameters are required to be identified and all probable aspects need to be considered to identify non-compliance and non-payment / short payment of tax, interest, late fee, penalty etc and evasion of tax.

To select the tax payers for audit in an effective manner, secondary data source (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be considered along with the primary data source (i.e. GST data).

The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit.

Based on the average weight considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.

The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one Registered Taxable Persons has the same final score, the parameter of declared liability will then be considered and a taxpayer with more declared liability will be selected first.

A Selection Committee is constituted to identify various risk parameters for selection for audit considering all the aspects where there are chances of lack of compliance of the Act resulting in short payment of tax etc.

i. This final score is calculated based on the data for each financial year and the parameters as well as the weightage adopted will undergo necessary modifications, if required.

j. In case the Registered Taxable Persons selected for audit have multiple registrations under the same PAN / TAN in the State, it is suggested that all such registration numbers may be selected for audit.

k. 10% of the selection of the tax payer is done on random basis.

11. Karnataka

The selection of cases for audit is done on the basis of compliance risks and risk evaluation method using a specially developed tool named as E-Shodane online Audit module (electronic Scrutiny of High-risk cases, Audit Observations & DRC under Assessment module). Cases with at least 2 or more risk factors are selected for scrutiny. Top 60,000 involved in the business of evasion-prone commodities with primary risk factors are included under secondary risks.

Certain representative selection criteria considered for risk assessment are given below:

R3B<R1	Total Output tax declared in GSTR-1 is more than 5% of that declared in GSTR-3B.
R3B>R2A	Total ITC claimed in GSTR-3B is more than 10% of that declared in GSTR-2A.

Service Sector	Service Sector cases having more than Rs.10 crore aggregate turnover per year
TRAN-1	Transitional input credit carried forward from earlier tax regime
Delayed ITC	If ITC availed in Form GSTR-3B filed after 23/04/2019 for the FY 2017-18
Evasion Prone Comm.	Top 60,000 Taxpayers dealing in evasion-prone commodities
ITC Block	Input Tax Credit blocked cases
Old Refund	Refund sanctioned by the LGSTOS/SGSTOs under Manual Refund process (up to 25/09/2019)
New Refund	Refund sanctioned by the LGSTO/SGSTOs under Online Refund process (After 26/09/2019)
Inspection Reports	Cases having inspection/investigation reports.

In addition to system identified cases, there is a provision for the field level officers to identify cases for audit based on local intelligence network, which also carry risk of revenue leakage.

12. Bihar

The selection of taxpayers for audit is done centrally on the basis of risk parameters devised centrally by the CCT and other officers

Some parameters include: –

- Total tax/turnover,
- Throughput of tax,
- Percentage discharge by credit,
- Credit claim at odds with system generated reports,
- Inspection report or adverse information,
- Disproportionate use of e-way bills,
- Discrepancies in statutory forms,
- Evasion prone commodities

The parameters are customizable for larger and smaller circles VAT Audit in the State. The selection is generally, 2-3% of taxpaying dealers are selected for audit (ceiling 10%) by 31st March of following year. Criteria for selection is notified by the Commissioner and list of dealers is posted on official website of Department within 15 days of selection along with criteria. Taxpayer objecting to selection may file objections to Commissioner by the end of May of the following year. The objections to be dealt with by the Commissioner within one month. After hearing the taxpayer any consequent changes to the list of dealers to be made and final list to be posted on website within 15 days of the order.

13. Maharashtra

The audit parameters are a mix of mismatch thrown by information available with the Department like GSTR-1, GSTR 3B and GSTR -9/9C and also with a view to learn new sectors with emphasis on the size of revenue.

14. Centre

Given the large number of registered persons under GST, it is impossible to subject every registered person to audit each year with the available resources. Selection of units for audit in a scientific manner is extremely important as it permits efficient use of audit resources viz. manpower and skills for achieving effective audit results. The registered persons are selected on the basis of assessment of the risk to revenue. This process, which is an essential feature of audit selection, is known as 'Risk Assessment'. It involves ranking of the registered persons according to a quantitative indicator of risk known as a 'risk parameter'. Risk Assessment Programme jointly run by DG (Audit) & DGARM. Lists of category– wise taxpayers provided by DGARM. Allocation of units as per Large, Medium and Small amongst the audit teams. Allot to the Audit teams 7/8 number of taxpayers out of the 80% list of Taxpayers provided by DGARM. Allots 10 % Random list of Taxpayers amongst the Audit Teams. The remaining 20% of the taxpayers to be audited should be selected by the Audit Commissionerate based on local risk factors, after obtaining approval from the jurisdictional Chief Commissioner.

A scientific and well deliberated Risk Assessment programme has been developed in coordination with the Directorate General of Analytics and Risk

management to identify risky taxpayer. List of most risky taxpayers have been shared with the Audit Commissionerate to facilitate selection for audit.

Presently 34 risk parameters are being used. The broad heads for calculating the risk scores are as under: -

1. IGST payment at the time of import is more than the ITC availed

2. Ratio of nil/exempt to total turnover (minus non-GST supplies)

3. Zero rated to total turnover (minus non-GST supplies)

4. Very High Ratio of Tax paid through ITC to total Tax payable

5. Ratio of Non-GST supplies to total turnover

6. Ratio of inward supplies (liable to reverse charge) to total turnover

7. Late filing of returns

8. Stop filers

9. Positive Difference between ITC shown in Table 4A (5) of GSTR-3B and ITC as per GSTR 2A.

Probable Local Risk Parameters Few examples of local risk parameters that may be considered during selection of units for audit. The planning section, Head-quarters of Audit Commissionerate may consider all or some of the below criteria, depending on available data and resources, and may also use additional criteria not listed below. The Taxpayer who did not provide or delayed in providing documents sought by the Audit Team. The Taxpayer was not previously audited; Length of time since last audit; The size of the Taxpayer's turnover / net profit; The size of the Taxpayer's loss, if any; The size of the Taxpayer's refund, if any; The size of change in the Taxpayer's turnover/net profit from the previous year; The size of the impact detected mistakes had on the Taxpayer's turnover/ net profit; Taxpayer dealing with sensitive commodities/supplies.

II Scope of Audit - whether restricted to only the flagged risk parameters or all business transactions of the auditee.

1. Tamil Nadu

In general, the audit covers all business transactions of auditees but a plan to introduce desk audit only for flagged risk parameter is also in the pipeline.

2. Rajasthan

The scope of the audit is not limited to red flagged risk parameters, it encompasses all major points which are whether covered under red flagged risk parameters or not. As the taxpayer might have the possibility of evading the tax at multifarious levels, so all points related to business sector must be considered and looked into in depth. Sometimes, the sensitive points become noticeable after the detailed examination of the books of accounts and record pertaining to the business unit and hence, it becomes vital to perceive the things in detail.

3. Delhi

When the audit of any taxpayers has been taken up, which has been selected on the basis of parameter as stated at point No. 1 above, then all business transactions of such taxpayers for the particular financial year for which audit is being conducted are covered in such audit.

4. Uttar Pradesh

It includes all business transactions of the auditee.

5. Kerala

The audit may not be restricted only to the extent of flagged risk parameters. An efficient and effective audit system in all aspects based on a checklist will

increase voluntary compliance and facilitate the tax administrations aim of getting the right tax at the right time.

6. Nagaland

The State is of the opinion that the scope of audit may not be restricted only to flagged issues.

7. Himachal Pradesh

All business transactions of the auditee are covered under GST audit.

8. Uttarakhand

When once the firm is selected for audit then complete audit as per the definition given in Section 2 is done rather than on flagged risk parameters.

9. Punjab

The scope of Audit is defined by the definition of 'Audit' u/s 2 of the GST Act, and is primarily focused on verification of the correctness of turnover declared, tax paid, refund claimed and input tax credit availed and to access the compliances of the tax payer with the provisions of these Acts or the rules made there under.

10. West Bengal

As per the audit manual, audit team is required to study various areas to examine the compliance of the selected auditee apart from the criteria of selection. Audit is defined in sub-sec 13 of sec 2 of the CGST/WBGST Act, 2017 as “detailed examination of records, returns and other documents maintained or furnished by the taxable person under this Act or Rules made thereunder or under any other law for the time being in force to verify, inter alia, the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or rules made thereunder”.

11. Karnataka

When, once a case is selected for audit, its scope is not restricted only to the flagged risk parameters, but will cover all the transactions of the auditee.

12. Maharashtra

Based on the risk methodology, a list of cases will be communicated to the Nodal /Local Tax Unit audit Officer (i.e. L.T.U), for the purpose of conducting audit for the audit year. The list will contain the names of the registered persons and the risk indicator along with the action points for decision support so that the Audit officer is aware of the area to focus while conducting audit. Nodal / LARGE TAXPAYER'S UNIT officer with the recommendation of concerned Joint Commissioner may propose cases to be audited based on local risk parameter and the cases be conveyed to the Committee comprising Addl. CSTs headed by the Special CST and it is ensured by them that 20% of the taxpayers to be audited are selected based on local risk.

13. Bihar

Selection of taxpayers for audit is done centrally on the basis of risk parameters devised centrally by the CCT and other officers. The parameters are customizable for larger and smaller circles.

14. Centre

The scope of audit is determined in the Desk Review conducted by each audit officer and it includes the flagged risk parameters and all business transactions of the auditee. In the Desk review - emphasis is on gathering data about the registered person, his operations, business practices and an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation and run tests to evaluate the vulnerable areas. The idea is to gather as much relevant information about the registered person and its operations, as is possible, before visiting the unit. It culminates in development of a logical audit plan and focus on potential issues.

III

Need for audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

1. Tamil Nadu

Considering the man-power constraint, the State is of the opinion that, it is not feasible to take up all the taxpayers in the chain for Audit. However, some of the cases may be considered based on the inputs from the audit team. It is also not mandatory to have the same audit officer.
At present, no specific procedures are being followed for the approach of coordination among different audit officers, oversight etc.

2. Rajasthan

The other registered persons in the value chain may also be taken for audit. Further, if there are one or two officers posted in the same zone, then audit is conducted by the same officer but if cases are of different zones & regions, then obviously it is conducted by other officers. The Additional Commissioner or Deputy Commissioner of Audit of respective Zone are required to coordinate with each other.

3. Delhi

At present, the audit is being conducted for the selected taxpayers. Based on the audit report/findings, audit of other registered persons in the value chain, is taken only if it is required.

4. Uttar Pradesh

No other registered person in the value chain is taken up for audit.

5. Kerala

If the audit teams find that the other registered persons in the value chain also need to be taken up for an audit, the team may take up the cases under its jurisdiction with the concurrence of the Audit Commissionerate. Where such other registered person is not falling under the jurisdiction of the audit team it may be reported to the Audit Commissioner to take up the issue with the concerned audit team who have jurisdiction over the area.

6. Nagaland

Some of such Registered Taxable Persons in the value chain are taken up for audit. Norms for such action (whether to have the some audit officer for all cases, approach of coordination among different audit officers, oversight etc.,) has not been put in a place yet.

7. Himachal Pradesh

Commissioner or any officer authorized by him, may undertake audit of such registered person for such period, at such frequency and in such manner as may be prescribed.

8. Uttarakhand

Not all but some registered persons are definitely taken up for audit, if there are serious flaws in the returns and normally the same audit officer is assigned for the audit of that firm/registered person.

9. Punjab

The extant audit manual as well as instructions empower the Commissioner of the State Tax to take up any registered person for audit other than those selected on the basis of the defined risk parameters.

10. West Bengal

There is no such suggestion so far in the audit selection committee to select all the taxpayers in the value chain for audit. Rather, it is suggested that audit team may refer a case to any investigation agency, if more numbers of taxpayers are associated in a value chain where any less payment/non-payment of taxes is identified.

11. Karnataka

Currently, there is no fixed policy on this issue and decision is taken on case to case to basis.

12. Maharashtra

The modalities are yet to be designed.

13. Bihar

The modalities are yet to be designed.

14. Centre

Audit of taxpayers selected on risk basis is conducted within the jurisdiction of the Audit Commissionerate. In case any other taxpayer of the same chain is noticed, then information is shared with the respective jurisdictional Audit Commissionerate. At present there is no system of coordinated audit of all taxpayers in the value chain.

IV Need for audit of other years of the same auditee based on audit findings in selected cases.

1. Tamil Nadu

If any inspection of the selected Registered Taxable Persons is conducted for the periods covered in the limitation period, audit shall be excluded for the entire period of inspection. Audit will be generally taken for whole of completed financial year unless, it is specially mentioned to cover part of any financial period. In certain desk audit cases, where audit will be taken only for one financial year and if any defect is detected then it will be proceeded for further previous year.

2. Rajasthan

Based on the audit findings, the Audit of other years of the same auditee can be taken up for audit. In case of the rate of tax disputes, other legal issues or large amount of revenue is involved, then audit is taken for the audit of the same auditee for the different financial years also.

3. Delhi

Currently, the audit of the selected taxpayers for the particular financial year/s are being conducted. Based on the audit reports / findings, audit for other financial years is also undertaken if required.

4. Uttar Pradesh

On the finding of audit, audit of other years of the same auditee can be taken up with the permission of Commissioner.

5. Kerala

The Audit need not be restricted to a particular financial year. If a tax payer is selected for audit, a complete audit by clubbing more than 1 financial year is to be done. The Audit Commissionerate shall prepare the target parameters per year. The time limit to complete each audit shall be in line with the audit duration as specified in para 2.6.1 of the GST Audit Manual prepared by the CBIC.

6. Nagaland

Depending on the audit findings, audit of other years of the same auditee may be considered for audit.

7. Himachal Pradesh

The period to be covered under audit is prescribed in Rule 101 (1) of the HP Goods and Service Tax Rules, 2017 as a financial year, or part thereof or multiples thereof to cover the retrospective period up to the previous audit or the limitation period specified in the Act.

8. Uttarakhand

If the findings are found to be risk for the revenue, the audit proceedings are initiated for the other financial years also.

9. Punjab

The final approval for the selection of the case for audit is given by the Commissioner of State Tax. As far as the audit objections raised, the final authority is the Deputy Commissioner of the State Tax of Division to which the auditee pertains. Further, any un-reconciled objection that could not be finalized during MCM on account of any reason is to be taken up with higher authority.

10. West Bengal

If an officer comes across any specific information relating to a Registered Taxable Persons and has specific reasons to believe that Audit of the said Registered Taxable Persons books of accounts is required to be done for one or more financial years, or, if any audit officer in the course of audit has specific reasons to believe that an observation made upon audit will have revenue impacts in other periods also, he may send a proposal in this regard to the Commissioner. Similarly, an audit officer or his/her higher authority can propose for any taxpayer to be selected by the Commissioner for audit upon mentioning adequate reasons. The Commissioner upon consideration of all such proposals may select some/all of such Registered Taxable Persons for audit. GSTN has developed a module to facilitate such proposals for suo-motto selection of any taxpayer for audit from the L3/L2/L1 level.

11. Karnataka

Currently, audit is restricted only to the financial years 2017-18 and 2018-19.

12. Maharashtra

The modalities are yet to be designed.

13. Bihar

The modalities are yet to be designed.

14. Centre

The period to be covered under audit is prescribed in Rule 101 (1) of The Central Goods and Service Tax Rules, 2017 as financial year, or part thereof or multiples thereof to cover the retrospective period up to the previous audit or the limitation period specified in Section 73 or 74 of the CGST Act, 2017.

V

Criteria for Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.

1. Tamil Nadu

Inputs may be received through various sources; however, final selection of list and its approval is done only by the Commissioner of Commercial Taxes. Team of officers headed by the Additional Commissioner (Int) takes care of the process before final approval by the Commissioner of Commercial Taxes.

2. Rajasthan

The major part of selection of the cases should be based on risk parameters decided and it must be on online basis. It must be done through the module developed so that transparency is ensured in selection process of audit cases. There may be a provision to include some cases through the feedback of the field officers. It must also be seen that selection of the cases is based on sector-wise basis depending upon the market trend of that particular commodity/sector. Online selection should be based on maximum risk parameters given. In the process, we can have turnover-wise slab system so that all type of taxpayers from smallest to largest turnover could be examined and the basic motto of audit to ensure timely compliance of the law and procedure is fulfilled and no one is left behind from the ambit of audit.

3. Delhi

Audit cases are being currently selected based on the reports/lists provided by DGARM/BIFA, based on their scale of business and their risk score and the same are allocated to the officers of the Department with the approval of the Commissioner, State taxes in terms of the provisions of the Sec-65 of the DGST Act, 2017/ CGST Act, 2017.

4. Uttar Pradesh

Commissioner is authorized to select cases for audit. On the basis of selected parameters, a committee headed by Additional Commissioner (Law) at the headquarters, selects the dealers for tax Audit and finally approved by the Commissioner. The Joint commissioner (Tax Audit) at zonal level will create a local committee headed by himself and zonal committee headed by the Zonal Additional Commissioner of respective zone.

5. Kerala

The Audit Head Quarters will have a Joint Commissioner (Audit) who prepares the audit calendar and convene the Audit Monitoring Committee meetings wherein, the Additional Commissioner (Audit) will chair. The Committee resolves problems in the implementation of the audit system. The Audit Monitoring Committee reviews the audit reports, finalizes the report and recommend it to the adjudicating authority.

6. Nagaland

The State is considering to authorize officers as per back office module developed for model 2 State for selection, approval and assignment of cases for audit.

7. Himachal Pradesh

The Commissioner or any officer authorized by him, may undertake audit of such registered person for such period, at such frequency and in such manner as may be prescribed.

8. Uttarakhand

Selection is done by Audit wing which is headed by the Additional Commissioner (Audit) and final approval is done by the Commissioner.

9. Punjab

For the year 2017-18, looking at the administrative structure and the allocated manpower, taxpayers with turnover less than Rs. 50 crores have been assigned to the State Tax Officer as audit team leader and those with turnover greater than Rs. 50 crores have been assigned to the Assistant Commissioner of State Tax as audit team leader.

10. West Bengal

A committee is formed for deciding the criteria of selection of registered taxpayers for audit for the period from 1.7.2017 to 31.3.2018 and 1.4.2018 to 31.3.2019 with prior approval of the CCT/WB. The committee is formed comprising of following officers:

a. The Special Commissioner -1,
b. Special Commissioner (Audit Vertical),
c. Additional Commissioner ((Audit Vertical),
d. Additional Commissioners from Circles,
e. Additional and Senior Joint and Joint Commissioner of Information System Division,
f. Senior Joint Commissioners of Charges,
g. Joint Commissioner of GST Policy Planning Unit.

Allotment of selected Registered Taxable Persons – As per provisions of sec 65(1) read with rule 101(1), any officer who is authorized by the Commissioner has the power to audit. If the HQ feels that audit for a particular taxpayer need not to be carried out, the case can be dropped. In order to drop an audit case, proper and adequate reasons are required to be given along with uploading of any document in support of such reasons for dropping the same. Dropping of an audit case cannot be done after the commencement of Audit. After the audit selection, the list of selected Registered Taxable Persons may be made available before the jurisdictional proper officers through the functional hierarchy. GSTN has developed the module for assignment of auditees to Audit Officers.

Allocation of Taxpayer of Zonal Audit Head - The selected cases are required to be allocated to the Zonal level audit head (L2). The system provides facility to the Commissioner i.e. the HQ level (L1) to allocate Taxpayers of a particular Zone to that Zonal level Head (L2). The Commissioner is empowered as the head of the ISD to function as L1 in the system.

In case of already allocated Taxpayer(s), if the HQ officer wants to modify the Zonal officer, he/she may do so after recording reasons for such change. Assignment & Team formation for audit:

11. Karnataka

On scrutiny of selected cases allotted to them electronically by the Audit Module, the Audit Officers are required to seek further authorization for audit from the Commissioner routing their request through their Divisional Joint Commissioner and the Additional Commissioner (Audit).

12. Maharashtra

Draft parameters are drawn up by the Audit Parameters Selection Committee and presented to the Committee of ACSTs headed by the Special CST for finalizing the identified tax-payers for GST Audit with the final approval of CST. The cases will be distributed by EIU with reference to the risk parameters. Allotment of selected cases to the Jurisdictional Nodal / Large taxpayers unit Audit officer (i.e., Audit officer).

13. Bihar

The Criteria for selection is notified by the Commissioner.

14. Centre

There are 48 Audit Commissionerate's - Each Audit Commissionerate is headed by Principal Commissioner / Commissioner – two Additional / Joint Commissioners, 20 AC/DCs, 80 Superintendents and 100 Inspectors. Administrative Structure – Headquarters – Planning and coordination section, Risk management and quality assurance section, Personnel, Administration and Vigilance section and Technical / Legal and follow up section. Audit Circles – Geographically attached to each Executive Commissionerate. The authorization for conducting an audit is given by the Pr. Commissioner / Commissioner.

VI

Basis/criteria for allocation of cases for Audit - cadre, turnover.

1. Tamil Nadu

No specific procedure followed.

2. Rajasthan

The allocation of cases is predominantly based on the administrative system where each officer in the State is authorized to assess for a particular pecuniary limit of a case based on the turnover of the tax payer. The same is applied to Audit allocation system and accordingly, the cases are allotted to the officer in the field. Start Risk Assessment of tax payers and calculation of risk Score engine Selects the units for audit (selection criteria based on risk parameters of that year). Allocate Audit task lists to Commissionerate based on CDR Mapping, Allocate Audit task lists to Circles based on CDR Mapping, Allocate Audit task lists to Groups based on CDR mapping Select a unit from list for audit (Audit case created in system Send intimation to unit (GST ADT-01), Start Audit Activity (i) Prepare working Papers (ii) Desk Review (iii) Calculation of financial ratio Send intimation to unit on audit findings GST ADT-01A, Update units reply/consent/objection to findings (GST ADT -1B), Update draft audit report in form of paras created for each finding objection record status of each Para(On spot accepted/not accepted), Update final audit report after MCM Record status of each para with remarks comments Para close Case referred for issuance of Show Cause Notice.

The selection and allocation of cases must carry a message that no one is out of ambit of audit and anyone can be audited at any point of time along with it must be focused that everyone comply the procedure defined in Act.

In Rajasthan State, we have prescribed pecuniary power to the officer which is based on turnover of the tax payer.

3. Delhi

Audit cases are being currently selected based on the reports/lists provided by DGARM/BIFA, based on their scale of business and their risk score and the same are allocated to the officers of the Department with the approval of the Commissioner, State taxes in terms of the provisions of the Sec-65 of the DGST Act, 2017/ CGST Act, 2017.

4. Uttar Pradesh

The allocation of cases for audit is based on turnover. 1200 Dealers for 2017-18 and 1200 Dealers for 2018-19 selected for whole of the State. Each Zone is assigned 60 dealers for each financial year.

5. Kerala

The Audit Head Quarters will have a Joint Commissioner (Audit) who will prepare the audit calendar and convene the audit monitoring committee meetings, wherein, the Additional Commissioner (Audit) will chair. The committee resolves problems in the implementation of the audit system. The Audit Monitoring Committee in its meetings reviews the audit reports, finalize the report and recommends it to the adjudicating authority.

6. Nagaland

The State is yet to work out the details. However, the cases are allotted to the officers on the basis of the turnover.

7. Himachal Pradesh

No specific procedure followed for the same.

8. Uttarakhand

Since there are twelve teams of Audit in Uttarakhand and each team is headed by Deputy Commissioner. Therefore, there is no basis for allocation of cases Officer-wise.

9. Punjab

Although no target has been fixed for the year 2017-18. It is understood that all the assigned cases (450) for the said year are to be completed by 31st March 2022.

10. West Bengal

No such procedure is followed in regard to allotment of Registered Taxable Persons for Audit on the basis of turnover. Similarly, cases for Audit are also not allotted based on the designation.

11. Karnataka

Selected cases for audit are allotted to the officers based on the turnover, risk score and cadre. Cases involving high risk score with higher turnovers are allotted to the Deputy Commissioners and other cases are allotted to the Assistant Commissioners and Commercial Tax Officers.

12. Maharashtra

The audit parameter selection committee will draw up draft parameters and present it to the Committee of Additional Commissioners of Sales Tax (ACSTs) headed by the Special Commissioner of Sales Tax (CST) for finalizing the identified tax-payers for GST Audit with the final approval of CST.

13. Bihar

No specific criteria is devised. However, the Commissioner will notify the criteria.

14. Centre

The taxpayers are classified into three segments, Large/Medium/Small based on the total turnover. The Audit Commissionerates are also divided into three Categories, I II and III based on the taxpayer's spread across various segments. By and large, the categorization is uniform across the Audit Commissionerates subject to the availability of more risky taxpayers in a particular category which is as under-

i) **Large** - taxpayers with turnover more than Rs. 40 Crore for category 1 Commissionerates, Rs. 30 Crores for category 2 Commissionerates and Rs. 20 crores for category 3 Commissionerates.

ii) **Medium** – taxpayers with turnover Rs.10 Crores to 40 Crores for category 1 Commissionerates, Rs. 7.5 Crores to Rs. 30 Crores for category 2 Commissionerates and Rs. 5 Crores to Rs.20 crores for category 3 Commissionerates.

iii) **Small** – taxpayers with turnover below Rs. 10 Crores for category 1 Commissionerates, below Rs. 7.5 Crores for category 2 Commissionerates and below Rs. 5 Crores for category 3 Commissionerates.

The turnover includes total taxable, exempt and zero rated clearances of goods and services but excludes non-GST supplies during a financial year. The said list contains only those taxpayers who are under Centre's administration.

VII Need for fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State.

1. Tamil Nadu
There is a plan to fix the same in future.

2. Rajasthan
No such practice is in place. However, there is a proposal to bring in some sort of mechanism to have a fixed number of disposals for the officers.

3. Delhi
No such target is being fixed currently and audit of the most risky taxpayers with significant business volume are being undertaken.

4. Uttar Pradesh
The allocation of cases for audit is based on turnover. 1200 tax payers for 2017-18 and 1200 tax payers for 2018-19 are selected for audit and accordingly each Zone is assigned 60 tax payers for each of the aforesaid financial years.

5. Kerala
No such practice is being followed.

6. Nagaland
Fixing numerical targets for audit in a year are being considered.

7. Himachal Pradesh
No such target is being fixed currently and audit of the most risky taxpayers are being undertaken.

8. Uttarakhand

Since the audit assignment has been taken up recently, no such numerical targets are fixed. However, an audit team generally conducts about three to four audits in a period of two months.

9. Punjab

No such practice is being followed.

10. West Bengal

No such target has been fixed. In the first phase the Commissioner has selected 759 numbers of Registered Taxable Persons fixing numbers of files 2 to 4 per officer which will be completed within 3 months. From the experience of this first phase, the next lot will be selected for this period from 1st July, 2017 to 31.3.2018.

11. Karnataka

Currently, there is no strict numerical targets for fixed cases to be audited in a financial year. However, Audit Officers, on an average are required to conduct audit in 45 to 50 cases in a year.

12. Maharashtra

No such target is being fixed currently in the State

13. Bihar

No such target is being fixed currently in the State.

14. Centre

The total number of taxpayers to be audited by each Audit Commissionerate is worked out in advance based on their capacity to audit. It is worked out on the basis of the Working Strength of each Audit Commissionerate and on the basis that it takes 07, 05 and 03 days working days to audit a Large, Medium and Small taxpayer respectively.

VIII

Any time limit to be set for completion of audit of various sectors:

large, medium, small etc., (lesser than that mandated by the Act).

1. Tamil Nadu

The indicative duration for conduct of Audit is inclusive of Preparation of audit plan based on the reports/data/records available in the Department, verification of records which are submitted by the tax payer against GST ADT-01 and discussion with the tax payer for finalizing audit Para, wherever necessary, for each category would be as under:

- Large taxpayers – 10 to 15 working days
- Medium taxpayers – 8 to 12 working days
- Small taxpayers – 5 to 10 working days.

2. Rajasthan

The State Department follows the mandate contained in Sec 65(4) of the RGST Act 2017, in regard to the time line for completion of audit.

3. Delhi

Audit is mandated to be conducted in terms of the provisions of Sec-65 of the DGST Act, 2017/CGST Act, 2017.

4. Uttar Pradesh

Time line has been prescribed for audit as per the provisions of the Act.

5. Kerala

No time limit is fixed for completion of the audit. However, the time limit mandated by the Act is being followed.

6. Nagaland

No such time limit is fixed.

7. Himachal Pradesh

The HP GST Audit Manual contains the details pertaining to duration of audit. It is mentioned that efforts should be made to complete each audit within the following general time limits: -

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

i. Large taxpayers – 6 to 8 working days
ii. Medium taxpayers – 4 to 6 working days.
iii. Small taxpayers – 2 to 4 working days

The above mentioned working days are indicative and applicable for conduct of audit covering one year period. In case the audit coverage is for five years, the number of days may be increased to maximum of 16/12/8 days for Large, Medium and Small taxpayers respectively. In other words the number of days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage.

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

8. Uttarakhand

It is prescribed in the Manual but it is not given effect to in practice.

9. Punjab

In addition to the timelines mandated by the Act, timeline of 55 days has been delineated through the administrative instructions for conclusion of audit. The said timeline defines the stage-wise time allocation.

10. West Bengal

No time line is prescribed but the time limit mandated under the Act is followed.

11. Karnataka

Under the Team Audit concept, time limit for completion of Audit is 7 to 8 working days in Large turnover cases, 3 to 4 working days in Medium turnover cases and 2 to 3 working days in Low turnover cases is prescribed. However, Divisional Joint Commissioners are empowered to fix time limit for completion of Audit depending upon the nature and complexity of the case and availability of Human Resources.

12. Maharashtra

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

I. Large taxpayers – 15 working days

II. Medium taxpayers – 8 working days.

III. Small taxpayers – 5 working days

The above mentioned working days are indicative and applicable for conduct of GST audit covering a period of one year. The duration, as above, covers the effective number of working days spent by the audit group for the audit of a particular registered person from desk review to preparation of audit report (i.e. days spent in office as well as at the premises of the registered person). In exceptional cases, the aforesaid period may be extended with the approval of immediate Supervisory Authority.

13. Bihar

The timeline mandated under the Act is being followed.

14.Centre

The GST Audit Manual contains the details pertaining to duration of audit. It is mentioned that efforts should be made to complete each audit within the following general time limits:-
The indicative duration for conduct of Audit that is inclusive of desk review, preparation and approval of audit plan, actual audit and preparation of audit report wherever necessary, for each category would be as under:

1. Large taxpayers – 6 to 8 working days.
2. Medium taxpayers – 4 to 6 working days.
3. Small taxpayers – 2 to 4 working days (including audit of the Deductors, who fall under the provisions of Section 51 of CGST Act, 2017 {who pay TDS} and operators who collect tax at source as per provisions of Section 52 of CGST Act, 2017).

The above-mentioned working days are indicative and applicable for conduct of GST audit covering one year period. In case the audit coverage is for five years, the number of days may be increased to maximum of 16/12/8 days for Large, Medium and Small taxpayers respectively. In other words the number of days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage.

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

IX

Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

1. Tamil Nadu

It is in the pipeline.

2. Rajasthan

It is always essential for the successful & smooth functioning of a system, that it is based on feedback. Similarly, here, periodic meetings of the field officers in various zones are essential to express their hurdles and impediments and experiences. Head quarter will receive the feedback and after deliberating over the issues expressed by the office of various Zones, will circulate and transmit it to all zones so that a broader outlook is developed and everyone is benefitted.

3. Delhi

As already stated above, DGARM provides lists of risky taxpayers based on certain risk parameters through online portal. There is also a feedback mechanism available on the DGARM online loop through which demand created consequent upon such audit is to be intimated to DGARM.

4. Uttar Pradesh

The State is in the process of devising a feedback mechanism

5. Kerala

No such practice is in existence.

6. Nagaland

The State would prefer to have a feedback mechanism on entire functioning and processes of the Audit system for addressing any deficiencies and taking timely reminder measures and actions.

7. Himachal Pradesh

No such mechanism is prescribed.

8. Uttarakhand

The audit findings are placed in the monthly Monitoring Committee Meeting (MCM) which is headed by the Commissioner and the final approval is given by the Committee.

9. Punjab

The audit objections are shared with the auditee through FAR and those which are not accepted by the auditee are then taken up for the purpose of issuance of SCN and adjudication. The same is carried out by the concerned audit team.

10. West Bengal

Feedback mechanism is system based developed by GSTN.

11. Karnataka

The Divisional Joint Commissioners conducts meetings on a regular basis to discuss the Audit findings and their legal sustainability.

12. Maharashtra

Feedback mechanism is yet to be developed.

13. Bihar

Feedback mechanism is yet to be devised.

14. Centre

As mentioned earlier DGARM shares the lists of risky taxpayers based on certain risk parameters through online portal. There is also a feedback mechanism available on the DGARM online portal and currently the Audit Commissionerates are being sensitized to provide the feedback.

X

Post-audit process - Any Committee for review of the audit report and recommendation for adjudication and who is the adjudicating authority.

1. Tamil Nadu

The territorial proper officer of the concerned auditee is the adjudicating authority.

2. Rajasthan

After completion of audit, the final audit report is placed before the monitoring committee. The committee will have the final verdict on each para made by the auditor. After that, the report with approved paras will be recommended for adjudication. The adjudicating officer can be the audit officer or report may be sent to regular assessing authority for adjudication.

3. Delhi

Audit reports and demand in Form ADT-02 are sent to the jurisdictional proper officer for adjudication and for taking further necessary action in the matter,

including for defending the matter in appeal etc., in case the tax payer does not pay the demand created as a result of such audit/contents the demand.

4. Uttar Pradesh

There are two audit committees-
(a) Zonal Audit committee headed by Additional Commissioner (Grade-1) of respective Zone.
(b) Local Audit committee headed by Joint commissioner (Tax Audit) of respective zone.
On the basis of final audit report, the adjudication proceedings will be conducted by the officer posted in the concerned Sector or in the corporate circle.

5. Kerala

If the audit verticals perform the adjudication function based on the audit reports prepared by them, the focus of the audit system will be shifted from their core audit function to adjudication function and connected appellate proceedings, court proceedings and arrears recovery. This will affect the professionalism of the audit systems. Hence the adjudication and post-adjudication proceedings are to be done by the tax payer service verticals.

6. Nagaland

The State will prefer to have a committee at the Head Quarter to review the audit report and assign officers for adjudication.

7. Himachal Pradesh

No such mechanism exists. The Audit Reports are finalized by the Monitoring Committee Meeting headed by the Additional Commissioner (Audit).

8. Uttarakhand

The adjudication is being taken up the jurisdictional officer. The show cause notice is issued by the audit officer and it is answerable to sector officer who is the adjudicating authority.

9. Punjab

Once the demand for tax has been adjudicated by the concerned audit team, the file is transferred to the jurisdictional tax authority for recovery of the same.

10. West Bengal

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

The DAR shall be placed before the audit plan sanctioning authority for perusal. If, the total amount of tax due exceeds 200% of the disclosed output tax and total dues of tax over Rs.1 Crore the DAR should be placed before the office of the Special Commissioner in charge of Audit with a short narration of such dues for perusal and approval. This condition may vary State to State. This condition is purely administrative purposes to ensure that the demand is genuine. The aforesaid narration for such high dues should be concise, to the point and self-contained.

Where any finding is based on any circulars or clarifications or notifications issued by the State Government or the Central Government or by the Commissioner or the Board, such finding must be mentioned clearly in the

DAR. Similarly, where findings are based on discussion, merit of any decision of any Hon'ble Court, decisions of Advance Ruling Authority, decisions of Appellate Authorities, such should be clearly cited.

Final Audit Report: The audit officer shall finalize the findings of the audit and draw Final Audit Report in GST Form ADT-02 (herein after referred to as 'FAR') after due consideration of the reply furnished [Rule 101(4)]. After approval of the DAR by the appropriate authority, the FAR shall be issued to the auditee preferably through system / electronically to the auditee within 7 (seven) working days of approval. Even in case of 'NIL' dues also FAR needs to be issued.

Audit Consequences: After receipt of the FAR, the auditee may agree to the audit observations in full, or he may disagree in full or he may even agree to a part of the observations made. In case of full or partial agreement, the audit officer should encourage the auditee to make voluntary payment of the dues in Form GST DRC – 03 as detected in the course of audit. Where the Registered Taxable Persons agrees with the short levy as per the show cause notice, the auditor should explain the benefits available u/s 73(6) / 74(6) of the SGST/CGST Act, as the case may be. Now, the observations made in the FAR may be of 2 types:

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

11. Karnataka

Currently, adjudication in audited cases may be assigned to the same officer who has audited or to any other Proper Officer at the discretion of the Commissioner. Further, it is proposed to have an Audit Monitoring Committee (AMC) for deliberation and discussion for final approval of the Audit reports in the Divisional GST office.

An online platform has been created for inter divisional exchange of Audit insights titled "IDEA-i" meet once in fortnight. The idea behind this concept is

to facilitate exchange of interesting and unusual audit findings among the audit officers of the Department. One audit division makes a power point presentation of its interesting audit findings which can be followed by all the audit officers of the State.

12. Maharashtra

The officer who has audited the taxpayer is the adjudicating authority as well.

13. Bihar

After conduct of Audit, Team to draw up a draft report, to be submitted to Head of the Audit Division

• The Head of the Audit Division to scrutinize and review the draft report

• Final report to be prepared in consultation of the Audit Team within 2 months of the draft report

14. Centre

All the audit findings are finalized in the meetings of Monitoring Committee headed by the Pr. Commissioner / Commissioner of Audit Commissionerates. Monitoring Committee Meeting (MCM) is convened by the Audit Commissionerate at least once a month, to which the Executive Commissioner or his representative are invited to attend. Each of the audit objections/observations is examined for its sustainability. MCM also decides as to whether the extended period of limitation can be invoked or not and also on the applicability of the provisions relating to waiver of show cause notice in respect of each para. The objections rejected by the meeting are treated as closed. The decision taken by the Audit Commissioner, with regard to settlement of audit objections after recovery of all dues or dropping of the unsustainable audit objections, are final. The show cause notices issued by the Audit Commissionerates for recovery of tax consequent to audit objections are adjudicated by the Executive Commissionerates and there is a separate review mechanism for the said adjudications.

XI

Any oversight of post-adjudication proceedings and its mechanism - follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defense in appeal, etc.

1. Tamil Nadu

The reviewing authority monitors the post adjudication process.

2. Rajasthan

The State Department desires to have a review committee and a separate legal wing to monitor the post adjudication proceedings at the H.O level.

3. Delhi

Audit reports and demand in Form ADT-02 are sent to the jurisdictional proper officer for adjudication and for taking further necessary action in the matter, including for defending the matter in appeal etc., in case the tax payer does not pay the demand created as a result of such audit/contents the demand.

4. Uttar Pradesh

The State is in the process of developing oversight mechanism of post-adjudication review.

5. Kerala

No such mechanism exists.

6. Nagaland

The Department proceeds as per the provisions of the Act and Rules for curing any deficiencies noticed post-adjudication.

7. Himachal Pradesh

Separate system of Review is prescribed in the State.

8. Uttarakhand

There is internal review section in the Uttarakhand State GST which reviews all the orders passed by the adjudicating authority. It reviews the adjudication orders for their legality and if the need arises appeals are filed before the appropriate forum.

9. Punjab

The mechanism is being maintained at the head quarter level.

10. West Bengal

Technical lapses by the Registered Taxable Persons which do not have any revenue implication, and have occurred out of oversight or ignorance, should be allowed for correction (if required). After issuing the FAR, the Audit Case will have to be closed. Such closure of case can be done in the following scenarios:

a) The technical lapses (if any) are corrected and the entire dues as per the FAR are paid by the Taxpayer within 30 days in Form GST DRC-03;

b) FAR is issued with Nil Revenue implication;

c) The tax, interest, penalty or any other amount payable by the Registered Taxable Persons as have been ascertained as short paid or not paid is not deposited by the taxpayer within 30 days after the issuance of the FAR, and in such situation the case is required to refer to the respective jurisdiction (Charge or Large Taxpayer's Unit as the case may be) for initiation of demand and recovery proceedings.

d) Demand & Recovery proceedings.

e) If the tax, interest, penalty or any other amount payable by the Registered Taxable Persons as have been ascertained as short paid or not paid is not deposited by the taxpayer within 30 days after the issuance of the FAR, the case is required to be referred to the respective jurisdiction as per the provisions of Section 65(7) of the WBGST/CGST Act for initiation of demand and recovery proceedings. The proper officer having the assigned role of 'Demand & Recovery' shall initiate action under Section 73 or 74 of the said Acts, as the case may be, through the 'Assessment & Adjudication' module in back office of GST. In our State of West Bengal the same audit officer or a different officer may initiate 'Demand & Recovery' proceedings. The concerned jurisdictional head will decide the same. It is desirable that the adjudicating officer carefully considers the findings as noted in the Final Audit

Report and initiate actions independently. However, repetition of points of examination (including documents thereof) should be avoided unless it is absolutely necessary. In case, the adjudicating officer comes upon any additional information (both from the documents /evidences/ submissions produced by the auditee at the time of audit as well as from any other source including Enforcement units), he shall consider such points of examination independently and conclude the proceedings upon incorporating all the findings made in this case.

11. Karnataka

The adjudicating officer is responsible for overseeing the post- adjudication proceedings in consultation with the Divisional Joint Commissioner and the reviewing authority namely, the Additional Commissioner (Zonal). The proposal for constitution of an Audit Monitoring Committee, to oversee the post adjudication process in each audit division is being considered.

12. Maharashtra

No oversight mechanism for post-adjudication proceedings. However, certain specific instructions are given to the adjudicating officers for follow- up of the post adjudication process.

13. Bihar

Concerned Circle In-charge to assign disposal of reports so received to any officer posted in the Circle.

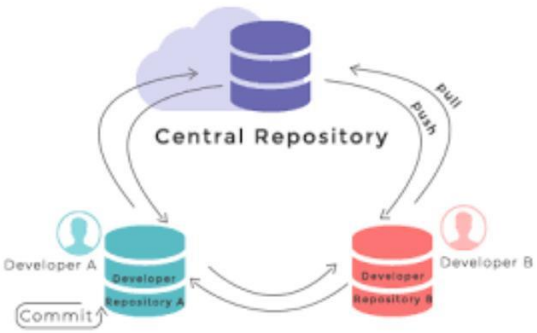
• This is done to avoid any duplication of levy, in the absence of an integrated IT platform

• If the officer to whom the report is assigned is of the opinion that- – tax liability not disclosed correctly, or – there is concealment or omission of any fact or – presentation of facts in such manner which has led to reduction in tax payable- then proceeding for re-assessment and recovery to initiated.

14. Centre

There is an established review mechanism in place for all adjudication orders issued by adjudicating authorities.

XII Any Central repository of audit outcomes



1. Tamil Nadu

No such central repository is maintained.

2. Rajasthan

No such central repository is maintained.

3. Delhi

No such central repository is maintained.

4. Uttar Pradesh

No such central repository is maintained.

5. Kerala

No such central repository is maintained.

6. Nagaland

No such central repository is maintained.

7. Himachal Pradesh

No such central repository is maintained.

8. Uttarakhand

No such central repository is maintained.

9. Punjab

No such central repository is maintained.

10. West Bengal

No such central repository is maintained.

11. Karnataka

A centralized repository of audit outcomes is maintained in the Commissioner's Office. It is proposed to make all the DGSTOs to prepare a booklet containing important Audit findings and also to make an Online Presentation of the audit outcomes every fortnight, with all the audit officers participating in it. A repository of such outcomes will be maintained and circulated to all the Audit Officers by the office of the Additional Commissioner (Audit, Intelligence & Co-ordination).

12. Maharashtra

No such central repository is maintained.

13. Bihar

No such central repository is maintained.

14. Centre

Presently, Monthly Audit Bulletins are issued by the Directorate General of Audit. These bulletins contain important Audit Objections noticed by the Audit Commissionerates. After the GST Audit Module becomes operational all the audit reports will be available to all the field formations.

XIII

Coordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

1. Tamil Nadu

No such coordination is in place.

2. Rajasthan

The State Department desires to have co-ordination between the Centre for sharing of knowledge and experience for mutual benefit.

3. Delhi

No such coordination is in place.

4. Uttar Pradesh

No such coordination is in place.

5. Kerala

The co-ordination between State and Central audit officers, including sharing the audit statistics and connected information, is key to preventing overlapping work. The CBIC has ensured the support for training and capacity building. The training of the State audit officers will be done by the National Academy of Customs, Excise and Narcotics (NACEN). The initial and the finalized audit reports will be shared in a similar manner as it is done in the case of the incidence reports.

6. Nagaland

The Department desires to have an active coordination between State and Central audit officers for effective and efficient implementation of the audit provisions as it affects the revenue of both the Central and the States.

7. Himachal Pradesh

No such co-ordination is in place.

8. Uttarakhand

No such formal process of coordination exists as of now. However, discussions between the center and State officers takes place once in a while in an informal way.

9. Punjab

As audit is a new exercise for the Department, visits to the Central Tax authorities for sharing of knowledge and understanding the audit process were carried out. However, there is no formal mechanism for the sharing of audit practices or the objections as a result of such exercise. It is suggested that there should be defined mechanism for such knowledge sharing between the State and Central audit officers.

10. West Bengal

No such coordination is in place.

11. Karnataka

A co-ordination between the State and Central GST takes place at regular intervals either online or offline. Some of the senior officers of the Audit Commissionerates interact with the Divisional Audit Wings and exchange Audit findings, insights, methodologies and strategies etc. However, there is no formal co-ordination committee as such being established.

12. Maharashtra

No such mechanism currently in place.

13. Bihar

No such mechanism currently in place.

14. Centre

Directorate General of Audit has prepared a draft proposal for conduct of audit of multi-location Taxpayers by a system of coordination between Centre and States. This proposal is pending approval.

XIV

Role of technology in automating audit process –

Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

1. Tamil Nadu

E-audit module is under development for seamless connect of the audit process electronically.

2. Rajasthan

The State Department desires to have an automated audit module which can capture the entire audit processes electronically and to eventually make the audit faceless.

3. Delhi

No such mechanism is in place.

4. Uttar Pradesh

There is an automated audit module wherein, each and every audit procedure is seamlessly connected electronically.

5. Kerala

The State is preparing software requirement specifications for the Audit backend based on the workflow for audit and following the audit manual. The functionality will be designed so that the quality and quantity of work turned out by the audit units are electronically captured. It will also ensure that the audit officers duly verify the audit parameters while doing the audit as per the manual. The recording of each task of verification and the results thereon will enhance the performance of the audit team and create an environment of competition for professionally replicating in the success.

6. Nagaland

The Department desires to implement E-audit Module developed for the Model-2 States by GSTN.

7. Himachal Pradesh

There is an e-module on Boweb portal for conducting online GST Audit.

8. Uttarakhand

The Audit module developed by GSTN is being followed.

9. Punjab

The audit module developed by GSTN is proposed to be followed for the audit for the financial year 2018-19.

10. West Bengal

Audit process in West Bengal is developed by GSTN for the Model 2 States. The pre-selection procedures, and feedback mechanism is through e-office and module developed by ISD. Every unit (Circle level/Charge Level/ Large Taxpayers Unit) should represent the status of audit once in every month in a pre-scheduled date in a format before the Monitoring Committee in the Monitoring Committee Meeting (MCM) under the chairmanship of the Commissioner/ Special Commissioner (Head of Audit functionality). This Committee, besides monitoring the status of audit of every Circle/Charge Level, will also try to identify the important observations made upon audit by different Circles/ Charges for better coherence among all the existing audit

teams. At the same time, the Committee will also try to identify the areas of audit related to the Circles or Charge that need special attention and make suggestions accordingly. The Monitoring Committee shall invite the Audit head of all the Circles, Officers under the Special Commissioner (Audit), Nodal Officer (Audit) of Information System Division and representatives from GST-PPU of the State to offer their views to maintain the progress and ensure uniformity in audit and subsequent demand and recovery proceedings. The Committee may invite any Audit Team or Audit Officer or Charge officer or Circle Officer or Officer of Large Taxpayers Unit if deemed fit.

11. Maharashtra

No such mechanism is in currently in place.

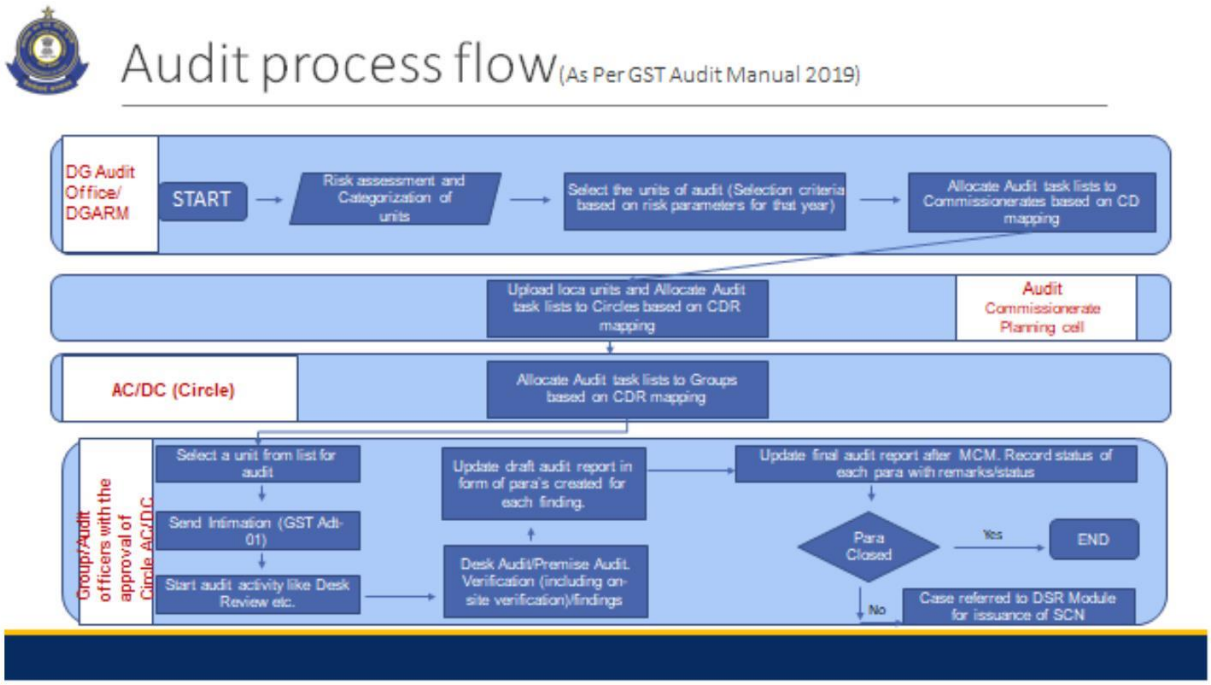
12. Bihar

No such mechanism is in currently in place.

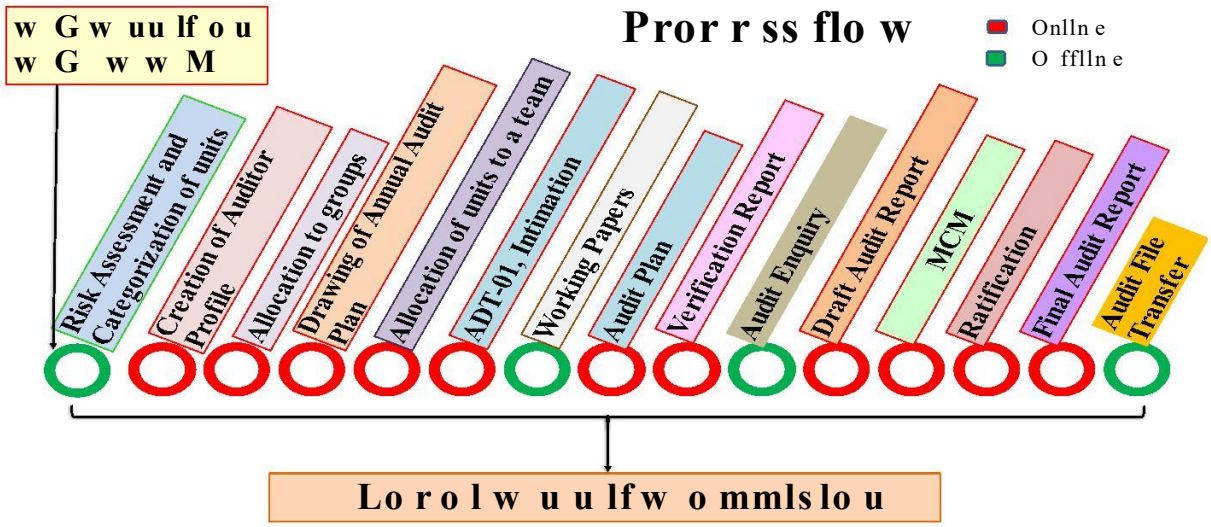
13. Centre

GST Audit Module is being developed in CBIC – GST System by Directorate General of Systems in collaboration with the Directorate General of Audit. It proposes to automate most of the activities of Audit Process.

a. Automatic creation of Audit Groups
b. List of risky taxpayers made available
c. Facilitate conducting of Desk Review by providing all information in Taxpayer at a Glance (TAG)
d. Creation of effective Audit Plan
e. Recording the findings of audit
f. Enabling conduct of Monthly Monitoring Committee (MCM)
g. Creation of Final Audit Report
h. Interacting with the taxpayer on audit matters and
I. Enabling effective audit monitoring by different supervisory authorities.



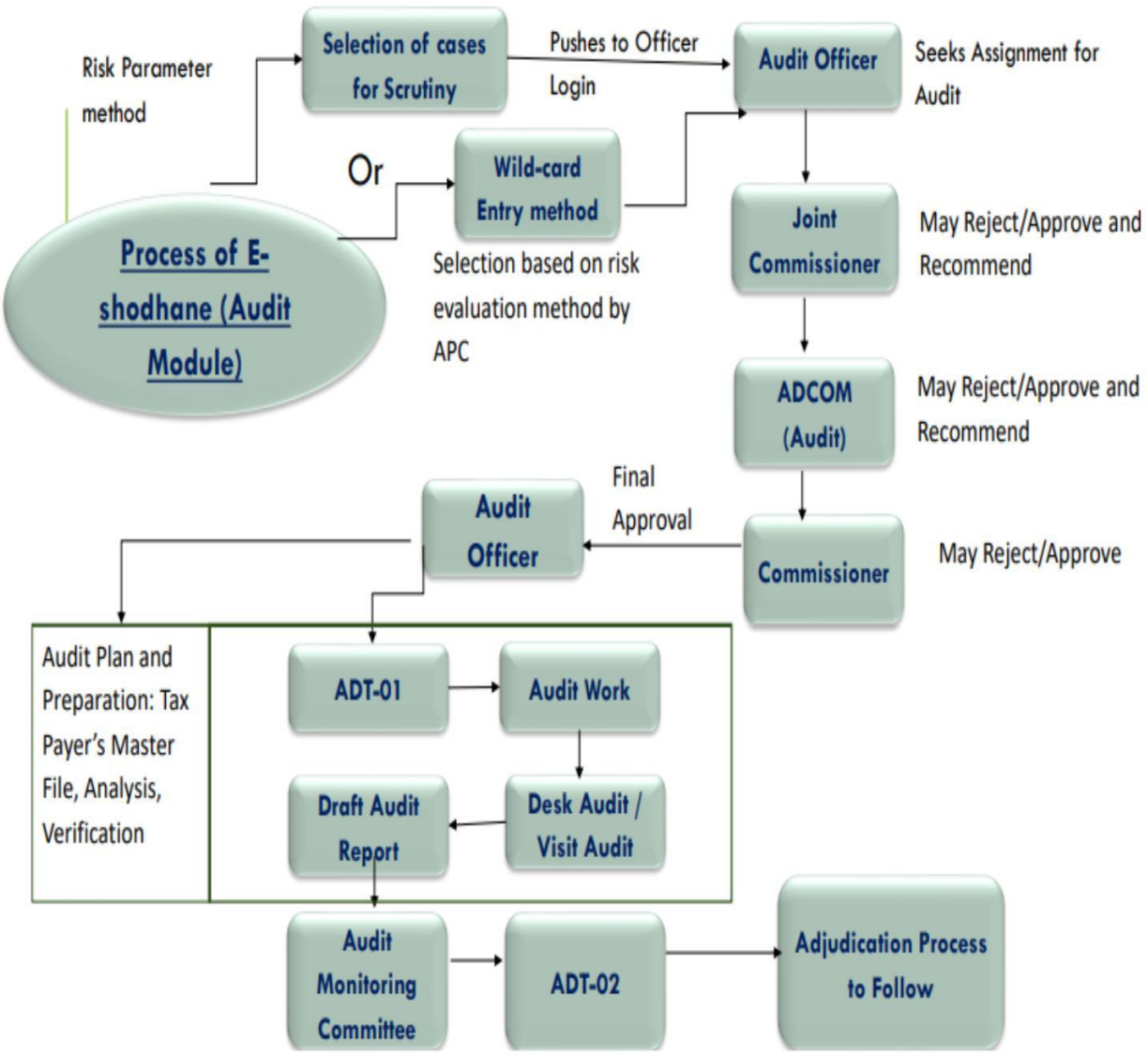
Automated Audit Process Flow



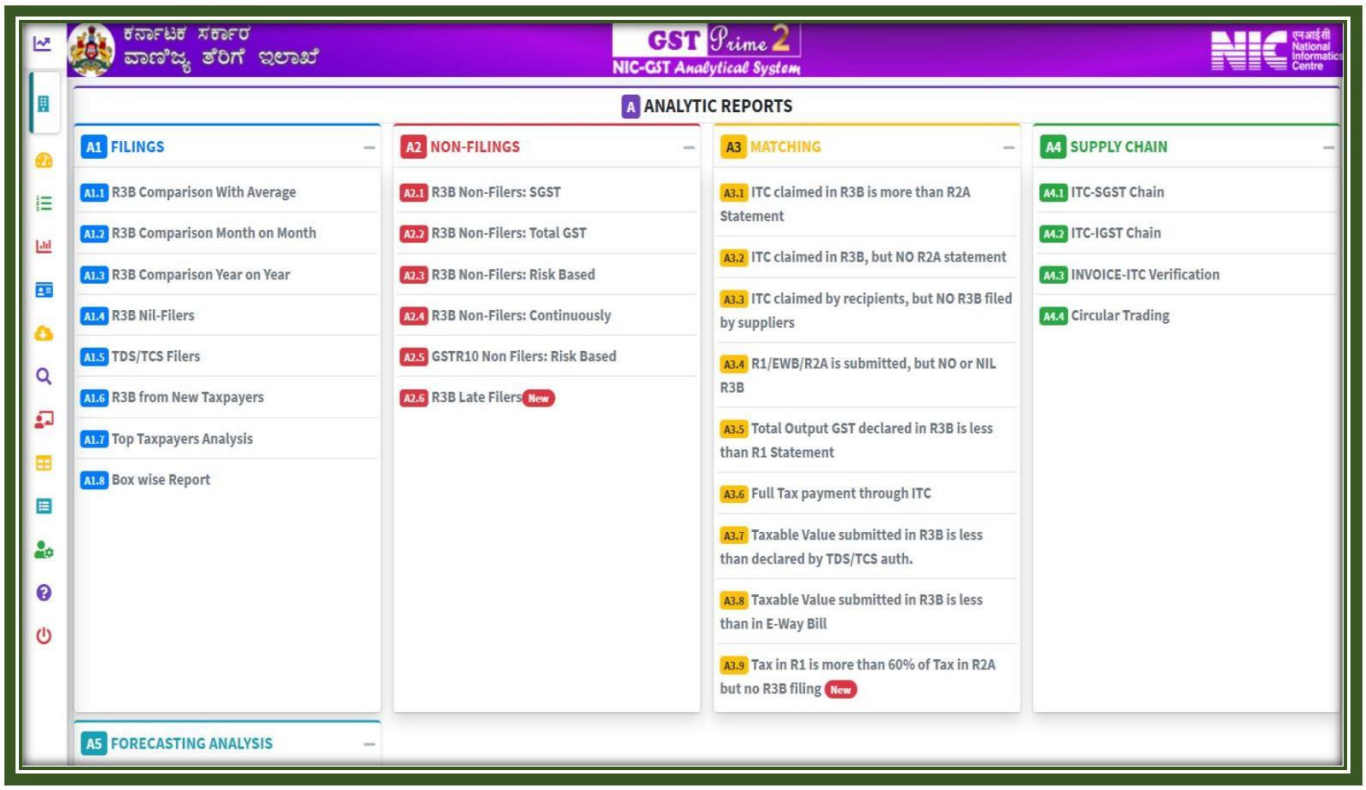
14. Karnataka

Karnataka has developed an automated online Audit module called E-Shodhane in collaboration with NIC, Bengaluru, using which, registered persons are selected for scrutiny based on risk evaluation method and the audit officers seek assignment for audit electronically. It is an end-to-end digital back office application which covers the entire audit process starting from the selection of cases to the finalization of audit report and adjudication process. Results of certain audit processes carried out by the audit officers physically are also to be uploaded on to the system.

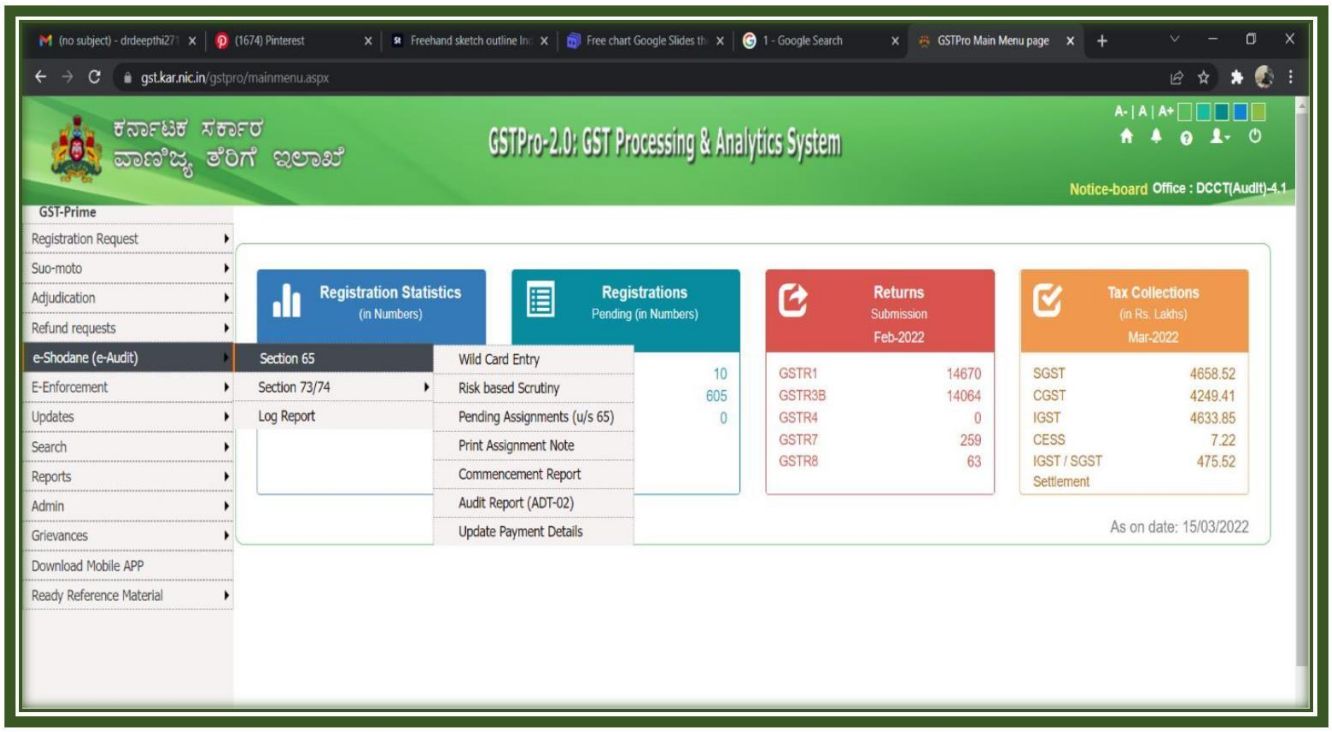
E-Shodhane Audit process flow chart:-



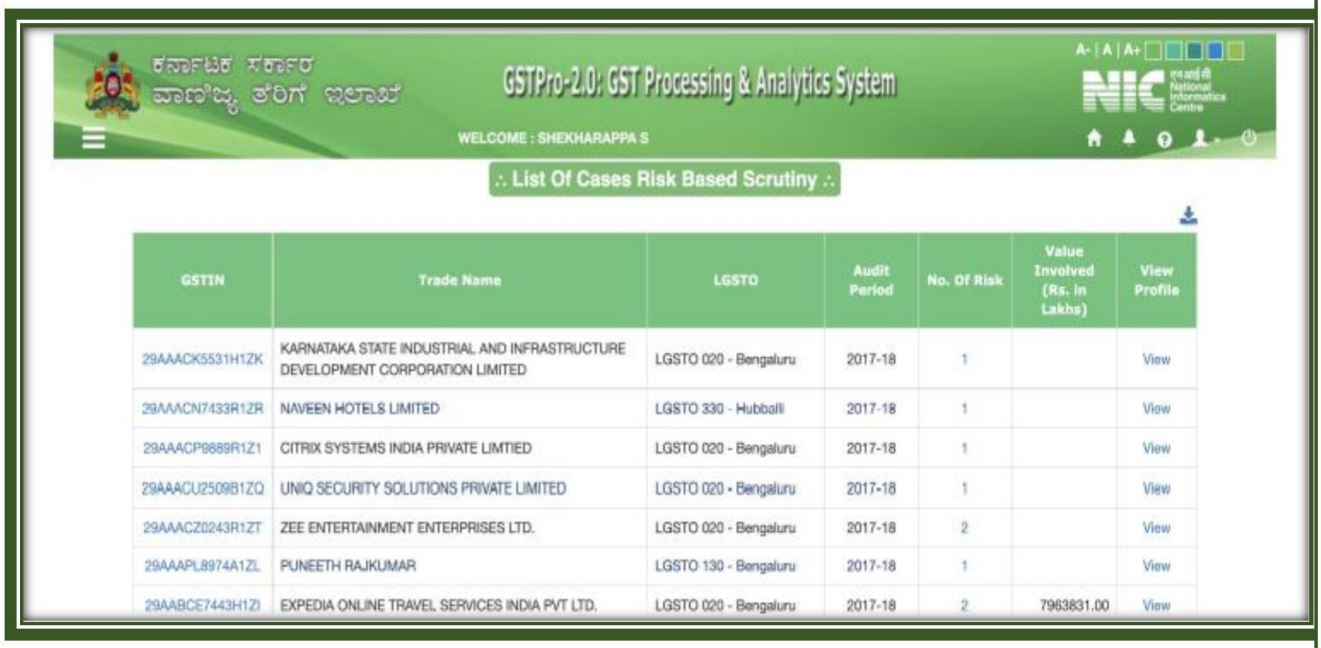
SCREENSHOT OF DASHBOARD OF ANALYTIC REPORTS



SCREENSHOT OF SUMMARY ANALYTIC REPORTS ACCESSIBLE TO AUDIT OFFICER



SCREENSHOT OF SAMPLE CASES IDENTIFIED FOR RISK BASED SCRUTINY

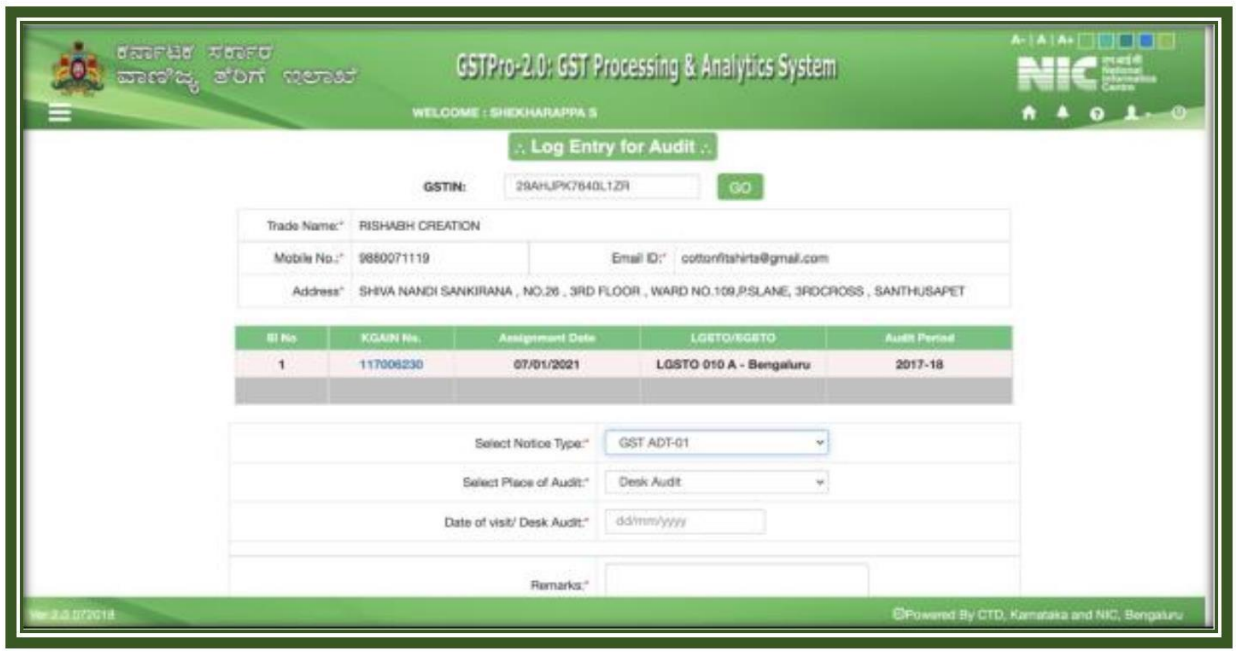


GSTIN	Trade Name	LGSTO	Audit Period	No. Of Risk	Value Involved (Rs. in Lakhs)	View Profile
29AAACK5531H1ZK	KARNATAKA STATE INDUSTRIAL AND INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACN7433R1ZR	NAVEEN HOTELS LIMITED	LGSTO 330 - Hubballi	2017-18	1		View
29AAACP9889R1Z1	CITRIX SYSTEMS INDIA PRIVATE LIMTIED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACU2509B1ZQ	UNIQ SECURITY SOLUTIONS PRIVATE LIMITED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACZ0243R1ZT	ZEE ENTERTAINMENT ENTERPRISES LTD.	LGSTO 020 - Bengaluru	2017-18	2		View
29AAAPL8974A1ZL	PUNEETH RAJKUMAR	LGSTO 130 - Bengaluru	2017-18	1		View
29AABCE7443H1ZI	EXPEDIA ONLINE TRAVEL SERVICES INDIA PVT LTD.	LGSTO 020 - Bengaluru	2017-18	2	7963831.00	View

SCREENSHOT OF SAMPLE CASES SELECTED BASED ON RISK FACTORS

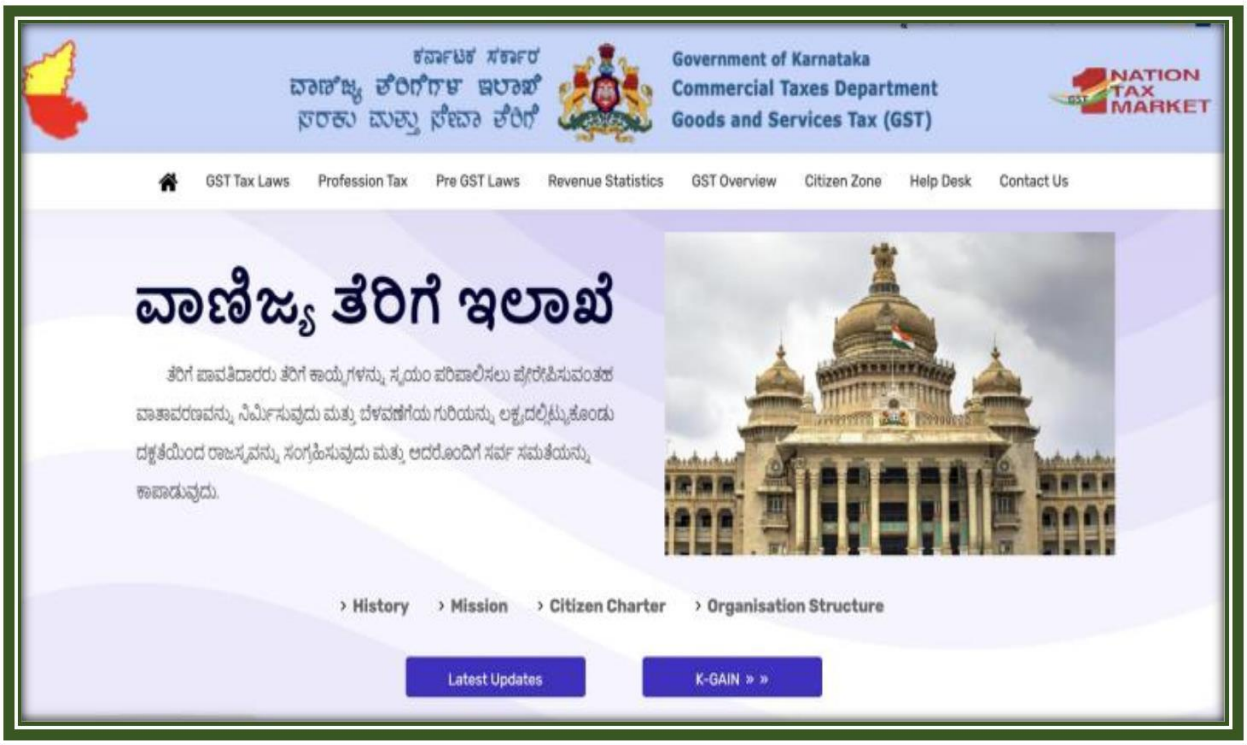
SCREENSHOT OF PENDING AUDIT CASES AVAILABLE IN AUDIT OFFICER'S LOGIN

SCREENSHOT OF TEMPLATE AVAILABLE FOR AUDIT OFFICER TO LOG AUDIT INITIATION



SCREENSHOT OF SAMPLE ASSIGNMENT NOTE

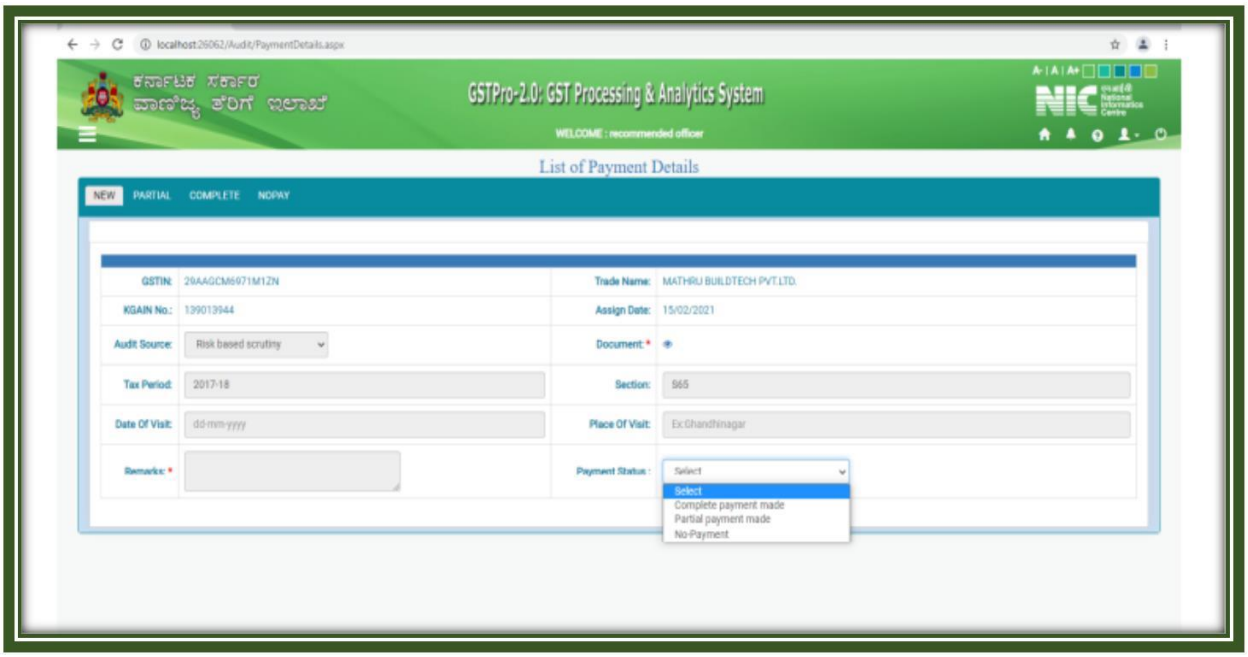
SCREENSHOT OF KARNATAKA GST PORTAL FOR RAISING AUDIT VALIDATION QUERY



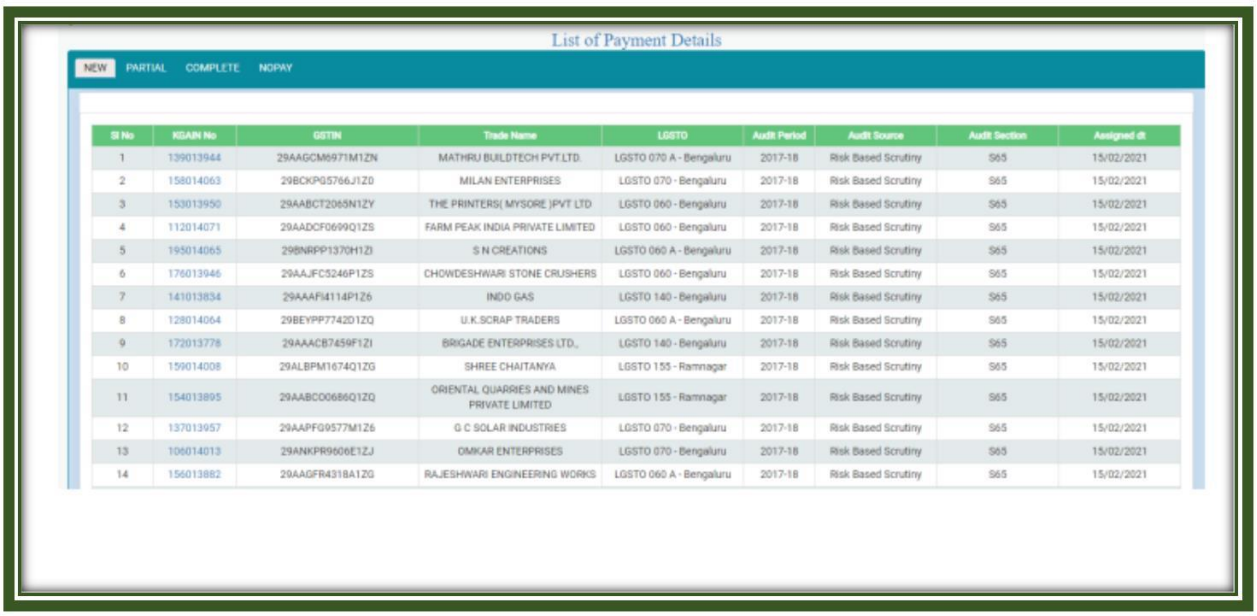
SCREENSHOT OF TOOL AVAILABLE TO ALL STAKEHOLDERS TO VERIFY AUTHENTICITY AND STATUS OF AUDIT

SCREENSHOT OF RESULT OF AUDIT ASSIGNMENT NOTE VALIDATION QUERY

SCREENSHOT OF POST AUDIT PAYMENT STATUS IN A SAMPLE CASE

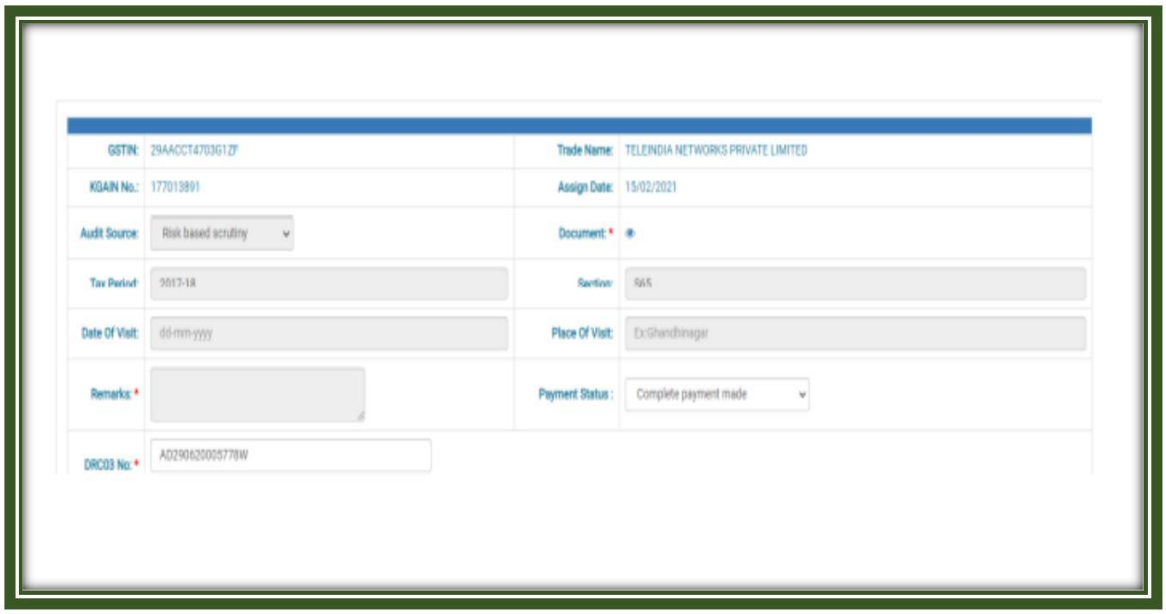


SCREENSHOT OF SAMPLE POST AUDIT PAYMENT STATUS OF ADDITIONAL DEMANDS

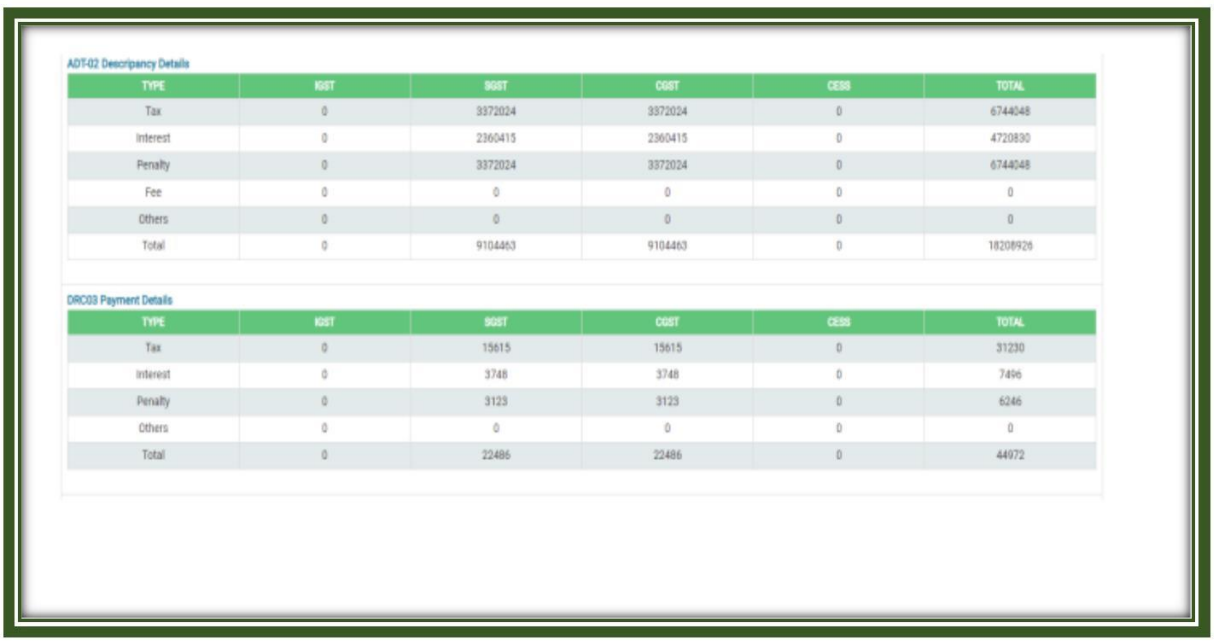


Sl No	KGAIN No	GSTIN	Trade Name	LGSTO	Audit Period	Audit Source	Audit Section	Assigned dt
1	139013944	29AAGCM6971M1ZN	MATHRU BUILDTECH PVT.LTD.	LGSTO 070 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
2	158014063	29BCKPG5766J1Z0	MILAN ENTERPRISES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
3	153013950	29AABCT2065N1ZY	THE PRINTERS(MYSORE)PVT LTD	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
4	112014071	29AADCF0699Q1ZS	FARM PEAK INDIA PRIVATE LIMITED	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
5	195014065	29BNRPP1370H1ZI	S N CREATIONS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
6	176013946	29AAJFC5246P1ZS	CHOWDESHWARI STONE CRUSHERS	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
7	141013834	29AAAFI4114P1Z6	INDO GAS	LGSTO 140 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
8	128014064	29BEYPP7742D1ZQ	U.K.SCRAP TRADERS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
9	172013778	29AAACB7459F1ZI	BRIGADE ENTERPRISES LTD.,	LGSTO 140 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
10	159014008	29ALBPM1674Q1ZG	SHREE CHAITANYA	LGSTO 155 - Ramnagar	2017-18	Risk Based Scrutiny	S65	15/02/2021
11	154013895	29AABCO0686Q1ZQ	ORIENTAL QUARRIES AND MINES PRIVATE LIMITED	LGSTO 155 - Ramnagar	2017-18	Risk Based Scrutiny	S65	15/02/2021
12	137013957	29AAPFG9577M1Z6	G C SOLAR INDUSTRIES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
13	106014013	29ANKPR9606E1ZJ	OMKAR ENTERPRISES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
14	156013882	29AAGFR4318A1ZG	RAJESHWARI ENGINEERING WORKS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021

SCREENSHOT OF SAMPLE POST AUDIT PAYMENT STATUS OF ADDITIONAL DEMANDS



SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE



ADT-02 Descripancy Details

TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	3372024	3372024	0	6744048
Interest	0	2360415	2360415	0	4720830
Penalty	0	3372024	3372024	0	6744048
Fee	0	0	0	0	0
Others	0	0	0	0	0
Total	0	9104463	9104463	0	18208926

DRC03 Payment Details

TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	15615	15615	0	31230
Interest	0	3748	3748	0	7496
Penalty	0	3123	3123	0	6246
Others	0	0	0	0	0
Total	0	22486	22486	0	44972

SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE

Difference Payment (ADT02-DRC03)

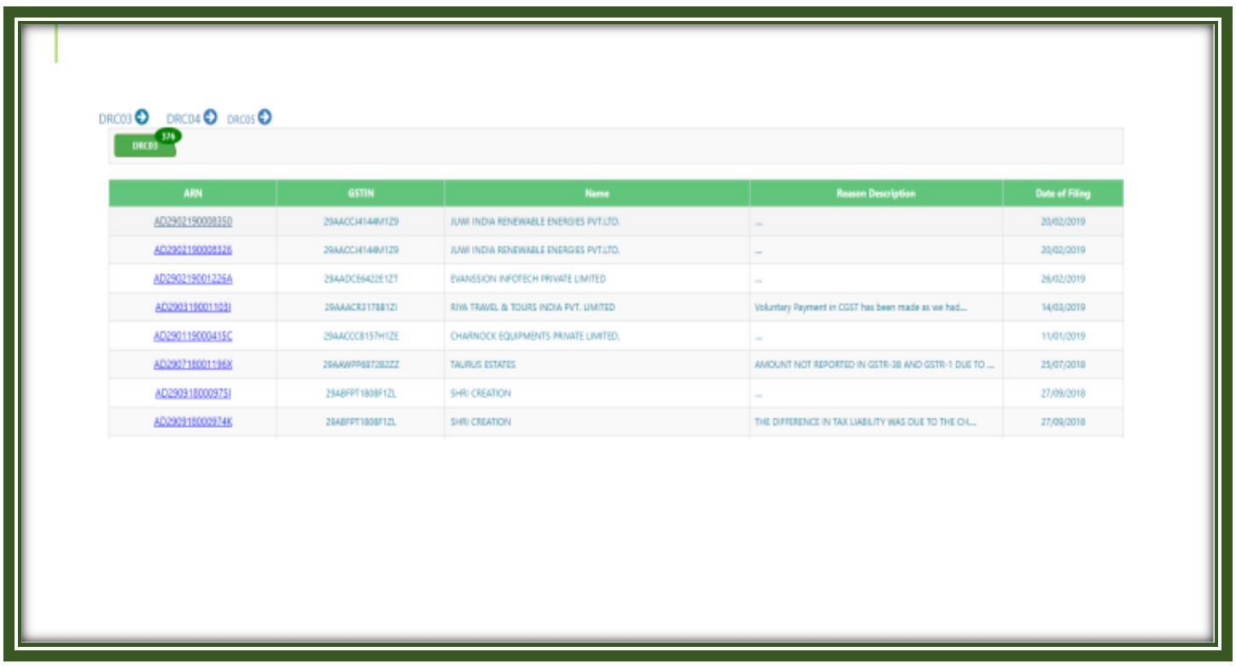
TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	3356409	3356409	0	6712818
Interest	0	2356667	2356667	0	4713334
Penalty	0	3368901	3368901	0	6737802
Others	0	0	0	0	0
Total	0	0	0	0	0

Next Action: * Close

Remarks :

Submit Exit

SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE



DRC03 DRC04 DRC05

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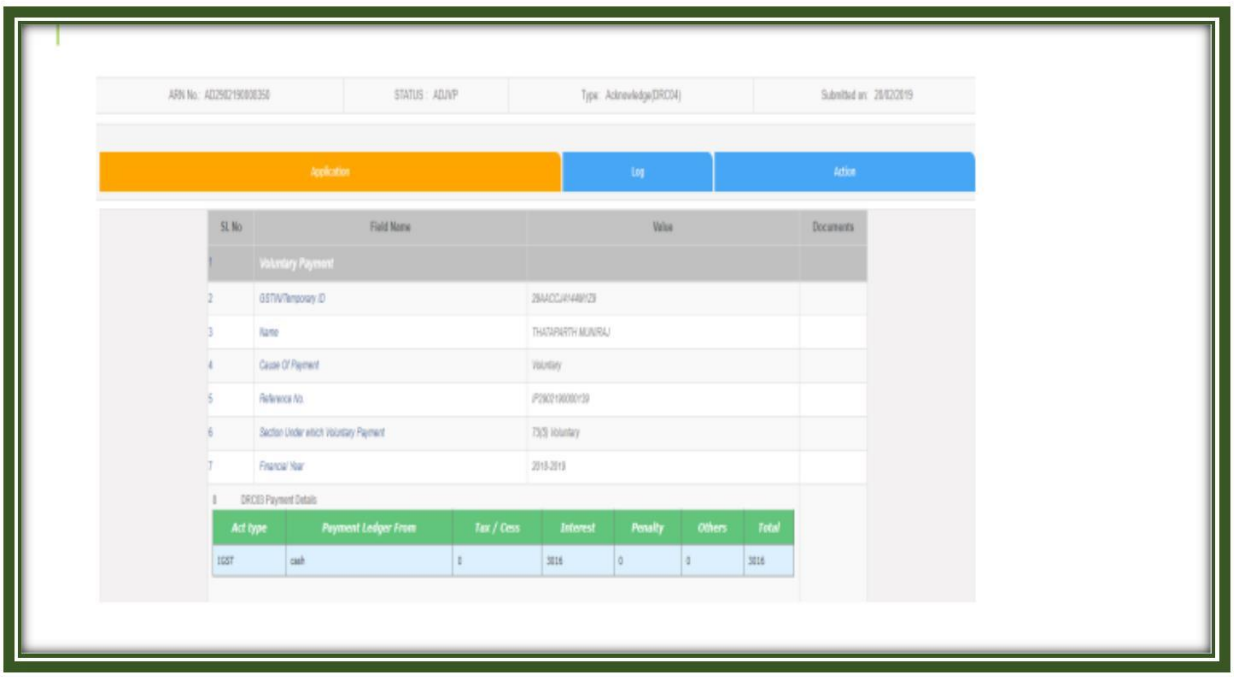
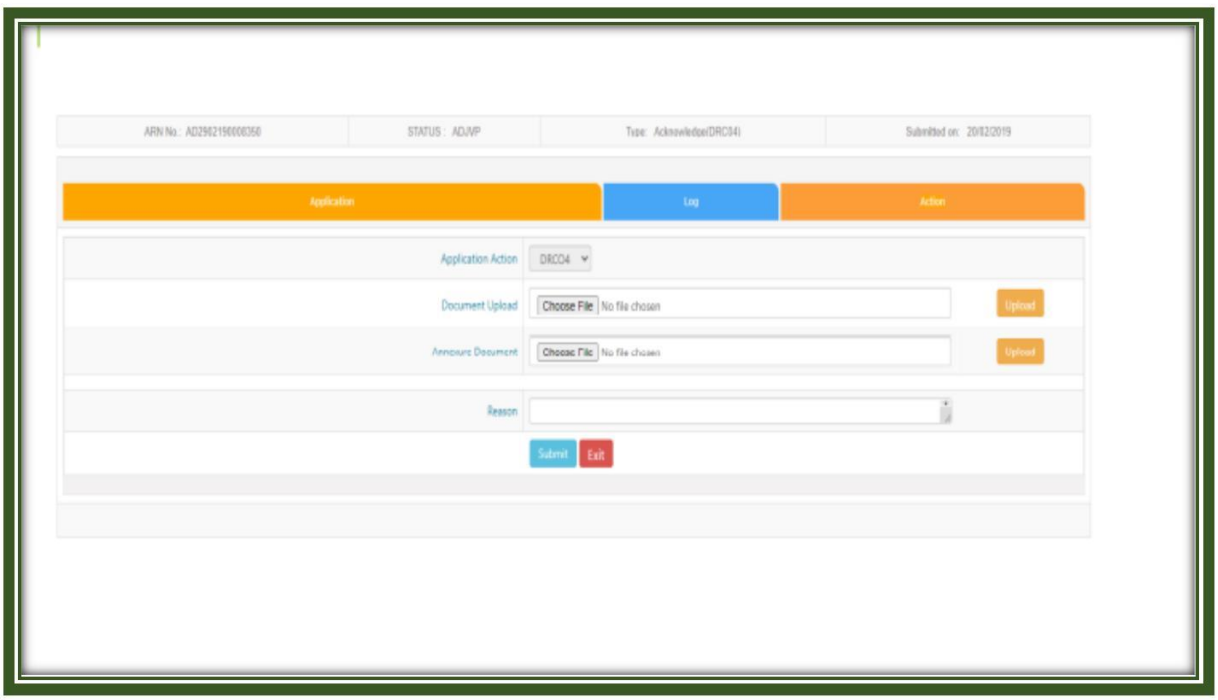
ARN	GSTIN	Name	Reason Description	Date of Filing
AD290219000083S0	29AACCJ4144M1Z9	JUWI INDIA RENEWABLE ENERGIES PVT.LTD.	...	20/02/2019
AD290219000083Z6	29AACCJ4144M1Z9	JUWI INDIA RENEWABLE ENERGIES PVT.LTD.	...	20/02/2019
AD290219001226A	29AADCE6422E1ZT	EVANSSION INFOTECH PRIVATE LIMITED	...	26/02/2019
AD290319001102I	29AAACR3178B1ZJ	RIYA TRAVEL & TOURS INDIA PVT. LIMITED	Voluntary Payment in CGST has been made as we had...	14/03/2019
AD290119000415C	29AACCC8157H1ZE	CHARNOCK EQUIPMENTS PRIVATE LIMITED.	...	11/01/2019
AD290718001186X	29AAWPP6872B2ZZ	TAURUS ESTATES	AMOUNT NOT REPORTED IN GSTR-3B AND GSTR-1 DUE TO ...	25/07/2018
AD290918000975I	29ABFPT1808F1ZL	SHRI CREATION	...	27/09/2018
AD290918000974K	29ABFPT1808F1ZL	SHRI CREATION	THE DIFFERENCE IN TAX LIABILITY WAS DUE TO THE CH...	27/09/2018

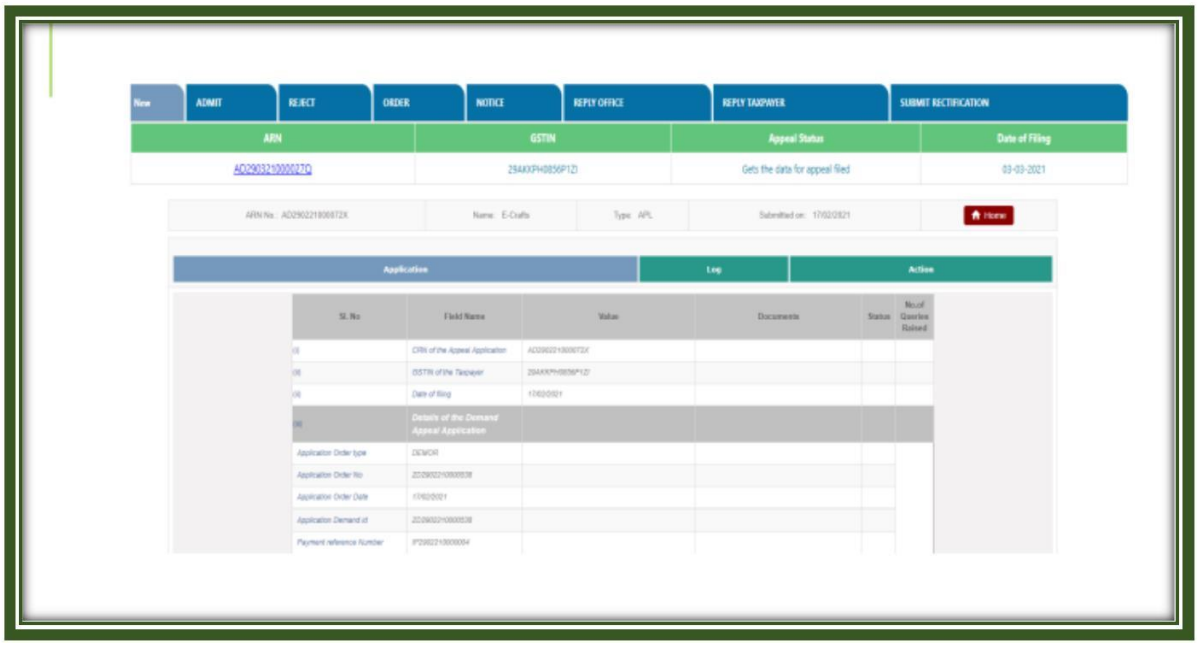
SCREENSHOT OF DETAILS OF POST AUDIT PAYMENT IN A SAMPLE CASE (DRC-04)



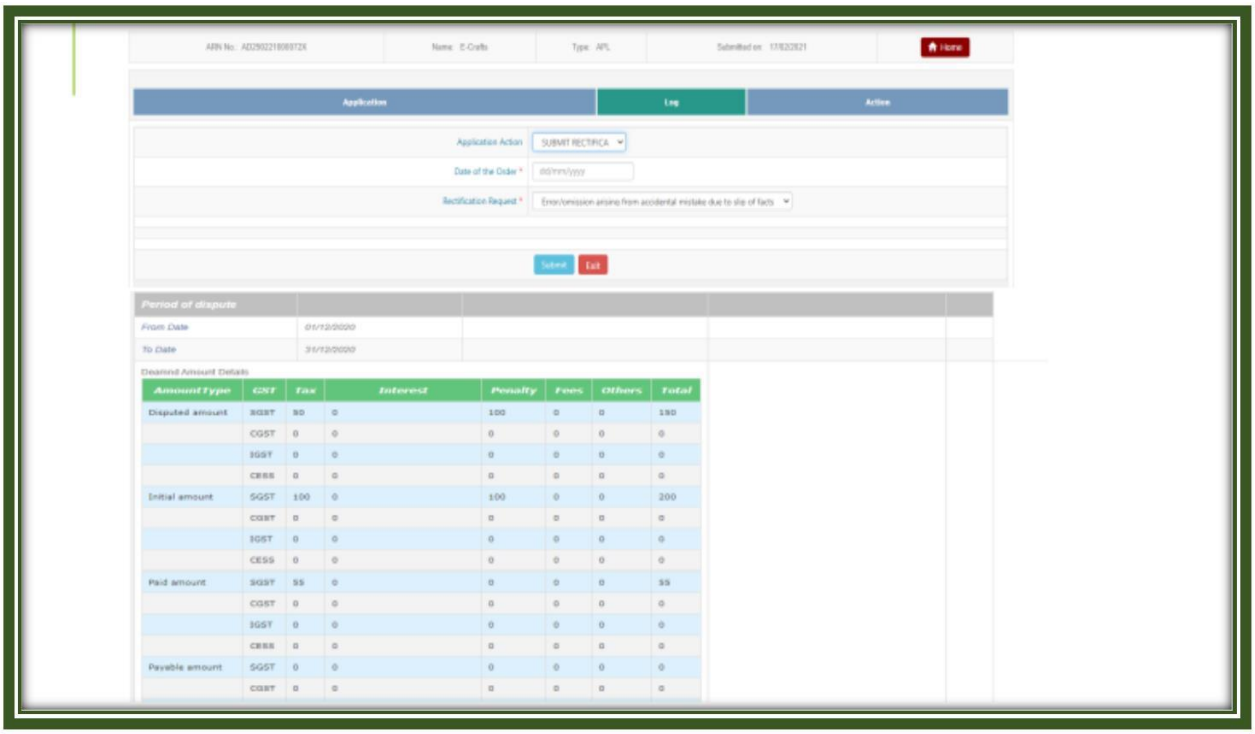
SCREENSHOT OF LOGIN PAGE FOR ENTERING STATUS OF ADJUDICATION ON AUDIT REPORT



SCREENSHOT OF APPEAL MODULE



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



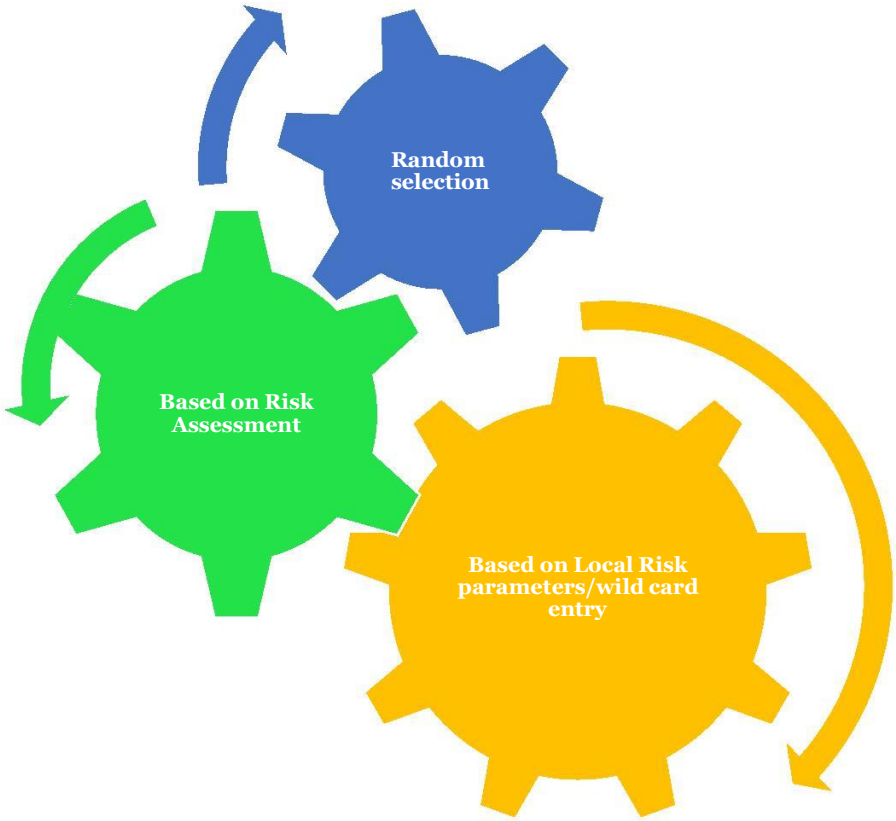
PART – II

RECOMMENDATIONS FOR MODEL GST AUDIT PRACTICES AND PROCEDURES

Recommendation - 01

Basis for selection of cases for audit

Identification of cases for audit is of threefold:



A. Based on risk assessment:

Selection of cases on the basis of compliance risks is very essential and integral to GST audit. Currently, the returns data of tax payers i.e., GSTR-3Bs are being considered by various States and the Centre. The guiding principle of audit envisages selection of taxpayers for audit based on certain risk parameters. The Commissioner by a general or specific order may select any registered person for audit of his books of accounts for a specific period. The Commissioner may fix the criteria of selection based on certain parameters as he may deem fit.

This turnover limit while fixing the selection criteria may vary from State to State, in different Zonal levels of a particular State and also for service sector when compared to that for goods. All risk parameters are required to be identified and all probable aspects need to be considered to identify non-compliance and non-payment / short payment of tax, interest, late fee, penalty etc. and evasion of tax. The taxpayers maybe classified into three segments, Large/Medium/Small based on the total turnover. The States can also be divided into three Categories, viz. I II and III based on the taxpayer's spread across various segments. By and large, the categorization may be uniform across the States subject to the availability of more risky taxpayers in a particular category which is as under:

Large - taxpayers with turnover more than Rs. 40 Crore for category 1 Commissionerates, Rs. 30 Crores for category 2 Commissionerates and Rs. 20 crores for category 3 Commissionerates.

Medium – taxpayers with turnover Rs.10 Crores to Rs.40 Crores for category 1 Commissionerates, Rs. 7.5 Crores to Rs. 30 Crores for category 2 Commissionerates and Rs. 5 Crores to Rs.20 crores for category 3 Commissionerates.

Small – taxpayers with turnover below Rs. 10 Crores for category 1 Commissionerates, below Rs. 7.5 Crores for category 2 Commissionerates and below Rs. 5 Crores for category 3 Commissionerates.

The turnover includes total taxable, exempt and zero rated clearances of goods and services but excludes non-GST supplies during a financial year.

To select the tax payers for audit in an effective manner, secondary data source (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be considered along with the primary data source (i.e. GST data).

The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit. Based on the average weight, considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.

The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one RTP has the same final score, the parameter of declared liability will then be considered and a taxpayer with more declared liability will be selected first.

A Selection Committee may be constituted to identify various risk parameters for selection for audit considering all the aspects where there are chances of lack of compliance of the Act resulting in short payment of tax etc. such as: Entity level risks (e.g. Turnover, Tax, ITC, Refund, Commodity such as Iron & Steel, Paints & Chemicals, Textiles, Cement, Medicine, Footwear, Branded food grain, Automobiles etc., Service: Works contract, Real Estate, Information Technology, Consultancy service, Manpower service, Hospitality, Travel & Tourism, Leasing etc.).

Risks associated with compliance behavior (e.g. late filer of return, non-submission of Form GSTR-1, Form GSTR-3B, Form GSTR-9 &Form GSTR-9C).

Certain representative selection criteria that are considered for risk assessment are given below.

1	Ratio of Taxable turnover – present year vis-à-vis previous year.
2	Ratio of ITC reversed vis-à-vis Total ITC availed during the year.
3	Ratio of total ITC availed in this year vis-à-vis previous year.
4	Ratio of IGST payment at the time of import vis-à-vis Total ITC availed ({Col.2 of table 4(A) (1) & (2) of GSTR-3B} in corresponding period).
5	Ratio of nil/exempt supplies (Col.2 of Table 3.1(C) of GSTR-3B) to total turnover (excluding non GST supplies) (col.2 of Table 3.1(a) + (b) + (c) of GSTR-3B).
6	Ratio of Zero-rated supplies (col.2 of Table 3.1(b) of GSTR-3B) to total turnover (excluding non-GST supplies) (col.2 of Table 3.1 (a)+(b) + (c) of (GSTR-3B).
7	Ratio of Non-GST supplies to total turnover. {(Col.2 of Table 3.1 (e) / (col.2 of Table 3.1 (a) + (b) +(c) of GSTR-3B)}.
8	Ratio of inward supplies (liable to reverse charge) to total turnover [col.2 of Table 3.1(d)}/Col.2 of 3.1 (a)+(b)+(c) of GSTR-3B)].

9	Ratio of ITC shown in Table 4A(5) of GSTR 3B and ITC as per GSTR-2A.
10	Ratio of tax paid under reverse charge (as per {Col.3+4+5+6 of Table 3.1(d)} to ITC taken on import of services/other reverse charge (other than import of goods) {Col.2+3+4+5 of Table 4A (2+3) of GSTR 3-B}.
11	Ratio of ISD credit {Col.2+3+4+5 of Table 4A (4) of GSTR-3B) to total ITC taken {Col.2+3+4+5 Table 4A of GSTR-3B}.
12	Ratio of ITC reversed {Col.2+3+4+5 of table 4(B) of GSTR 3B} to ITC taken {Col.2+3+4+5 of table 4(A) of GSTR-3B}.
13	Ratio of zero-rated supply to SEZ as per Table 6(B) of GSTR-1 to total GST turnover.
14	Ratio of deemed exports as per Table 6(C) of GSTR-1 to total GST turnover.
15	Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1.
16	Claim of ITC from cancelled RTPs, aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return.
17	Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS deducted as reflected in Form GSTR-7 submitted by TDS deductor.
18	Turnover declared by RTP in Form GSTR-3B compared to turnover on which TCS collected as reflected in Form GSTR-8 submitted by TCS collector.
19	Refund claimed against purchase from taxpayer having no auto-population of ITC in Form GSTR-2A.
20	Purchases from non-existent RTPs.

21	RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.)
22	In case, the RTP selected for audit has multiple registrations under the same PAN / TAN in the State, it is suggested that all such registration numbers may be selected for audit.
23	10% of the selection of the tax payers may be done on random basis.
24	Relating to compliance behaviour-based risk (e.g. late filer of return)– RTPs defaulting in filing GSTR-3B for 3 months will be marked 5, those defaulting for 2 months will be marked 3.33 & those defaulting by 1 month will be marked 1.67.
25	Taxpayers claiming ITC of more than n amount from eligible ITC.
26	Taxpayers who have filed all returns and tax adjusted from cash ledger is less than n amount.
27	Taxpayers who have filed all returns and difference in tax liability in GSTR-1 > GSTR-3b by n amount.
28	Composition tax payers having turnover more than 1.25 crore.
29	Newly registered tax payers with high turnover more than n amount.
30	Taxpayers with (a) multiple use of pan (b) multiple use of email id (c) multiple use of mobile no.
31	Refund amount is greater than n amount.
32	Shipping bill/export proof submitted by taxable person not verified from Ice gate.
33	Turnover declared in GSTR 3b must be compared with TDS/TCS deducted (it should be more than 100 times than TCS deducted and more than 50 times than TDS deducted).

34	Taxable persons dealing in evasion-prone commodities/services as per HSN/SAC code.
35	High spike by n amount in e-way bill value in n months.
36	Ratio of Output Tax paid in cash to the total turnover in the current year is n percentage higher to the ratio of the same in the previous year.
37	Ratio of Output Tax paid to Net Profit in the current year is n per cent higher to the ratio of the same in the previous year.
38	Taxable Person whose Turnover is less than n percentage turnover from previous year.
39	Ratio of expenses to turnover in current year is greater than by n than the ratio of same in the previous year.
40	Inward supply from bogus dealers.
41	Zero cash set-off against tax liability.
42	Inward supply received but no outward supply.
43	GSTR-1 submitted but GSTR-3B not submitted.
44	Manufactures whose cash set-off is less than 5 per cent.
45	Three or more cases apprehended by mobile squad.
46	Cancelation of E-way bill is more than 2 per cent.

B.Based on Local Risk parameters/wild card entry:

State GST Departments invariably have mobile squads for checking the correctness of the documents carried in support of the goods transported in the state and it is an integral part of their enforcement activity to supplement their efforts to prevent and check tax evasion. It is the experience of the States that tax is evaded by businesses by transporting goods without documents or with fake/ invalid documents or by recycling of old documents that were not

checked earlier, enabling them not to record and declare the corresponding transactions in their books. Apart from the seller and purchaser, unscrupulous transporters also form part of the network indulging in tax evasion. Based on the inputs gathered from mobile squad vigilance, risk parameters can be identified by the Officers of Anti-evasion/Enforcement wings and the corresponding tax payers may be selected for audit based on the above risk assessment. Percentage of tax payers that may be selected on the basis of the above risk assessment may be left to the decision of the State GST Departments.

C.Random selection:

Tax payers (roughly around 10%) may also be selected randomly on the basis of local intelligence network which otherwise may not be covered strictly by the overall risk parameter selection. The discretion for selecting cases may rest with the appropriate authority of a Zone or a Division.

Recommendation – 02

Scope of audit

Whether restricted to only the flagged risk parameters or all business transactions of the auditee.

Risk parameters are meant for determining the total risk score based on which registered persons would be selected for audit. When, once a registered person is selected, the audit should be carried out as per definition of 'Audit' (under Section 2(13) of the CGST Act/ KGST Act). Thus, audit would not be restricted only to the flagged risk parameters and audit should be taken up based on desk review conducted by audit team and audit plan prepared accordingly. An efficient and effective Audit system in all aspects based on a checklist will increase voluntary compliance.

Recommendation– 03

Norms for audit and co-ordination among audit officers.

Audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

State audit jurisdictions do not have an annual scheduling of Audit for a financial year. Such elasticity in planning Audit of related registered persons in the value chain based on audit findings in selected primary cases is possible. Whereas, in the CGST audit manual, the annual Schedule for audits for a financial year would be drawn at the beginning of the year and there is a need to adhere to such schedule, taking up the audits of other registered persons in the value chain based on audit findings, may not be possible during the same year. Furthermore,taking up audit of other persons in the value chain may not always yield good results. However,if the risk scores of such registered persons in the value chain are identified to be higher, thesame can be taken up for audit during subsequent audit years. Whether to have the same Audit Officer for all such cases including monitoring the same may be left to the discretion of the divisional heads or any officer authorized by the State Commissioner.

Recommendation –04

Open ended assignment for Audit.

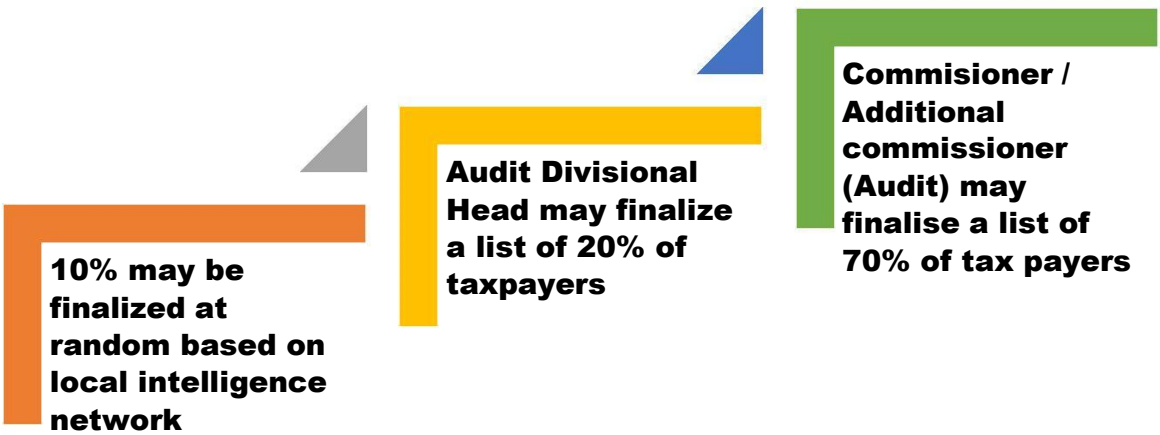
Audit of other years of the same auditee based on audit findings in selected cases.

In general, when a registered person is selected for audit based on risk scores arrived at fora financial year or multiples thereof, the audit is to be taken up for the entire period for which previous audit (GST audit) is not covered. It need not to be restricted to a particular financial year, a complete audit by clubbing more than one financial year is to be done. In other words,a tax payer may be subject to Audit from the un-audited period till the last return filed up to thedate of visit. The Parameters to analyze data base can be ascertained by adopting the following method as

Recommendation -05

Authorization for Audit.

Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.



Commissioner/Additional Commissioners in-charge of Audit work or any other wing entrusted with the task of monitoring audit mechanism in a State may finalize a list of 70% of the tax payers to be taken up for audit by each Joint Commissioner (Divisional Head), based on risk scores arrived at State level. Joint Commissioner (Divisional Head), may be authorized to select 20% of the tax payers for audit based on local risk parameters and 10% of the tax payers at random based on local intelligence network. The issue of overall number of cases that could be taken up for audit is dealt separately.

Recommendation - 06

Criteria for allocation of cases for audit

Basis/criteria for allocation of cases for audit- cadre, turnover.

Taxable turnover-wise allocation of cases or pecuniary jurisdiction for audit may be considered based on the corresponding State's GST department's administrative architecture. Audit officers in many States are in the cadres of Deputy Commissioner, Assistant Commissioner and Commercial/State Tax Officer, while it may not be so in others. In keeping with the hierarchical structure in a State, tax payers for audit may be assigned to the officers. Allocation of cases for audit may be based on the turnover as may be decided by the appropriate authority.

Recommendation – 07

Numerical targets for Audit.

Fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State

For conduct of audits in a State, target may be fixed for every year depending upon the number of officers allocated/available for conduct of audits. The calculation of target can be made by taking into account the total working days in a year, the norms for number of days required to complete the audit of different and the working strength of the audit officers.

Recommendation - 08

Time limit for completion of Audit.

Time limit for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

Section 65 (4) of the CGST Act/ KGST Act specifies that the audit initiated shall be completed within three months from the date of Commencement. The word commencement of audit as explained under the said sub-section is the date on which the records and other documents called for by the authorities are made available by registered person or date of actual institutionof audit whichever is earlier. However, it would be reasonable to fix a lesser duration for Audit depending upon the volume and complexity so that the limited human resources are utilized optimally.

Recommendation - 09

Feedback mechanism.

Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

Feedback mechanism under the GST Audit, is an important component of GST eco-system itself; feedback obtained from the tax payer fraternity in regard to the strength and weakness of the audit system itself will go a long way in not only correcting the rough edges, but also establishing vibrant and robust audit system. Feedback exercise may have to be a regular feature in the GST Administrative calendar in each and every State.

Recommendation – 10

Audit Monitoring Committee.

Post-audit process - Committee for review of the audit report and recommendation for adjudication and the adjudicating authority.

Audit is treated to be completed, when once audit report which may contain objections detected during the audit is finalized by the Department. But before finalizing the objections, the initial objections being raised the by audit officer may be taken up for discussion by a Committee of officers in a monthly/

periodical meeting (may be termed as **"Audit Monitoring Committee"**) with regard to the sustainability/correctness or otherwise in respect of each objection. This system of AMC that may be instituted in each State department will probably reduce unproductive disputes and also standardize practices. The Audit Monitoring Committee may comprise of the Joint Commissioner (Divisional Head), Deputy Commissioner, Assistant Commissioner and GST Officer (Commercial Tax Officer, Sales Tax Officer as the case may be). However, the constitution of such a committee may be decided by the State Commissioner to suit the administrative architecture in a State.

In addition to such a committee, an online exchange of Inter -zonal / Inter-divisional audit insights / findings may also be a useful knowledge sharing platform. Any zone or a division which has come across interesting audit findings may make use of such a platform and share them with the officers of the State once in fifteen days so that , the other zones and audit divisions may follow them or such an inter-divisional exchange may pave way for thematic audit.

Recommendation - 11

Post-adjudication proceedings follow-up.

Mechanism for post-adjudication proceedings and follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defense in appeal, etc.

Section 108 of the CGST Act/ KGST Act empowers a revisional authority to take up review of any decision taken by his sub-ordinate officers. Hence not only for audit cases and even for other investigation cases also, a Revision or Review wing may be created in the Office of the Chief Commissioner (CGST) or State Commissioner (SGST) to take-up review of such adjudication/orders so as to ensure there is no loss of revenue on account of some incorrect interpretations/orders. If an exclusive wing for Revision/Review is not practical to be established in that eventuality, the existing Revisional Authorities in the State Administration may be entrusted with the task of review of any decision taken by the subordinate authorities.

Recommendation -12

Central repository of audit outcomes:

At the Central Government level, the Director General-Audit is preparing a monthly/quarterly audit bulletin containing important audit objections raised during each quarter. The same may be considered for circulation amongst the audit officers of all the States too. The State of Karnataka maintains a compilation of interesting audit paras that are discussed in the **IDEA-i meet** platform **(Inter Divisional Exchange of Audit insights)** held once in a fortnight. Similarly, each State may have its own mechanism of maintaining and circulating Audit outcomes.

Recommendation – 13

Coordination between State and Central audit officers

Coordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

A co-ordination cell may be established by the GST Council consisting of senior officers from the Centre and the State in order to have a collaborative and cohesive strategies for audit and also to share various initiatives developed by the Centre and the State and this will certainly usher in regular sharing of best practices.

Recommendation – 14

E-Audit Module.

Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

From the feedback submitted by various States, it is found that some of the States are preparing software requirement specification for Audit backend, based on the workflow system of Audit. The functionalities that may be designed by the States will cover the entire Audit processes such as Selection, Planning, and actual conduct of Audit, Reporting, Payment, Closure and Adjudication. Capturing the data electronically at each stage of audit will probably enhance the performance of the Audit team and create intellectual and professional atmosphere.

The Department of Commercial Taxes, Karnataka has developed an automated online Audit module called ***E-Shodhane Online Audit module*** in collaboration with NIC, Bengaluru, i.e., **www.gst.kar.nic.in/gstprime** whereby registered persons are selected for scrutiny based on risk evaluation method and the audit officers seek assignment for audit electronically. It's an end-to-end digital back office application which covers the entire audit process starting from the selection of cases to the finalization of audit report and adjudication process with the exception of on-premises audit physically carried out by designated Audit teams. To be more precise, the Audit module is not 100% seamlessly connected electronically. Certain audit processes are to be carried out by the audit officers physically and results of such audit processes are to be uploaded on to the system.

The GSTN has also developed GST Audit Module which is an end-to-end digital back-office application that helps in carrying out the entire GST audit

process electronically (with the exception of on-premises audit physically carried out by the designated Audit teams). Right from selection of taxpayers for auditing and assigning the same to various Audit Teams to serving the Final Audit report and/or SCN to the Taxpayer, every Audit proceeding is seamlessly connected electronically.

Some of the Model-II States are found to have adopted GSTN Audit Module. GST Audit Modules developed by GSTN and the State of Karnataka broadly have the same features with minor tweaks as the GST Audit process is partly dictated by the GST Act itself. Therefore, E-audit Modules that may be developed by States may have these common audit tools with a few tweaks that conform to their administrative structure.

I. AUDIT MIS APP

MIS APP is a tool which focuses on the need for sound information for decision taking and which aims finding the relationship between audit officer and their audit practice.

MIS and Audit process are targeted at satisfying the information required for appraisal of performance of Audit Divisions on a real time basis.

MIS is a system that enables the Audit Divisional head and the Head Office or Audit Commissionerate to have access to dependable information for planning and decision making. This information could be either qualitative or quantitative or both depending on the method employed in the process.

The sub-committee suggest that an MIS APP Tool on the lines mentioned herein may be developed exclusively for audit officers to upload the day-to-day activities with respect to the findings of the Audit, Audit observations made, demand created, collected and the recovery made thereof. Benefits for MIS: -

MIS plays the role of information generation, communication, decision making, management, Administration, and operation of an organization. The benefits accruable from an effective MIS could be reiterated thus:

1) The MIS App fulfils the informational needs of an Individual or a group of individuals.

2) MIS satisfies a variety of system such as query system, analysis system, modeling system & decision support system. The MIS helps in strategic planning, management control and operational control.

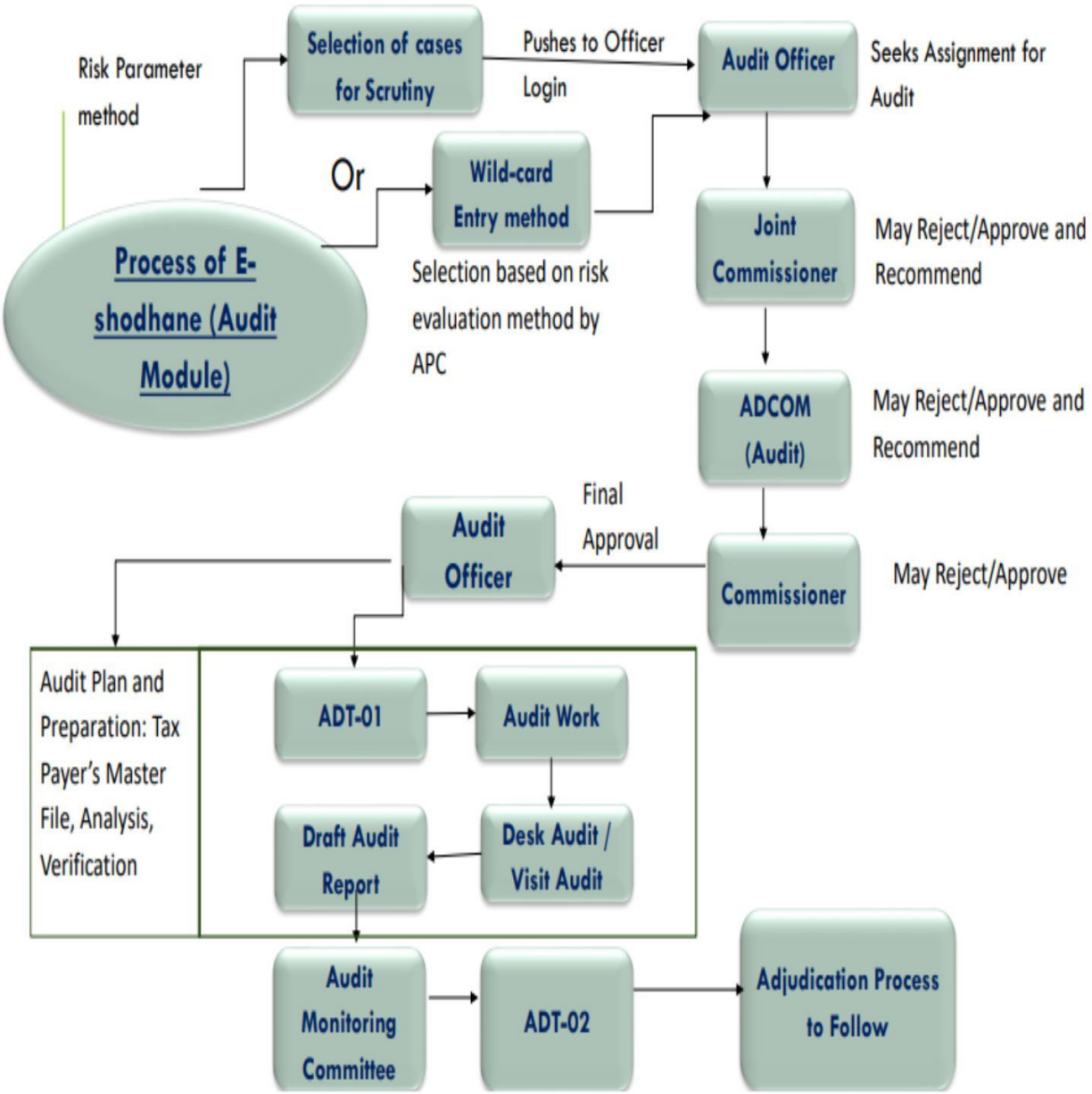
3) MIS helps in target setting like Audit disposals, recovery and Refund.

4) The MIS assists the Head Office or Audit Commissionerate in goal setting, strategic planning and evolving audit plans and thus implementation.

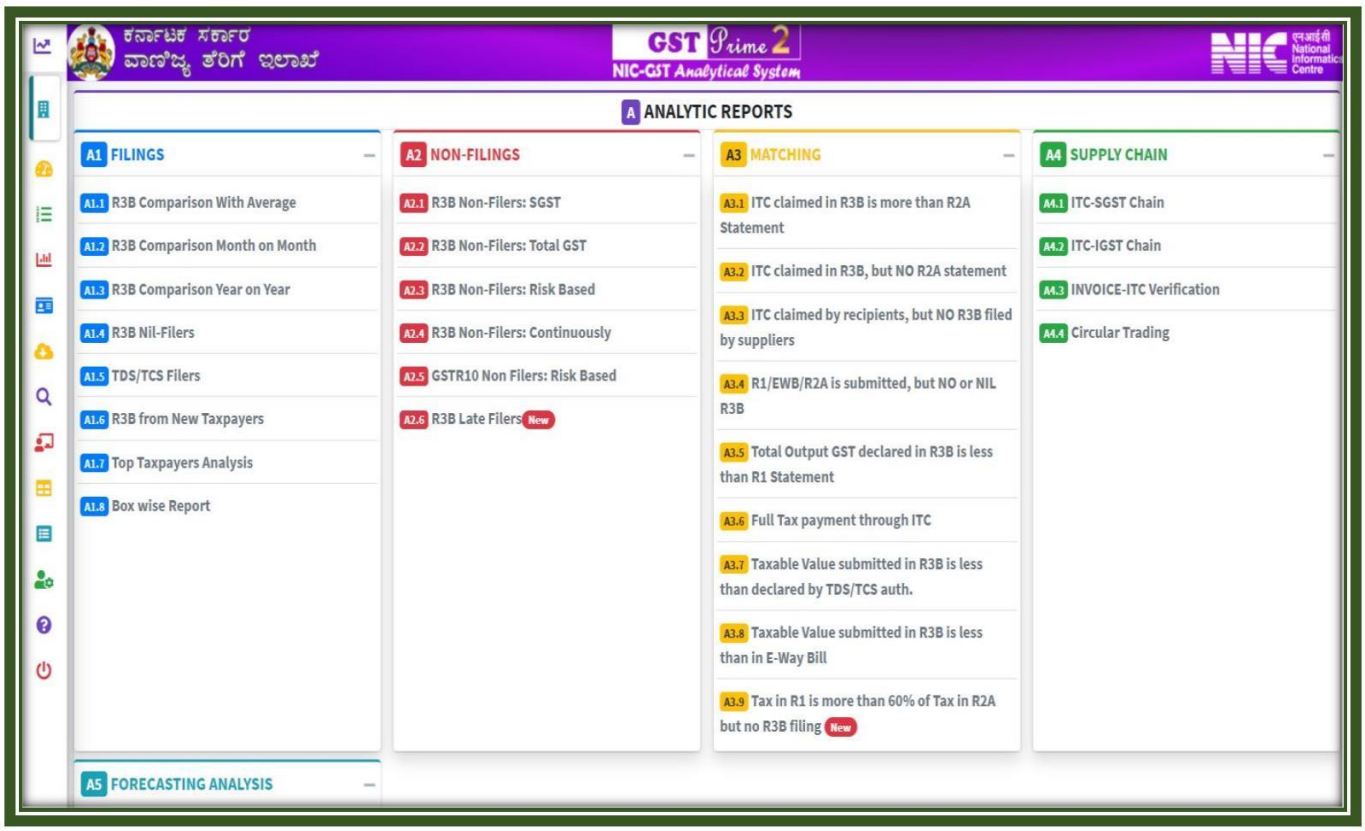
MIS APP FLOW:

Know your assessee
Report and documentation
Audit Planning and stratergy
Field work correction of information and obtain evidence through desk/visit review
Analysis and observation evaluate and assessee information
Collection of tax liability refund of excess ITC
Feedback by audit officers

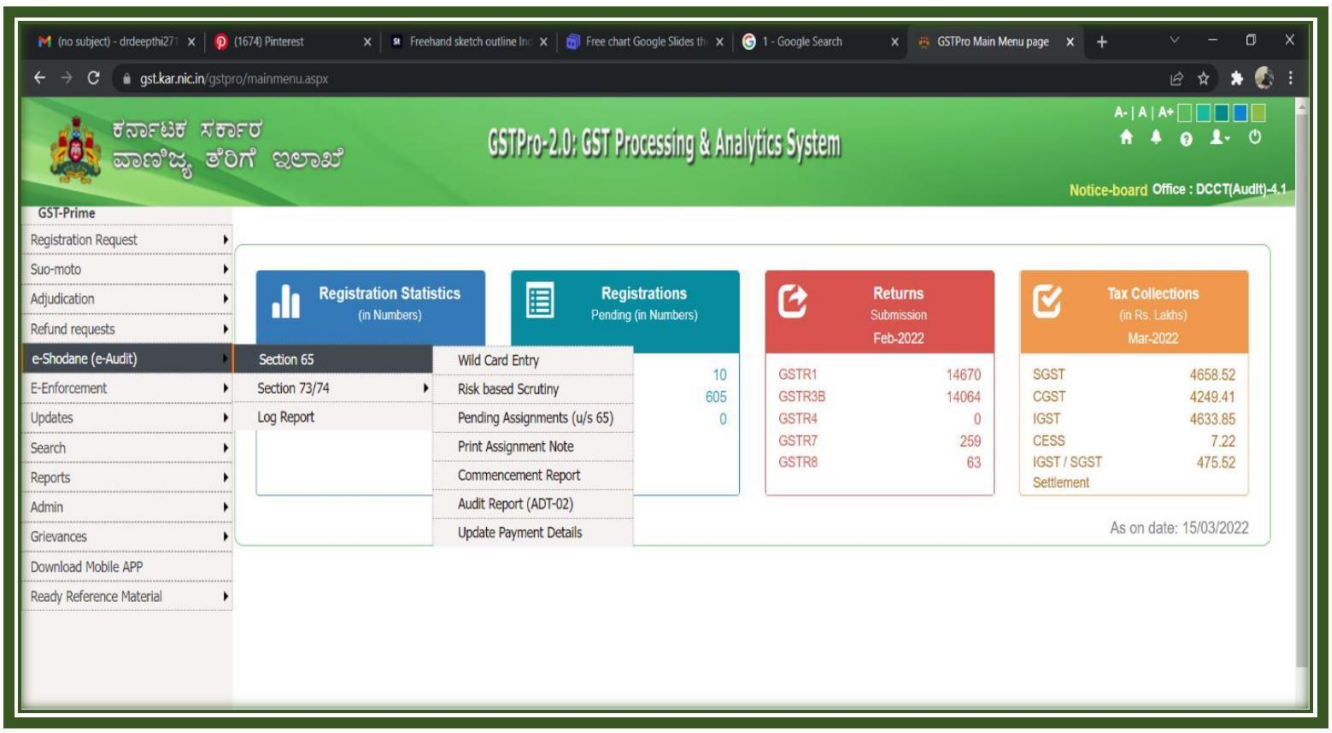
E-Shodhane Audit process flow chart (Karnataka e-Audit Module):-



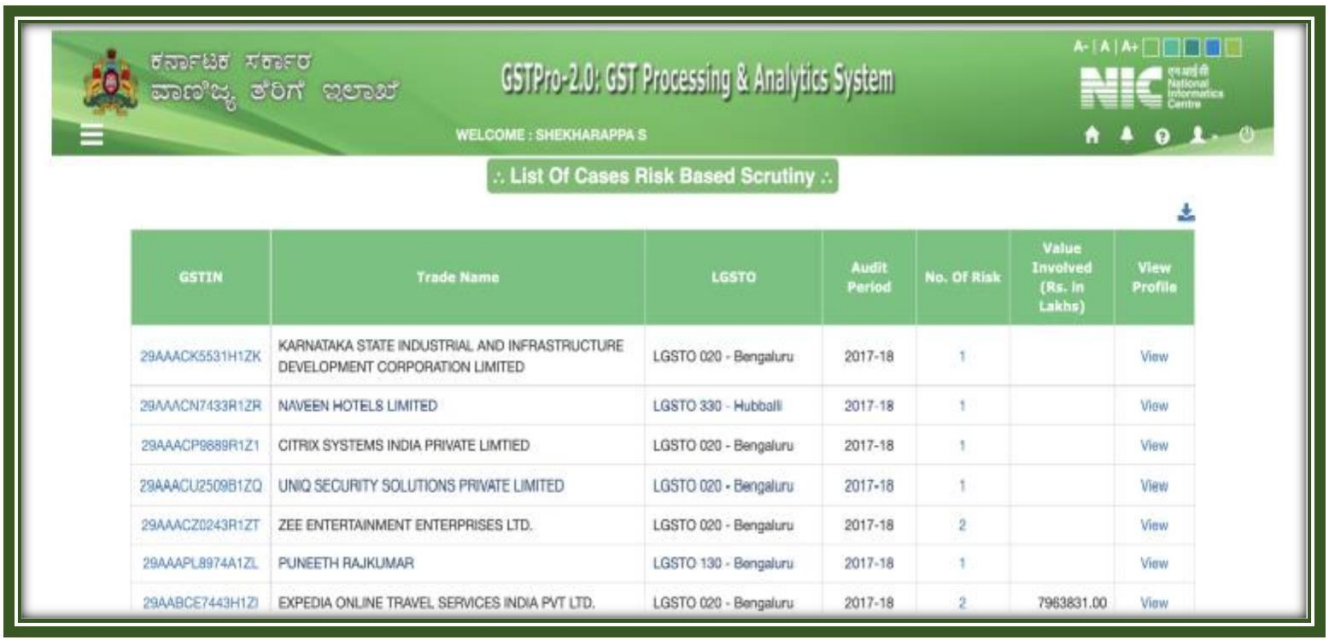
SCREENSHOT OF DASHBOARD OF ANALYTIC REPORTS



SCREENSHOT OF SUMMARY ANALYTIC REPORTS ACCESSIBLE TO AUDIT OFFICER



SCREENSHOT OF SAMPLE CASES IDENTIFIED FOR RISK BASED SCRUTINY



GSTIN	Trade Name	LGSTO	Audit Period	No. Of Risk	Value Involved (Rs. In Lakhs)	View Profile
29AAACK5531H1ZK	KARNATAKA STATE INDUSTRIAL AND INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACN7433R1ZR	NAVEEN HOTELS LIMITED	LGSTO 330 - Hubballi	2017-18	1		View
29AAACP9889R1Z1	CITRIX SYSTEMS INDIA PRIVATE LIMTIED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACU2509B1ZQ	UNIQ SECURITY SOLUTIONS PRIVATE LIMITED	LGSTO 020 - Bengaluru	2017-18	1		View
29AAACZ0243R1ZT	ZEE ENTERTAINMENT ENTERPRISES LTD.	LGSTO 020 - Bengaluru	2017-18	2		View
29AAAPL8974A1ZL	PUNEETH RAJKUMAR	LGSTO 130 - Bengaluru	2017-18	1		View
29AABCE7443H1ZI	EXPEDIA ONLINE TRAVEL SERVICES INDIA PVT LTD.	LGSTO 020 - Bengaluru	2017-18	2	7963831.00	View

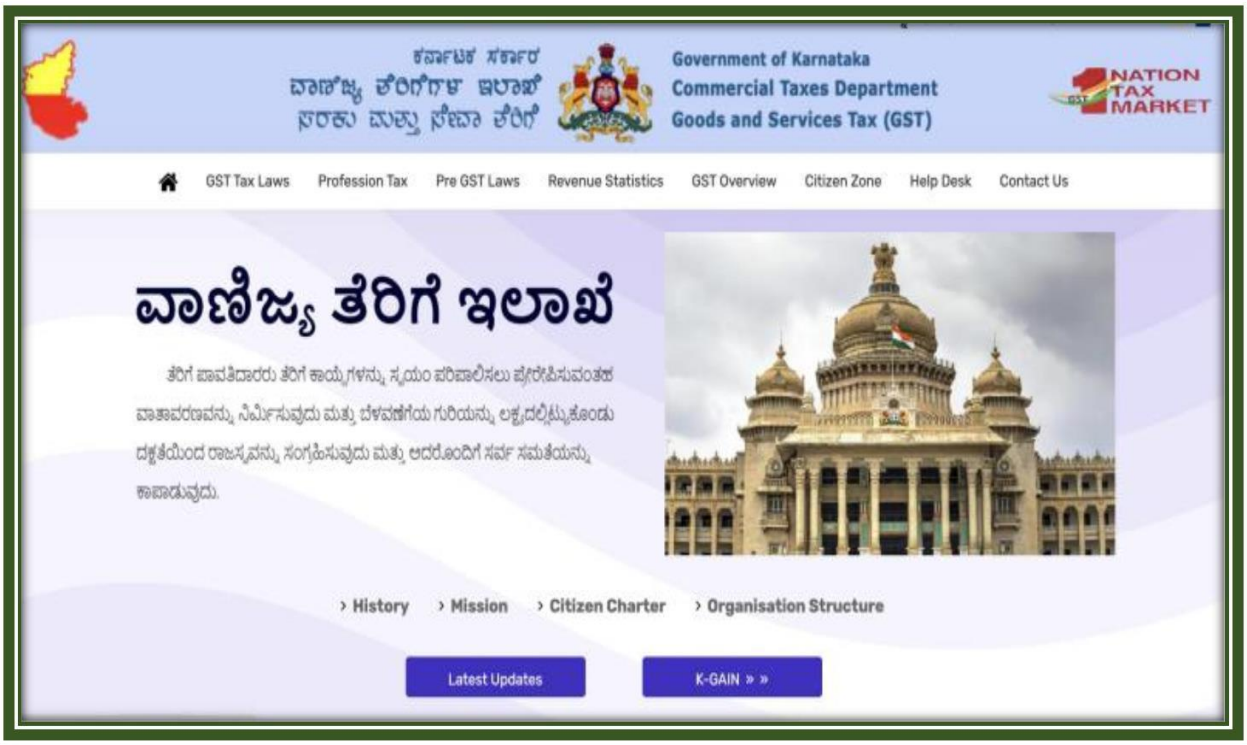
SCREENSHOT OF SAMPLE CASES SELECTED BASED ON RISK FACTORS

SCREENSHOT OF PENDING AUDIT CASES AVAILABLE IN AUDIT OFFICER'S LOGIN

SCREENSHOT OF TEMPLATE AVAILABLE FOR AUDIT OFFICER TO LOG AUDIT INITIATION

SCREENSHOT OF SAMPLE ASSIGNMENT NOTE

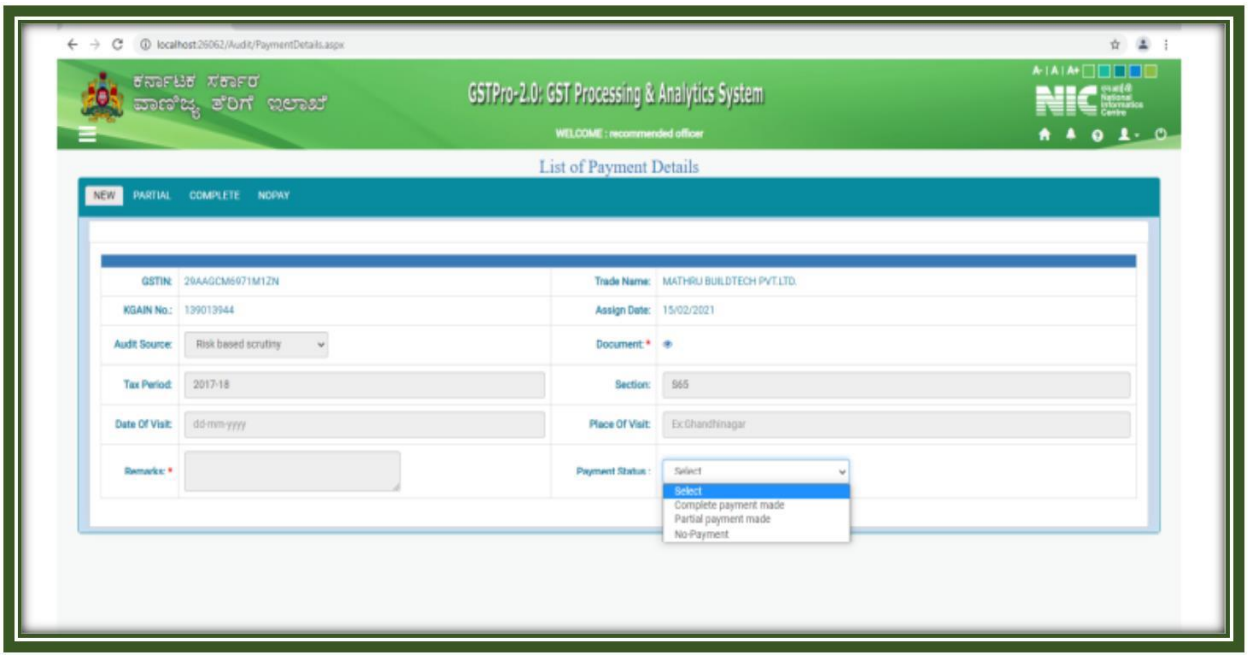
SCREENSHOT OF KARNATAKA GST PORTAL FOR RAISING AUDIT VALIDATION QUERY



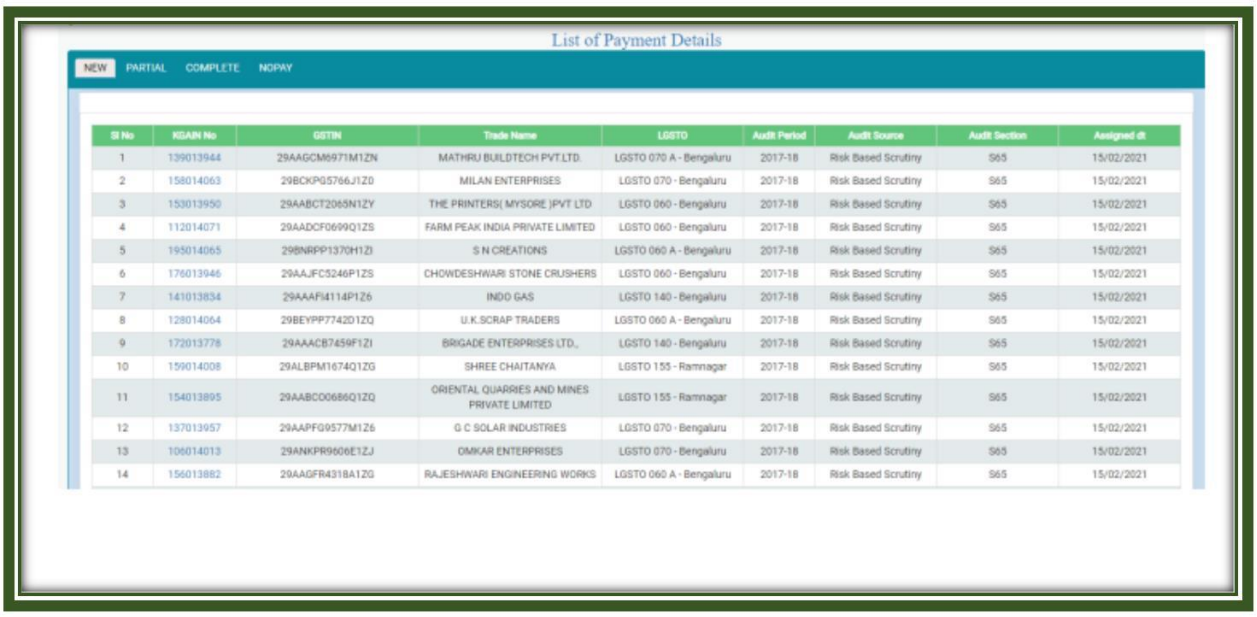
SCREENSHOT OF TOOL AVAILABLE TO ALL STAKEHOLDERS TO VERIFY AUTHENTICITY AND STATUS OF AUDIT

SCREENSHOT OF RESULT OF AUDIT ASSIGNMENT NOTE VALIDATION QUERY

SCREENSHOT OF POST AUDIT PAYMENT STATUS IN A SAMPLE CASE

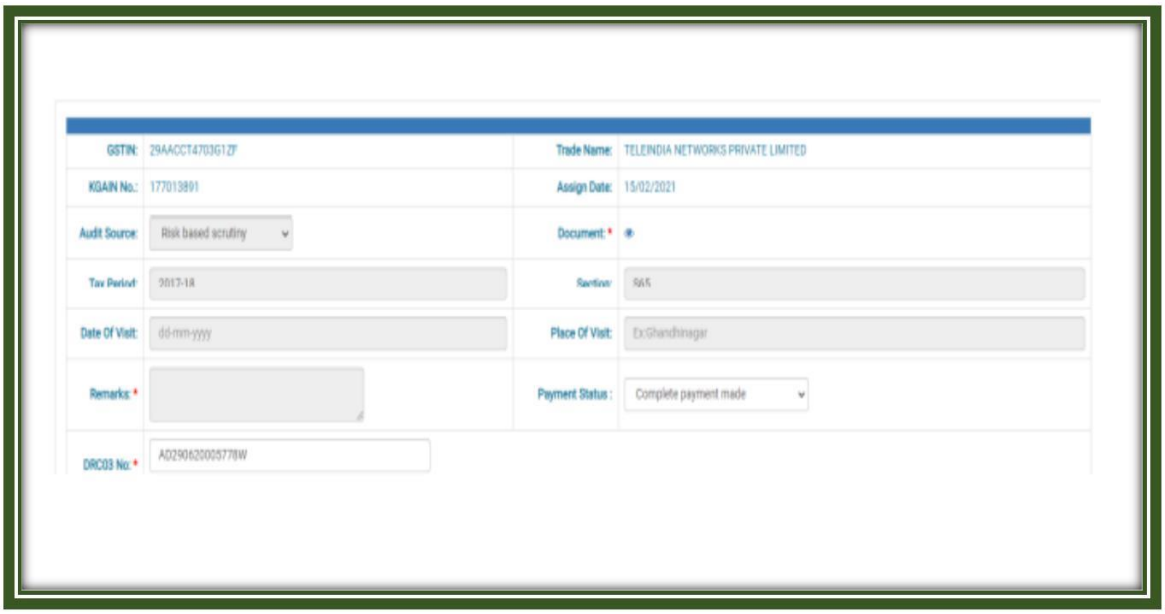


SCREENSHOT OF SAMPLE POST AUDIT PAYMENT STATUS OF ADDITIONAL DEMANDS

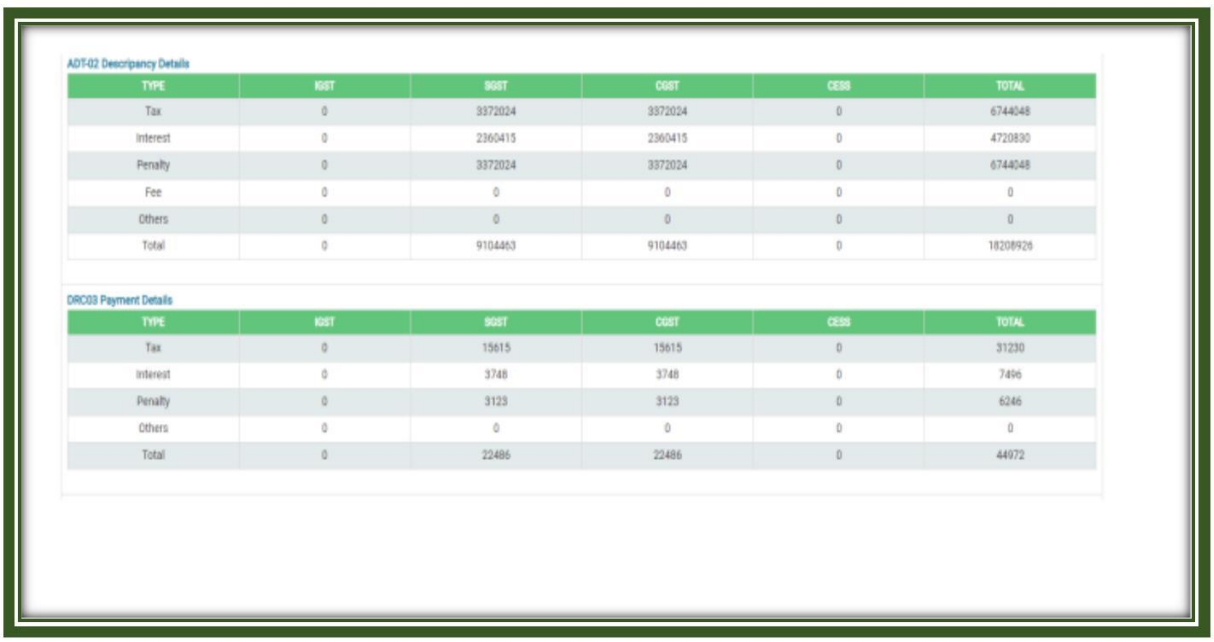


Sl No	KGAIN No	GSTIN	Trade Name	LGSTO	Audit Period	Audit Source	Audit Section	Assigned dt
1	139013944	29AAGCM6971M1ZN	MATHRU BUILDTECH PVT.LTD.	LGSTO 070 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
2	158014063	29BCKPG5766J1Z0	MILAN ENTERPRISES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
3	153013950	29AABCT2065N1ZY	THE PRINTERS(MYSORE)PVT LTD	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
4	112014071	29AADCF0699Q1ZS	FARM PEAK INDIA PRIVATE LIMITED	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
5	195014065	29BNRPP1370H1ZI	S N CREATIONS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
6	176013946	29AAJFC5246P1ZS	CHOWDESHWARI STONE CRUSHERS	LGSTO 060 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
7	141013834	29AAAFI4114P1Z6	INDO GAS	LGSTO 140 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
8	128014064	29BEYPP7742D1ZQ	U.K.SCRAP TRADERS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
9	172013778	29AAACB7459F1ZI	BRIGADE ENTERPRISES LTD.,	LGSTO 140 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
10	159014008	29ALBPM1674Q1ZG	SHREE CHAITANYA	LGSTO 155 - Ramnagar	2017-18	Risk Based Scrutiny	S65	15/02/2021
11	154013895	29AABCO0686Q1ZQ	ORIENTAL QUARRIES AND MINES PRIVATE LIMITED	LGSTO 155 - Ramnagar	2017-18	Risk Based Scrutiny	S65	15/02/2021
12	137013957	29AAPFG9577M1Z6	G C SOLAR INDUSTRIES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
13	106014013	29ANKPR9606E1ZJ	OMKAR ENTERPRISES	LGSTO 070 - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021
14	156013882	29AAGFR4318A1ZG	RAJESHWARI ENGINEERING WORKS	LGSTO 060 A - Bengaluru	2017-18	Risk Based Scrutiny	S65	15/02/2021

SCREENSHOT OF SAMPLE POST AUDIT PAYMENT STATUS OF ADDITIONAL DEMANDS



SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE



ADT-02 Descripancy Details

TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	3372024	3372024	0	6744048
Interest	0	2360415	2360415	0	4720830
Penalty	0	3372024	3372024	0	6744048
Fee	0	0	0	0	0
Others	0	0	0	0	0
Total	0	9104463	9104463	0	18208926

DRC03 Payment Details

TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	15615	15615	0	31230
Interest	0	3748	3748	0	7496
Penalty	0	3123	3123	0	6246
Others	0	0	0	0	0
Total	0	22486	22486	0	44972

SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE

Difference Payment (ADT02-DRC03)

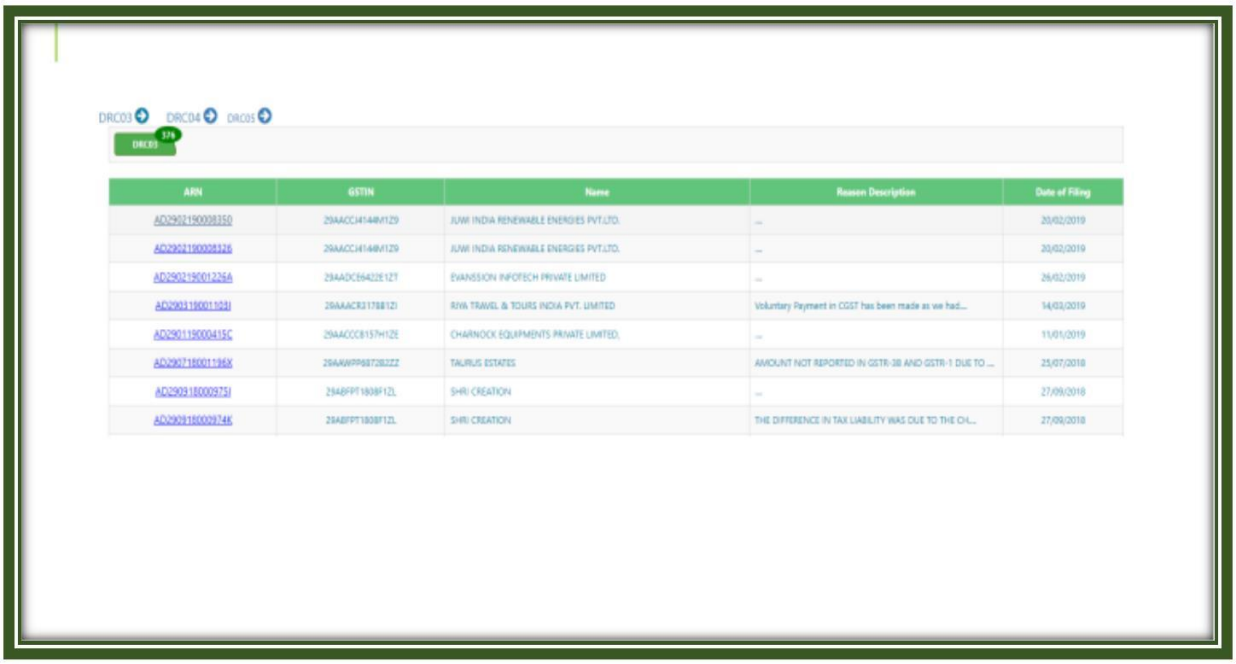
TYPE	IGST	SGST	CGST	CESS	TOTAL
Tax	0	3356409	3356409	0	6712818
Interest	0	2356667	2356667	0	4713334
Penalty	0	3368901	3368901	0	6737802
Others	0	0	0	0	0
Total	0	0	0	0	0

Next Action: * Close

Remarks :

Submit Exit

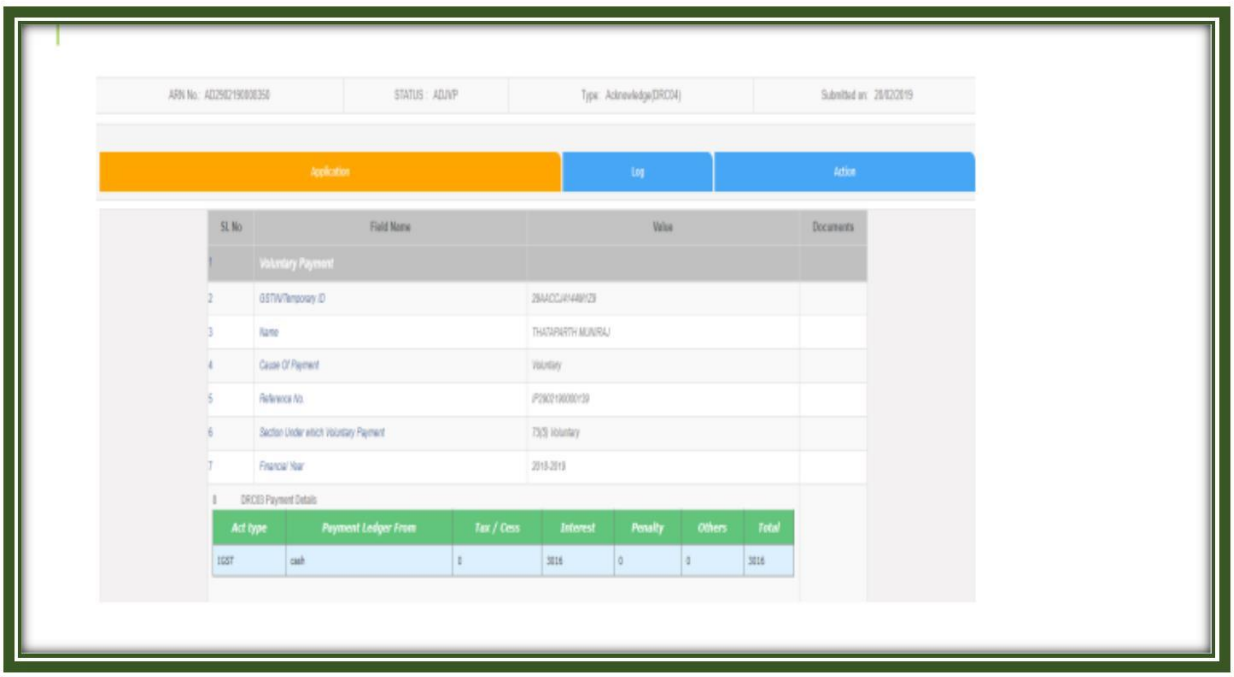
SCREENSHOT OF BREAKUP OF POST AUDIT PAYMENT IN A SAMPLE CASE



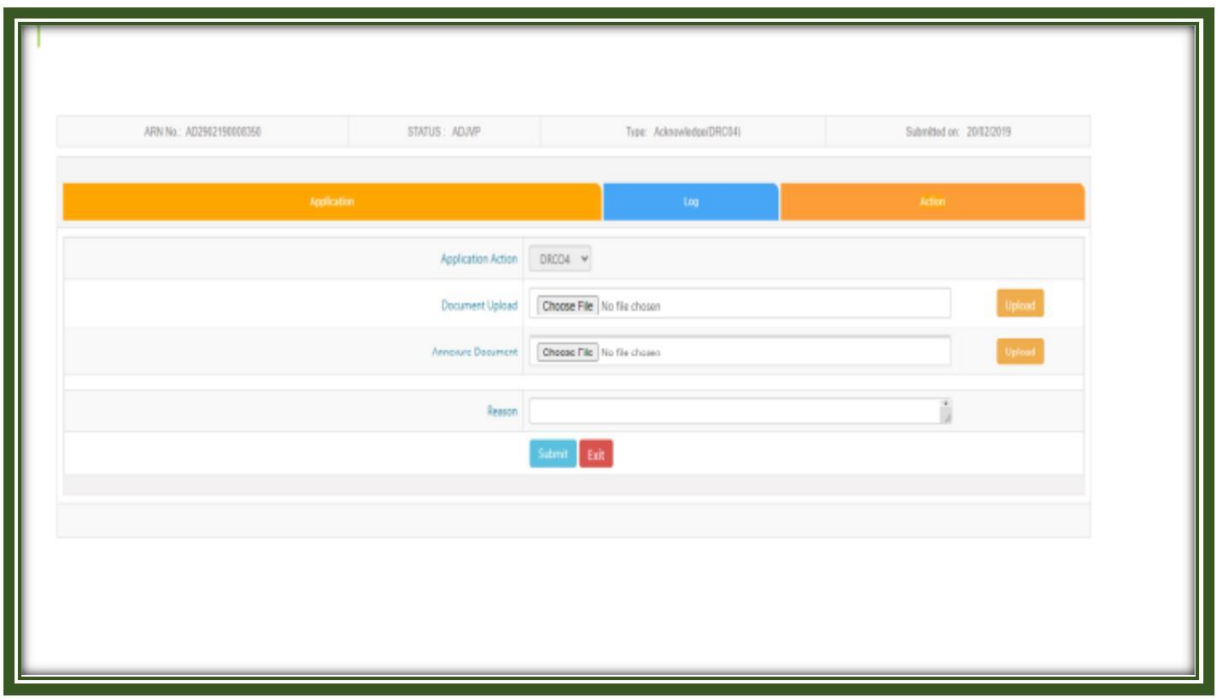
DRC03 DRC04 DRC05

ARN	GSTIN	Name	Reason Description	Date of Filing
AD290219000835O	29AACCJ4144M1Z9	JUWI INDIA RENEWABLE ENERGIES PVT.LTD.	...	20/02/2019
AD290219000832R	29AACCJ4144M1Z9	JUWI INDIA RENEWABLE ENERGIES PVT.LTD.	...	20/02/2019
AD290219001226A	29AADCE6422E1Z7	EVANSSION INFOTECH PRIVATE LIMITED	...	26/02/2019
AD290318001103J	29AAACR3178B1ZJ	RIYA TRAVEL & TOURS INDIA PVT. LIMITED	Voluntary Payment in CGST has been made as we had...	14/03/2019
AD290119000415C	29AACCC8157H1ZE	CHARNOCK EQUIPMENTS PRIVATE LIMITED.	...	11/01/2019
AD290718001136X	29AAWPP6872B2ZZ	TAURUS ESTATES	AMOUNT NOT REPORTED IN GSTR-3B AND GSTR-1 DUE TO ...	25/07/2018
AD290318000975I	29ABFPT1808F1ZL	SHRI CREATION	...	27/09/2018
AD290318000974K	29ABFPT1808F1ZL	SHRI CREATION	THE DIFFERENCE IN TAX LIABILITY WAS DUE TO THE CH...	27/09/2018

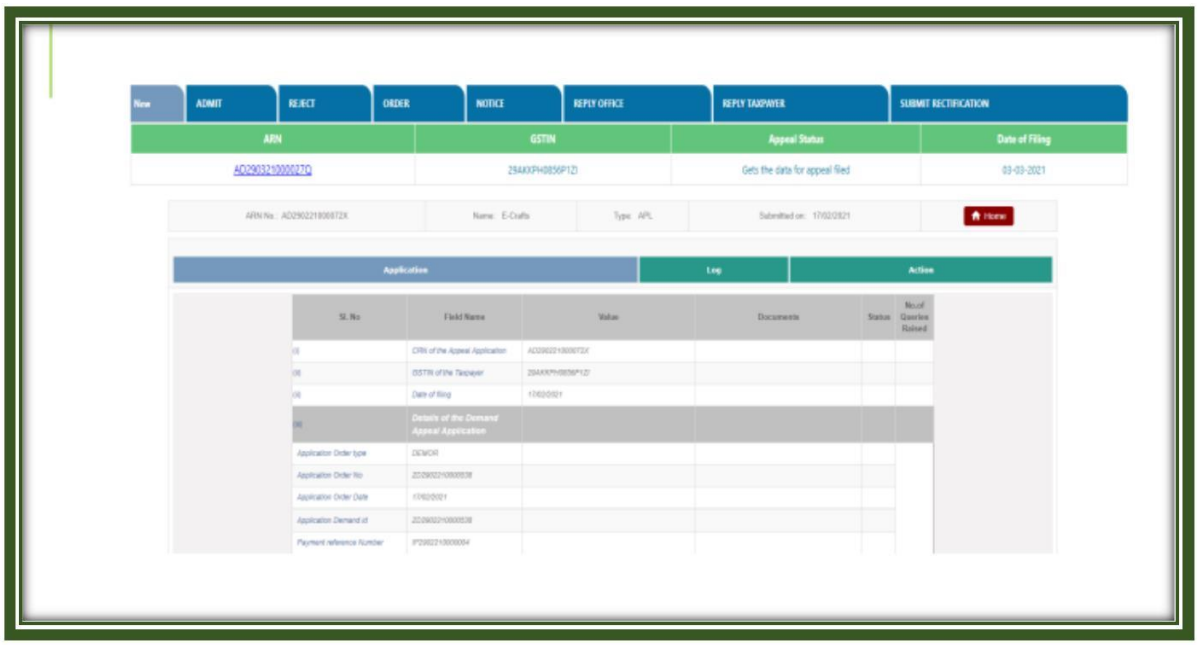
SCREENSHOT OF DETAILS OF POST AUDIT PAYMENT IN A SAMPLE CASE (DRC-04)



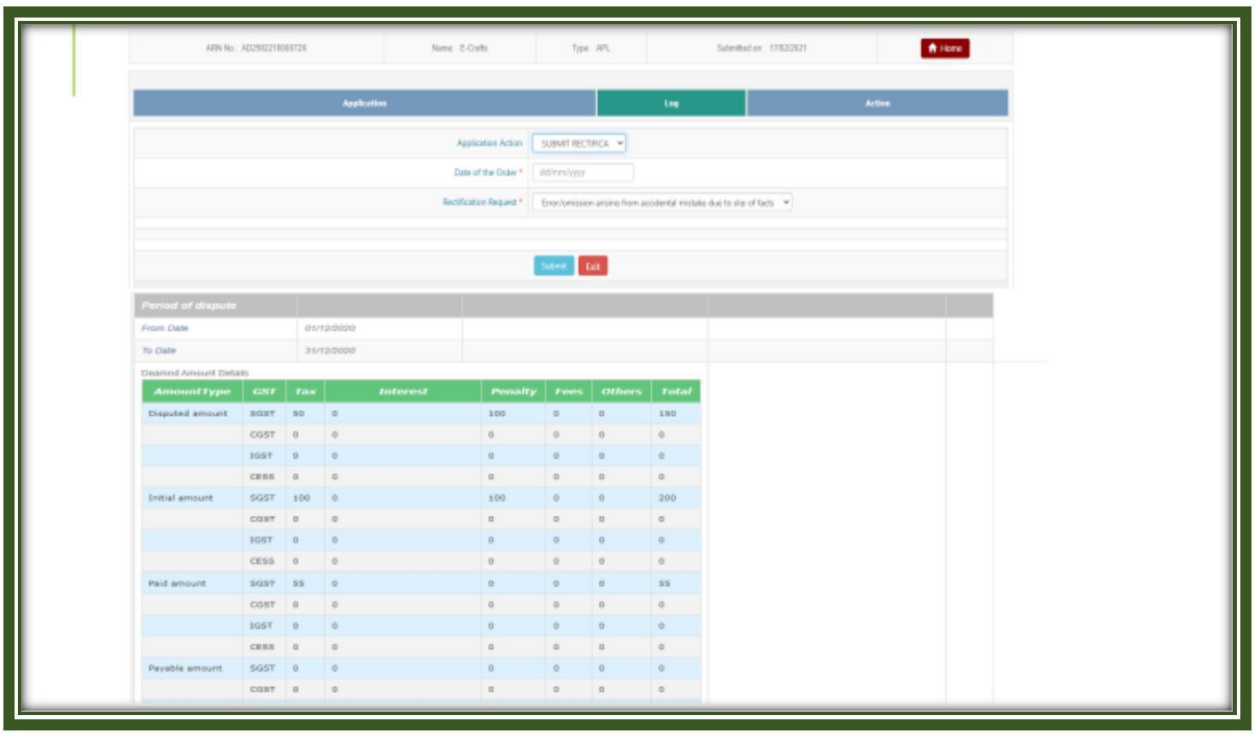
SCREENSHOT OF LOGIN PAGE FOR ENTERING STATUS OF ADJUDICATION ON AUDIT REPORT

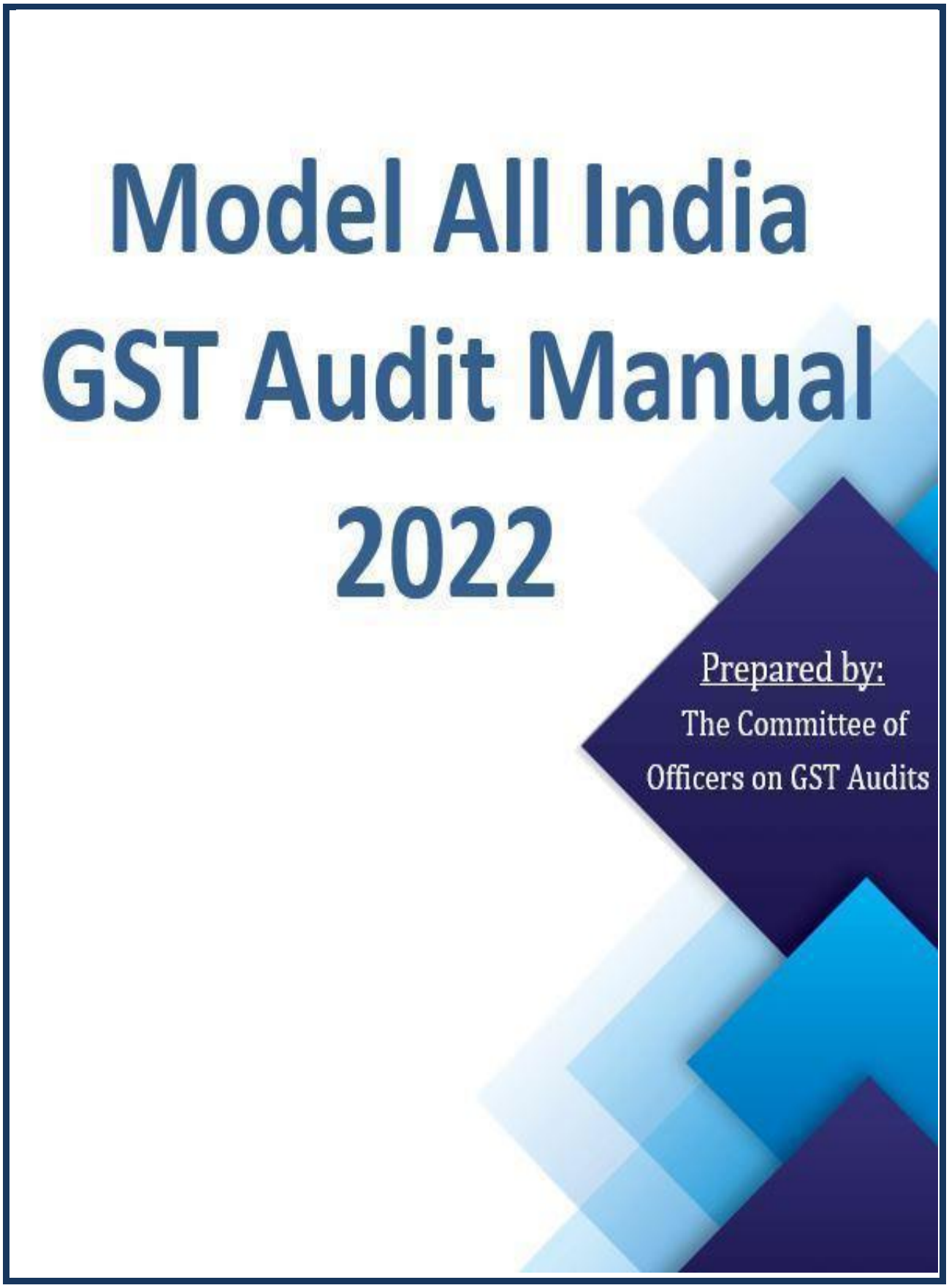


SCREENSHOT OF APPEAL MODULE



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




Model All India
GST Audit Manual
2022
Prepared by:
The Committee of
Officers on GST Audits

PREFACE

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List of abbreviations used in the Manual

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

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

FOREWORD

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

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

Audit is also a specialized exercise which requires not only sound knowledge in law but also demands adequate skill. To facilitate all the States and the Centre in respect of audit in GST a task of preparation of a comprehensive All India Model GST Audit Manual was allotted to the Committee of Officers on GST Audit. For this purpose, a sub-committee of officers was constituted to compile existing and desirable audit practices and to draft a model audit manual. Inputs have been taken from both Centre and States from various sources like (i) GST Audit Manual 2019 published by DG Audit, Government of India, (ii) CBIC Quality Assurance Review Manual 2021, (iii) West Bengal State Tax GST AUDIT MANUAL_2021 (iv) Bihar State Tax Audit SOP, (v) Maharashtra State Tax GST Audit Manual 2020, (vi) Punjab Audit-Manual, Punjab Audit Administrative Instruction, Punjab Audit Checklist Documents - Value of Supply, Punjab Audit Checklist Documents And Returns – Supply, (vii) Karnataka State Tax GST Audit Model, (viii) GSTN Audit Process Flow, (ix) Uttar Pradesh GST Tax Audit, (x) further suggestions from States and Centre during compilation. On the basis of all such valuable inputs, the State of West Bengal has compiled this audit manual which has been accepted by the Committee of Officers.

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

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

CHAPTER 1

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

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

Audit is defined in sub-sec 13 of sec 2 of the CGST/SGST Act, 2017 as – *"detailed examination of records, returns and other documents maintained or furnished by the taxable person under this Act or Rules made thereunder or under any other law for the time being in force to verify, inter alia, the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or rules made thereunder".*

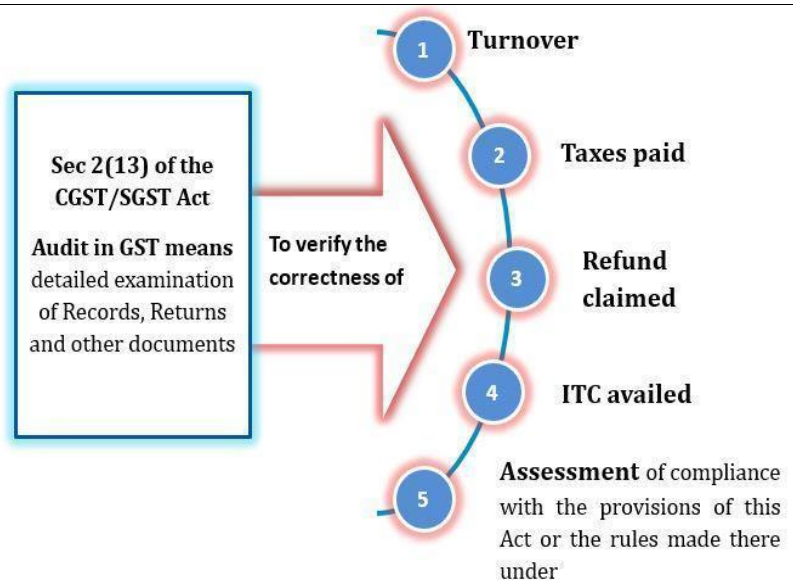
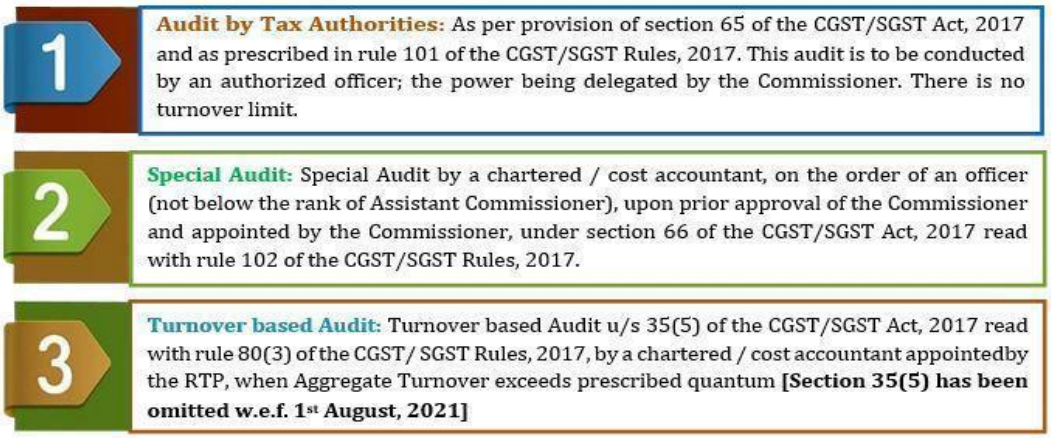


EXHIBIT 1

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

1.2 Types of Audit in GST

Three types of Audit are prescribed in GST:



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

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

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

Sub-section	Provisions of the Act
(1)	*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.*
(2)	*The officers referred to in sub-section (1) may conduct audit at the place of business of the registered person or in their office.*
(3)	*The registered person shall be informed by way of a notice not less than fifteen working days prior to the conduct of audit in such manner as may be prescribed.*

(4)	*The audit under sub-section (1) shall be completed within a period of three months from the date of commencement of the audit:* *Provided that where the Commissioner is satisfied that audit in respect of such registered person cannot be completed within three months, he may, for the reasons to be recorded in writing, extend the period by a further period not exceeding six months.* *Explanation. – For the purposes of this sub-section, the expression 'commencement of audit' shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later.*
(5)	*During the course of audit, the authorised officer may require the registered person,— (i) to afford him the necessary facility to verify the books of account or other documents as he may require; (ii) to furnish such information as he may require and render assistance for timely completion of the audit.*
(6)	*On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings.*
(7)	*Where the audit conducted under sub-section (1) results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised, the proper officer may initiate action under section 73 or section 74.*

1.3.2 Rule 101 of CGST / SGST Rules, 2017.

Sub-rule	Provisions of the rule
(1)	*The period of audit to be conducted under sub-section (1) of section 65 shall be a financial year or part thereof or multiples thereof.*

(2)	*Where it is decided to undertake the audit of a registered person in accordance with the provisions of section 65, the proper officer shall issue a notice in FORM GST ADT-01 in accordance with the provisions of sub-section (3) of the said section.*
(3)	*The proper officer authorised to conduct audit of the records and books of account of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify the documents on the basis of which the books of account are maintained and the returns and statements furnished under the provisions of the Act and the rules made thereunder, the correctness of the turnover, exemptions and deductions claimed, the rate of tax applied in respect of supply of goods or services or both, the input tax credit availed and utilised, refund claimed, and other relevant issues and record the observations in his audit notes.*
(4)	*The proper officer may inform the registered person of the discrepancies noticed, if any, as observed in the audit and the said person may file his reply and the proper officer shall finalise the findings of the audit after due consideration of the reply furnished.*
(5)	*On conclusion of the audit, the proper officer shall inform the findings of audit to the registered person in accordance with the provisions of sub-section (6) of section 65 in FORM GST ADT-02*

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

"(1) Any officer under this Act, authorised by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programmes, computer software whether installed in a computer or otherwise and such other things as he may require and which may be available at such place, for the purposes of carrying out any

EXHIBIT 2

audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.

(2) Every person in charge of place referred to in sub-section (1) shall, on demand, make available to the officer authorised under sub-section (1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66—

(i) *such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;*

(ii) *trial balance or its equivalent;*

(iii) *statements of annual financial accounts, duly audited, wherever required;*

(iv) *cost audit report, if any, under section 148 of the Companies Act, 2013;*

(v) *the income-tax audit report, if any, under section 44AB of the Income Tax Act, 1961; and*

(vi) *any other relevant record,*

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

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

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

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

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

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

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

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

EXHIBIT 3

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec 74 is applicable when there are reasons of fraud or any willful misstatement or suppression of facts to evade tax

EXHIBIT 4

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

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

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

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

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

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

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

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

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

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

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

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

(i) *the expression "all proceedings in respect of the said notice" shall not include proceedings under section 132;*
(ii) *where the notice under the same proceedings is issued to the main person liable to pay tax and some other persons, and such proceedings against the main person have been concluded under section 73 or section 74, the proceedings against all the persons liable to pay penalty under sections 122, 125, 129 and 130 are deemed to be concluded.*

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

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

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

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

(3) Where any order is required to be issued in pursuance of the direction of the Appellate Authority or Appellate Tribunal or a court, such order shall be issued within two years from the date of communication of the said direction.

(4) An opportunity of hearing shall be granted where a request is received in writing from the person chargeable with tax or penalty, or where any adverse decision is contemplated against such person.

(5) The proper officer shall, if sufficient cause is shown by the person chargeable with tax, grant time to the said person and adjourn the hearing for reasons to be recorded in writing: Provided that no such adjournment shall be granted for more than three times to a person during the proceedings.

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

(7) The amount of tax, interest and penalty demanded in the order shall not be in excess of the amount specified in the notice and no demand shall be confirmed on the grounds other than the grounds specified in the notice.

(8) Where the Appellate Authority or Appellate Tribunal or court modifies the amount of tax determined by the proper officer, the amount of interest and penalty shall stand modified accordingly, taking into account the amount of tax so modified.

(9) The interest on the tax short paid or not paid shall be payable whether or not specified in the order determining the tax liability.

(10) The adjudication proceedings shall be deemed to be concluded, if the order is not issued within three years as provided for in sub-section (10) of section 73 or within five years as provided for in sub-section (10) of section 74.

(11) An issue on which the Appellate Authority or the Appellate Tribunal or the High Court has given its decision which is prejudicial to the interest of revenue in some other proceedings and an appeal to the Appellate Tribunal or the High Court or the Supreme Court against such decision of the Appellate Authority or the Appellate Tribunal or the High Court is pending, the period spent between the date of the decision of the Appellate Authority and that of the Appellate Tribunal or the date of decision of the Appellate Tribunal and that of the High Court or the date of the decision of the High Court and that of the Supreme Court shall be excluded in computing the period referred

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

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

EXHIBIT 5

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

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

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

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

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

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

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

EXHIBIT 6

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

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

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

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

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

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

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

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

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

EXHIBIT 7

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

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

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

EXHIBIT 8

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

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

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

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

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

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

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

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

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

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

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

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

"Section 122. *(1) Where a taxable person who—*
(i) supplies any goods or services or both without issue of any invoice or issues an incorrect or false invoice with regard to any such supply;
(ii) issues any invoice or bill without supply of goods or services or both in violation of the provisions of this Act or the rules made thereunder;
(iii) collects any amount as tax but fails to pay the same to the Government beyond a period of three months from the date on which such payment becomes due;
(iv) collects any tax in contravention of the provisions of this Act but fails to pay the same to the Government beyond a period of three months from the date on which such payment becomes due;
(v) fails to deduct the tax in accordance with the provisions of sub-section (1) of section 51, or deducts an amount which is less than the amount required to be deducted under the said sub-section, or where he fails to pay to the Government under sub-section (2) thereof, the amount deducted as tax;
(vi) fails to collect tax in accordance with the provisions of sub-section (1) of section 52, or collects an amount which is less than the amount required to be collected under the said sub-section or where he fails to pay to the Government the amount collected as tax under sub-section (3) of section 52;
(vii) takes or utilises input tax credit without actual receipt of goods or services or both either fully or partially, in contravention of the provisions of this Act or the rules made thereunder;
(viii) fraudulently obtains refund of tax under this Act;
(ix) takes or distributes input tax credit in contravention of section 20, or the rules made thereunder;
(x) falsifies or substitutes financial records or produces fake accounts or documents or furnishes any false information or return with an intention to evade payment of tax due under this Act;
(xi) is liable to be registered under this Act but fails to obtain registration;
(xii) furnishes any false information with regard to registration particulars, either at the time of applying for registration, or subsequently;
(xiii) obstructs or prevents any officer in discharge of his duties under this Act;
(xiv) transports any taxable goods without the cover of documents as may be specified in this behalf;
(xv) suppresses his turnover leading to evasion of tax under this Act;
(xvi) fails to keep, maintain or retain books of account and other documents in accordance with the provisions of this Act or the rules made thereunder;
(xvii) fails to furnish information or documents called for by an officer in accordance with the provisions of this Act or the rules made thereunder or furnishes false information or documents during any proceedings under this Act;

(xviii) supplies, transports or stores any goods which he has reasons to believe are liable to confiscation under this Act;
(xix) issues any invoice or document by using the registration number of another registered person;
(xx) tampers with, or destroys any material evidence or document;
(xxi) disposes off or tampers with any goods that have been detained, seized, or attached under this Act,
he shall be liable to pay a penalty of ten thousand rupees or an amount equivalent to the tax evaded or the tax not deducted under section 51 or short deducted or deducted but not paid to the Government or tax not collected under section 52 or short collected or collected but not paid to the Government or input tax credit availed of or passed on or distributed irregularly, or the refund claimed fraudulently, whichever is higher.
(2) Any registered person who supplies any goods or services or both on which any tax has not been paid or short-paid or erroneously refunded, or where the input tax credit has been wrongly availed or utilised,—
(a) for any reason, other than the reason of fraud or any wilful misstatement or suppression of facts to evade tax, shall be liable to a penalty of ten thousand rupees or ten per cent. of the tax due from such person, whichever is higher;
(b) for reason of fraud or any wilful misstatement or suppression of facts to evade tax, shall be liable to a penalty equal to ten thousand rupees or the tax due from such person, whichever is higher.
(3) Any person who—
(a) aids or abets any of the offences specified in clauses (i) to (xxi) of sub-section (1);
(b) acquires possession of, or in any way concerns himself in transporting, removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner deals with any goods which he knows or has reasons to believe are liable to confiscation under this Act or the rules made thereunder;
(c) receives or is in any way concerned with the supply of, or in any other manner deals with any supply of services which he knows or has reasons to believe are in contravention of any provisions of this Act or the rules made thereunder;
(d) fails to appear before the officer of central tax, when issued with a summon for appearance to give evidence or produce a document in an inquiry;
(e) fails to issue invoice in accordance with the provisions of this Act or the rules made thereunder or fails to account for an invoice in his books of account, shall be liable to a penalty which may extend to twenty-five thousand rupees.

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

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

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

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

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

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

CHAPTER 2

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

2.1 Intended Audience

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

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

EXHIBIT 9

2.2 Purpose of this Manual

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

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

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

2.3 **Aims and objectives of Audit**

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

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

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

2.4 Principles of audit

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

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

The following principles should guide the audit process:-

1. Adherence to risk factors developed through a targeting strategy with the approval of the Commissioner/other appropriate authority.
2. Consistency with Departmental Circulars and using professional methodology.
3. Chalk out a sound pre-audit plan/audit program and conduct the audit accordingly.
4. Emphasize a systematic, flexible and penetrative audit.
5. Regular review of the audit plan and progress and modification of the audit program whenever necessary.
6. Concentrate on scrutiny of returns and records, the degree of which will depend on the identified risk areas.
7. Identify the veracity of turnover declared, taxes paid, refund claimed and received, input tax credit (ITC)availed, assessment of compliances as per the provisions of the GST Act(s) and the Rules made thereunder with particular focus on the aspects/transactions/activities of the taxpayer which led to his being selected for audit.

EXHIBIT 10

8. Record the proceedings of audit and findings thereof.
9. Provide a fair opportunity to the auditee to be heard and to submit their contention.
10. Carry out audit while adhering to high standards of professional conduct.
11. Implement a feedback mechanism with the objective of measuring the taxpayer's experience of audit and for validation of targeting parameters.

2.5 Dealing with the auditee

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

EXHIBIT 11

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

1. They will be better equipped to comply with the laws and the relevant procedures.

2. The preparation of prescribed returns and self-assessment of Goods and Services Tax will be better focused, correct and complete.

3. The scrutiny of business accounts and returns submitted to various authorities, made in the course of an audit would help in removing any deficiency in their accounting and internal control systems.

4. Disputes and proceedings against them would be substantially reduced or even eliminated.

2.6 Rights and Obligations of the auditee

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

EXHIBIT 12

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

2.7 Pre-requisites of an audit officer

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

	Area of Competence (Skill-set/ Knowledge)	**Illustrative Questions**

1	**Have a well-drafted pre-plan for identifying areas of concern.**	● What to examine? ● How to examine?
2	**Be well aware of the procedural aspects.**	● Is the Officer well aware of the online/offline Audit modules? ● Is the Officer aware of the departmental guidelines? ● Have all the points noted in the audit plan been covered? ● Is the officer aware of the workflow and documentation/ recording system followed by the auditee?
3	**Possess legal knowledge of legal provisions, changes in law, notifications, circulars, relevant case law, rates.**	● Is the officer well aware of the legal provisions and changes thereto? ● Is there any specific guideline in any circular? ● Are there any court judgements that are applicable?
4	**Possess knowledge of the industry / sector in which the taxpayer is active.**	● Does the officer have a primary knowledge about the business pattern of the auditee with respect to the auditee's particular trade & industry? ● Is the audit officer aware of the existing trade practices, conventions, and market trends? ● Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 provides that the Final Accounts should comply with the Accounting Standards. Does the audit officer possess the knowledge of the prevalent Indian Accounting Standards?
5	**Be able to compute dues.**	● If the auditee is willing to deposit the dues, what to do? ● If the auditee is not willing to deposit the dues in accordance with the audit report, what are the next steps?
6	**Skills for taxpayer engagement**	● Is the audit officer unbiased and judicious in the course of audit? ● Is he/she tactful to gain the goodwill and confidence of the auditee and act as a motivator and a facilitator who ensures voluntary compliance? ● Does the auditor record technical lapses by the auditee which do not have any revenue implication, and have occurred due to oversight or ignorance, and ignore them on merit? Does the auditor discuss these with the auditee to improve the quality of compliance and make internal controls more robust? ● Does the auditor apprise the auditee of the provisions of the GST Act, Rules, and relevant notifications, circulars, and court decisions to encourage the taxpayer to make voluntary payment in the course of audit? ● Is the auditor transparent and discuss any

		discrepancies found in the course of audit with the auditee? ● Does the auditor give auditee an opportunity for filing his/her explanation in respect of such discrepancies as intimated by the auditor and consider all the explanations and documents provided by the auditee regarding the points of dispute before drawing the Final Audit Report? ● Does the auditor consult his/her immediate functional head to resolve any issue in the course of the audit? ● Does the auditor inform his/her immediate supervisory officer of any lack of co-operation or deliberate failure to provide information and records by the auditee and follow it up with a written report? ● Does the auditor preserve all the important documents submitted by the auditee in the course of audit which are relevant to findings as office records, preferably in electronic format? ● Does the auditor maintain confidentiality in respect of sensitive and confidential information furnished in the course of audit?

Some important areas in which an auditor should check levels of compliance of the auditee are given in Exhibit – 13 below:

EXHIBIT 13

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

CHAPTER 3

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

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

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

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

3.2 Different Steps of audit

3.2.1 Selection for audit

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

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

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

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

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

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

EXHIBIT-14

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

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

- Export/SEZ turnover/ total turnover (except in case of export houses)
- Output tax : Input tax
- Cash payment: Output tax
- Set-of using e-credit ledger : Set-of using e-cash ledger
- Inter-state supply: Intra-state supply etc.

- **Exceptional Reports e.g.**
  - ITC claimed in Form GSTR-3B vs. ITC auto-populated in Form GSTR-2A/GSTR-2B
  - Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1
  - claim of ITC from cancelled RTPs, aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return
  - Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS deducted as reflected in Form GSTR-7 submitted by TDS deductor
  - Turnover declared by RTP in Form GSTR-3B compared to turnover on which TCS collected as reflected in Form GSTR-8 submitted by TCS collector
  - Turnover declared by RTP in Form GSTR-3B compared to minimum turnover expected on the basis of e-way bills generated in respect of the said RTP
  - Refund-claim against purchase from taxpayer having no auto-population of ITC in Form GSTR-2A
  - purchases from non-existent RTPs
  - RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.)

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

A. Taxpayers under the State/Central jurisdiction, i.e. the taxpayers who are required to file Form GSTR- 3B and Form GSTR-1, may be selected by the respective Commissioner.

B. Those tax-payers who have filed at least such a minimum number of returns as the administration would decide, in the financial year or those who have been granted a refund beyond a certain amount may be selected.

C. The taxpayers' pool may be divided into 3 segments namely Large, Medium & Small based on turnover, or on some other logical criterion.

D. All risk parameters are required to be identified and all probable aspects need to be considered to identify non-compliance and non-payment / short payment of tax, interest, late fee, penalty etc. and evasion of tax.

E. To select taxpayers for audit in an effective manner, secondary data sources (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be also considered and referred to along with the primary data sources (i.e. GST data).

F. The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit as well as effectiveness of risk parameters chosen in the preceding Financial Year (s).

G. Based on the average weight considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.

H. The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one RTP has the same final score, the parameter of declared liability may then be considered and a taxpayer with more declared liability may be selected first.

I. A Selection Committee may be constituted to identify various risk parameters for selection for audit, considering all the aspects where there are chances of lack of compliance with the Act resulting in short payment of tax etc. such as:

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

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

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

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

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

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

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

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

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

3.2.3 **Allotment of selected RTP**

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

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

Allocation of auditees:

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

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

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

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

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

1. After allocation, the next step is to assign the selected taxpayer to the officers of the Audit Team, who will finally carry out the audit. Normally, such assignment and team formation will be done by the Zonal officer. However, the same functionality has also been provided to the HQ Officer. So, the HQ Officer, if he/she desires, can also assign the Audit Team Lead and Audit Team Members on his/her own.

2. The allocating officer can fetch a list of allocated taxpayers which are pending for assignment. The allocation process involves the following steps:-

A. **Assign Audit Team Lead** – The HQ/Zonal Officer, while assigning a Taxpayer for Audit to a particular 'Team lead' can view the existing assignments i.e. number of audit cases assigned to that particular officer. This will help him to assign taxpayers keeping in view the existing workload on an audit officer and thereby maintain uniformity in work load on the audit officers in his/her jurisdiction. At any stage, if a need for change of Team

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

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

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

Chapter 4

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

4.1 Seeking information:

Maintaining a Master File of the RTP:

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

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

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

EXHIBIT 15

4.2 Issuance of Notice in FORM GST ADT-01:

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

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

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

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

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

Furthermore, the Audit Officer may send –

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

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

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

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

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

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

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

4.3 Pre-audit desk review

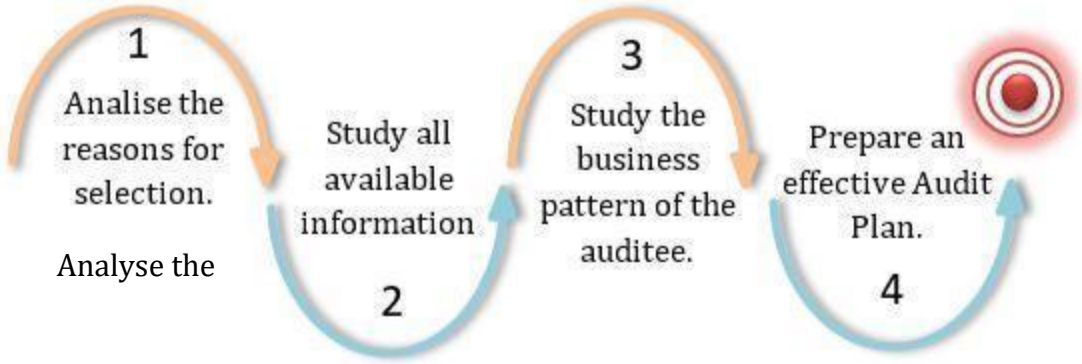
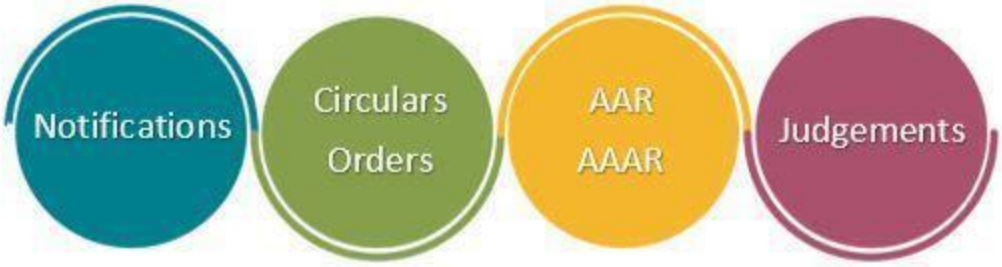


EXHIBIT-16

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



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

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

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

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

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

4.4 Preparation and approval of Audit plan

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

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

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

4.4.1 General guidelines to prepare audit plan

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

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

- **Analysis of business operations as declared by the auditee in the GST Returns** in the light of other data sources available in the GST portal itself. The Audit Officer should verify the turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis footprint of payments made to the RTP as per GSTR-7 or GSTR-8 filed by TDS deductors or TCS collectors, as the case may be. The Audit Officer should also consult the various exceptional reports made available.
- **Analysis of business operations as declared by the auditee in the GST Returns in light of secondary data sources**, e.g. turnover declared by the RTP in the GSTR Returns for the concerned period vis-à-vis the turnover declared in income tax return(s)/tax audit report or any other source, if available.
- **Analysis of business operations as declared by the auditee in the Annual Financial Statement.**
- **An audit officer is required to study each case from a holistic point of view** of applicability of statutory provisions and amendments thereof, notifications, circulars and orders relevant for the audit period. As mentioned above, there have been various instances where a specific transaction, when looked at from a wider perspective, has yielded interesting conclusions. Many of these instances are covered by various clarificatory Circulars issued by the Central Government and the State Government.
- The auditor should mention the precise issue pertaining to the subject, for example, discounts passed on to the buyer, utilisation of inputs for repair/re- processing, etc.
- **Source document(s)/ information to be verified:** Documents/ information reflecting or having a bearing on payment of GST should be verified, if required. For example GST Invoice(s) showing a particular discount.
- **Back-up / supporting document(s):** Back-up or supporting **documents** should be examined to check the correctness of the information contained in the source document (s), if required. The method of their

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

- **Period of coverage:** Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration, if required.
- Efforts should be made to make a simple audit plan in case of small taxpayers

4.4.2 How to make an effective audit plan?

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

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

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

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

4.4.3 Approval of audit plan

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

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

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

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

Chapter 5

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

5.1 Commencement of Audit

As per Explanation to Section 65(4) of the CGST/SGST Act, 2017 (p.14), 'commencement of audit' shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later.

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

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

5.2 Examination of Books of Accounts and records

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

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

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

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

5.3 **Indicative parameters**

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

5.3.1 **Registration/Migration analysis**

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

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

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

5.3.2 Return Analysis

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

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

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

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

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

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

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

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

5.3.4 Trend Analysis

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

5.3.5 Areas of concern during examination

Following points may be covered in the process of examination.

5.3.5.1 **Migration/Registration compliance**

Probable area of	Areas of concern	Action to be

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

Why is examination of the above compliance important?

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

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

Illustrative Examples of some interesting issues in this regard:

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

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

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

5.3.5.2 Invoicing compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.3.5.3 **Maintenance of books of accounts**

Areas of concern	Action to be taken	Probable area of detection / examination
To ensure compliance of maintaining books of accounts. To examine cash flow, valuation, input and output ratio, etc.	To examine correctness of tax compliance made in returns.	**RTP will be asked to produce following books of accounts:** • Annual report and Director's report (if any) • Profit & Loss A/C • Balance Sheet • Notes to accounts • Tax Audit Report • Statement of income tax TDS. • List of HSN /SAC of the goods /or services in respect of the business. • Reconciliation statement in respect of Form GSTR 9, GSTR-1 AND GSTR 3B • Suppliers list with GSTIN (where applicable) • Ledger accounts of the suppliers • Statement of sales party wise and POS wise. • Supply for which tax paid in RCM. • Bank Statement for the period under audit • Stock register • Other documents and records as applicable as provided in section 35 of the Act

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

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

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

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

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

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

5.3.5.4 **Return submission compliance**

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

5.4 Communication of discrepancies noticed

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

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

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

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

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

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

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

5.5 Draft Audit Report and approval thereof

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

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

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

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

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

5.6 Monitoring Committee Meeting

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

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

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

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

5.7 Final Audit Report

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

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

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

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

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

a) The technical lapses (if any) are corrected and the entire dues as per the FAR are paid by the Taxpayer preferably within 30 days in Form GST DRC-03;

b) FAR is issued with Nil Revenue implication;

c) The tax, interest or any other amount payable by the RTP as have been ascertained as short paid or not paid is not deposited by the taxpayer within 30 days after the issuance of the FAR, and in such situation the case is required to be referred to the respective jurisdiction for initiation of demand and recovery proceedings (after the issuance of show cause notice, as the case may be, depending on the administrative and legal arrangement in this regard).

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

CHAPTER 6

This chapter covers follow up of audit.

6.1 **Audit Consequences**

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

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

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

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

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

6.2 **Demand & Recovery proceedings**

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

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

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

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

Chapter 7

This chapter covers audit in certain circumstances.

7.1 Different possible scenarios during the conduct of audit

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

7.1.1 The auditee is found non-existent

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

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

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

7.1.3 Taxpayer is existent but documents are seized

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

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

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

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

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

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

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

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

7.1.7 Taxpayer is not cooperating with the audit team

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

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

7.2 General guidelines

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

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

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

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

CHAPTER 8

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

8.1 Thematic Audit

8.1.1 Overview

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

8.1.2 Scenarios which may necessitate conducting thematic audit:

The following scenarios may lead to a thematic audit.

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

8.1.3 Administrative arrangement for Selection of themes for thematic audit

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

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

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

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

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

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

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

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

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

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

8.1.5 Administrative arrangement for conduct of Thematic audits.

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

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

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

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

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

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

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

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

a) The Co-ordination Committee (CC) shall select the themes for Audit and communicate the Themes to the Committee of officers (CoO) responsible for Audit.

b) For a given theme, the committee of officers shall select the taxpayers to be audited in that particular state.

c) Audit groups earmarked for conducting the theme based audit shall request the selected tax payer(s) for providing necessary documents viz. Balance sheet(s), 3 CD reports(statement of particulars required to be furnished under Section 44AB of the Income Tax Act, 1961), profit and loss statements, income tax returns etc. The concerned audit group shall also take out various GST returns filed by the said taxpayer and examine/scrutinise them. They will accordingly prepare the Desk Review (DR) and also the Audit Plan (AP). As with entity-based audit discussed in earlier section above, as much data as possible may be gathered from the documents/returns already available in the system.

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

e) The Committee of Officers for conduct of thematic audit shall also indicate a date on which audit of all such taxpayers irrespective of their jurisdiction (whether under Centre or State) shall commence.

f) After conduct of audit, all the Audit Groups shall prepare their

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

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

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

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

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

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

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

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

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

8.2 Joint Audit

8.2.1 Overview

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

8.2.2 Administrative arrangement for Selection of Joint audits

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

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

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

- Registration in two or more GST Tax administrations.

- Entities above a certain turnover aggregate threshold, for example, more than Rs. 100 Crore.

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

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

8.2.4 Administrative arrangement for conduct of Joint audits.

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

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

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

8.2.5 Standard Operating Procedure for conducting Joint Audit

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

conduct of audit.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAPTER 9

This chapter covers capacity building in specialised areas.

9.1 Training and Capacity Building

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

9.1.1 This training program will identify

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

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

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

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

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

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

9.1.2 Identification of Specific Service Sectors for focused training

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

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

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

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

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

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

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

9.2 Building knowledge on financial accounting

9.2.1 Introduction

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

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

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

9.2.2 Audit in GST with reference to financial accounting

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

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

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

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

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

- Study of various items of balance sheets that impact GST like Capital Account (Withdrawal of assets, Debits/credits in nature of supplies), Loans (Figures in odd amounts, standing for long, No interest, No movement), Current liabilities (Advances, RCM, reversal of ITC), GST paid on RCM, Mismatched Credits, Other credits in dispute, Duty Paid on Exports and so on.
- Understanding of "Notes to Accounts" in financial statements which would help in understanding the business of the entity, Taxes / Contingent Liabilities, Cost or Net Realizable Value (Assistance in valuation provision

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

- Analysis of various accounting ratios (like Net profit ratio, Gross profit ratio, Supplies/Turnover ratio, Creditor Turnover ratio, ITC/ gross tax liability ratio, Non-GST expenses/GST expenses ratio, Addition to fixed assets/Total assets ratio etc., Liquidity/Solvency ratios to indicate areas of probing.
- Indian companies follow Indian Accounting Standards, while the companies operating in the US follow the Generally Accepted Accounting Principles (GAAP) and companies with international exposure follow International Financial Reporting Standards (IFRS). Hence, it is imperative to familiarize the Auditors to these accounting/ reporting Standards.
- Different software tools are available for conducting an audit, and the one appropriate to the financial accounting must be chosen or designed for the auditor.

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

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

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

- that ALL transactions are RECORDED

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

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

9.2.3 A perspective through Accounting Standards

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

Time of Supply Recognition from the GST Perspective:

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

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

- On the contrary, in 'financials' revenue is recognized when the goods are sold, or services are rendered. No revenue is recognized when the fixed assets are sold / disposed of, except for profit on sale of such assets or when goods are transferred to the branches.

- For instance, from an accounting standpoint, revenue from sale of goods is recognized when significant risks and rewards in the goods is transferred by the seller to the buyer while in case of services revenue is recognised either on proportionate completion method or completed service contract method. These events may not correspond to the time of supply set out in sections 12, 13 and 14 of the Act and, accordingly, revenue as per the books of accounts may differ with that under GST law.

- This leads to the concept of billed/unbilled revenues and prior period items.

9.2.4 Value of Supply recognition from a GST perspective

- Such transactions would result in difference between the revenue reported under GST when compared to the 'financials'.

- Value of supply of goods or services or both under Section 15 of GST law is the transaction value i.e. the price actually paid or payable for the said supply and would include any duties and taxes paid under any other law other than GST, incidental expenses incurred to meet such supplies, interest charged, if any, etc.

- Valuation of contracts under Indian Accounting Standards (Ind AS) might differ on certain aspects from GST Laws. For example, the contract value may not include any duties and taxes paid which is refundable, interest on delayed payment, expenditure incurred by the recipient etc. These differences might lead to differences in valuation of contracts.

- Supplies without consideration: As per Schedule I of the CGST Act- GST is leviable on certain transactions even if such transactions are made without consideration – like supply of goods from principal to agent, disposal of business assets, supplies to related parties etc. Under Ind AS transactions without any consideration would not form a part of the financial statements and would be treated as a non-balance sheet item / off- balance sheet item.

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

9.2.5 Cash Flow - The third important financial statement

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

9.2.6 Sector specific approach

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

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

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

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

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

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

9.2.8 Interpreting Business Contracts/Agreements

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

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

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

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

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

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

e. <u>Joint Development Agreement in Real Estate Sector and GST Audit</u>

- Joint Development Agreements are common in the real estate industry wherein the Land Owner enters into an agreement with a Builder/Developer for the development of the land in lieu of certain consideration. The consideration in such cases can be varied- ranging from a lump sum payment by the builder to the land owner to a share in the ultimately constructed flats/property or a combination of both.
- Such agreements involve an element of transfer of land for developmental purposes. Transfer of Development Rights (TDR) are covered under the GST and there is no ambiguity in this regard unlike the Service Tax period.
- Various transactions in a JDA with concomitant GST implications are as follows:

(i) Land Owner to Builder/Developer.
(ii) Builder/Developer to Land Owner.
(iii) Land Owner to Customers/buyers.
(iv) Builder/Developer to Customers/buyers.
(v) Retention of flats/property for own use.

- All such transactions have GST implications like the eligibility of ITC, Time of Supply, Rate of Tax, Value of Supply etc. which would require a detailed reading of the various agreements entered between the concerned parties. A case in point is the eligibility of ITC in such cases only for the portion of the flats/property sold before a completion certificate is obtained. The ITC availed and utilized in the flats/property sold after the completion certificate is obtained has to be reversed. The exact liability of the GST on such projects can be arrived at only after the details of the agreements are

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

f. Works Contract:

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

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

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

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

g. Manufacturing Agreement:

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

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

h. **Service Agreement**:

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

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

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

i. **Job Work Agreement**:

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

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

j. Dealership/Distribution agreement:

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

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

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

k. **Purchase Contract**:

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

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

l. Lump sum turn-key contract:

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

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

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

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

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

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

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

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

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

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

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

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

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

9.2.10 Audit in an ERP Environment

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

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

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

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

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

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

Purchases Dr - Purchase Control Account

To Vendor 1 A/c - Creditors Control Account

Purchases Dr - Purchase Control Account

To Vendor 2 A/c - Creditors Control Account

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

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

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

1) Design of the Audit Team- incorporation of more experts/ specialists who can extract the data from the ERP systems. Obtaining data independently from the software gives the officers more direct audit evidence.

2) Use of Computer Assisted Audit techniques;

3) Preparation of customised and specialised systems in-house by the department by using the experience of the tax administrations;

4) Use of latest technology like cloud computing;

5) Develop competence for “forensic audit”.

Annexures

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

Form GST ADT – 01

[See rule 101(2)]

Reference No.: Date:

To,
…….
GSTIN …….
Name …….
Address ……
Period - F.Y.(s) - ……..

Notice for conducting audit

Whereas it has been decided to undertake an audit of your books of account and records for the financial year(s) …….. to …….. in accordance with the provisions of section 65. I propose to conduct the said audit at my office/at your place of business on -------.

And whereas you are required to:-

(i) afford the undersigned the necessary facility to verify the books of account and records or other documents as may be required in this context, and

(ii) furnish such information as may be required and render assistance for timely completion of the audit.

(iii) furnish/keep ready the following on the said date

(a) your reply to the questionnaire annexed hereto vide Annexure A,
(b) Information duly filled in the Tables annexed hereto vide Annexure B
(c) The documents/accounts listed in Annexure C hereto

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

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

Signature … …….
Name …… …...
Designation……

Annexure 2 (p.40)

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

GOVERNMENT OF ……

Office Name……

Address……

Memo No. ADT/AUDIT YEAR/Section/Audit Gr./case no. Date: ……..

[e.g.: Memo No. ADT/2017-18/Park Street/Team 1/5 Date: 1st December, 2021]

To

……

GSTIN : ……..

Address : ……..

Period : ……..

You are aware by now that you have been selected by the Commissioner, State Tax/Central Tax, …….. for audit of your books of accounts and records for the **period from……to ……..** in accordance with the provisions of section 65 of the SGST/CGST Act, 2017 read with section 20 of the IGST Act, 2017.

In accordance with the provisions of the Acts and Rules made there under, you are required to (i) provide the undersigned the necessary facility to verify the books of account and records or other documents as may be required in this context, and (ii) furnish such information as may be required and render assistance for timely completion of the audit.

To avoid any inconvenience from your part to produce the entire set of book of accounts and records on the first date of hearing as specified in Form GST ADT-01, it will be much more practical to produce such books of accounts in a staggered manner and to the extent of what actually will be required from time to time. This will help you and the audit authority to complete the audit process in a focused and planned manner. For such reasons **you are hereby asked to produce following statements and accounts (duly signed and stamped) before the undersigned on first date of hearing as specified in Form GST ADT-01 issued to you:**

- Annual report and Director's report for the FY ……..
- Profit & Loss A/c for the year ended on 31st March, ……..
- Balance Sheet as they stood on 31st March, ……
- Auditor's Notes to the A/c for the FY ……..
- If GSTR -9C is not submitted for the period then Trial Balance for the RTP having above mentioned GSTIN (It is applicable where the RTP has multiple GSTIN),
- Consolidated statement (party-wise total for the period under audit) of inward & outward supplies including exempted and non-GST supply:

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

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

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

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

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

Signature of the Audit Officer… ……..

Name : ……..

Designation : ……..

Full Address : ……..

E-mail Address :……

Phone Number:……..(Office),……..(M)

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

[Please fill up and attach separate sheets wherever necessary]

1. General Information about the RTP (auditee):

<table>
<tr><td>a)</td><td>Legal Name & Trade Name (if any)</td><td colspan="5"></td></tr>
<tr><td>b)</td><td>GSTIN</td><td colspan="5"></td></tr>
<tr><td>c)</td><td>Address (Principal place)</td><td colspan="5"></td></tr>
<tr><td>d)</td><td>Period of GST Audit</td><td colspan="5"></td></tr>
<tr><td>e)</td><td>Name and contact number and e-mail address of the ‘Authorized Person’ for Audit and the person responsible for Accounts & Billing.</td><td colspan="5"></td></tr>
<tr><td>f)</td><td>Total tax paid for supply of goods and/or services for the period under audit (Act wise).</td><td colspan="5"><table><tr><td>Tax</td><td>From e-credit ledger</td><td>From e-cash ledger</td></tr><tr><td>SGST</td><td></td><td></td></tr><tr><td>CGST</td><td></td><td></td></tr><tr><td>IGST</td><td></td><td></td></tr><tr><td>CESS</td><td></td><td></td></tr></table></td></tr>
<tr><td>g)</td><td>Whether possesses GSTIN as ISD / TDS deductor / TCS collector in the State?</td><td colspan="5"><table><tr><td>GSTIN as ISD</td><td></td></tr><tr><td>GSTIN as TDS deductor</td><td></td></tr><tr><td>GSTIN as TCS collector</td><td></td></tr></table></td></tr>
<tr><td>h)</td><td>Constitution of Business and names of the current business owners/promoters.</td><td colspan="5"></td></tr>
<tr><td>i)</td><td>Details of transactions with related and distinct persons [Ref: Sch. I as appended in Sec 7]</td><td>Name with GSTIN, if any</td><td>Total supply value during the period</td><td>Total tax involved (act wise)</td><td>POS in case of inter state supply</td><td colspan="2">Disclo</td></tr>
</table>

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

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

2. Information on invoicing and accounting pattern:

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

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

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

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

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

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

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

SAMPLE AUDIT PLAN

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

A. Basic Information

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

10. Audit Unit (Name)	……..

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

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

.....

[Signature of the Audit Team Lead

Date……

Name: …….

Designation: ……..

C. **Modifications suggested by Ratifying Officer**

Comments

Placed before the Sanctioning Officer for final sanction.

.....

Date:……

Signature
Name…….

Designation of Ratifying Officer…….

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

Comments

Sanctioned / sanctioned as modified.

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

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

Form GST ADT – 02

[See rule 101(5)]

Reference No.: Date:

To,

……..

GSTIN ……..

Name ……

Address …….

Audit Report No. …….. dated ……..

Audit Report under section 65(6)

Your books of account and records for the F.Y…… has been examined and this Audit Report is prepared on the basis of information available / documents furnished by you and the findings are as under:

Short payment of	Integrated tax	Central tax	State /UT tax	Cess
Tax				
Interest				
Any other amount				

[Upload pdf file containing audit observation]

You are directed to discharge your statutory liabilities in this regard as per the provisions of the Act and the rules made thereunder, failing which proceedings as deemed fit may be initiated against you under the provisions of the Act.

Signature……..……...

Name ……..

Designation

……..…

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

MCM REPORT (Format)
CONSOLIDATED

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

CASE-WISE REPORT

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

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

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

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

TABLE I: KEY POINTS FOR SUPPLY			
Sr. No.	**Key issues**	**Reference Points from returns/law**	**Accounts**
1	Whether the kind of outward supplies like Taxable supply, exempted supply, Zero- rated supply, NIL rated supply, Supplies to SEZ unit/ developers, Deemed Export etc. are appropriately classified under GST law?	• Sr. No. 4 & 5 of GSTR 9 • Taxable Supply: Sr. No. 5N of GSTR 9 • Exempted: Sr. No. 5D of GSTR 9 • Nil: Sr. No. 5E of GSTR 9 • Non-GST Supply: Sr. No. 5F of GSTR 9 • Zero Rated: Sr. No. 5A, 4C of GSTR 9 • Supply to SEZ: Sr. No. 5B, 4D of GSTR 9 • Deemed exports: Sr. No. 4E of GSTR 9 • Section 7 of SGST/CGST Act • Section 17(3) of SGST/CGST Act • Section 147 of SGST/CGST Act • Schedule I, II and III of SGST/CGST Act • Section 16 of IGST Act	• Invoice /Bill of Supply • Tax rate Notification • Exemption Notification • HSN/SAC • Contract • Shipping Bill/Bill of Export • Bill of Lading • Letter of Undertaking • Duty drawback availed • Payment received (Bank/Cash) • Composite/Mixed Supply •
2	Whether any activity or transaction which falls within the scope of supply has not been identified by the Registered Person?	• Non-GST Supply: Sr. No. 5F of GSTR 9 • Schedule III of SGST/CGST Act	• Invoice/Bill of Supply • Contract • Consideration received • Analysis of cash flow and mapping cash flow onto the returns • Business purpose
3	Whether supply has been correctly classified as Inter-State supply/Intra-State as per Section 7(5) & 8 of the IGST Act, 2017?	• Sr. No. 3.1 & 3.2 of GSTR 3B • Section 10,12,13 of IGST Act	• Invoice/Bill of Supply • Party-wise supply with address • Contract • Transportation document • Whether B2B or B2C in case of supply of services
4	What is the treatment of promotional items	• Sr. No. 5E & 5 F of GSTR-9	• Sales promotion

	given free to end consumers by FMCG companies?	• Sr. No. 14N, 14P, 14Q of GSTR-9C	expenses • Ledger account of Distributors/Franchisees/Agents • Stock Register
5	Whether the Zero - rated supply is verified as per the provisions of law?	• Sr. 5A & 4C of GSTR-9 • Section 16 of IGST Act	• Contract • Shipping Bill/ Bill of Export • Bill of Lading • Payment received (Bank Statement) • Letter of Credit / Telegraphic Transfer • Letter of Undertaking • Duty drawback availed
6	Whether supply of capital goods has been subjected to GST and as to whether the same has been included in the returns filed?	• Section 18(6) of CGST/SGST Act	• Fixed Asset Schedule • Contract • Ledger account of fixed assets/plant and machinery • Ledger account of scrap • TCS under Income Tax Act • Bank Statement (Payment received)
7	Whether the transactions are correctly classified as supply of goods or supply of services as per Schedule-II of the CGST/SGST Act, 2017?	• Table 9 of GSTR 9C • Sr. No. 17 & 18 of GSTR 9c • Schedule II of CGST/SGST Act	• Invoice/Bill of Supply • Contract • Composite/Mixed Supply
8	Are there any transactions wherein goods sent for job-work are not received back within the specified period?	• Form ITC -04 • Section 143 of CGST/SGST Act	• Delivery Challan • Gate outward register • Gate Inward register • Stock register • Job work charges
9	Whether any business asset has been permanently disposed off for which input tax credit had been availed?	• Sr. No 6B of GSTR-9 • Schedule I of CGST/SGST Act •	• Fixed Asset Schedule • Contract • Ledger account of fixed assets/plant and machinery

			• Ledger account of scrap • Stock register • Bank Statement (Payment received) • Cash flow statement
10	Whether "Related persons" or "Distinct persons" in relation to the registered person have been identified and whether activities or transactions with them have been duly identified and accounted for as per law?	• Section 15(4) of CGST/SGST Act •	• List of related/distinct persons • Ledger account of Related persons • Loans and advances • Income tax Audit report • Annual return under Companies Act
11	Whether any "Agent" has been appointed by the registered person and whether transaction with such agent has been duly accounted for as per law?	• Schedule I of CGST/SGST Act •	• Commission expenses • TDS/ Form 26AS • Contract with franchisee /distributor • Structure of business supply chain
12	Whether any foreign exchange has been remitted outside India for any import of services and whether tax on the same has been paid as per law?	• Sr. No. 6E and 6F of GSTR- 9	• Contract • Bank Statement (payment made) • Letter of credit/ telegraphic transfer • Director report
13	Whether the goods for business use have been put to personal use?	• Section 17 (1) of CGST/SGST Act • Schedule II of CGST/SGST Act •	• Stock register • Drawings account • Nature of expenses especially telephone, repair and maintenance, insurance etc.
14.	Whether tax has been paid on RCM on inward supplies?	• Section 9(3) and 9(4) of CGST/SGST Act	• Self- invoices issued • Payment vouchers • Examine the nature of expenses especially freight (inward and outward), legal charges, import of services etc. • Bank Statement (payment made)

15.	Whether tax paid on advances received?	• Sr. No. 4F of GSTR-9 • Section 12 and 13 of CGST/SGST Act	• Bank Statement (Payment received) • Cash book for any cash received • Loans and advances in the Balance Sheet • Ledger account of debtors • Current liabilities on account of unearned income/advance received
16.	Whether any credit note issued for supplies made?	• Sr. No. 4I of GSTR-9 • Section 34 of CGST/SGST Act	• Credit Note Vouchers • Goods return register • Ledger account of sale returns • Weigh bill • Gate Inward pass • Transportation document • ITC reversed by recipient • Whether issued within timeline defined by section 34

Supply of Goods or Services or both.

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

EXHIBIT 17

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

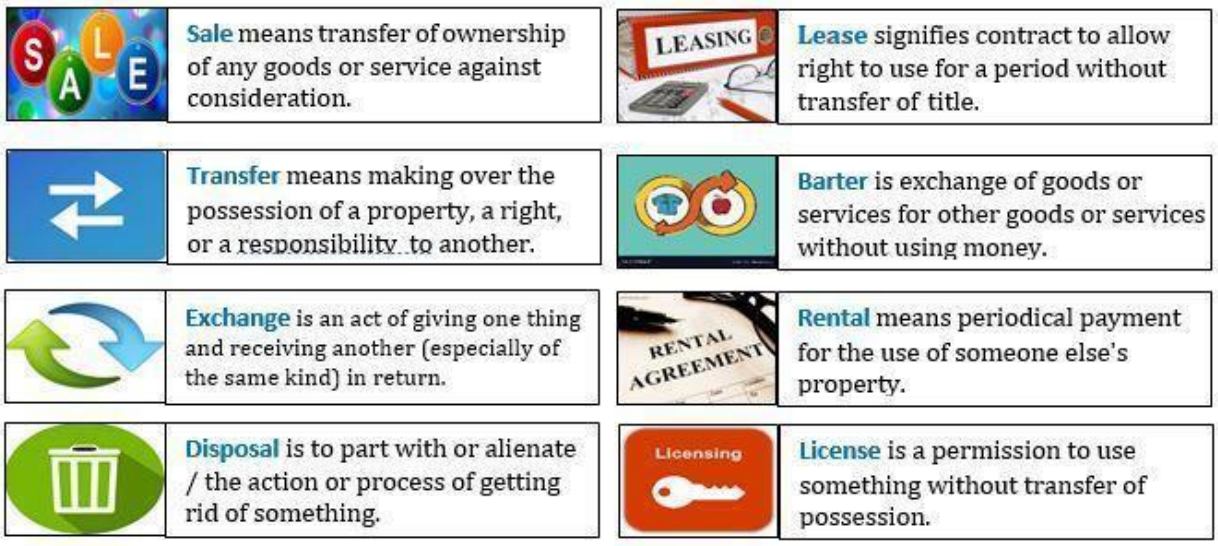


EXHIBIT 18

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

Thus, supply has following important characteristics

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

Conditions of 'Supply' in GST:
(a) for a **consideration and** (b) **in the course or furtherance of business**

Exceptions:
(a) Activities in Schedule I to be treated as supply **even if made without consideration**
(b) Import of Service to be treated as supply **even if it is not in the course or furtherance of business**

The above conditions are discussed below with some examples:

A. Consideration is a condition of supply -

EXHIBIT 19

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

B. Supply should be "in the course or furtherance of" business -

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

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

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

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

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

EXHIBIT 20

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

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

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

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

1. Permanent transfer or disposal of business assets where ITC has been availed on such assets.

2. Supply of goods or services or both between related persons (such as officers or directors of one another's business, employer & employee,

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

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

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

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

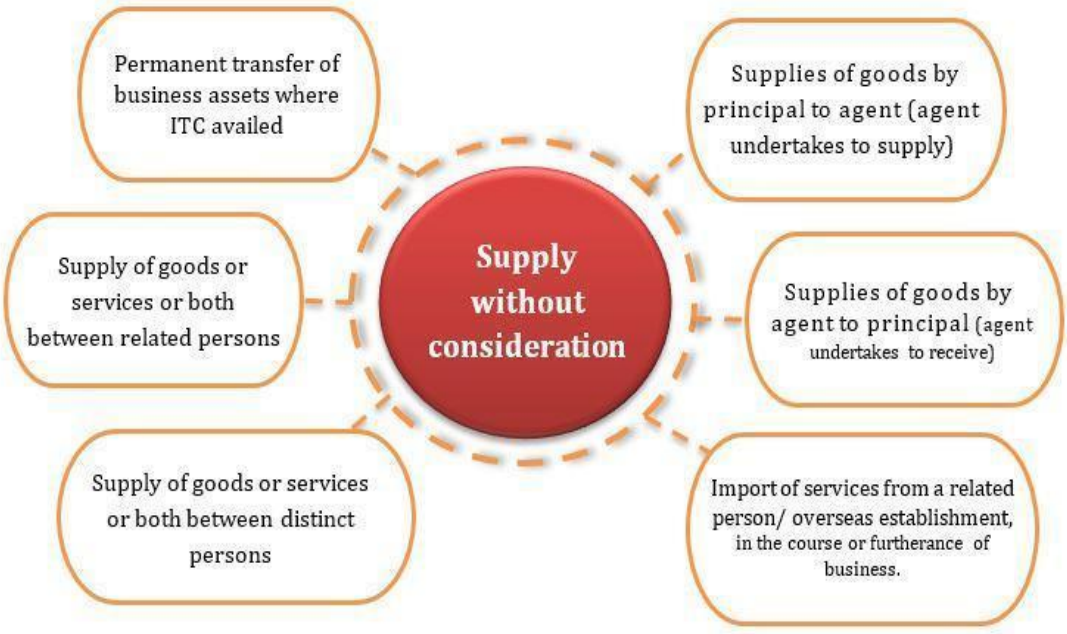


EXHIBIT 21

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

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

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

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

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

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

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

Supplies between related persons:

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

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

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

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

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

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

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

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

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

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

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

a. All registered persons (whether in the same State or different States) under a single PAN are distinct persons (section 25(4) of the CGST/SGST Act).

b. Where registration has been obtained by a person in respect of an establishment in a State (or a union territory), another establishment of the same person in another State (or union territory) they are treated as establishments of distinct persons (section 25(5) of the CGST/SGST Act).

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

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

The same is illustrated below–

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

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

Import of services from a related person or from overseas establishment

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

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

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

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

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

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

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

ii) Services by any court or Tribunal.

iii) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;

iv) The duties performed by any person who holds a post in pursuance of the provisions of the Constitution in that capacity;

v) The duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central/ State Govt. or a local authority and who is not deemed as an employee before the commencement of this clause.

vi) Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

vii) Sale of land, sale of building (other than specified in Para. 5(b) of schedule II of the Acts].

viii) Actionable claim, other than lottery, betting and gambling.

ix) Supply of goods from one non-taxable territory to another without entering into India.

x) (a) Supply of warehoused goods to any person before clearance for home consumption.

(b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port

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

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

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

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

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

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

For example –

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

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

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

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

Examples of Actionable Claims

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

Examples of Non-Actionable Claims

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

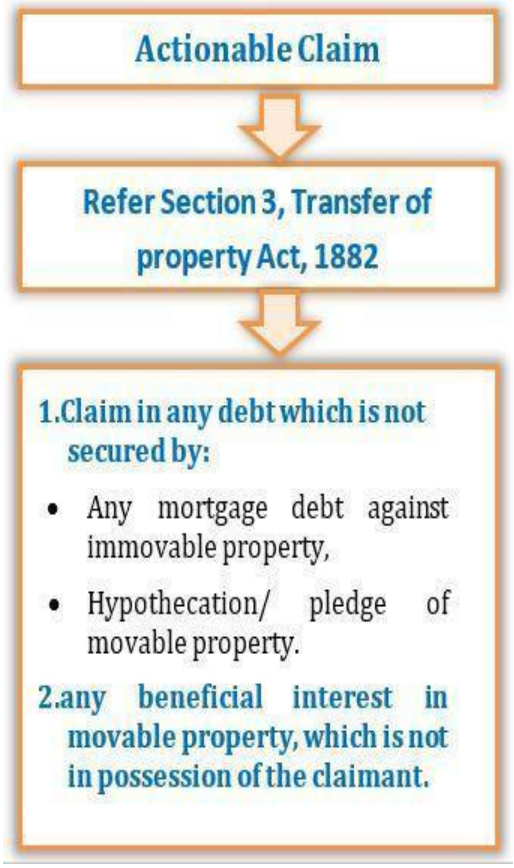


EXHIBIT 22

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

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

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

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

1. TRANSFER

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

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

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

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

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

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

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

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

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

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

2. LAND AND BUILDING

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

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

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

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

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

3. TREATMENT OR PROCESS

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

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

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

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

4. TRANSFER OF BUSINESS ASSETS

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

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

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

Where goods held or used for the purpose of business -

(i) are put to private or personal use; or

(ii) made available to another person for use for any purpose other than a purpose of the business,

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

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

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

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

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

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

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

5. SUPPLY OF SERVICES

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

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

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

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

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

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

- Renting of property to an educational institution.

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

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

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

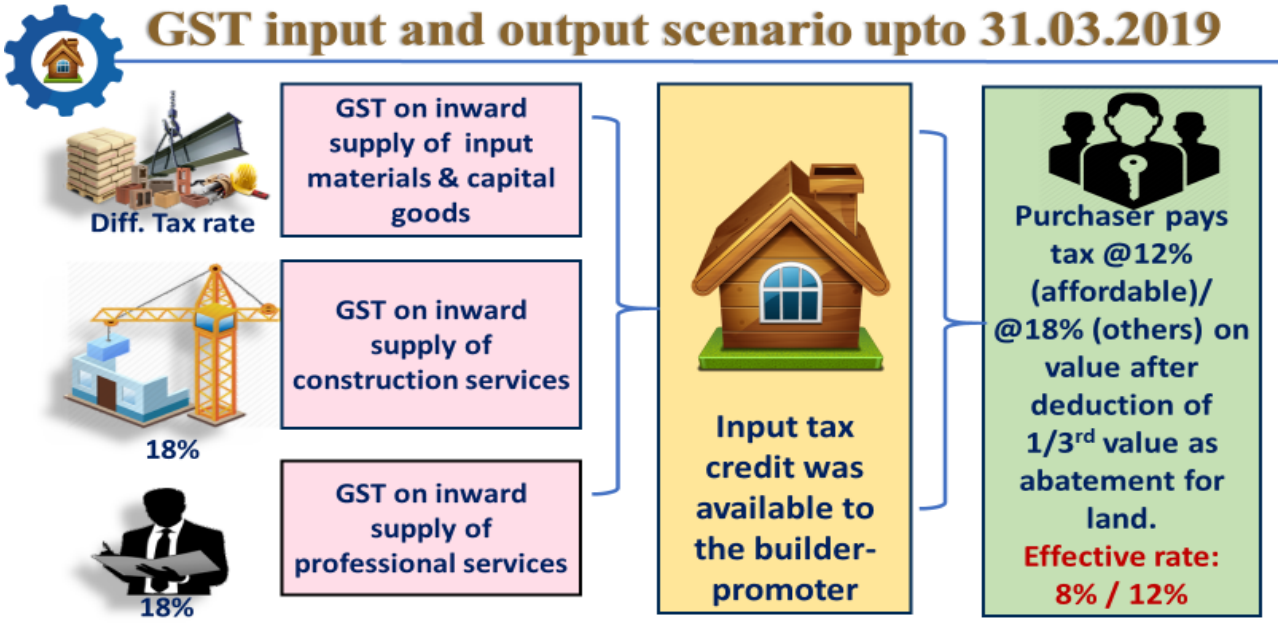


EXHIBIT 23

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

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

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

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

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

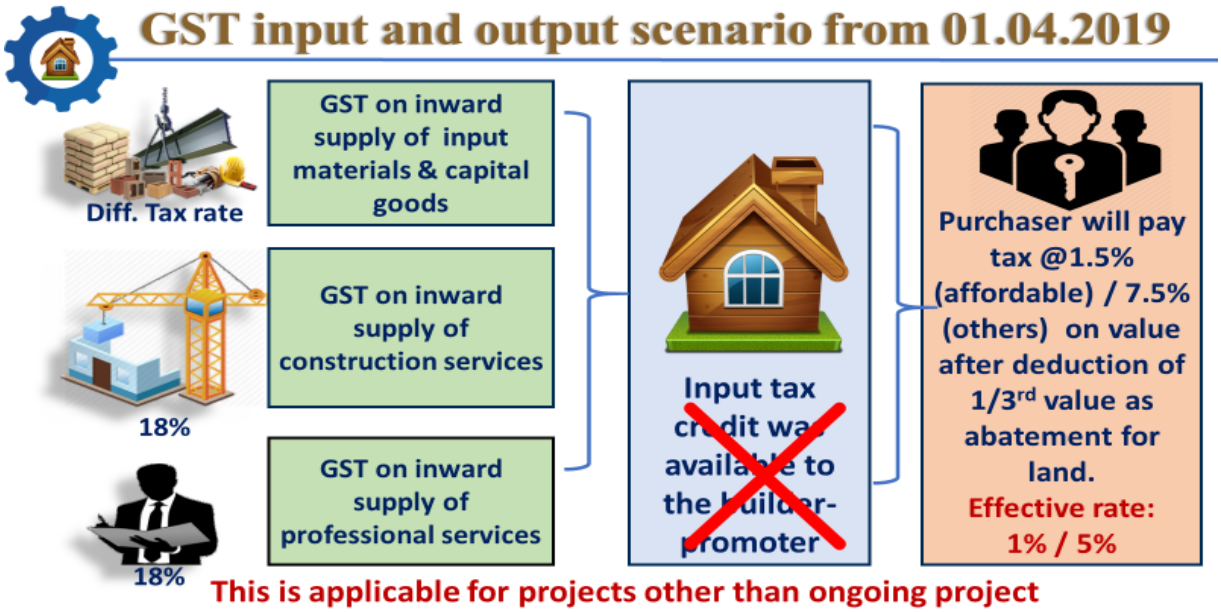


EXHIBIT 24

Comparative view

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

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

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

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

Software a goods or service?

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

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

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

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

(a) refraining from doing an act, or

(b) tolerating an act or a situation, or

(c) doing an act,

has been carried out

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

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

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

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

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

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

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

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

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

6. COMPOSITE SUPPLY

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

(i) works contract as defined in clause (119) of section 2; and

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

(i)Works contract:

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

EXHIBIT 25

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

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

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

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

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

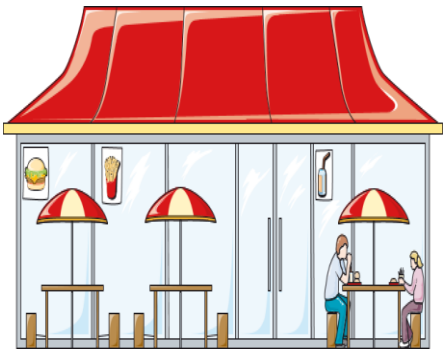


EXHIBIT 26

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

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

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

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

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

"Tax on the sale or purchase of goods includes:

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

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

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

Illustration -

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

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

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

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

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

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

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

EXHIBIT 27

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

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

b. Notified supplies under sec 9(3):

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

Notifications issued:

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

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

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

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

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

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

The Gist of the said notification is as under:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

g. Some queries on RCM

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

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

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

h. Court judgements on RCM under GST

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

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

	Suchitra Wd/Of Sadhu Koraga ... on 13 September, 2019 Bench: S.J. Kathawalla (Courtesy: Indian Kanoon Org)	(i) Where the Court Receiver is appointed to run the business of a partnership firm in dissolution, the business of the firm under the control of receivership may generate taxable revenues. (ii) Where the Court authorises the Court Receiver to let out the suit property on leave and licence, the licence fees paid may attract GST. (iii) Where the Court Receiver collects rents or profits from occupants of properties under receivership, the same will be liable to payment of GST. (iv) Consideration received for assignment, licence or permitted use of intellectual property. In such cases, GST may be collected from the Court Receiver as a representative assessee under Section 92 and as such the Court Receiver may be required to obtain registration under the relevant GST laws. [Para. 84 & 85] However, if the Court Receiver is deputed to make an inventory of goods, collect rents with respect to immovable property in dispute or where the property has to be sealed, or the Receiver is appointed to call bids for letting out the premises on leave and licence, the fees or charges of the Court Receiver are exempt. [Para. 86] Q.2. Whether GST is liable to be paid on royalty or payments under a different head paid by a defendant (or in a given case by the plaintiff or third party) to the Court Receiver in respect of properties over which a Court Receiver has been appointed? A.2. The answer is in the affirmative, subject to the payment towards royalty or the payment to the Court Receiver (described by whatever name) is towards or in relation to a “supply” within the meaning of the CGST Act. [para. 87] Q.3. Specifically, in the facts of the present Suit, where the Plaintiff alleges the Defendant is in illegal

		occupation of the Suit Premises: Whether there is any 'supply' within the meaning of the CGST Act? Whether payment of royalty for remaining in possession of the Suit Premises, either during the pendency of the Suit, or at the time of passing of the decree, falls within the definition of 'consideration' for a 'supply' chargeable to payment of GST under Section 9 of the CGST Act? A.3. The answer is in the negative. [Para. 88] Q.4. If in any circumstance, GST is payable or applicable to payments made to the Court Receiver, how that statutory liability is to be discharged? Is it to be paid by the Defendant / party in occupation directly, or by the Court Receiver? A.4. Where any payment to be made under an order of the Court attracts GST, the agent appointed by the Court Receiver must have or must obtain CGST registration and make such payment on behalf of the Receiver and indemnify the Receiver for any liability that may fall upon the Receiver under Section 92 of the concerned GST Act. Where no agent is appointed, naturally the Court Receiver will have to obtain registration. [Para. 91 & 92]
2.	Rajasthan High Court - Jodhpur Vinod Kumar Sharam vs State Of Rajasthan on 10 April, 2019 read with Ladu Lal Hiran and Ors vs State Of Rajasthan And Ors on 28 August, 2018	(i) Whether Royalty Contractors (termed as ERCC Contractors) appointed by the Government of Rajasthan **exclusively** for collecting the royalty on behalf of the Government from the mining lessee of natural resources without supply of such natural resources can collect GST @ 18% as forward charges – the answer is in the **negative**. (ii) Whether the royalty paid for mining activities as chargeable under the notification dated 28.06.2017 provides that the lease holders are required to pay the GST under the **reverse charge mechanism –** the answer is in the affirmative.

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

TABLE II: KEY POINTS FOR VALUE OF SUPPLY			
SR. NO.	**KEY POINTS IN RELATION TO SCOPE OF SUPPLY**	**Reference Points from returns**	**Accounts**
1	Whether the transaction value is in accordance with the terms of the contract?	● Contracts/Agreement ● Purchase order ● Invoices ● File of Correspondence with Client/Customer	
2	Whether the discounts allowed are in accordance with regular practice of the taxpayer and the purchaser has paid the sum originally charged less the discount?	● Price Circular ● Invoice linked to Discount	
3	Whether any amount that the supplier is liable to pay but incurred by the purchaser has been included in the value of supply?	● Price circular ● Contract/Agreement	
4	Whether interest or late fee or penalty for delayed payment of any consideration for any supply collected from the purchaser is included in the value of supply?	Debit Notes	
5	Whether there are supporting documents for the credit notes issued for supplies made?	Price circular Contract/Agreement	
6	Whether there are supporting documents for the debit notes issued for supplies made?		
7	Whether terms of contract detail any consideration flowing from the third party?	Contract/Agreement	
8	Whether the taxpayer has engaged in any supplies to related persons as defined in section 15? If so, check whether there is significant variation in the value in comparison to similar transactions with unrelated buyers.	List of related persons Inter-unit movement check through delivery challan.	

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

Value of supply

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

EXHIBIT 28

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

A. **The methodology of valuation of a particular supply is exclusively discussed in Section15 of the CGST/SGST Act, 2017.**

What is the value of supply under GST?

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

(a) any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than CGST Act, SGST Act, UTGST Act and the GST (Compensation to States) Act, if charged separately by the supplier;

(b) any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;

(c) incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services;

(d) interest or late fee or penalty for delayed payment of any consideration for any supply; and

(e) subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.

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

Related Parties

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

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

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

Price is the sole consideration

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

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

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

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

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

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

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

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

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

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

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

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

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

ii. The contractor finished the work 2 months prior to scheduled time. Due to bad quality of machinery used, the contractee forfeited 5% of earnest money. The contractee failed to deliver land to the contractor in due time therefore, the contractor charged Rs. 4 Cr extra to the contractee. The contractor also charged interest of Rs.60 lakh for late payment.

In this example, there are so many incidental charges. But, all are not taxable in GST. Earnest money is a kind of security only. So, GST is not leviable on the same. The taxability of the above charges is explained the table below –

Sl. No.	Description	Amount	Remarks
1	Turnkey project of construction of road	100 Cr	Taxable as works contract service.
2	Security	5 Cr.	Not a supply in GST
3	Forfeiture of security by the contractee	2.5 lakh	**It is a penalty for not using the specified quality of machinery and hence it is not a supply**
4	Award for early completion	50 Lakh	Taxable service **being a supply ancillary to the main**

			supply of construction service
5	Penalty for delay to handover land.	4 Cr	**It is a penalty (hence not a supply) for not adhering to the terms of the contract which stipulated transfer/providing land on a specific date**
6	Interest for delayed payment of contractual price	60 Lakh	Taxable and shall be part of the value of construction service.

Thus, there are so many special charges but only the last one is for the underlying original supply of construction service.

Discounts to be excluded from Taxable Value – As per Sec 15(3) value of supply will not include discount, provided:

- It is allowed before supply, or
- It is allowed after supply, provided that it is established in agreement linked to specific supplies and corresponding credit is reversed by the recipient.

***Example*:** M/s. A of Kolkata supplied 10 pcs of i-Phone to M/s. B of Kolkata on 20.09.2019 where basic price of such phones is Rs. 10 lakh. A discount of Rs. 1 lakh is offered and courier charges of Rs.1000.00 is charged at the time of supply. **What is the value of supply in the above transaction if the tax rate of such i-phones is 12%?** As per the conditions, 50% payment was made at the time of delivery and further condition was that if balance payment is made within 20.10.2019 then 10% further discount on basic price will be allowed. If such payment is made in time, **whether this discount will also be deducted from the supply value?**
In this example, courier charges are to be added to the value of supply as incidental charges and discount is to be deducted as it is offered at the time of supply. Hence, taxable value will be Rs. 9,01,000/-. GST @ 12% is to be added to Rs. 9,01,000/- to get the value of supply i.e. Rs. 10,09,120/-. If 50% of the amount is paid and rest is paid within 20.10.2019, further

discount of 10% on basic price will be allowed. Though it is a post-sale discount, the condition was fixed at the time of supply. So, the discount is allowed as a deduction. Accordingly, M/s A may decrease his output tax subject to the condition that M/s B reverses an equal amount of ITC.

In lieu of discounts if promotional items are offered by the supplier to increase sales volume and to attract new customers for their products, such promotional items are not discounts as not satisfying the requirements of section 15(3).

Example: Two goods, say A (tax rate 12%) & B (tax rate 18%) are offered for a single price of Rs. 3000/- under the scheme 'Buy one get one free'. Now, what will be the transaction value? What will be the rate of tax on such supply?

In this example, it may appear first at a glance that one item is being 'supplied free of cost' without any consideration. But it is not an individual supply of free goods rather a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one. Hence, here transaction value will be Rs. 3000/-. Taxability of such supply will be dependent upon whether the supply is a composite supply or a mixed supply. If it is a composite supply, then the tax rate of the principal supply will be applicable and if it is a mixed supply, tax rate shall be 18%.

B. Determination of Value of Supply as per GST Rules:

Reference to GST Rules related to valuation is permitted only if the transaction value cannot be determined as discussed above. These are cases where either the parties are related/distinct/agent or the price is not the sole consideration. Valuation Rules are prescribed under Chapter IV of the CGST/SGST Rules, 2017 from Rule 27 to Rule 35.

The above Rules are explained below:

1. Where consideration is not wholly in money - Rule 27

This rule is applicable for the supplies like barter, exchange and transactions listed in schedule I where the transaction is not wholly in money as they fail to qualify for application of section 15(1).

Now, the order of application of the methods to determine the value of supply has to be maintained in the following sequence.

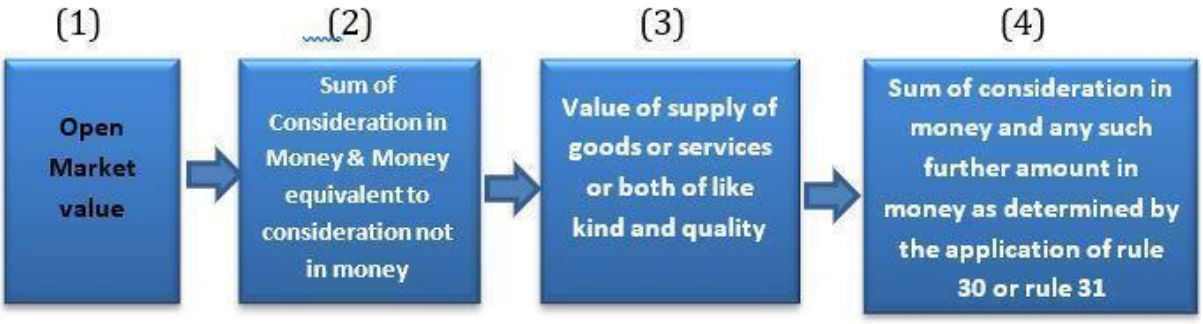


EXHIBIT 29

Example 1:

(a) X Co. supplied a car to Mr. Sen in exchange for Mr. Sen's old car and on payment by Mr. Sen of Rs. 5,00,000/-. If the price of the new car without exchange is Rs. 9,00,000/-, then the open market value of the new car is Rs. 9,00,000/-.

(b) If the open market value of the new car is not known, and the price of the old car is Rs. 4,00,000/- at the time of supply, then the value of supply of the new car will be Rs. 9,00,000/-.

(c) A customized air conditioning unit whose open market value is not available is installed at an office wherein the consideration is paid in the form of money of Rs. 40,000 and an old air conditioning unit whose price is not available at the time of supply. A similar air conditioning unit in terms of characteristics, quality, functional components, materials and reputation etc. has been installed by the company at another client's premises for Rs. 60,000/-. Since, the value of goods of like kind and quality is available, the value of Rs. 60,000/- will be taken under Rule 27.

(d) value determined by rule 30 or rule 31.

2. Where supply is made between related persons with or without consideration and distinct persons without consideration - Rule 28

The value of supply under this rule will be:

(a) **Open market value:** *Example:* A cell phone dealer gifts a cell phone set worth Rs. 23,000/- to his son. Since, this is the open market value, it will be the value of supply for the mobile set supplied to a related person.

(b) **Value of Supply of Like kind and quality:** If open market value is not available, then value of supply may be determined on the basis of supply of like kind and quality.

(c) Value determined by rule 30 or rule 31.

The two provisos to this rule are of significance:

(i) If the supply to a related or distinct person is for further supply, then the value may be an amount equivalent to 90% of the value of supply of like kind & quality to non-related person.

(ii) where it is the recipient, who is entitled to full credit, the value declared in the invoice is deemed to be open market value. This provision appears to accommodate internal preferences between distinct persons.

[*Reference:* In a case of GKB Lens Pvt Ltd**,** Advance Ruling had been sought on whether goods supplied to the branches in the States other than West Bengal can be valued in terms of the Cost Price under the Second Proviso to Rule 28 of CGST Rules, 2017, instead of 90% of MRP as required under the First Proviso of the same Rule. AAR West Bengal held - The Applicant has the option of not supplying goods to its branches under the First Proviso of Rule 28 and is eligible to value these goods by applying the terms of the Second Proviso to Rule 28 of GST Act.]

3. Where supply is made or received through agent - Rule 29

This rule is applicable only in case of **'supply of goods'** and not 'supply of services'. The value of supply under this rule will be:

(a) Open market value or 'at the option' of supplier 90% of the price charged for goods of 'like kind and quality' by the Agent.

Example: Agent supplies groundnut @5000/- per Qtl. Agent is purchasing groundnut from a non-related supplier @4550/- per Qtl. What should be the supply value from principal to agent?
It should be 90% of Rs. 5000/- ie. Rs. 4500/-

(b) Value determined by rule 30 or rule 31.

This rule is applicable only in case of those transactions where the Agent 'handles' the goods of the Principal. It is clarified vide Circular No. 73/47/2018-GST dated 05-11-2018 that in case of supply of goods, if the invoice is issued by supplier to customer either himself or through del credere agent (DCA) then it does not fall under the ambit of agent. However, in a case where the invoice is issued by the del credere agent then it would fall under the ambit of an agent.

4. Value of supply based on cost - Rule 30

This rule is applicable for valuation of supply of goods and services, only where the other methods of valuation do not apply. It provides that the value will be **'cost plus 10%'.**

Example: Suppose ABC Limited is a manufacturer of office furniture. Say, the cost of manufacturing a chair is Rs. 4,000/-. Similar chair in the open market is valued at Rs. 4,500. These chairs are supplied to a furniture showroom at the rate Rs. 3,000 and balance in non-monetary consideration. Now since the open market value is available, Rs. 4,500 will be considered for valuation of supply. However, if Open Market Value is not available, the value of supply as per cost method will be 110% of the cost of manufacturing i.e. Rs. 4,000*110% = Rs. 4,400.

5. Residual method of valuation - Rule 31

As per the residual method, where the value of supply of goods or services or both cannot be determined under the cost method, the same shall be determined using reasonable means consistent with the principles and general provisions of the GST law. Unitary method or number of man hours required to complete a job can be examples of such valuation method.

6. Lottery, betting, gambling and horse racing - Rule 31A

Supply Value in case of Lottery: Value shall be 100/128 of the face value of ticket or of the price as notified in the Official Gazette by the Organising State, whichever is higher.

Note: The above Rule is as amended by the CGST/SGST (Second Amendment)

Rules, 2020, w.e.f. 1-3-2020. Prior to the amendment, the Rule provided for determination of value of supply for lottery run by state Government as 100/112 of the face value of ticket or the price as notified in the Official Gazette by the organising State whichever is higher. Value of supply for the lottery authorized by a State Government is determined as 100/128 of the face value of ticket or the price as notified in the Official Gazette by the organising State whichever is higher.

Betting, Gambling or Horse Racing: Actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be 100% of the face value of the bet or the amount paid to the totalisator. This implies that the value on which GST has to be paid will be the amount of bet placed or the amount paid to the totalisator instead of the commission or share of revenue of the race club.

Actionable claim is “goods” under section 2(52). Hence, actionable claim in the form of chance to win betting, gambling and horse racing with reference to the above definitions will be goods and not services. The tax rate notifications issued for goods states that ‘actionable claim in the form of chance to win in betting, gambling, or

horse racing in a race club' is liable to tax at the rate of 28%. The rate notification issued for services also specifies that the gambling as an activity involving services and accordingly, liable to tax at 28% (refer entry No. 34(v) of Notification No. 11/2017 (Rate)).
With the above ambiguities there may be some confusion whether to tax actionable claims as goods or services.

7. Specific valuation provisions – Rule32

Rule 32 is only an option available to the supplier for determination of valuation of certain specific supplies. He may opt for the mechanisms specified in rule 32 or in rules 27-31 or in section 15 as the case may be.

(a) Purchase and sale of foreign currency including money changing:

Option 1	Option 2
Difference between buying-selling rate and the RBI reference rate. Where reference rate is not available, 1% of gross Indian Rupee provided/received. And where the conversion is not into Indian Rupees, then 1% of the lesser of the Indian Rupee equivalent of each currency exchanged. *Example:* Suppose a company M/s Thomas Cook Ltd, a money changer, converts 1000 Euro into rupees @90 per Euro. The RBI reference rate for Euro is Rs. 88. So, the value of supply shall be = (90-88) * 1000 = Rs. 2000/-.	**For currency exchange ≤Rs.1 L:** 1% or Rs.250/- which one is higher. **For currency exchange >Rs.1Lbut ≤ 10L** 0.5% of exchanged amount exceeding 1 L plus Rs.1000/- **For currency exchange >Rs.10L:** 0.1% of exchanged amount exceeding 1 L plus Rs.5500/- but maximum Rs.60000/- *Example:* Suppose a money exchanger received Singapore Dollar and provided Indian Rs. 5,00,000/-. The value of supply shall be (4,00,000*0.5%) +1000 =Rs. 3000/-

(b) Value of service in relation to air travel agents: 5% of basic fare in case of domestic booking and 10% of basic fare in case of international booking of passengers by air. Commission to the travel agent may flow from passenger or airline or any other person and the value determined here will be the tax for all the sources of commission.

(c) Supply of services in relation to life insurance

(i) If in the policy allocation for investment of certain amount is intimated to the policy holder: Gross premium - Investment amount

(ii) In case of single premium other than (i): 10% of single premium

(iii) In cases other than (i) & (ii): 25% of premium charged for first year & 12.5% for subsequent year

(d) Supply of services of person dealing in second-hand goods

(i) If supplied as it is or after minor processing without changing nature of goods and without availing ITC: Sale price - Purchase price (If this difference is negligible, that shall be ignored)

(ii) Purchase price in case of repossessed goods from a defaulting borrower who is unregistered: Purchase price - 5% from purchase price for each quarter from date of purchase to date of disposal after repossession.

(e) Supply of voucher: The value will be the redemption value of the voucher. Voucher includes coupon, stamp, token, et

8. Service of pure agent - Rule 33

This rule applies only to supply of services. The cost incurred by the supplier shall be excluded from value of supply if the following tests are satisfied:

(a) the supplier acts as a pure agent of the recipient of the supply, when he makes payment to the third party on authorisation by such recipient;

(b) the payment made by the pure agent on behalf of the recipient of supply is separately indicated in the invoice issued by the pure agent to the recipient of service;

(c) the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.

Pure agent:

- A person who enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure in the course of supply of goods or services or both;
- Neither intends to hold or holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply.
- Does not use for his own interest such goods or services so procured as pure agent.
- Receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.

Example: Mr. A is an importer who goes to Mr. B for Customs clearance work in respect of import of a consignment. The clearance of goods would also require taking of transporter service. Mr. A also authorizes Mr. B to incur expenditure on his behalf for procuring the transporter service and agrees to reimburse such expenses. In this scenario, Mr. B is providing custom broker service to Mr. A, which is principal to principal basis and the transportation services procured by Mr. B on behalf of Mr. A is a pure agent service and expenses incurred by Mr. B on transportation shall not form part of the value of the Customs broker service.

9. Rate of exchange of foreign currency - Rule 34

Any transactions undertaken in foreign currency must be converted into INR and the rate of such exchange is as follows:

(a) For determination of the value of taxable goods the rate of exchange shall be the applicable one as notified by the Board under section 14 of the Customs Act, 1962.

(b) for determination of the value of taxable services rate of exchange shall be the applicable one determined as per the generally accepted accounting principles for the date of time of supply of such services in terms of section 13 of the Act.

10. Value of supply inclusive of integrated tax, central tax, state tax, union territory tax – Rule 35

In such cases, the tax amount shall be determined in the following manner:

Tax amount = (Value inclusive of taxes X tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST) ÷ (100 + sum of tax rates, as applicable, in %)

Annexure 11: Input Tax Credit (p. 52)

Availability of Input Tax Credit throughout the value chain is the essence of GST in India. Needless to say that examining the veracity of ITC availed by an auditee is of paramount importance to an auditor. The provisions related to ITC are as follows:

EXHIBIT 30

Sec 16	Eligibility and conditions for taking input tax credit.
Sec 17	Apportionment of credit and blocked credit.
Sec 18	Availability of credit in special circumstances.
Sec 19	Taking ITC in respect of inputs and capital goods sent for job work.
Sec 20	Manner of distribution of credit by Input Service Distributors.
Sec 21	Manner of recovery of credit distributed in excess.

EXHIBIT 31

Relevant Rules

Rule 36	Rule 37	Rule 38	Rule 39	Rule 40

Rule 41	Rule 42	Rule 43	Rule 44 & 44A	Rule 45

a. How is Input Tax Credit (ITC) defined in GST

Section 2(63) of the CGST/SGST Act defines Input Tax Credit as the **credit of input tax.**

Section 2(62) defines input tax as follows: **"input tax"** in relation to a registered person **means any tax** such as Central Tax, State Tax, Integrated Tax or Union territory tax **charged on any supply of goods or services or both** made to him & **includes**: -

- **Integrated Tax charged on import of goods** &
- **Tax payable under reverse charge mechanism,**

but does not include the tax paid under the composition levy.

Input is defined in Sec 2(59) as any goods other than capital goods used or intended to be used by the supplier in the course or furtherance of business.

Capital goods is defined in Sec 2(19) as goods, the value of which is capitalized in the books of account of the person claiming ITC and which are used or intended to be used in the course or furtherance of business.

Input service is defined in Sec 2(60) as any service used or intended to be used by a supplier in the course or furtherance of business.

b. Provisions of section 16(1)

EXHIBIT 32

In accordance with Section 16(1) of the CGST/SGST Act, 2017:

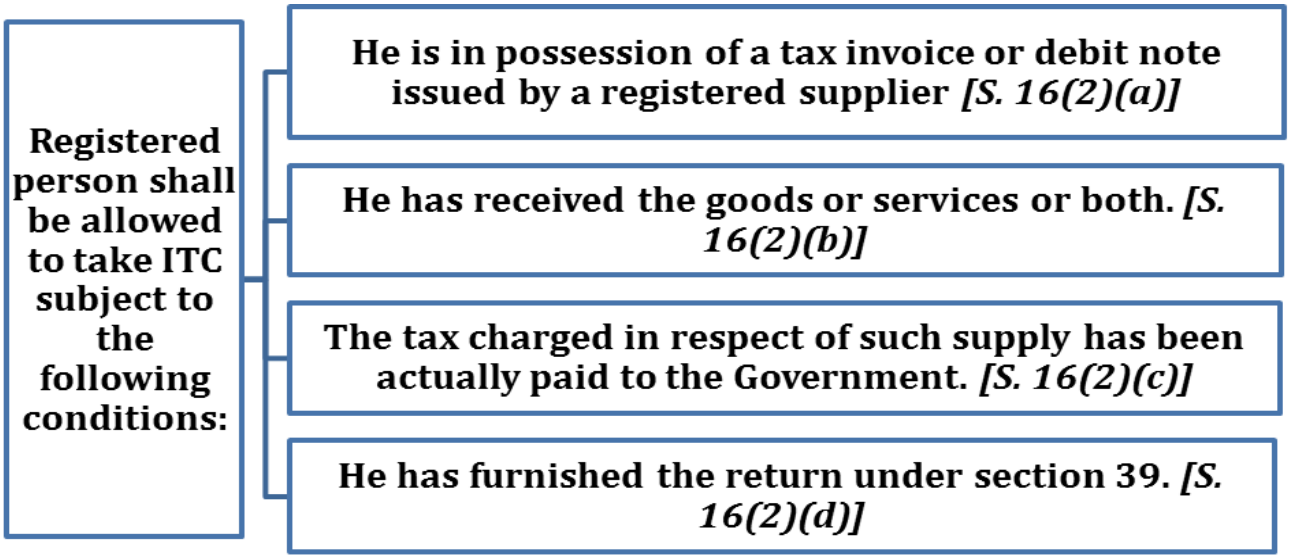
(i). Only a registered person other than persons under composition scheme is entitled to claim ITC.

(ii). However, this claim is not unconditional and is subject to conditions and restrictions as prescribed.

(iii). Self-assessed ITC taken in the return is credited to the electronic credit ledger of the taxpayer.

(iv). ITC can be taken on such supply of goods or services or both to the registered person which are used or intended to be used in the course or furtherance of his business.

c. Provisions of sec 16(2) provide conditions to avail of ITC –



With effect from 01.01.2022 another condition to the effect that supplies in respect of which credit is being claimed have been declared by the supplier in his GSTR-1 and the credit available has been communicated to the recipient (vide GSTR-2B) and that the credit is not restricted in terms of the said communication

d. Deemed recipient of goods / services

Where goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods either by way of transfer of documents of title to goods or otherwise, it shall be deemed that the registered person has received the goods for the purpose of Section 16(2)(b).

Where services are provided by the supplier to any person on the directions of and on account of another registered person, it shall be deemed that the

registered person has received the services for the purpose of Section 16(2)(b).

It may be noted in this regard that the date of receipt of the goods or services is vital for availing ITC. It may happen that the supplier issues invoice on 30th of a particular month and uploads details of the same in Form GSTR-1 of that month and the same is auto-populated in GSTR-2A of the recipient in the same month. However, this does not make the recipient eligible to avail of ITC in the return of this said month if he receives the goods in the subsequent month. In the case of goods, many audit trails can be found in respect of receipt of goods in documents like E-Waybill, GRN etc.

This, however, may be difficult to ascertain in the case of services. Further, there may be a situation where goods are received in the subsequent month but purchase is auto populated in GSTR 2A in the month of sale as disclosed by the supplier in GSTR 1. In such cases there is a probability to claim ITC wrongly by the recipient though the goods are not received.

e. Goods received in lots

If goods are received in instalments against a single invoice, credit can be availed only upon receipt of the last instalment of goods.

Suppose, a consignment of iron ores was dispatched from Jharkhand to Kolkata by 10 trucks. Invoice was raised to the recipient on 28.10.2018. Three trucks reached Kolkata by 30.10.2018 but the truck carrying the final lot of the consignment reached the recipient on 03.11.2018. The supplier also disclosed such sales in his GSTR 1 for the month of Oct'18. In this case, **ITC in respect of the invoice issued on 28.10.2018 can be availed not before the month of November, 2018.**

f. Payment in respect of the supply as a condition to avail ITC:

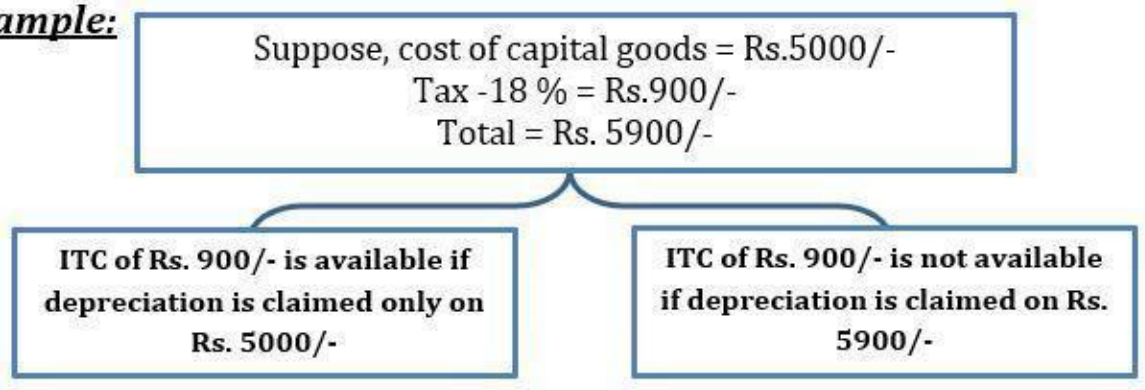
When a recipient fails to pay his supplier (other than supplies on which tax is payable under RCM), the amount of value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice, the recipient is liable to add the ITC availed on such supply to his output tax liability along with interest thereon.

However, the recipient is also entitled to avail the credit of ITC once he makes the payment towards the amount of value of supply along with tax payable thereon.

Capital goods and plant & machinery on which depreciation is claimed on the tax component under the Income Tax Act:

Sec 16 (3) **does not allow** a registered person to take **ITC on such a tax component** of the **cost of capital goods** and **plant and machinery**, on which he has **claimed depreciation** under the provisions of the **Income Tax Act, 1961**.

Example:



g. Time limit to claim ITC

As per Sec 16(4), a registered person shall not be entitled to take ITC in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return (Form GSTR-3B) under section 39 for the month of September following the end of financial year to which such invoice or 'invoice relating to such debit note pertains' or furnishing of the relevant annual return, whichever is earlier.

- **For F/Y 2017-18,** a taxpayer shall be allowed to take ITC till the due date of furnishing of the return for the month of March, 2019 i.e. 23.04.2019 in respect of any invoice or invoice relating to such debit note for supply of goods or services or both made during the FY 2017-18, the details of which have been uploaded in the Form GSTR-1 for the month of March, 2019.
- **For F/Y 2018-19,** a taxpayer shall be allowed to take ITC till the due date for furnishing of the return for the month of September, 2019 i.e. 20.10.2019. For the FY 2018-19, for the taxpayers having aggregate turnover upto Rs. 2 cr, filing of GSTR-9 is optional and for the taxpayers having aggregate turnover upto Rs. 5 cr filing of GSTR-9C is optional. The Ministry of Finance, GoI in an Official Press Release dt.24.10.2020 announced the extension of due date to file GSTR 9, GSTR 9A & GSTR 9C for the FY 2018-19 to 31st December, 2020.

h. **ITC in respect of supplies not declared by the supplier in Form GSTR-1**

A supplier is supposed to disclose all B2B supplies in Form GSTR 1 which gets auto populated in Form GSTR 2A of the recipient. Auto-population of invoices in Form GSTR 2A primarily assures disclosure of relevant supply by the supplier. However, disclosure in Form GSTR-1 does not sufficiently ensure that tax in respect of such supplies has been paid by the supplier which is paid in the return in Form GSTR-3B.

Rule 36(4) has been inserted vide notification No 49/2019-CT, dt. 09-10-2019 (corresponding State notification. No 1730-F.T. dt.16.10.2019) and it applies to all returns filed after 9th Oct 2019. In accordance with Rule 36(4), a registered person is entitled to avail of maximum 10% (20% from 09.10.2019 to 31.12.2019) of eligible credit on the basis of auto-populated details in Form GSTR-2A of a particular month in respect of details of invoices or debit notes which have not been uploaded by the corresponding suppliers (i.e. which have not been auto-populated in Form GSTR-2A).

Illustration:

Suppose X calculates ITC at Rs. 100/- for the month of January 2020 on the basis of invoices in his possession. However, his suppliers declare invoices whose corresponding ITC calculates to Rs. 60/- only, in their Form GSTR-1 which is auto-populated in Form GSTR-2A for the month of January 2020 of X. It is also found out that ITC is eligible for Rs. 60/- since nothing in this amount is restricted by Section 17(1)/ (2)/ (5) etc.

In this case, X is eligible to avail of ITC to the tune of Rs. 66/- [Rs. 60/- + Rs. 6/- (=Eligible ITC: Rs. 60/- x 10%)]

i. Apportionment of Credit [Sec 17(1)]

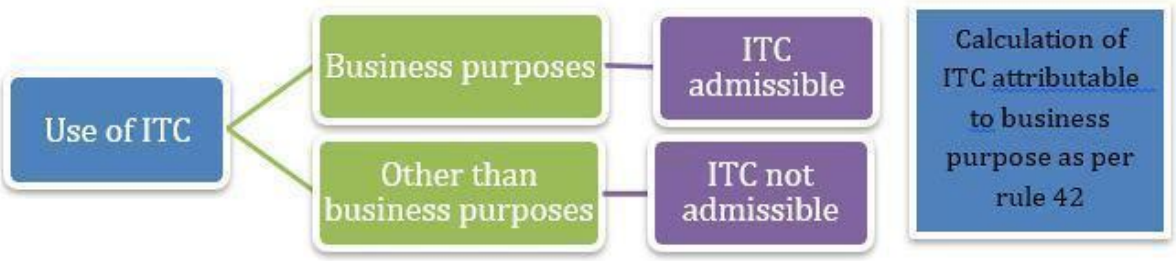


EXHIBIT 33

Example: A registered person claims ITC as follows –

a. ITC of Rs.20,000/- for purchase of taxable goods for resale.

b. ITC of Rs.5000/- on rent payment for a two storied building, where 1st floor is used for business purpose and 2nd floor for residential purpose.

c. ITC of Rs.1500/- for renting cab services both for business and for personal use.

d. ITC of Rs.6000/- for purchase of furniture for residence.

Ineligible ITC:

Rs.1500/-: Restricted in accordance with section 17(5)

Rs.6000/-: On purchase of Furniture for residence (for purpose other than business).

Eligible ITC:

Rs.20,000/-

ITC to be apportioned in accordance with rule 42

Rs.5,000/-: Common Credit for service availed for both business and non – business purpose.

Eligible to claim portion of ITC out of Rs.5, 000/- which is attributable to business purpose (to be calculated in accordance with rule 42)

j. Availability / apportionment of ITC when used for taxable supplies (including zero-rated supplies) as well as exempt supplies [Sec 17(2)]

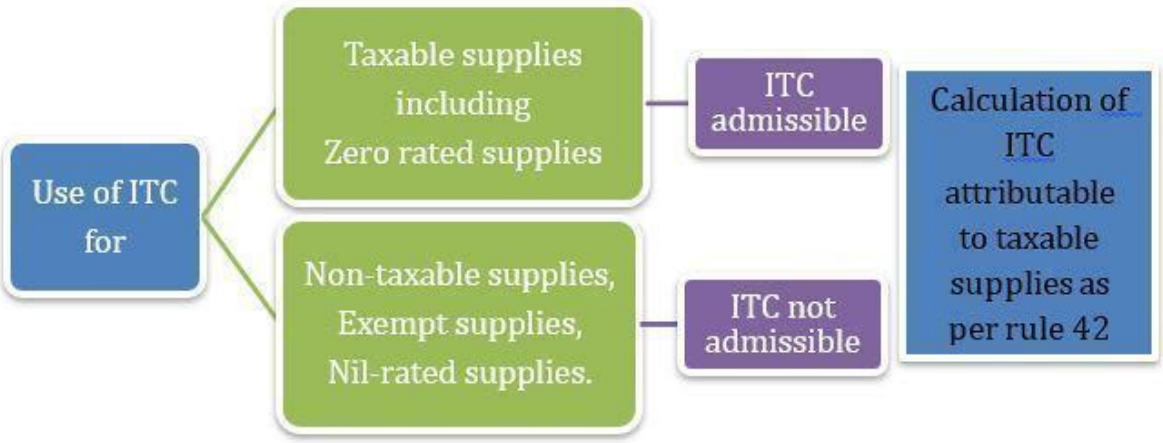


EXHIBIT 34

Value of exempt supply for the purpose of apportionment of ITC [Sec 17(3)] Exempt supply has been defined in sec 2(47) of the CGST/SGST Act as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11 of the CGST/SGST Act or under section 6 of the IGST Act, and it includes non-taxable supply.

For the purpose of apportionment of ITC as per sec 17(2) exempt supply includes the outward supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause 5(b) of Schedule-II, sale of building.

However, **it shall not include** the value of activities or transactions specified in Schedule III, except sale of land & subject to clause 5(b) of Schedule II, sale of building.

Example: A registered person engaged in manufacturing of both taxable and exempted goods and pays tax amounting to Rs.1,50,000/- on procurement of inputs and input services for a particular period.

The corresponding tax paid on inputs and input services which are used as follows –

a. Rs.5,000/- exclusively for non-business purposes.
b. Rs.45,000/- exclusively for exempt supply.
c. Rs.10,000/- ineligible credit u/s 17(5).
d. Rs.40,000/- exclusively for taxable supplies including zero rated supply.
e. Rs.50,000/- Common credit for both taxable and exempt supply.
f. Exempt supply during the period was Rs.1,20,00,000/- and taxable supply was Rs.80,00,000/-.

What will be the eligible credit during the period?

Answer:

Ineligible ITC:

Rs.5,000/-: exclusively for non-business purposes.
Rs.45,000/-: exclusively for exempt supply
Rs.10,000/-: Restricted in accordance with section 17(5)

Eligible ITC:

Rs.40,000/-: exclusively for taxable supplies including zero rated supply

ITC to be apportioned in accordance with rule 42

Rs.50,000/-: Common Credit used for both taxable supply & exempted supply

Eligible to claim portion of ITC out of Rs.50, 000/- which is attributable to taxable supply (calculated in accordance with rule 42)

Rs.50,000× (Rs.80,00,000/(Rs.80,00,000+ Rs.1,20,00,000) = Rs.20,000/-.

Total eligible credit available to the registered person: Rs.40,000/- + Rs.20,000/- = Rs.60,000/-

Availability of Credit for a banking Company or a financial institution including NBFC [Sec 17(4)]

Descriptions	Options of availing of ITC	Conditions
Banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances.	**• Either apportion the ITC as per provisions of section 17(2).** **OR** **• Avail 50% of the eligible ITC on inputs, capital goods and input services every month and the rest shall lapse.**	**• Option once exercised shall not be withdrawn during the remaining part of the FY** **• The restriction of 50% shall not apply to the tax paid on supplies made by one registered person to another registered person having the same PAN.**

k. Ineligible Input Tax Credit [Sec 17(5)]

Input tax credit is not available in respect of certain inward supply of goods or services in accordance with Section 17(5) **(blocked credit). The provision of Section 17(5) was amended w.e.f 1st February, 2019. Hence, the provisions are discussed accordingly:**

i. Motor vehicles and other conveyances (valid upto 31.01.2019)–

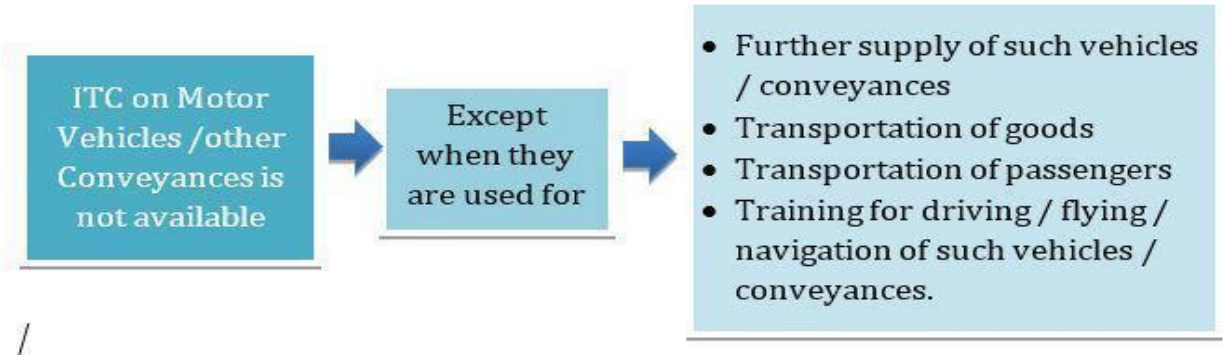


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EXHIBIT 35

Example:

ABC Pvt Ltd has purchased an SUV @ Rs 7.5 lac +GST on 31.12.2018 to be used by one of its directors. Shall the company be allowed to avail of this ITC?

Ans: No, the company is not eligible avail of this ITC since this is blocked as per the provisions of Sec 17(5).

There may be a situation where a company may claim ITC on cars purchased in the name of the company with the plea that cars are used to carry employees to office / factory / work site.

Whether ITC is allowable in such cases?

No, ITC is not allowable in this case also.

ii. **Food, beverages, outdoor catering, beauty treatment etc (valid up to 31.01.2019)**

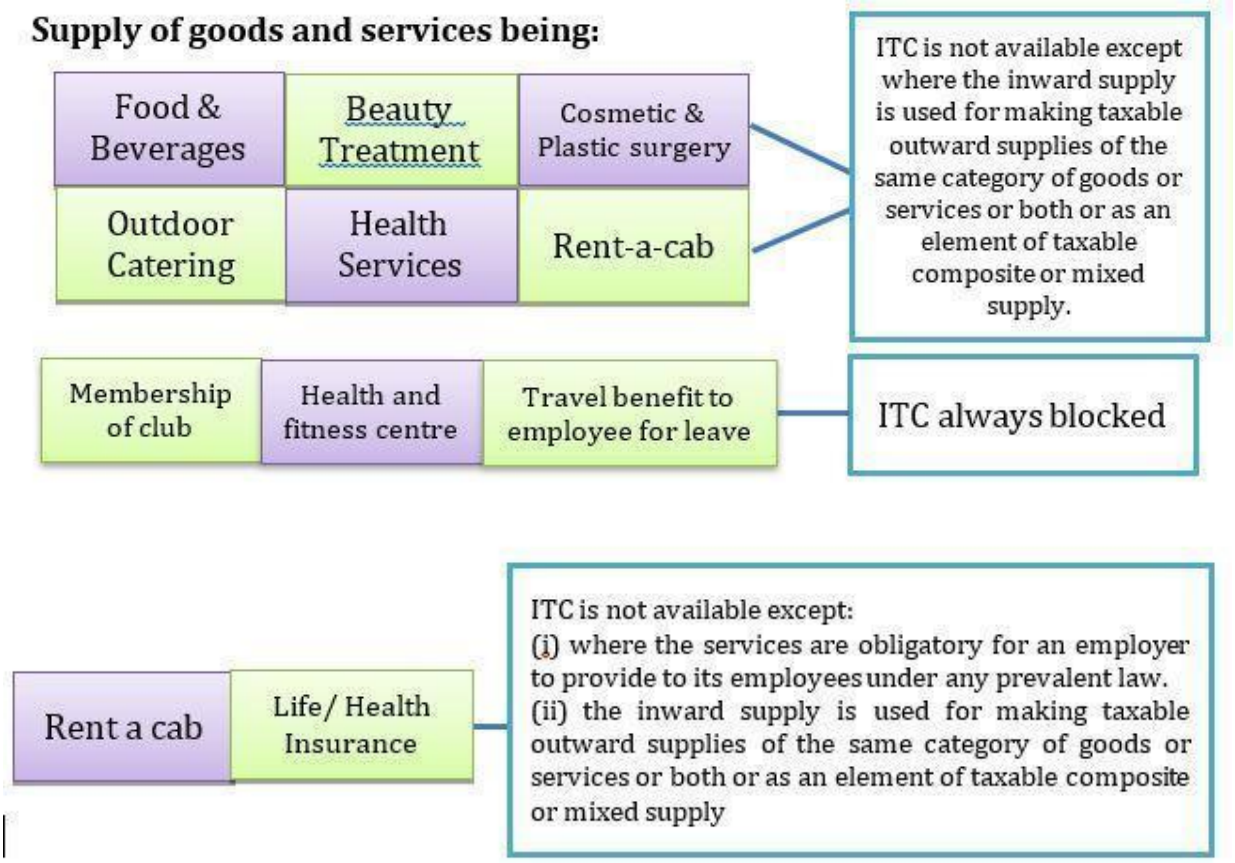


EXHIBIT 36

Example: A company pays tax on procurement on some input services as follows:

a. Rs.15,000/- on food and beverages for factory workers.
b. Rs.2,500/- for outdoor catering for picnic of office employees
c. Rs.3,500/- for health-related services to employees
d. Rs.3000/- on rent-a-cab services for guests,
e. Rs.10,000/- for purchase of GI policy for workers (150 workers),
f. Rs.12,000/- for health insurance policies of office staff
g. Rs.4,000/- for membership and other expenses of club
h. Rs.5,000/- for travel benefit to employees for visiting different sites.
i. Rs.2,600/- for travel benefit to employees going on leave.

Calculation of eligible ITC.

Group insurance to workers is obligatory on the part of the employer as per Workmen Compensation Act. Therefore, ITC is admissible on such input service. Travel benefit is restricted only during leave. Thus, input tax credit for procurement of services under sl. No. 'e' and 'h' above are only eligible for availing.

iii. Motor vehicles and other conveyances (valid w.e.f. 01.02.2019)

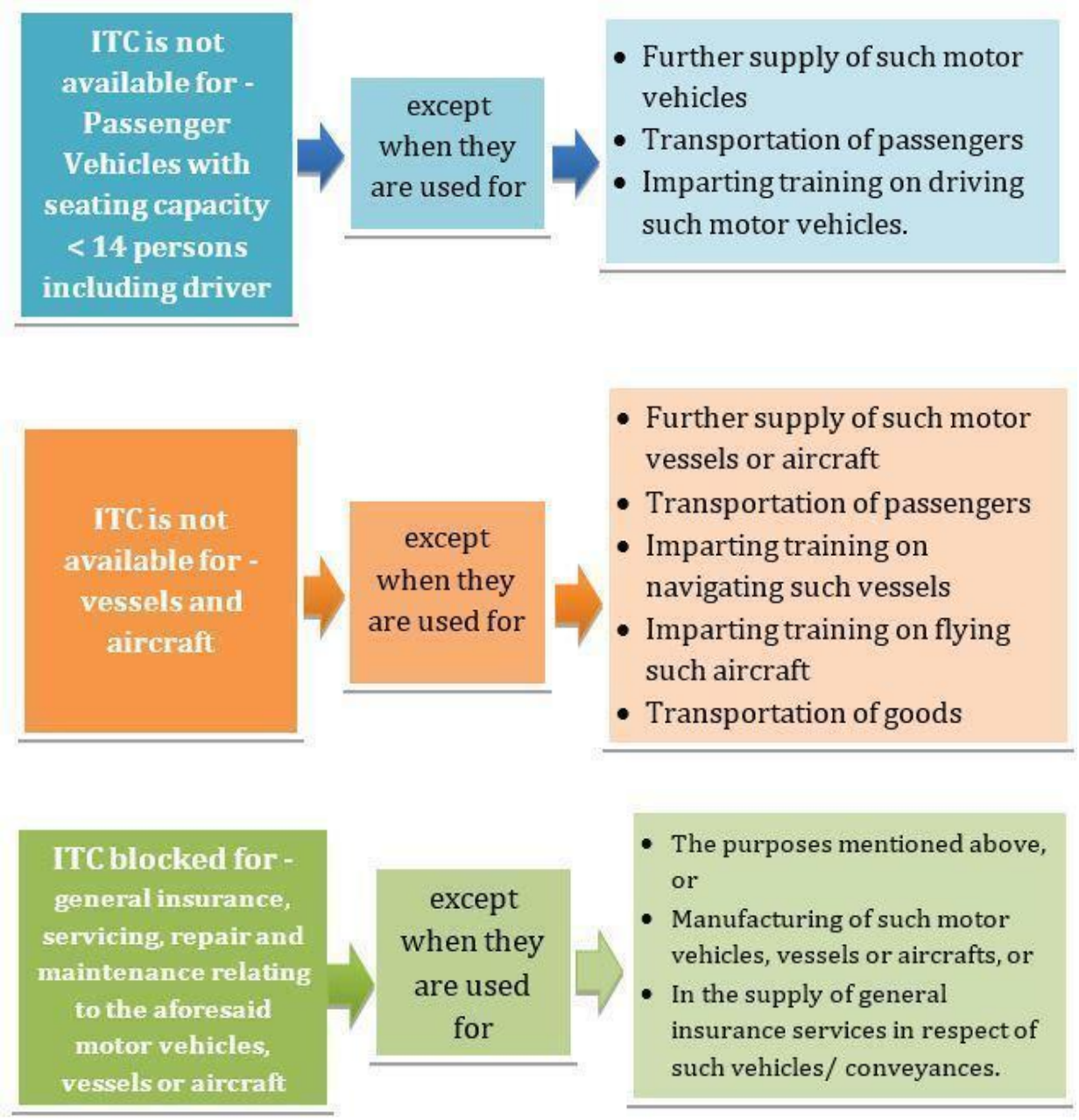


EXHIBIT 37

Subsequent to amendment of Section 17(5) the ambit of availability of ITC on motor vehicles is expanded. Prior to 01.02.2019, passenger vehicles, goods vehicles and other conveyances were treated at par and ITC was available for specific purposes only as mentioned above in Table in (i) above. However, subsequent to the amendment w.e.f. 01.02.2019, ITC is made available for goods vehicles. In respect of the passenger vehicles, ITC has been denied for vehicles with seating capacity not more than 13 persons including the driver. This means that, ITC is available on passenger vehicles with seating capacity more than 13 persons including the driver w.e.f. 01.02.2019. However, doubts may prevail in respect of availability of ITC in respect of construction machineries like tractor, crane, road roller, tippers and dumpers etc. i.e. Whether they can be classified as motor vehicles?

It may be noted that, most of the earth moving machineries require registration under MV Act as motor vehicle. Since, earth moving machineries like tractor, crane, road roller, tippers, dumpers etc are also considered as motor vehicles, they are not outside the restriction clause in section 17(5).

It may further be noted in this regard that, fulfilment of conditions specified in section 16 and 17 of the CGST/SGST Act may not be sufficient sometimes for availing of ITC. Certain restrictions in respect of availability of ITC are also provided in the rate notifications.

Illustration–

Tax paid on purchase of a goods vehicle by a GTA would otherwise be available as ITC, but as per rate notification no.13/2017 – CT(R) dt.28.06.2017, services of a GTA in relation to transportation of goods is taxable @ 5% provided that the ITC on goods and services used in supplying the service has not been taken

iv. **Food, beverages, outdoor catering, beauty treatment etc (w-e-f 01.02.2019)**

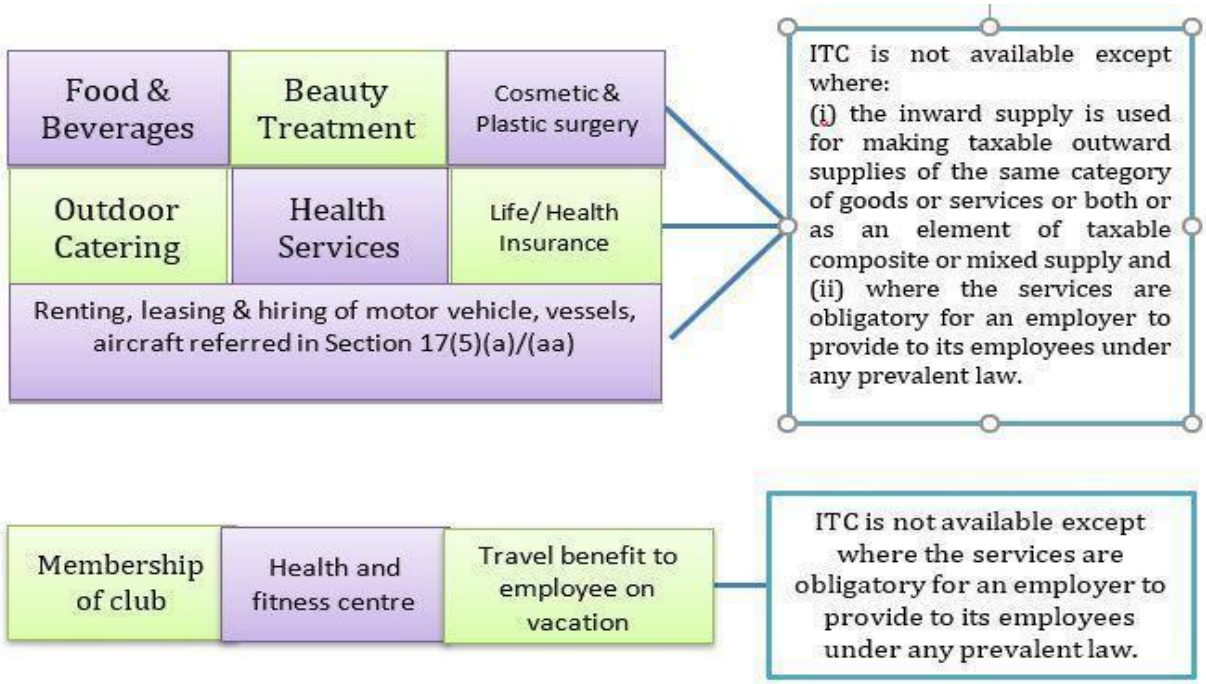


EXHIBIT 38

Hence, w-e-f 01.02.2019, ITC would be available in respect of the aforesaid services if it is obligatory on the part of employer to provide the same to its employees under any law for the time being in force.

v. Works Contract Service used for immovable property other than plant & machinery but including repair maintenance and renovation to the extent of capitalization

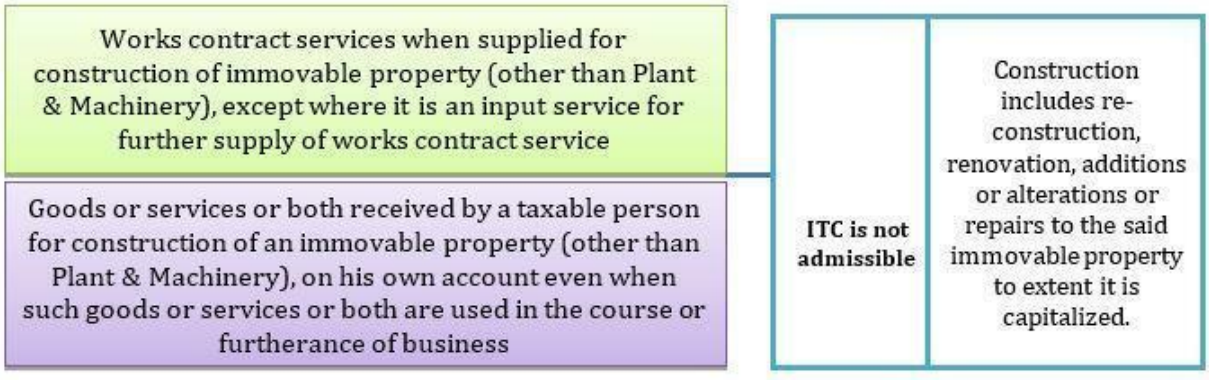


EXHIBIT 39

Works contract is defined under section 2(119) as a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in

goods (whether as goods or in some other form) is involved in the execution of such contract.

Works contract as defined under section 2(119) though being a composite supply is treated as a supply of services as per Para 6(a) of Schedule II of the CGST/SGST Act, 2017. If a registered person avails of works contract service as input service for further supply of works contract service, then in such a scenario he would be eligible to avail of the ITC on such service procured by him.

Illustration- A taxpayer is constructing his new factory for manufacture of taxable goods. Contractor 'A' supplies construction services and another vendor 'B' supplies 'Plant & Machinery'. The taxpayer also procures goods and services on his own account to develop the boundary wall of the factory premises.

In this case, the taxpayer is not in the business of supplying works contract service. Therefore, he is not eligible to claim ITC in respect of tax paid on inward supplies of works contract service. He is eligible to claim ITC on plant & machinery. The taxpayer is also not eligible to claim ITC on tax paid on procurement of goods and services on his own account for building the boundary wall.

However, if contractor 'A' engages a subcontractor, he is eligible to claim ITC on procurement of works contract service from the sub-contractor since the same is procured for further supply of works contract service.

Plant and Machinery may also be of the nature of immovable property in certain cases when affixed permanently to the earth. It may be noted that, when a works contract service is procured for construction of plant and machinery, ITC would be available to the recipient, since works contract service procured for construction of plant and machinery is excluded from the negative list.

For the purpose of Input Tax Credit "plant and machinery" means **apparatus, equipment,** & **machinery fixed to earth** by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes—

(i) land, building or any other civil structures;

(ii) telecommunication towers; and

(iii) pipelines laid outside the factory premises.

vi. Other unavailable credit –

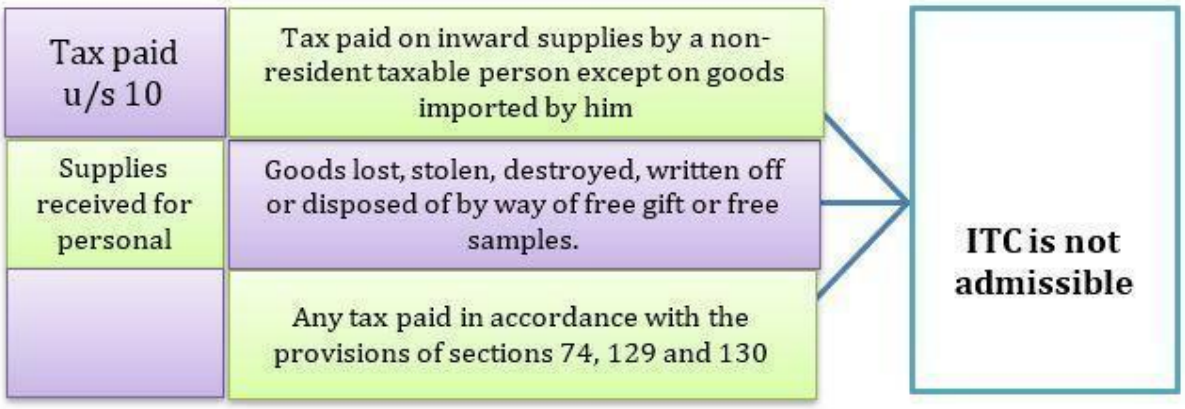


EXHIBIT 40

ITC is blocked in respect goods lost, stolen, destroyed, written off or disposed off by way of free gift or free samples. Confusion may arise that whether those goods are only inputs and capital goods or also manufactured end product or any intermediary products. Since, there is no such condition, so whether those goods are inputs, capital goods, finished product or any intermediary products ITC is required to be reversed when such goods are lost, stolen, destroyed, written off or disposed off by way of free gift or free samples.

I. Availability of credit in special circumstances:

a. Sec 18(1) and 18(2) -

Supplier	Stock held as			Stock to be considered as on
	Inputs or Inputs contained in semi-finished/ finished goods	Input Services	Capital Goods	
Person, who has applied for **registration within 30 days** from the date of incurring liability for registration and who has been granted such registration	ITC available	Stock of service is not possible. ITC not available	ITC not available	The day immediately preceding the date from which he becomes liable to pay tax

Voluntarily Registered	ITC available	ITC not available	ITC not available	The day immediately preceding the date from which supplier is liable to pay tax under the regular scheme.
Person ceases to pay tax under the composition scheme	ITC available	ITC not available	ITC available	The day immediately preceding the date from which supplier is liable to pay tax under the regular scheme.
Exempt supplies become taxable	ITC available on inputs relatable to such exempt supply	ITC not available	ITC available on capital goods exclusively used for such exempt supply	The day immediately preceding the date from which exempt supplies become taxable.

Note:

a. ITC in respect of inputs or inputs contained in semi-finished/ finished goods or capital goods held in stock as noted in the above table would be available only within one year from the date of issuance of the tax invoice related to such supply.

b. The credit on capital goods shall be reduced by five percentage points per quarter or part thereof from the date of invoice.

b. Transfer of credit in special circumstances [Sec 18(3)]

EXHIBIT 41

c. Other circumstances provided under section18

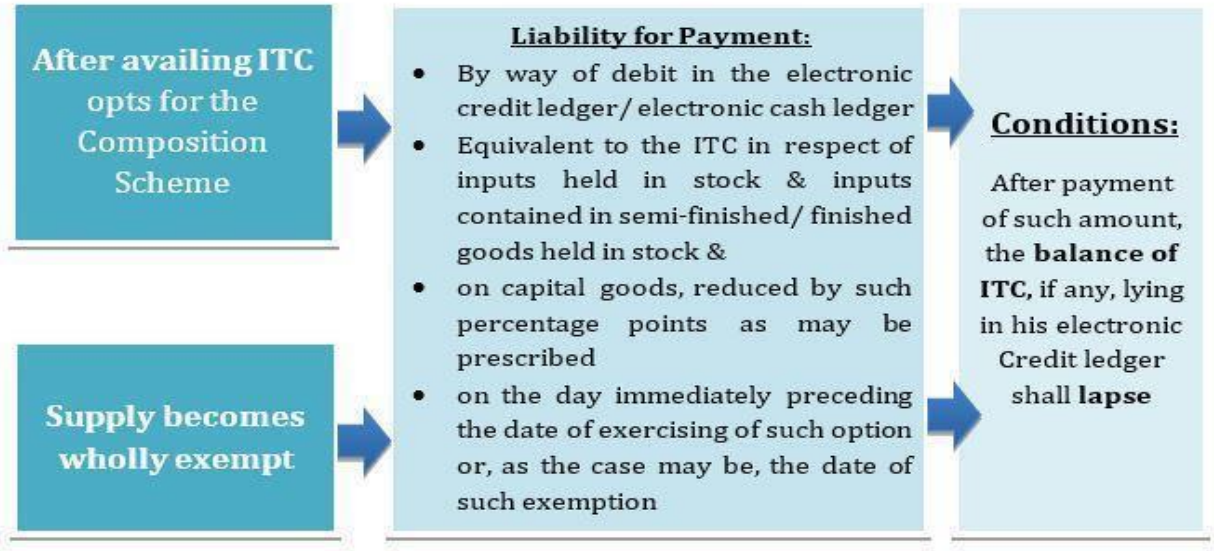


EXHIBIT 42

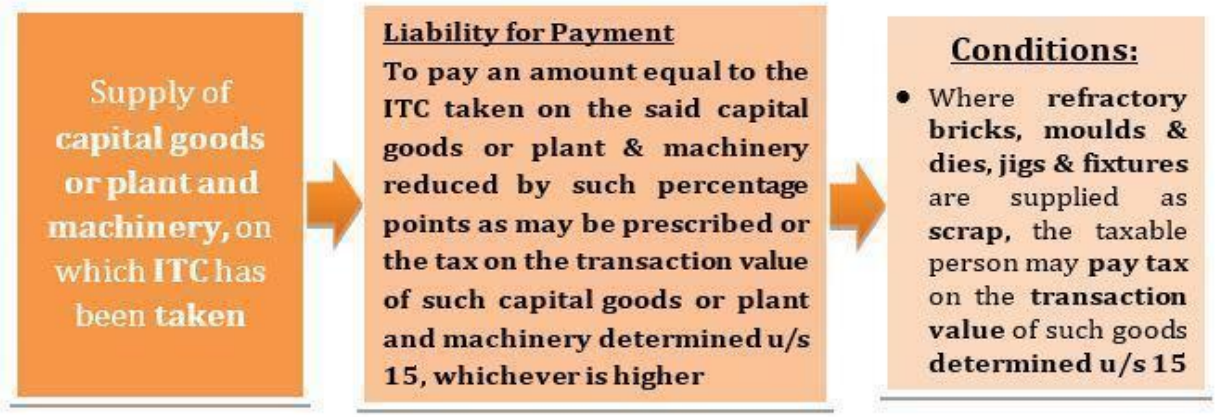


EXHIBIT 43

d. ITC in respect of inputs and capital goods sent for job work.

EXHIBIT 44

If the inputs/ capital goods sent for job work are not received back by the principal after completion of job work or otherwise or are not supplied from the place of business of the job worker (Sec 19)

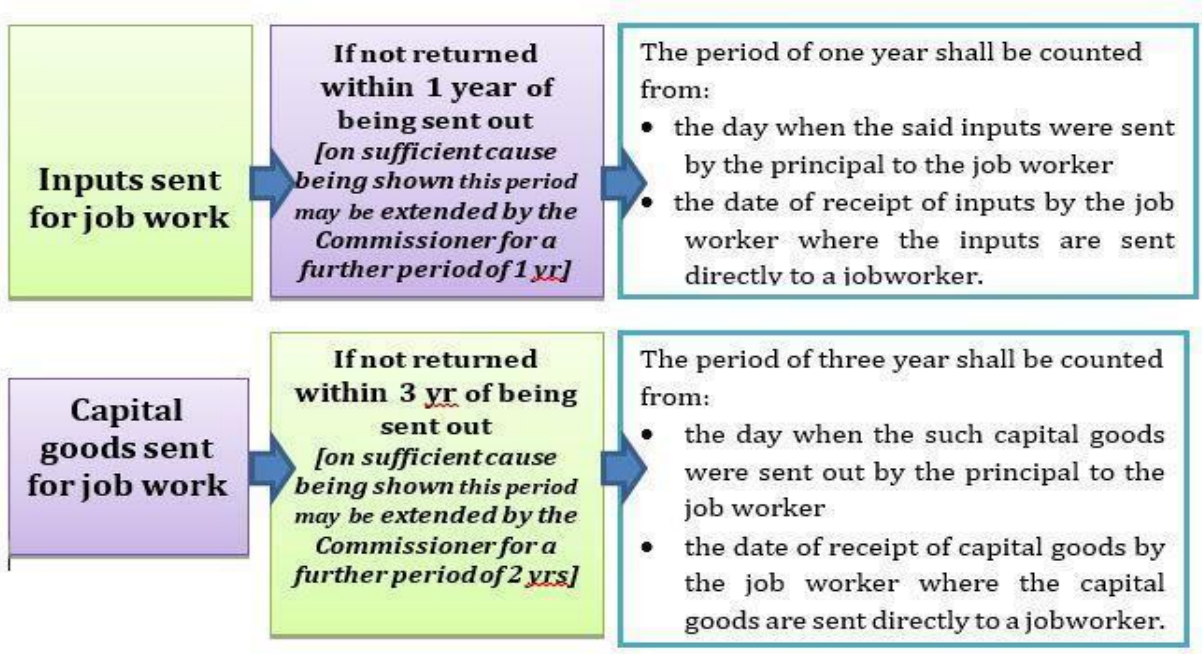


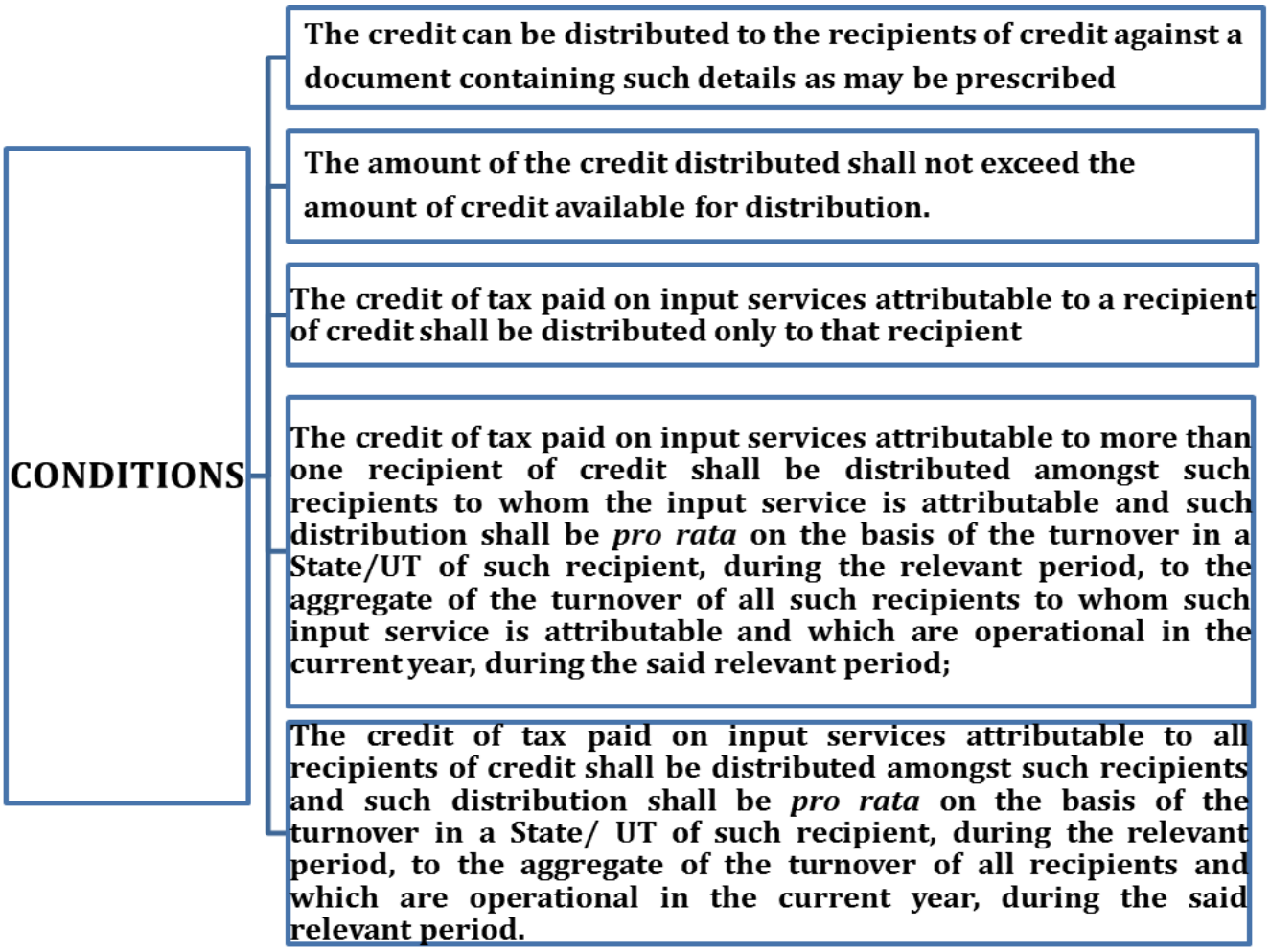
EXHIBIT 45

- The above time period for returning back inputs/ capital goods from job workers to the principal shall not apply to moulds and dies, jigs and fixtures, or tools sent out to a job worker for job work.
- Principal means a registered person referred to in section 143(1)
- For the purposes of job work, input includes intermediate goods arising from any treatment or process carried out on the inputs by the principal or the job worker

e. Manner of distribution of credit by Input Service Distributors.

EXHIBIT 46

a. Conditions for distribution of Credit by ISD



- **"relevant period"** for the purposes of Section 20 shall be–

(i) if the recipients of credit have turnover in their States or UTs in the financial year preceding the year during which credit is to be distributed, the said financial year; or

(ii) if some or all recipients of the credit do not have any turnover in their States or UTs in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed

- **"recipient of credit"** means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;
- **"turnover",** in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entries 84

and 92A of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule.

Example of distribution of ITC by ISD:

A company has 6 numbers of GSTIN under a single PAN in the following States:

i. In Delhi as normal taxpayer
ii. In Delhi as ISD
iii. In West Bengal as normal taxpayer
iv. In Bihar as normal taxpayer
v. In Uttar Pradesh as normal taxpayer
vi. In Punjab as normal taxpayer

The ISD received invoices from different vendors as follows:

a. Factory building renovation in West Bengal involving IGST of Rs.1,00,000/- (renovation works duly capitalized in the books in HQ Delhi)

b. Advertisement in all the above States involving input tax of Rs.30,000/- as IGST.

c. Repairing of plant & machinery at Delhi and UP involving input tax of Rs.10, 000/- as CGST and Rs.10, 000/- as SGST.

d. Tax audit in Punjab involving input tax of Rs.20, 000/- as IGST.

Turnover of previous year of the above GSTINs was as follows:

	Delhi	UP	Punjab	MP	WB	Bihar
Turnover	10 Cr	10 Cr	4 Cr	5 Cr	8 Cr	1 Cr
Pro-rata ratio	25%	25%	10%	12.5%	20%	2.5%

The ISD distributed ITC as follows:

Invoice wise total credit (Rs.)	Delhi	UP	Punjab	MP	WB	Bihar
Inv. a 1,00,000					IGST=100000	
Inv. b 30000	CGST=3750 SGST=3750	IGST=7500	IGST=3000	IGST=3750	IGST=6000	IGST=750

Inv. c 20000	CGST=5000 SGST=5000	IGST=10000				
Inv. d 20000			IGST=20000			

Distribution of ITC by the ISD as appeared in the above tables is correctly done except in respect on Inv. a. for which ITC is blocked as per provisions of section 17(5) of the CGST/SGST Act. Now, the question arises how and from whom that can be recovered? Let us go through the provisions of section 21 below.

Manner of recovery of credit distributed in excess [Sec21].

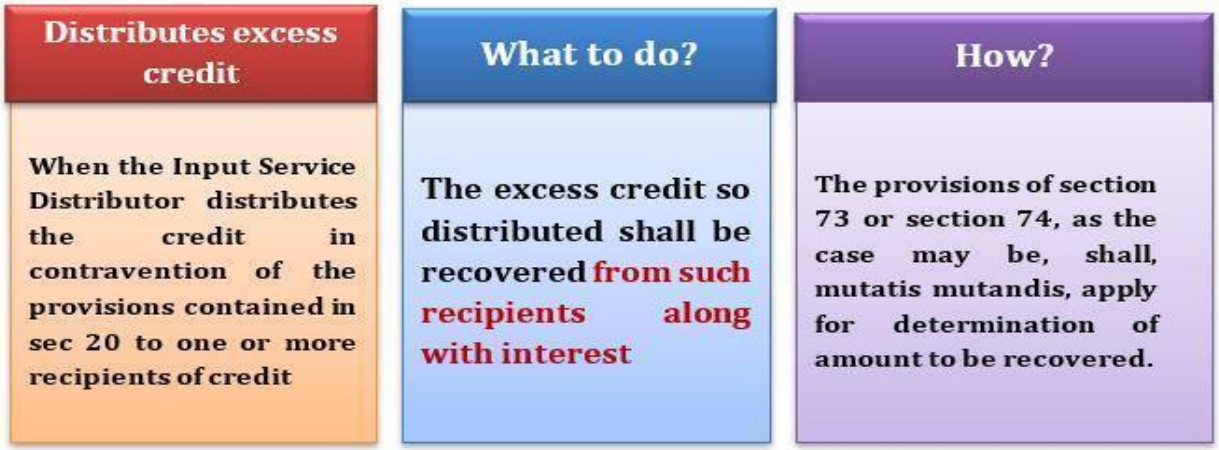


EXHIBIT 47

Thus, the credit distributed in excess to West Bengal by the ISD as IGST of Rs.1,00,000/- for renovation of factory building which has been capitalized can be recovered under section 73 or 74 as applicable along with interest from the distinct person in West Bengal as he was the recipient in this case.

Annexure 12: Important Changes in GST Laws and Rates during 2017-18 & 2018-19 (p.49)

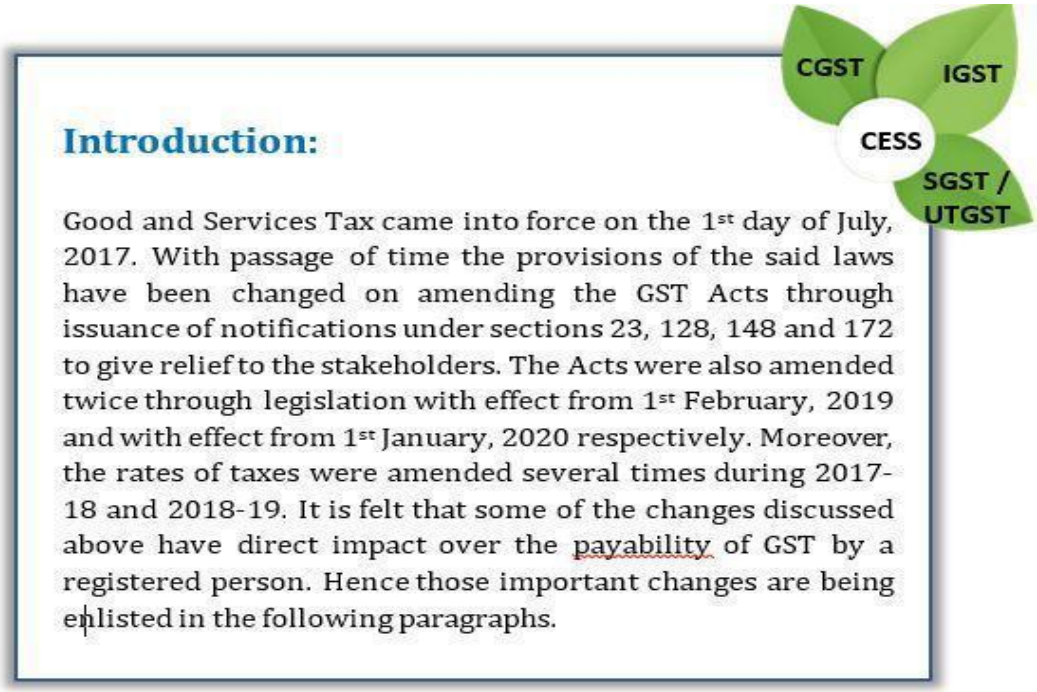


EXHIBIT 48

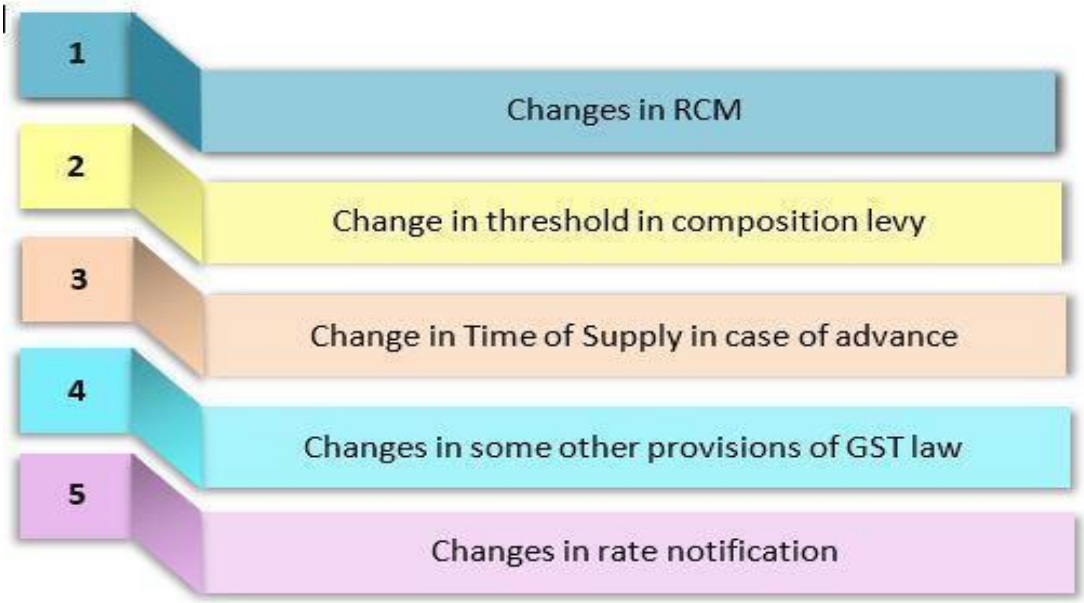


EXHIBIT 49

Changes in Reverse Charge Mechanism (RCM)

Reverse charge is a mechanism under which the recipient of the goods or services is liable to pay the tax instead of the provider of the goods and services. Under the normal taxation regime, the supplier collects the tax from the buyer and deposits the same after adjusting the output tax liability with the input tax credit available. But under reverse charge mechanism (RCM), liability to pay tax shifts from supplier to recipient.

In respect of RCM u/s 9(3) of the SGST/CGST Acts, 2017, the CGST Notification no. 04/2017-CT(Rate), dt.28.06.2017 and CGST Notification no. 13/2017-CT (Rate), dt.28.06.2017 notify certain specified Goods and Services for the supply of which tax is payable under RCM.

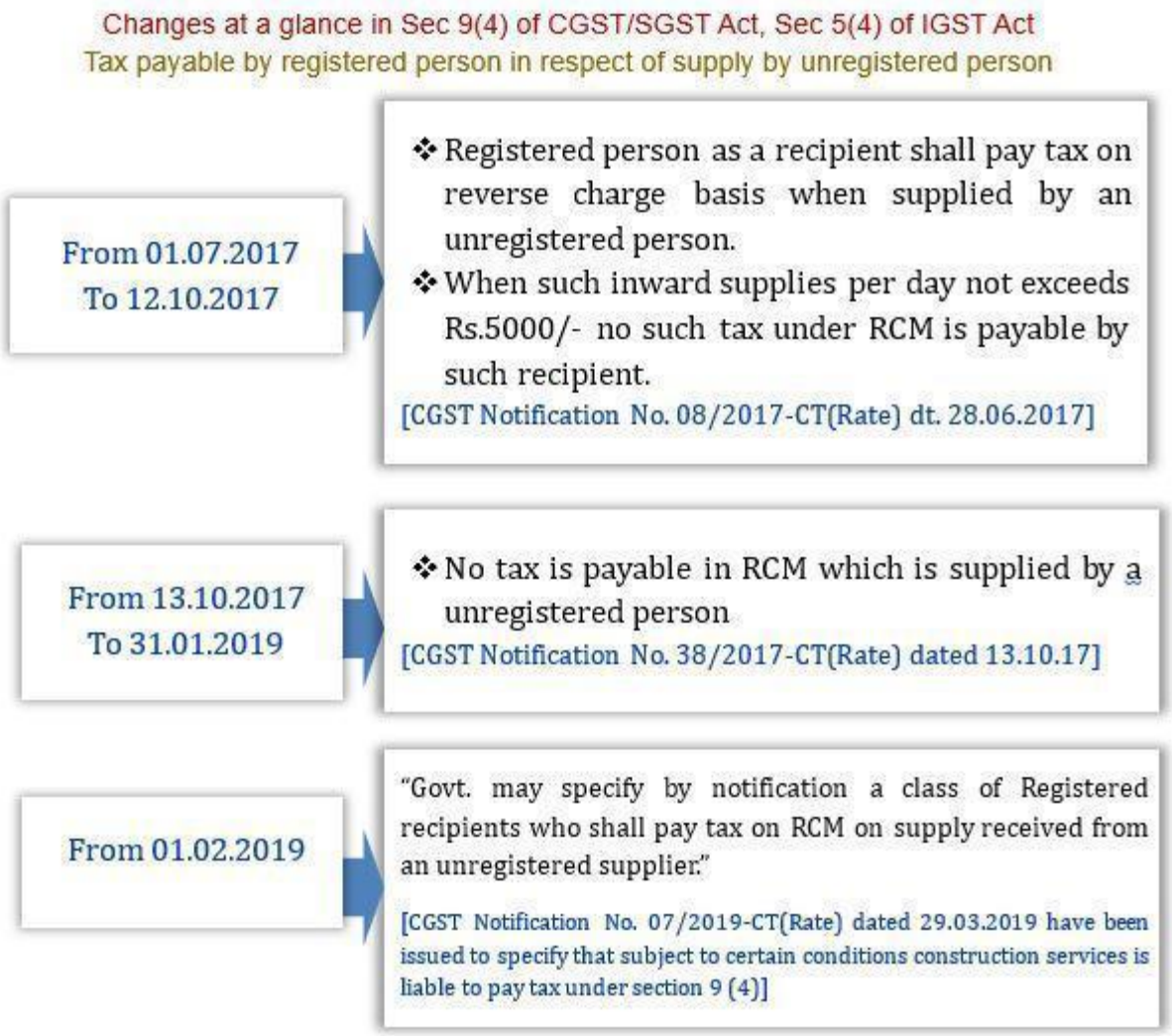
In respect of section 9(4) of CGST/SGST Act and section 5(4) of IGST Act the original provision has been amended as follows:

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

From 13.10.2017 the provisions of section 9(4) of SGST/CGST Act and section 5(4) of IGST Act have been kept suspended.

Finally, the provision has been amended w.e.f. 01.02.2019 as below:
"Govt. may specify by notification a class of Registered recipients who shall pay tax on RCM on supply received from an unregistered supplier."

It may be noted that, w.e.f. 01.04.2019 CGST Notification no. 03/2019 CTR dt.29.03.2019 have been issued on certain specific conditions and situations of "Construction Services" where tax is to be paid under reverse charge mechanism.



Composition levy

- Threshold limit for opting Composition Levy was 75 lakh rupees at the advent of GST. Said threshold has been extended to 1 Crore rupees.

[*CGST Notification No. 46/2017-CT, dated13.10.17*]

- Option for Composition Levy in the middle of 2017-18 has been allowed by inserting sub-rule (3A) to rule 3.

[CGST (Ninth Amendment) Rules, 2017 issued vide Notification No. 45/2017-CT, dated 13.10.17]

- Restaurants, eateries etc. shall not be barred from Composition Levy even if it supplies any exempt services including services by way of extending deposits, loans or advances

[*RoD Order issued vide CGST Order No. 01/2017-CT, dated 13.10.17*]

- Rate Reduction with effect from 01.01.2018:

- Rate of Composition Levy for manufacturers has been reduced from one (01) per cent. of turnover in the State to half (0.5) per cent. of turnover in the State.
- Rate of Composition Levy for traders has been reduced from half (0.5) per cent. on turnover in the State to half (0.5) per cent. of the **turnover of taxable supplies of goods** in the State

[*CGST (1st Amendment) rules, 2018 issued vide notification No. 03/2018-CT, dated 24.01.2018*]

Tax on Advance received

Section 12(2) of the SGST/CGST Act:
"The time of supply of goods shall be the earlier of the following dates, namely:

(a) the date of issue of invoice by the supplier or the last date on which he is required, under section 31, to issue the invoice with respect to the supply; or

(b) the date on which the supplier receives the payment with respect to the supply:"

- So, in terms of the above provisions, tax is payable when advance payment is received for supply of both goods or services.
- But taxpayers having aggregate turnover in the preceding financial year upto 1.5 crore are exempted from payment of tax on Advance received in case of **supply of goods** with effect from 13.10.2017

[*CGST Notification No. 40/2017-CT, dated 13.10.17*]

- The above benefit has been extended to all taxpayers from 15.11.2017.

[*CGST Notification No. 66/2017-CT, dated 15.11.17*]

Changes in SGST/CGST Act relevant for 2017-18 & 2018-19

- Import of services without consideration by a **taxable person** from a related person or from any of his other establishments outside India, in the course or furtherance of business has been treated a supply as per para. 4 of Schedule I. Such provision is amended so that it will be applicable not only to a taxable person, but to **any person.** [w.e.f. 01.07.17]
- Scope of No supply extended w.e.f. 01.02.2019 by amending Schedule III:

- Supply of goods from non-taxable territory to another non-taxable territory without entering into India. (*Para. 7*)
- Supply of warehoused goods to any person before clearance for home consumption; and
- Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption. [*In common parlance* ***HIGH SEAS SALE***] (*Para. 8*)

Input Tax Credit:

- Where the **services** are provided by the supplier to any person on the **direction and on account of a registered person**, for the purpose of **entitlement of input tax credit** it shall be deemed that the said registered person has **received services** *[Explanation to Sec. 16(2)(b) of SGST/CGST Act amended w.e.f. 01.02.2019]*
- Subject to conditions, Input tax credit in respect of invoices or invoice relating to such debit notes for **supplies made during 2017-18** can be availed till the due date of furnishing return (GSTR-3B) for the month of **March, 2019** i.e. 23.04.2019 (*as extended by Notification No. 09/2019–C.T./GST dated 22.04.2019*)
- **Condition:** Details of such invoices or debit notes are uploaded by the supplier in GSTR-1 till the due date for furnishing GSTR-1 for the month of March, 2019.

[Proviso added to section 16(4) by ROD Order No. 2/2018 dated 31.12.2018]

- ITC can be transferred on obtaining separate registration for multiple places of business within the State w.e.f. 01.02.2019 [*rule 41A inserted, dated 29.01.2019*]
- **Order of utilisation of ITC changed:**
- **Existing provision (from 01.07.17 to 31.01.19):** For payment of State tax/central tax, ITC of State tax/central tax has to be debited first, then ITC of integrated tax can be debited
- **New provision:** ITC of State tax/central tax shall be utilised for payment of integrated tax or State tax/central tax, only after the ITC of integrated tax has first been utilized fully towards such payment. [New section 49A inserted w.e.f. 01.02.2019.

Important Changes in the IGST Act in relation to export of services and place of supply made by IGST (Amendment) Act, 2018

❖ **Export of services [sec. 2(6)(iv)]:**

- **Original provision [01.07.17 to 31.01.19]:** One of the condition to be satisfied for export of services is that the payment has to be received in convertible foreign currency
- **Changed provision from 01.02.19:** Now even if payment is received in Indian rupees wherever permitted by the RBI, if other conditions are satisfied such supply would be treated as export of services
- **Place of supply:**
- **Original provision [01.07.17 to 31.01.19]:** POS of services by way of transportation of goods to a registered person, shall be the location of such person, and that to an unregistered person, shall be the location at which such goods are handed over for their transportation. [*section 12(8) of the IGST Act*]
- **Changed provision from 01.02.2019:** Where the transportation of goods is to a place outside India, POS shall be the place of destination of such goods [*proviso added to section 12(8)*]
- **Original provision [01.07.17 to 31.01.19]:** Subject to other conditions, **POS of services** supplied in respect of **goods temporarily imported** into India **for repairs** is the **location of the recipient**
- **Changed provision from 01.02.2019:** Now, **POS of services** supplied in respect of **goods temporarily imported** into India for **repairs or for any other process or treatment** also is the **location of the recipient** [*Second proviso to section 13(3)(a) substituted*].

Annexure 13: Due dates and extension of due dates of submission of various returns (p.58)

Financial Year (2017-2018)

a. Return type – Form GSTR - 3B

Month	Due date/Extended due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable	Remarks
July, 17	25.08.2017[1]					**Waived** *(CGST Notification No, 28/2017-CT, dt. 01.09.2017)*
July, 17	28.08.2017[2]					
Aug'17	20.09.2017					**Waived** *(CGST Notification No, 50/2017-CT, dt. 24.10.2017)*
Sep'17	20.10.2017					
Oct'17	20.11.2017					**@Rs. 25/day** (Where total amount of tax payable in a return is nil, **Rs. 10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed. *(CGST Notification No, 64/2017-CT, dt. 15.11.2017***)**
Nov'17	20.12.2017					
Dec'17	22.01.2018					
Jan'18	20.02.2018					
Feb'18	20.03.2018					
Mar'18	20.04.2018					
Total late fee payable						
Total late fee paid						
Late fee due						

1. for all registered dealers other than those specified in 2 below. [06–C.T./GST dt. 21.08.17]
2. for registered dealers entitled to avail ITC and opting to file GST TRAN-1 (conditions apply)
[05–C.T./GST dt. 17.08.17]

a.1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Late fee waived	Condition
October, 2017	Waived in full	❖ Return in FORM GSTR-3B was submitted but not filed on the common portal, after generation of the application reference number. [*CGST Notification No. 41/2018-CT, dt. 04.09.2018*]
July, 2017 to March, 2018	Waived in full	❖ If the said return is furnished between the period from 22nd December, 2018 to 31st March, 2019. [*CGST Notification No. 76/2018-CT, both dt. 31.12.2018*]

a.2 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Return in GSTR-3B furnished **between 01.07.2020 to 30.09.2020**	Return in GSTR-3B furnished **after 30.09.2020**
July, 2017 to March, 2018	❖ Maximum **Rs. 250/-** under each of the CGST/SGST **Act for each return period.** ❖ **Nil** where the total amount of **tax payable in the return for a tax period is nil.**	❖ @ **Rs. 25 / day** subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed ❖ **Where total amount of tax payable in a return is nil:** @ **Rs. 10 / day** subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed [*CGST notification no. 52/2020-CT, dt. 10.07.2020*]

b. Return type – Form GSTR - 9

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2017-18	07.02.2020 [*01/2020-C.T./GST, dt. 18.03.2020*]			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					

Total late fee paid		
Late fee due		

c. Form GSTR - 1

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable
Jul'17	31.10.2018			**@Rs. 25/day** (Where total amount of tax payable in a return is nil, **Rs.10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed. *(CGST Notification no. 04/2018-CT dt. 23.01.2018)*	
Aug'17	31.10.2018				
Sep'17	31.10.2018				
Oct'17	31.10.2018				
Nov'17	31.10.2018				
Dec'17	31.10.2018				
Jan'18	31.10.2018				
Feb'18	31.10.2018				
Mar'18	31.10.2018				
Total late fee payable					
Total late fee paid					
Late fee due					

Amnesty: No late fee is payable for the registered persons who failed to furnish FORM GSTR-1for the months/quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019** [*CGST Notification no. 75/2018, dt. 31.12.2018*]

No late fee is payable for the registered persons who failed to furnish FORM GSTR-1for the months/quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th December, 2019 to 17th January, 2020** [*CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020*]

Financial Year (2018-2019)

a. Return type – Form GSTR - 3B

Month	Due date / Extended due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'18	22.05.2018			**@Rs. 25/day** (Where total amount of tax payable in a return is nil, **Rs.10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed. *(CGST Notification no. 64/2017-CT, both dt. 15.11.2017***)**	
May'18	20.06.2018				
Jun'18	20.07.2018				
Jul'18	24.08.2018				
Aug'18	20.09.2018				
Sep'18	25.10.2018				
Oct'18	20.11.2018				
Nov'18	20.12.2018				
Dec'18	20.01.2019				
Jan'19	22.02.2019				
Feb'19	20.03.2019				
Mar'19	23.04.2019				
Total late fee payable					
Total late fee paid					
Late fee due					

a.1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Late fee waived	Condition
April, 2018 to Sept, 2018	Waived in full	❖ If the said return is furnished between the period from 22nd December, 2018 to 31st March, 2019. [*CGST Notification no. 76/2018-CT, dt. 31.12.2018*]

a.2 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Return in GSTR-3B furnished **between 01.07.2020 to 30.09.2020**	Return in GSTR-3B furnished **after 30.09.2020**
April, 2018 to March, 2019	❖ Maximum **Rs. 250/-** under each of the CGST/SGST **Act for each return period.** ❖ **Nil** where the total amount of **tax payable in the return for a tax period is nil.** *[CGST notification no. 52/2020-CT, dt. 10.07.2020*]	❖ @ **Rs. 25 / day** subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed ❖ **Where total amount of tax payable in a return is nil:** @ **Rs. 10 / day** subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed

b. Return type – Form GSTR 9

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2018-19	31.12.2020 [*12/2020-C.T./GST, dt. 04.11.2020*]			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					
Total late fee paid					
Late fee due					

c. Form GSTR - 1

Period (Monthly/ Quarterly	Due date	Submitted on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'18	31.10.2018			**@Rs.25/day** (Where total amount of tax payable in a return	
May'18	31.10.2018				
Jun'18	31.10.2018				

Jul'18	31.10.2018			is nil, **Rs.10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed. *(CGST Notification no. 04/2018-CT, dt. 23.01.2018***)**	
Aug'18	31.10.2018				
Sep'18	31.10.2018				
Oct'18	11.11.2018				
Nov'18	11.12.2018				
Dec'18	11.01.2019				
Jan'19	11.02.2019				
Feb'19	11.03.2019				
Mar'19	11.04.2019				
Apr-Jun 2018	31.10.2018				
Jul-Sept 2018	31.10.2018				
Oct-Dec 2018	31.01.2019				
Jan-Mar 2019	30.04.2019				
Total late fee payable					
Total late fee paid					
Late fee due					

Amnesty:

No late fee is payable for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019** [*CGST Notification no. 75/2018, dt. 31.12.2018*]

No late fee is payable for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th December, 2019 to 17th January, 2020** [*CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020*]

Financial Year (2019-2020)

a. **Return type – GSTR 3B**

	Due date	Due date (Aggr. T.O. up to Rs. 5 Crore)	Submit on	Days of delay	Late fee payable per day	Total Late fee payable

Apr'19	**20.05.2019**					
May'19	20.06.2019					
Jun'19	20.07.2019					
Jul'19	22.08.2019					
Aug'19	20.09.2019					
Sep'19	20.10.2019					
Oct'19	20.11.2019					
Nov'19	23.12.2019					
Dec'19	20.01.2020					
Jan'20	22.02.2020	24.02.2020				
Feb'20	20.03.2020	24.03.2020				
Mar'20	20.04.2020	24.04.2020				
	Total late fee payable					
	Total late fee paid					
	Late fee due					

@Rs. 25/day (Where total amount of tax payable in a return is nil, **Rs.10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed.

*(CGST Notification no. 64/2017-CT, dt. 15.11.2017***)**

a-1 Conditional waiver of late fee for delayed furnishing of return in Form GSTR-3B

Tax period	Return in GSTR-3B furnished **between 01.07.2020 to 30.09.2020**	Return in GSTR-3B furnished **after 30.09.2020**

April, 2019 **to** **March, 2020**	❖ Maximum **Rs. 250/-** under each of the CGST/SGST **Act for each return period.** ❖ **Nil** where the total amount of **tax payable in the return for a tax period is nil.** [*CGST notification no. 52/2020-CT, dt. 10.07.2020*]	❖ @ **Rs. 25 / day** subject to maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed ❖ **Where total amount of tax payable in a return is nil:** @ **Rs. 10 / day** subject to a maximum of Rs. 5000/- under each of the CGST/SGST Act from the due date of return, till the date on which return is filed

b. Return type – Form GSTR - 9

Period	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
2019-20	31.12.2020			Rs. 100 per day max. quarter per cent. of turnover in the state	
Total late fee payable					
Total late fee paid					
Late fee due					

c. Form GSTR - 1

Period (Month / Quarter)	Due date	Submit on	Days of delay	Late fee payable per day	Total Late fee payable
Apr'19	11.05.2019			**@Rs. 25/day** (Where total amount of tax payable in a return is nil, **Rs.10/day**) subject to max of Rs. 5000/- under each of the CGST/SGST Act from the due date	
May'19	11.06.2019				
Jun'19	11.07.2019				
Jul'19	11.08.2019				
Aug'19	11.09.2019				
Sep'19	11.10.2019				
Oct'19	11.11.2019				

Nov'19	11.12.2019			of return, till the date on which return is filed. *(CGST Notification no. 04/2018-CT, dt. 23.01.2018)*	
Dec'19	11.01.2020				
Jan'20	11.02.2020				
Feb'20	11.03.2020				
Mar'20	11.04.2020				
Apr-Jun 2019	31.07.2019				
Jul-Sept 2019	31.10.2019				
Oct-Dec 2019	31.01.2020				
Jan-Mar 2020	30.04.2020				
Total late fee payable					
Total late fee paid					
Late fee due					

Amnesty:

1. **No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to September, 2018** by the due date **but furnishes FORM GSTR-1 between the period from 22nd December, 2018 to 31st March 2019**[*CGST Notification no. 75/2018, dt. 31.12.2018*]

2. **No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the months/ quarters from **July, 2017 to November, 2019** by the due date **but furnishes FORM GSTR-1 between the period from 19th Dec, 2019 to 17th January, 2020** [*CGST Notification no. 74/2019-CT dt. 26.12.2019 read with CGST Notification no. 04/2020, dt. 17.01.2020*]

3. **No late fee is payable** for the registered persons who failed to furnish FORM GSTR-1 for the month **March, 2020** and for the quarter **Jan-Mar 2020** by the due date **but furnishes FORM GSTR-1 on/before 10.07.2020 and 17.07.2020** respectively**.** [*CGST Notification no. 53/2020-CT dt. 10.07.2020 read with CGST Notification no. 04/2020, dt. 17.01.2020]*

4. The months of Return filing as shown in the Tables below are based on all months of any FY. However, the audit officer should consider the months applicable for the period under audit.

a. Return type – GSTR 3B

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable

Apr				
May	**Notes:** System generally automatically calculates late fee during submission of return. However, for the return periods of different FYs various extensions of due dates and conditional extensions of due date were allowed.			
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec				
Jan				
Feb				
Mar				
Total late fee payable				
Total late fee paid				
Late fee due				

b. **Statement in GSTR 1**

Period (Month / Quarter)	Due date	Submitted on	Days of delay	Late fee payable
Apr				
May				
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec				
Jan				
Feb				
Mar				
Total late fee payable				
Total late fee paid				
Late fee due				

c. **Return type – GSTR 9 / 9A**

Period	Due date	Submitted on	Days of delay	Late fee payable
FY…..				

Total late fee payable	
Total late fee paid	
Late fee due	

Part D [Correctness of turnover in State (monthly statement)]

Turnover disclosed in GSTR 3B (Rs.)	Turnover disclosed in GSTR 1 (Rs.)	Turnover disclosed in GSTR 9 / 9A (Rs.)	Turnover as in P/L account (Rs.)	Difference (Rs.)
Reconciliation statement with supporting documents needs to be examined.				
Any other supply which is not disclosed in any of the above fields but disclosed at the time of audit.				

Additional information from the books / other sources to examine correctness of the turnover disclosed finally at the time of audit (monthly statement):

Areas of concern	Examination	Value of supply		Disclosed in return (Y/N)	Additional tax liability (if any)			
		Intra-State (S)	Inter-State (I) with POS (State Code) *		State tax	Central tax	Integrated tax	Cess
Other/Misc. income								
Whether in the pre-GST or in the GST regime, “Other Income” ledger has always been an important ledger to examine. It is important to go through every transaction reflected in this ledger to confirm as to whether GST is applicable on any transaction for which tax compliance has not been made. For example, penal interest, penalty / damages recovered etc.								

Stock transfer to other State(s)/UT (s)								

Stock transfer to distinct persons in the State and other States never form part of turnover in P/L account in consolidated books of accounts. In the erstwhile VAT regime, stock transfer to branches and consignment agents in other States were nil rated subject to production of declarations in Form F under the CST Act, 1956. In GST, stock transfers to distinct persons are taxable. Therefore, it is very important to check the stock transfer value (both inwards and outwards) to ascertain the compliance. There is a specific rule for valuation in this regard. If any auditee takes the benefit of the 2nd proviso of Rule 28 then the audit officer should check whether such has been taken properly or not.

An example is given below for proper understanding of the Audit Officers:

e.g: A banking company purchased 4 cars and dispatched those to 4 branches in 4 States (1 car / branch) by raising tax invoice where value of each car is shown at a nominal price of Rs.10,000/-. On being asked, the auditee bank may reply that valuation has been done as per rule 28 of CGST Act, 2017. Is it a correct valuation done by the bank?

As per the 2nd proviso of rule 28, the value declared in the invoice shall be deemed to be the open market value where the recipient is eligible for full input tax credit. In the instant case, the recipient is not eligible to avail of ITC and therefore, the value declared cannot be accepted as open market value.

Sale of assets								
	Sale of assets is always taxable in GST. Moreover, permanent transfer or disposal of business assets on which input tax credit has been availed is also considered as supply even if no consideration is received (Sch. I of Sec 7). Donation of business assets or scrapping or disposal in any other manner (other than as a sale – i.e., for a consideration) would also qualify as 'supply', where input tax credit has been claimed.							

Goods sent on approval basis	**Goods Sent on approval basis before 1st July, 2017(but not more than six months earlier from 1.7.2017)** if returned within 6 months (2 months more in case of sufficient cause) from GST implementation, then no tax is payable by the person returning the goods. If it is returned after the time limit, then GST is payable by the person who returned the goods [sec 142 (12)]. If the goods are not returned within above time limit, the person who sent the goods is liable to pay GST. **In GST regime:** The invoice with respect of goods sent on approval basis has to be issued at the earliest of – (i) Before or at the time of supply, (ii) 6 months from the date of removal of goods from factory / godown etc. If the goods are not approved within 6 months, it will be deemed that sale of the said goods has taken place by the person who has sent the goods for approval. [S. 31(7) read with S. 12(2)]							
Goods sent to job workers								

	Inputs sent for job work are not received back by the principal after completion of job work or otherwise not received within 01 year of their being sent out, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were sent out **[sec 143(3)].** ***In such cases liability to pay interest will also arise*** **Capital goods, other than moulds and dies, jigs and fixtures, or tools, sent for jobwork are not received back** by the principal after completion of job work or otherwise not received within 03 years of their being sent out, it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out **[sec 143(4)].** ***In such cases liability to pay interest will also arise*** **Any waste and scrap generated during the job work** may be supplied by the job worker directly from his place of business on payment of tax, if such job worker is registered, or by the principal, if the job worker is not registered [**sec 143(5)].**							
Disposal of assets without any								

consideration [Entry 1 of Sch – I]. Supply of goods or services to related person or to distinct person even without consideration) [Entry 2 of Sch – I] Note: When the related persons are employee and employer then the next row is applicable.	There is no doubt that disposal of business assets against consideration is a supply. But, if ITC on any business asset is taken then disposal of such business assets even made without consideration is also to be treated as supply. Suppose XYZ Ltd., is in the business of Hotel. He purchased AC for business purposes and availed ITC and a car for which no ITC has been claimed. After 2 years, he permanently transfers the AC to one director and the car to another director without any consideration. Though there is no consideration in case of transfer of AC machine still it shall be a supply as per schedule I and supplier has to pay an amount determined according to sec 18(6). In the case of permanent transfer of the car, it will not be treated as supply since no ITC has been claimed on the same.							
Supply of goods or services to related person or to distinct person (even without consideration) [Entry 2 of Sch – I] When the related persons are employee and employer.	Distinct person is defined in Sec 25(4) and related person is defined in Explanation to sec 15. This issue needs careful examination because in most of the cases there may not be any reflection of transactions with related or distinct persons in P/L account or in any ledger. In the case of goods there may be an audit trail of transactions among the distinct or related person without any consideration. But in the case of services, such trails may not be found in the books of accounts. The auditor needs to study the particular business pattern of the auditee and should try to find out probable areas. Valuation of such supply needs examination.							
Expenses accounts to ascertain if								

there are any expenses for free gift or facility (free holiday package, etc.) to any employee for value exceeding Rs. 50,000/- in a year.	This is another important area where the auditee may fail to comply with the provisions [entry no.2 of Sch I of sec 7]. Most of such supplies may be found in different expense ledgers like misc. expenses / other expenses, wages-salary-allowances, benefits to the employees, directors' remunerations, etc.							
Commission agent of goods (both the commission and the supply value of goods on behalf of the principal will form part of supply value) [Entry 3 of Sch – I].								
	As per the provisions of the GST Laws, in the case of supply through agent both the principal and the agent are liable to pay tax. So, the value of supply of goods made or received through an agent as prescribed in Rule – 29 needs proper examination.							
Income from land and building								
	Many transactions are linked with Land; e.g. sale of land and building subject to entry no.5 of sch. III, rent, lease, easement, licence to occupy land, development, transfer of tenancy right, transfer of development right, and building apart from sale of under construction real estate property etc.							
Agreeing to the obligation – i. to refrain from an act ii. to tolerate an act or a situation iii. to do an act								
	Section 7(1A) of the CGST/SGST Act, 2017, includes activities referred to in Schedule II in the scope of supply. Clause 5(e) to Schedule II provides that 'agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act' shall be treated as supply of service.							
Any other areas of concern								

	The above Tables may not be exhaustive for an audit officer in respect of particular auditee and there may be other areas of concern. The audit officer should mention his detection in this table. These would include adjustments on account of unbilled revenue (at the beginning and at the end of the year) and adjustments on account of advances received in respect of services							
Total undisclosed supply value								
Tax involvement on undisclosed supply								

*****Refer to next table for list of State Codes

LIST OF STATE CODES: For noting Places of supply

STATE/UNION TERRITORY	CODE	STATE/UNION TERRITORY	CODE
Jammu and Kashmir	1	Jharkhand	20
Himachal Pradesh	2	Odisha	21
Punjab	3	Chhattisgarh	22
Chandigarh	4	Madhya Pradesh	23
Uttarakhand	5	Gujarat	24
Haryana	6	Daman and Diu	25
Delhi	7	Dadra and Nagar Haveli	26
Rajasthan	8	Maharashtra	27
Uttar Pradesh	9	Andhra Pradesh(before division)	28
Bihar	10	Karnataka	29
Sikkim	11	Goa	30
Arunachal Pradesh	12	Lakshadweep	31
Nagaland	13	Kerala	32
Manipur	14	Tamil Nadu	33
Mizoram	15	Puducherry	34
Tripura	16	Andaman and Nicobar Islands	35
Meghalaya	17	Telangana	36
Assam	18	Andhra Pradesh (new)	37
West Bengal	19	Ladakh	38

Part E (Correctness of purchase / procurement for which tax is payable u/s 9(3) & 9(4) of the SGST/CGST Act and u/s 5(3) & 5(4) of the IGST Act)

As disclosed in GSTR 3B (Rs.)	As disclosed in GSTR 9/9A (Rs.)	As disclosed in P/L (Rs.)	Difference (Rs.)
Reconciliation statement with supporting documents needs to be examined.			
Any other supply which is not disclosed in any of the above fields but disclosed at the time of audit.			

Additional information from the books / other sources to examine correctness of the finally disclosed liability to pay tax u/s 9(3) & 9(4) of the SGST/CGST Act and u/s 5(3) and 5(4) of the IGST Act (month wise statement):

Relevant section	Areas of concern	Examination	Taxable value (Rs.)		Disclosed in return (Y/N)	Additional tax liability (if any)			
			Intra-State (S)	Inter-State (I) with POS (State Code)		State tax	Central tax	Integrated tax	Cess
9(3) of SGST / CGST Act	Goods under Notification no.4/2017 (R) dt.28.6.2017.								
5(3) of IGST Act	Goods under Notification no. 4/17-IT(R) dt.28.6.17.		Normally a supplier collects tax from the buyer and deposits the same after adjustment of the output tax liability with the input tax credit available. Liability to pay tax shifts from supplier to recipient under reverse charge mechanism (RCM), Apart from this, in the case of import of goods and/or services also, the recipient is liable to pay tax except in some specific cases like OIDAR services from outside the territory of India to non-taxable person in India.						
9(3) of SGST / CGST Act	Services under Notification no.13/17 (R) dt.28.6.17								
5(3) of IGST Act	Services under Notification no.10/17-IT(R) dt.28.6.17.								
7(1)(c) of SGST / CGST Act and sec 20 of IGST Act [Entry 4 of sch – I]	Import of services (with or without consideration) from related person in the course or furtherance of business.								
7(1)(b) of SGST/ CGST Act	Import of services for a consideration.								

Proviso of Sec 5(1) of IGST Act	Import of goods								
9(4) of SGST / CGST Act	Intra-state procurement of goods and services from unregistered person where daily amount of such purchase is more than Rs.5000/- [applicable for 01.07.17 to 12.10.17]								
5(4) of IGST Act	Inter-state procurement of goods and services from unregistered person where such purchase is more than Rs.5000/- per day [applicable for 01.07.17 to 12.10.17].								
Residual	Any other areas of concern								
Total undisclosed supply value									
Tax involvement on undisclosed supply									

***Refer to previous page for list of State Codes

Part F (Correctness of claim of Input Tax Credit)

Details of ITC [month-wise]	Integrated Tax		Central Tax		State Tax		Cess	
	As per 3B	As per audit	As per 3B	As per audit	As per 3B	As per audit	As per 3B	As per audit
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a. Import of goods								
b. Import of Services								
c. Inward supplies liable to Reverse Charge (except a, b above)		In GST, ITC can be availed by every registered taxable person on all inputs, input services and						
d. Inward supplies from ISD								
e. All other ITC including ITC on TRAN								

A.	**ITC available (a+b+c+d+e)**		capital goods used or intended to be used in the course of or for the furtherance of business with a few exceptions. However, there are conditions to avail such ITC. The situation becomes more complex when there is common credit used in business and non- business, or used in taxable supply and exempt supply.	
f.	ITC required to be reversed as per Rule 42 & 43			
g.	Other ITC required to be reversed			
B.	**ITC required to be Reversed (f+g)**			
C.	**Net ITC Available [A-B]**			
h.	Ineligible ITC as per Sec. 17(5)			
i.	Other ineligible ITC			
D.	**Ineligible ITC**			
E.	**Net eligible ITC[C-D]**			

Part G (Payment of Tax)

Month	Type	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Tax paid upon setting off ITC	IGST													
	CGST													
	SGST													
	Cess													
Tax paid in cash	IGST													
	CGST													
	SGST													
	Cess													
Total tax paid as per GSTR-3B	IGST													
	CGST													
	SGST													
	Cess													
Total														

Month	Tax paid as per GSTR-3B or otherwise*				Tax payable as per Audit				Balance Tax payable			
	CGST	SGST	IGST	Cess	CGST	SGST	IGST	Cess	CGST	SGST	IGST	Cess
Apr												
May												
Jun												
Jul												
Aug												
Sep												
Oct												
Nov												
Dec												
Jan												
Feb												
Mar												
Total												

*payment made by any other instrument like DRC-03, payment against DRC-07 etc.

Part H (Correctness of Payment of Interest)

1. Interest payable due to late payment of tax

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of tax paid													
Due Date of payment													
Date of payment													
Default period (days)													
Rate of Interest													
Interest payable													

2. Interest payable due to non/short payment of tax

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of non/ short payment of tax													
Due Date of payment													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
Interest payable													

***The actual interest payable shall be calculated till the date on which such interest is actually paid.**

3. Interest payable due to excess ITC availed

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of excess ITC availed													
Date of claim													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
Interest payable													

***The actual interest payable shall be calculated till the date on which such interest is actually paid.**

4. Interest payable due to excess amount Refunded

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Amount of excess refund													
Date of receipt of refund													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													

Interest payable													

***The actual interest payable shall be calculated till the date on which such interest is actually paid.**

Particulars	Amount (Rs.)
Total Interest payable (as observed upon audit) [Sum of Interests payable under Tables 1 to 4 above]	
(-) Interest paid [as disclosed in GSTR-3B]	
(-) Interest paid [as voluntarily through DRC-03 or through GSTR-9 or in the course of audit, other than any payment made in compliance of Sec. 73 or 74]	
Interest Due	

***The actual interest due shall be calculated till the date on which such interest is actually paid.**

Part I (Correctness of Any other amount due)

Particulars	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Any other amount due													
Due date of payment of such amount													
Date of FAR													
Default period (days upto the date of FAR)*													
Rate of Interest													
Interest payable													

Annexure 14: Ratio Analysis & Trend Analysis (p.53)

The relative values of one data field when compared with another could help to detect potential errors or areas of non-compliance. It also helps to detect wrong Input Tax Credit availed, wrong valuation, claiming of input tax credit on inputs used in exempted goods / services, availment of ITC without receipt/actual use of input, etc.

EXHIBIT 50

Example 1

Audit Officer finds that the RTP (auditee) has a tax liability of Rs. 72 lakh out of which Rs. 70 lakh has been paid upon setting off ITC from his credit ledger and only Rs. 2 lakh has been paid in cash.

In this case, the Officer should apply the ratio of [ITC availed : Total tax paid through Electronic cash ledger + tax paid through Electronic credit ledger].

In this case,

The result is 70/(2+70) = 70/72 = 0.972, i.e. 97.2%.

The result on such higher side may be of various reasons including accumulation of high stock resulting in accumulation of ITC.

But, if the RTP is a reseller without having significant warehouses, or if the goods dealt in are perishable in nature, the issue of stock holding will not stand good.

This should ring a bell in the audit officer's head that there may be a case of:

- wrong availment of input tax credit on goods/services in excess including claiming of input tax credit on inputs used in exempted products.

- under valuation of goods as value-addition should involve adequate difference between the two.
- or suppression of sales.

Example 2

The auditee deals with both exempted goods and taxable goods. Total supply in the audit period is of Rs. 10 crore out of which exempted supplies amount to Rs. 6.5 crore.

In this case, the Audit Officer should apply the ratio of [Value of exempted outward supply: value of total outward supplies made]. This ratio helps to identify:

- outward supplies made in the guise of exempted supplies.
- supply of essential parts of outward supply as exempted supplies.
- under valuation of outward supplies by overvaluing exempted outward supply

As in this case, the ratio comes out as 0.65 or 65%.

If the audit officer is satisfied that the figures pertain to actual supply of exempted goods, it should be thoroughly examined whether the supplier has availed any ITC on inputs related to such exempted supplies. In such case, including cases of availing common credit, proportionate ITC is to be reversed.

Example 3

Ratio analysis for over a continuous period, say 3 years gives a holistic picture of the trend of the RTP. Taking an example, if the ratio of [Amount of input tax credit availed on inward supply : Total tax liability on outward supply] is studied over a period of 3-4 years, and if the ratio is increasing there is the possibility of the following irregularities:-

- Rendering of unaccounted outward supply;
- Under valuation of outward supply;
- Showing outward supply income as non-taxable outward supply income.
- Inflation of inward supply credit.

Some of the indicative ratio analysis and trend analysis as follows may be carried out by the audit officer

RATIO ANALYSIS

I. BASED ON RETURN DATA

Sl.	RATIO	2017-18	2018-19	2019-20
i)	Inward supply value : outward supply value			
ii)	EWB value of inward supply : EWB value of outward supply			
iii)	Non-GST Turnover : Total Turnover			
iv)	Exempted Supply value: Total Turnover			
v)	Value of Goods Sent for Job Work : Total Turnover			
vi)	ITC on inward supply : Total inward supply			
vii)	Total ITC available : Total GST payable			
viii)	ITC availed on capital goods purchased during the years : addition to capital goods			
ix)	ITC availed on Capital Goods : Total ITC availed			
x)	Transitional ITC availed : ITC availed in the year			
xi)	Tax payable: Total turnover			
xii)	Total Ineligible & Reversed ITC : Total ITC Availed			
xiii)	Tax payment by ITC : Total Tax paid			
xiv)	Tax paid in cash : Tax paid on setting off ITC			

II. BASED ON FINAL ACCOUNTS DATA

Sl.	RATIO	2017-18	2018-19	2019-20
i)	Inward supply value : outward supply value			
ii)	Other income : outward supplies			
iii)	Gross profit : Gross revenue			

iv)	Power consumption/fuel consumption (Qty) : production quantity as per P&L Account			
v)	Production of Goods : Scrap Scrap: Production of goods			
vi)	Quantity of Actual production : installed capacity			
vii)	Cost of Major input: Value of outward supplies			
viii)	Consumables value: Value of taxable supplies.			
ix)	Net profit : Value of outward supplies			
x)	Capital employed : Value of outward supplies			

TREND ANALYSIS

I. GENERAL TRENDS

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Total Turnover			
b)	Total Zero Rated (Exports) Supply,			
c)	Supply to SEZ			
d)	Deemed Export			
e)	Total Exempted Supply			
f)	Total NIL rated Supply			
g)	Total Non-GST Supply			
h)	Total Taxable Outward Supply			
i)	Total Inward Supply subject to Reverse Charge			
j)	Total Tax payable on Outward Supplies			
k)	Additional Tax paid by DRC-03 (Annual Return)			
l)	GST of a particular goods/service vis-a-vis overall growth of that industry. (%)			
m)	Trend in proportion of value of exempted goods/services to the total value of goods/services. (%)			

n)	Gross operating profit			
o)	GST paid by debit in Electronic Cash ledger vis-à-vis GST paid by debit in Electronic Credit Ledger			
p)	GST paid by debit in Electronic Credit ledger vis-à-vis Total GST paid			
q)	Value of outward supplies made to related person vis-a-vis total value of supplies. (%)			
r)	Inter unit transfers /sales to related party as per Balance Sheet			
s)	Total refund claimed			
t)	Total refund sanctioned			
u)	Demand raised (if any)			
v)	Value of EWB outward			
w)	Value of EWB inward			

II. ANALYSIS FOR MANUFACTURER OF GOODS

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Cost of production of major finished Goods (as per cost record)			
b)	Quantity of inputs consumed in the production of Finished Goods			
c)	Value of inputs consumed in the production of Finished Goods			
d)	Production of finished goods compared to outward supplies			
e)	Production of scrap compared to Production of finished goods			
f)	Production of taxable outward supplies vis-a-vis exempted supplies			
g)	Movement of inward supplies vis-a-vis total production			
h)	Movement of inward supplies for goods manufactured on job-work vis-a-vis total production			

III. ANALYSIS FOR MANUFACTURER AS WELL AS RESELLER OF GOODS

Sl.	PARTICULARS	2017-18	2018-19	2019-20

a)	Difference in ITC taken & ITC available on purchase of raw materials			
b)	Job work income as per P&L Account or Trial balance			
c)	Movement of inward supplies vis-a-vis total outward supply			

IV. ANALYSIS FOR SUPPLIER OF SERVICES

Sl.	PARTICULARS	2017-18	2018-19	2019-20
a)	Difference in ITC taken & ITC available on input services			
b)	Cost of procurement of major services provided (as per books)			

V. ITC TREND ANALYSIS

Particulars	2017-18	2018-19	2019-20
Opening balance			
Total ITC availed on Inputs			
Total ITC availed on Input Services			
Total ITC availed on Capital Goods			
Total ITC received from ISD			
TRAN credit claimed			
Total ITC eligible & availed			
Ineligible ITC, Not availed			
Credit utilized for payment of tax (Debit entries in e-credit ledger)			
ITC reversed			
Closing balance			

VI. TURNOVER TREND ANALYSIS

Year	Turnover as per P&L A/c or Trial Balance	Other Income	Value of Taxable Supplies	Total GST paid	GST paid in cash	GST paid by setting of ITC
2017-18						
2018-19						
2019-20						

Annexure 15: Study of Profit and Loss Account and Balance sheet (p.51)

Financial Statement, Accounts and GST

i. Every business organization draws up financial statements in respect of any financial year comprising (a) the Balance Sheet as on the last day of the financial year {summarising the value of "owings" (what it owns) and "owings" (what it owes) or the value of assets, liabilities and capital} of the entity as on the said last date, (b) the Profit and Loss Account or the Income Statement {summarising the revenue receipts during the year from its business operations (does not include receipts of a capital nature) and the expenses incurred for earning the said revenue during the year}.

ii. The aforesaid financial statements are generally referred to as the final accounts of the entity and are prepared for every distinct legal entity (as opposed to a "distinct person" in terms of Section 25). Thus, branch offices of a company/entity having business operations in more than one State will have consolidated financial statements in respect of all its transactions across the country, unless the different State "Units" ("distinct person" in terms of Section 25) are independent profit centres recognized as such by the company itself. Thus, in cases where the different State Units are not recognized as independent profit centres, the returns filed by the entity in a particular State cannot be mapped on to the financial statements on a one-to-one basis. In such cases (and even otherwise) every unit prepares a trial balance as at the end of the year (which also forms the basis for preparation of financial statement); the trial balance comprises balances/totals in respect of each item of revenue, expenditure, capital receipts, capital expenditure, assets/properties and liabilities/obligations. Thus, wherever the audited final accounts, i.e. profit and loss account and balance sheet are not available, the reconciliation of the return with books of accounts should be carried out *vis-a-vis* the trial balance. It may be noted that the trial balance may not be readily available in respect of individual units of a multi-location entity *(viz. some Pan-India entities with centralised control on debtors, creditors and payments)* operating on a SAP/ERP platform where the vendors, customers or the bank accounts are operated centrally. In such cases the trial balance has to be extracted with some effort.

iii. Different kinds of businesses entities like companies, banking companies, insurance companies, public utility (e.g. electricity generation/transmission/ distribution) companies, etc. are governed by different statutes which have generally prescribed formats for the preparation of final accounts and also the information to be contained in such accounts. By and large, the formats and content prescribed under the Companies Act *vis-a-vis* final accounts for companies is a standard document in the accounting world and all relatively large undertakings, whether or not companies, adopt the same.

iv. Schedule III to the Companies Act, 2013 prescribes the norms, content and format of the balance sheet and the profit and loss account of a limited company. The Schedule also contains instructions for preparation of the financial statements.

v. An important component of the financial statements is the Notes to accounts which contain detailed information and break-up regarding different items of the information and contents of the Balance Sheet and the Profit and Loss Statement.

vi. The most important of which, for our purposes, is the Statement of Profit and Loss (Part-II of the said Schedule III). This statement comprises information regarding "Total Revenue" which has two significant and separate components viz. "Revenue from Operations" and "Other Income". This statement also has information regarding "Cost of materials consumed", "Purchases of Stock-in-Trade", "Changes" in inventory levels, "Employee" costs, "Finance costs", "Depreciation" and "Other" expenses. On the basis of this information, the operating profit is derived and disclosed; it is from this profit that adjustments towards prior periods and exceptional items, tax, effect of discontinuing operations are made and the net resultant earnings are derived.

vii. The general instructions for preparing this Statement (as contained in this Part) specify that companies (other than finance companies i.e. those generally engaged in financing operations of other business entities or extending/accepting loans/deposits) are required to separately disclose in the Notes to the Accounts, revenue from sale of goods/products, sale/supply of services and other operating revenues and the said Notes are to also separately disclose Excise Duty (now GST). In respect of finance companies, the revenue from operations shall include revenue from Interest and Other

financial services. In case of supply of services, supplies under broad heads are to be separately disclosed.

viii. Each such category of supply would refer to an "outward" supply in terms of GST and the values of such supplies as appearing in the financial statement/trial balance should be traced to the respective ledger accounts in the books of accounts. The business operations of an entity may comprise different kinds of goods/services and transactions involving them may be recorded differently in the books by different entities. For instance, an entity engaged in supply of readymade garments may have separate ledger accounts for supply of hosiery, shirts/trousers, kids clothing, woollen garments and accessories. These items may attract different rates of tax, depending on their classification. In such a case, the validation of outward supplies declared in the return may ideally begin with seeking a break-up of the aggregate value of each category of outward supply declared in the said returns into its various items/sub-items i.e. hosiery, shirts/trousers, kids clothing, woollen garments and accessories. The value of each such item/sub-item (separately recorded by the auditor in a document forming part of his working papers) may be validated by the auditor through the profit and loss statement/trial balance. The scheme of validation to be adopted by the auditor has to depend on (and, ideally, follow) the scheme of classification of his activities/transactions and the level of detail adopted by the supplier in the ordinary course of his business.

ix. The details regarding "Other Income" in the Profit and Loss Statement are to be classified in the Notes as "Interest income" (in case of other than finance companies), "Dividend", net gain/loss on sale of investments (i.e. shares, debentures, bonds, etc.), and other non-operating income. It is this component of "Other Income" which is of particular significance in verifying whether all 'other supplies' (transactions that are incidental or connected, whether related or unrelated, to the primary operations of the entity) have been disclosed properly in the GST returns or not. Hence, the details of this component should be carefully examined by the auditor and every item should be co-related to the corresponding entry in the trial balance and from there be verified from the appropriate ledger accounts in the books of accounts maintained by the entity.

x. In the process of seeking a break-up of the aggregate value of each category of outward supply as referred to in Para above, the auditor may encounter categories of such supplies which are not in the nature of the primary

activities of the business entity. For instance, the said entity engaged in the supply of readymade garments may have, during the said period, sold off/disposed empty cartons in which it may have received the items that it sells. It may also have sold off/disposed old furniture or old air conditioners/computers. The entity is engaged in the business of selling readymade garments and the supply of empty cartons (related to its main business), air conditioners/computers (not so related) is not part of its main activity; but it is connected to/incidental therewith. The supply of these items is also leviable to tax and has been clubbed together in the outward supplies declared in Table 3.1 of GSTR-3B. But the same will not appear in the "Revenue from operations" component of its profit and loss statement; rather, the same will be disclosed as "Other Income" component. Accordingly, each such item may be verified with respect to the ledger accounts.

xi. The auditor should pay particular attention to the mapping of every item of revenue recorded in the books of accounts (appearing on the 'income' side of the profit and loss statement or 'credit' side of the trial balance) on to the break-up of outward supplies referred to above. Care should be taken to ensure that every item of income appearing in the profit and loss statement/trial balance (except the "no supplies" referred to below) plus the "deemed supplies" explained below is included in some item of the break-up of outward supplies as derived from Table 3.1 of GSTR-3B and the aggregate value of all such items of income appearing in the profit and loss statement/trial balance (as adjusted for “no supplies” and “deemed supplies”) matches with that of the aggregate value of outward supplies declared in Table 3.1 of GSTR-3B. If not, it is indicative of supplies on which tax not being paid/short paid.

xii. It is important to note that the outward supplies reported in Table 3.1 of GSTR-3B may include values of supplies for which no corresponding values are available in the profit and loss statement and/or trial balance (except where any asset has been permanently alienated, in which case there will be a "write/written off" account/balance in the profit and loss statement/trial balance and also a reduction/disposal in the fixed asset account, in case of such an asset). These are the "deemed supplies" of Schedule I of the Act. The major transactions in this category are transfers of goods or cross-charge on account of services to other branch offices/depots/agents/units (this will reflect as ITC in case of receipts under similar circumstances). In the case of goods, such

transactions are easily verifiable from the stock register/statements and/or goods transfer register. The valuation in such cases is not a problem if the same is a B2B transaction where credit is fully available; the value in the invoice suffices. However, in case of B2C transactions of this nature, valuation rules 27-31 will have to be applied. Transactions in services under such circumstances present a different problem, however. Where centrally procured services have not been dealt with in accordance with the ISD mechanism, there could be entries (and tax invoices) relating to supply of services by the Head Office (HO) to a Branch Office (BO) or by one BO to another Bo or by BO/s to HO (who are all distinct persons within the meaning of section 25). It is in such cases that the auditor has to tread with caution as even the fact that whether services have actually been supplied as claimed or the issuance of tax invoices is just an attempt to move credit around from one such entity to another entity in view of the second proviso to rule 28. The auditor should carefully examine and seek evidence/documents to validate whether the 'supplier' has the wherewithal and has deployed the quantum of resources necessary for the generation of services claimed to have been so provided to other units because no service can be supplied unless it is 'generated' through some resources or method.

xiii. There is another category of transactions which are reflected in the profit and loss statement/trial balance but are not part of supplies liable to tax as reflected in Table 3.1 of GSTR-3B. These are the "no supplies" of Schedule III. Of particular importance in this category are supplies of land, supplies of building (before completion certificate), high sea sales or supply of goods in the customs area before filing a bill of entry. These are all business transactions involving goods or services between different persons with consideration and, as such, they are recorded in the books of accounts (and reflected in the profit and loss statement/trial balance) but they have been declared as not being leviable to GST and, hence, they will not appear in GSTR-3B.

xiv. The value of 'inward supplies liable to reverse charge', as disclosed in Table 3.1 of GSTR-3B may also be sought to be dis-aggregated similarly with reference to supplies of goods and/or services on which payment on reverse charge has been notified. This can be validated with reference to entries on the debit side of the trial balance or the expenditure side of the profit and loss statement. While very few goods have been notified as taxable on reverse

charge basis, there is a long list of services on which tax is payable on reverse charge by the recipient.

xv. Accordingly, the value shown at serial (d) of Table 3.1 of GSTR-3B should be broken-up into its separate components. An illustrative list could be as follows:-

Goods			Services		
Description	Value	Tax	Description	Value	Tax
Import of the Goods			Import of Services		
Separately for each item dealt in (e.g. cashew, biri leaves, etc.)	*(separately for Inter-State and Intra state)*	*(separately For IGST, CGST, SGST, Cess)*	Services received from GTA	*(separate ly for Inter-state and Intra- state)*	*(separately for IGST, CGST, SGST, Cess)*
			Legal Services		
			Services received from Government/ LT (service-wise separately)		
			TDR or FSI		
			Long term lease of land		
			Add rows for other RCM services if received		

xvi. Each of the above items (except possibly in case of goods) will correspond to different entries in the trial balance from where they can be referred back to the respective ledger accounts. The value of import of goods is separately disclosed in the Notes to accounts. Receipt of certain services (e.g. services from Government, import of services, TDR/FSI, etc.) may not be available as separate headings in the trial balance. These have to be ascertained from the ledger of the personal accounts to whom payments have

been made e.g. Government, Builder, Foreign Supplier, etc. The values in respect of each of the above items is to be validated with reference to the ledger accounts and/or purchase register, where available, via the trial balance.

xvii. The ITC availed is to be validated with reference to Table 4 of GSTR-3B. The ITC availed on account of import of goods, import of services and other inward supplies liable to tax on reverse charge basis is to be validated in the manner specified above. ITC availed on account of receipts from ISD is not readily verifiable from the trial balance or profit and loss statement (except where HQ- Branch/Branch-HQ/Inter-Unit services are billed on cross-charge basis), since this does not involve any monetary consideration. Thus, ISD credit is to be verified with reference to the Journal book in which they are specifically entered. There are other means of verification of such ISD credit, particularly the GSTR-2A.

xviii. By far, the largest component of ITC is reported at serial (e) of Table 4 of GSTR-3B under the head "All other ITC". This is the most frequent and most widely availed ITC since it pertains to purchase/receipt of goods and/or services in the normal, primary and routine course of business, relating to the essential activities of the business entity.

xix. This item too should be segregated by the auditor under its various components viz. inputs, input services, capital goods and each of these components may be further segregated into each of its various heads (e.g. 'inputs' into different goods, HSN wise, 'input services' into various services, again HSN wise and 'capital goods' into each of different category of capital goods). In so far as 'inputs' are concerned, these are generally recorded separately category-wise and may be traced back from the dis-aggregated GSTR-3B to the separate ledger accounts via the trial balance. 'Input services' too can be validated similarly. In this context, it must be remembered that no credit is availed on account of anything that is not recorded in the books of accounts and is not reflected in the profit and loss statement/trial balance (except in case of receipt of “deemed supplies” or ISD). If so, it would be indicative of a case of credit being "wrongly availed".

xx. As explained above while every item of income/receipt (including "deemed supplies" but excluding "no supplies") is to appear in the outward supplies of GSTR-3B, failing which it would be indicative of tax being not/short paid.

However, every item of expenditure will not appear in Table 4 of GSTR-3B since credit is not available in certain cases (Section 17(5) of the Act). However, where the credit is not otherwise blocked under Section 17(5), and if it is still not availed it may be indicative of the credit availment being either deferred to a future period or the credit not being availed in which case it may be indicative of the purchase/receipt being suppressed; this needs to be investigated further.

Examples of some types of Account that require thorough examination

Sl. No.	Examples of some types of Account that require thorough examination	Remarks	
1.	Introductory Director's Report and Auditor's Notes	The Annual Report prepared by a company *inter alia* contains the following: a) **Director's Report:** This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Information in respect of advance received and order booked. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc. reported in the report may be useful to the auditor. It will help to know the business model of the company. It may contain certain details such as: □ Classification of goods and services dealt with. It will help audit officers to determine applicable rate of tax. So, audit officer shall have adequate knowledge in classification of goods and services disclosed by the auditee. Incorrect classification of	

		goods or services can lead to incorrect GST payment. □ Foreign Exchange earned during the year; □ Foreign Exchange paid during the year, e.g. may be on account of taxable services received by the Auditee where he is liable to pay GST under reverse charge mechanism. □ Advance received. Audit officer should then concentrate on operational liability (current & recurring) where such advance is accounted for. □ Information on the operations carried out by the Auditee during the year under report. This may help in finding the exact nature of services provided by the Auditee. □ It may show some of the Directors having commission and some having received sitting fees. Are these receipts liable to GST? If, yes what will be the value of supply? Besides sitting fees if other facilities like car, flat, club membership etc are provided whether all such will be part of consideration or not? Audit officers should follow provisions of sec 15 read with rule 27 of the CGST/SGST Act, 2017. □ If any Director helped the company by standing as a guarantor in taking a loan whether that will be treated as supply or not? □ We may get information in respect of ***Seconded by Foreign entity*** to render services to an Indian Entity not as employee of Indian entity. This importation of service is treated as supply as per entry no.4 of Sch.I appended to section 7 of the CGST/SGST Act, 2017. b) **Auditor's Report:** □ These may be reports of Statutory auditor or Internal auditor or C & AG Audit. In the case of statutory	

		audit, a separate report under CARO (Companies Auditor's Report Order, 2003/2015) is required to be given. The same should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. For example, Auditor may report that goods meant for outward supply, available in stock were not reconciled or provision for obsolete items have not been made during the year. Tax auditor may like to examine such opinion in detail. □ **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 supply and goods meant for outward supply was under taken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods. It also shows disputed tax liabilities separately for Customs, Income Tax, GST etc. Cases booked under Income Tax may be examined to find out any implication on GST. □ In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined. □ **Disclosure of accounting policies followed in the presentation of financial statement** – Auditor's Notes may contain accounting standards with the disclosure of significant accounting policies followed in the preparation and presentation of financial statements. Such policies often give additional valuable information, e.g. The auditee may disclose revenue as per AS 7, where the principles of accrual system of revenue are acknowledged. But, the auditee for GST purpose may disclose supply	

		value from works contract on certified bill basis.	
2.	P & L A/c	**Profit & Loss 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.** **P/L account may be studied for the following purposes:** □ The most important step of audit is to determine the Total Turnover in the State and the tax liability of the auditee. This information in the P&L A/c may be available as Sale or Operating Revenue or in any other similar nomenclature. However, this part denotes only the operating income, i.e. income from the main activity of business. □ The auditee may have other incomes like scrap, insurance claims receipt, profit on sale of fixed assets, commission received, erection and commissioning, freight and insurance recovered etc. which may be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation or whether these are liable for GST. They should carefully study the nature of business income – some of which may have accrued from the supply of taxable services and the balance from the supply of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or	

		contracts. □ The primary documents to be examined in this case are: Supply Invoices; Bank Statement; Debtors Ledger; Party-wise customer list. To ascertain the veracity of the figure reported in the Sale A/c vis-à-vis the Turnover disclosed in the Returns, additional documents like Sale contracts, Delivery Challan, Material Transfer Notes may be examined.	
3.	General Ledger A/cs for various expenses	Scrutiny of expenses ledger is very important for an Audit Officer as the expenditure accounts have direct impact on availment of ITC, valuation of finished goods and payment of GST on the taxable value, value of inward supply on which GST is pay able under Reverse Charge. (**e.g. Expense Accounts:** Purchase, Packing and Forwarding Expenses, Advertisement Expenses, Transportation/Freight Charges, Outward supply Expenses, Sale Promotion, benefits to employees, entertainment expenses etc.) The General Ledger may contain various accounts depending upon the scale of business of the auditee. Hence, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance (if available) which gives names of all the accounts maintained by a unit. **While making the detail examination -** □ All the important Purchase accounts need to be checked to find	

		out whether any rejection of raw material or short receipt of input have taken place which will have impact on the ITC availed by the auditee. □ Raw material consumption account may also be verified to find out with regard to writing off obsolete material. □ Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Outward supply Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. □ From the Trial Balance, the income accounts (these types of accounts will have credit balances) should be selected for scrutiny and the exact nature of such income's accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the GST liability.	

4.	Income Tax Audit Report	The Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the taxable person. Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of ITC on capital goods. As per Clause 27(a) of the said report, amount of ITC availed or utilised during the year and its treatment in the Profit & Loss Account and treatment of outstanding ITC in the account is required to be given. Tax Auditor may compare the said information with the information as per taxable value records. As per clause 35(a) to 35(c), details like opening stock, purchases, outward supply and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, outward supply, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether GST has been paid on the outward supply of raw material as reported in the tax audit report may	

		be inquired into.	
6.	Internal Audit Report	This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. This report can be used for cross verification of loss of any input, excess availment of ITC, collection of additional consideration. Also the implications on the past period for any short payment or non-payment of tax can be examined from this report. Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs	

		to be examined.	
7.	Fixed Asset Schedule [available in Balance Sheet]	This schedule contains the details of addition, deletion to the asset and depreciation charged thereupon. The examination thereof has multiple impact – in terms of turnover arising out of miscellaneous income and reversal of ITC under certain conditions. An asset can be deleted upon various circumstances – it may lose its working condition and hence may be written off. In such case, it may yield a scrap value. Whether any consideration has been received in this case can be verified from the Other Income/Miscellaneous Income A/c. This will have an impact on the Turnover. An old asset may also be permanently transferred to any related or distinct person. In such case, the matter should be looked into from the angle of Schedule I of Sec 7 of the SGST/CGST Acts, 2017. In case ITC has been availed on such asset, such has to be reversed. Furthermore, running assets are depreciated in prescribed rates. In case depreciation has been charged on a value inclusive of GST, such	

		ITC has to be reversed. Verification of the claim of depreciation on capital goods should be made from the Income tax return filed by the taxable person or from the Income Tax Audit Report (Form 3CD). There may also be possibilities of recording both expenses as well as income relating to a particular asset in the same account, thus affecting the net balance of such account. In this case, each Ledger Account for individual assets need to be checked to ascertain whether there are any sale or disposal or transfer of such asset hidden in such account. Presence of such may have impact on the tax liability of the auditee.	
8.	Other Income/ Miscellaneous Income	Other income/Miscellaneous Income as reported in the P & L A/c comprises of income from all those sources which do not form its operating revenue. A supplier in GST has its operational revenue generating from supply of goods or service or both. But there are other sources from which he may earn something more which is not booked under the A/c heads of Sales or Services or Revenue, as the case may be. Such incomes in a consolidated manner are known as Other incomes/Miscellaneous Income. Some major sources of other/miscellaneous income are income from: • Sale of scrap	

		• Receipt of insurance claim • Profit on sale of fixed assets • Commission received • Penalty / demurrage/ compensation received from employee/customers/suppliers • Rental income • Interest from Bank • Interest from debtors for late payment • Revaluation gain on fixed assets • Gain on exchange rate • Discount received • Dividends • Freight and insurance recovered etc. Many of such incomes are subject to GST such as sale of scrap or sale of fixed assets, as the nomenclature sale suggests. But there are many other account heads forming part of miscellaneous income (except a few) which also qualify as supply and should be forming a part of the GST Aggregate Turnover. Thus, these incomes are required to be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation or whether these are liable for GST.	

9	**Unbilled revenue**	**Un-billed revenue** is actually recorded in the books of account and reflected in the financial statements, but in different accounting periods and it arises mainly in the context of supply of services. This arises from the concept of revenue recognition i.e. the question as to when should revenue in respect of a transaction or activity be recognized and recorded as such in the books of accounts and taken therefrom to the financial statements. Accounting Standard 9, issued by the Institute of Chartered Accountant of India, deals with revenue recognition and states that, generally: *"Revenue from sales or service transactions should be recognised when the requirements as to performance ..... are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed."* It may so happen that the terms of the contract stipulate that the invoice in relation thereto may be issued on the happening of a certain milestone, say the seventh day of the month following the month in which the work has been certified. But in such a case the revenue accrues on certification even though the invoice should be issued next month. If such an event were to happen in the last month of the financial year, the books of accounts and the financial statements would recognize the revenue on this count and the turnover declared in the financial statement would include this. However, since the invoice is issued in the next year, this turnover would be reported in the GST return	

		for the next year. Thus, for the purpose of reconciling the turnover declared in the returns for any year (say, Y1), the value of unbilled revenue in respect of the preceding year (Y-1) shall be added to the turnover declared in the financial statements of Y1. Similarly, the unbilled revenue as at the end of financial year Y1 should be deducted from the turnover declared in the financial statements of Y1. This information is also available in rows A and I of Table 5 in Part II of Form GSTR-9C. The exact amount of unbilled revenue as at the beginning and as at the end of any financial year can be verified from the financial of the relevant years; however, in respect of 2017-18, this exercise would have to be carried out separately for the period between April, 2017 to June, 2017 since this information may not be readily available from the financial statements as such.	
10	**Un-adjusted Advances**	**Un-adjusted Advances** in respect of which GST has been paid during the financial year in accordance with the provisions of Section 12 and 13 of the Act also need to be **added to** (where such advances have been received during the *current* financial year) or **deducted from** (where such advances have been received during the *preceding* financial year) the turnover declared in the financial statements for the current financial year. This adjustment is necessary for reconciliation since GST liability on advances received has been discharged in the year in which such advances has been received while the revenue in respect of the said advances has been recognized in the books of accounts/financial statements of either the preceding or succeeding year;	

11	**Other adjustments**	**Other adjustments** are also required to be carried out to the turnover as declared in the books of accounts/ financial statements drawn from such books of accounts in order to reconcile the said turnover with the turnover declared in the GST returns. Such adjustments have been listed at serial numbers 5E to 5O, *except* serial numbers 5H and 5I thereof (which have already been discussed above, of the Reconciliation Statement in Form GSTR-9C. It may be noted that although, in accordance with the provisions of section 35(5) read with section 44(2) of the Act, the reconciliation statement may not be required in cases where the annual turnover is below Rs. 2 crores, the aforesaid adjustments will apply to every taxpayer the turnover declared by whom in his returns is to be compared with the turnover declared in his books of accounts and the financial statements drawn on the basis of such books of accounts. The adjustments noted here in this para, and the preceding paras, should be recorded separately in a Tabular manner showing clearly the nature of the adjustments (e.g. unbilled revenue, credit notes, advances, etc.), the value as per the returns, the value as reflected in the books of accounts or financial statements and the difference, if any. That there will be differences in the turnover as per the return and the turnover as per the books/financial statements is inevitable and the two can be reconciled within the framework of preparation of financial statements and maintenance of books of accounts and the framework of the GST Law. However, where the turnover as declared in the returns	

		does not reconcile with that recorded in the accounts even after carrying out the aforesaid adjustments, the reasons for such difference may be examined in the light of the evidence and records presented to the auditor and explanations may be sought from the taxpayer. The tax implications of such unreconciled differences may be worked out, the workings and documentation should be made part of the working papers/file/record of audit and should form part of the audit team's report which is also made available to the taxpayer.	

Annexure 16: Indian Accounting Standard in the perspective of GST (p.49)

Indian Accounting Standards (Ind ASs) are Standards prescribed under Section 211(3C) of the Companies Act, 1956. This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.	 **EXHIBIT 51**

It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

There are various fields where the manner of the accounting and provisions under GST may vary. GST in India is a paradigm shift with complete business change, which impacts finance, accounting and reporting functions.

The following illustrative examples are for primary understanding before conducting audit and there could be many more cases of differences in the turnovers between the financial statements and the GST Law when the auditor will audit in practical field.

1. AS 1 / IND AS 1: DISCLOSURE OF ACCOUNTING POLICIES

AS 1 deal with the disclosure of significant accounting policies followed in the preparation and presentation of financial statements. It states that an enterprise needs to disclose significant accounting policies followed by it to prepare and present its financial statements.

The following are a few examples of the areas in which different accounting policies may be adopted by different enterprises.

a) Methods of depreciation, depletion and amortisation
b) Treatment of expenditure during construction
c) Conversion or translation of foreign currency items

d) Valuation of inventories
e) Treatment of goodwill
f) Valuation of investments
g) Treatment of retirement benefits
h) Recognition of profit on long-term contracts
i) Valuation of fixed assets
j) Treatment of contingent liabilities.

e.g.1: Supplies on behalf of the principal are not reflected in the financial statements of the agent and only commission is shown as the revenue of the agent. Under the GST Law, such turnover would be treated as part of the agent's turnover also *[Ref: Sch I under sec 7]*.

e.g.2: Disposal of business assets without any consideration – Suppose assets of a company are damaged due to flood. The company claimed insurance and also received the claim amount. The company disposed of such damaged assets. If no consideration is received on such disposal of business asset then also it will be considered as sale of assets in GST if input tax credit has been availed on such business assets *[Ref: Entry no. 1 of Sch I under sec 7]*.

e.g.3: Other income from penal interest

The interest may be for various reasons like bank interest against deposit, penal interest received for payment received beyond interest free credit period, etc. So, when examining such other income, the audit officer should check whether such interest is taxable or exempted. In the present case interest received from bank against deposit is exempted but interest received from the recipient of goods and/or services for late payment is taxable if the supplied goods and/or services were taxable *[Ref: sec 15(2)(d)]*.

e.g.4: Sometimes auditee may prepare his final statement by showing certain income in different head of expenses. The following are a few examples of expenses in which supply may be involved-

a) Printing & Stationery,
b) Repairing of office and godown,
c) Repairing of furniture & Fixture,

For example, the auditee incurred expenses for purchase of office stationery and at the same time also received some sale proceeds against sale of old

office stationeries. This sale proceeds may be accounted as other income or may be treated as credit entry in the printing & stationery head. So, the audit officer should check such expenses account to identify whether any supply is also clubbed in such expenses account or not.

e.g.5: Accrual accounting: The auditee may disclose revenue as per Accounting Standard 7 (AS 7), where the principles of accrual system of revenue are acknowledged. But, the auditee for GST purpose may disclose supply value from such works contract on certified bill basis. In this situation there may be difference in turnover as per books and as disclosed in GST return. While dealing with these cases the audit officer should know the exact provisions of time of supply and time limit to issue tax invoice to ensure whether there is any under reporting of supply value or not [Ref: Sec 13, Sec 31 and Rule 47].

e.g.6: As per Ind AS, excise duty is included in value of supply but, GST is not included [Sec 15(2)(a) of CGST/SGST Act]. For the first three months of 2017-18 revenue would be presented at Gross for Excise Less Excise Duty paid, and for the subsequent period it would be shown only the net.

2. AS 2 / IND AS 2: VALUATION OF INVENTORY

As per AS-2 the costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and similar items are deducted in determining the costs of purchase.

In the CGST/SGST Act several provisions are there for the availment of input tax credit and refund of input tax credit in specified situations. Thus, to the extent credit is available or refund is available, it would not form part of the cost of inventory. But, in following situations input tax is not available for credit:

(i). Input / input services /capital goods are used for other than business purposes.
(ii). Tax paid on inward supplies by the composition tax payers.
(iii). Restricted credits u/s 17(5) of the CGST/SGST Act;
(iv). Depreciation claimed on tax element;
(v). Input/input services/capital goods used for exempted supply.

(vi). Any other ineligible input tax credit.

Thus, a systematic evaluative process is required to determine "what" credit is claimed and "what is" part of the cost of inventory as per the applicable accounting standard.

e.g.1: Goods and or services are procured where basic value is Rs. 1,00,000/- and tax paid @ 18% is of Rs. 18,000/-. Now, if ITC is available for set off against this inward supply, the cost would be recorded to the tune of Rs. 1,00,000/- only in the books whereas if availability of ITC is restricted u/s 17(5), the entire bill value of Rs. 1,18,000/- will be recorded as cost in the books as per AS 2.

e.g.2: A proprietor of a business having purchased face-masks distributes some to his office staffs and keeps a few for his home consumption. In that case, as per the AS2, the cost of such goods for business use as well as for personal use cost needs to be segregated keeping in mind that ITC is not available for goods used for personal use. Accordingly, the cost of goods is to be calculated and recorded in the books.

3. AS 3 / IND AS 7: CASH FLOW STATEMENTS

The AS 3 deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a Cash Flow Statement which classifies cash flows during the period from operating, investing and financing activities.

The Cash Flow Statement reports the cash flows during the period for the following activities:

(i). **Operating activity:** Principal revenue producing activities and other activities that are not investing or financing activities.

(ii). **Investing activity:** Acquisition and disposal of long-term assets and other investments not included in cash equivalents.

(iii). **Financing activity:** Activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowing.

However, out of the operating activities as stated above, the principal revenue producing activities and other activities that are not investing or financing activities, i.e. sale of goods or services or both will have GST implication except in a case where purely money is dealt with. This is because money is not goods as per the CGST/SGST Act(s).

Again, relating to investing activities, permanent transfer or disposal of business assets where input tax credit has been availed on such assets have been termed as an activity to be treated as supply even if made without consideration.

Furthermore, where financing activities are concerned, services by way of (a) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services) and (b) *inter se* sale or purchase of foreign currency amongst banks or authorised dealers of foreign exchange or amongst banks and such dealers are exempted from GST.

As per the GST Laws, interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised.

So, acquisition of capital, taking a loan, payment/receipt of interest or dividend will not attract GST, but any service charge or /processing fee incurred at the time of a loan will attract GST.

e.g.1: A business firm receives Rs. 10,00,000/- as dividend from its investments in share capital. This will be reflected in the cash flow statement as per AS 3 but will not have any GST implication.

e.g.2: A business firm borrows Rs. 10 crore from the bank for its business expansion. It pays Rs. 10 lakh as processing charge and starts repaying the loan with principal and interest components. Both the inflow of fund (as loan) and outflow (as EMI and processing charge) will be reflected in the cash flow statement as per AS 3 out of which, the firm has to pay GST only on the service charge part.

4. AS 4 / IND AS 10: CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence or nonoccurrence, of one or more uncertain future events.

A contingent asset is a *potential* asset that is associated with a potential gain. The asset and gain are contingent because they are dependent upon some future event occurring or not occurring.

For example, Company X has filed a lawsuit claiming for Rs. 1 crore from another Company Y. Even if it is probable that Company A will win the lawsuit it cannot be held as certain till a favourable judgement is declared. Thus, the probable gain of Rs. 1 crore is a contingent asset and a contingent gain. As such, it will not be recorded in Company A's general ledger accounts until the lawsuit is settled.

As per AS 4, a contingency gain is reported only when realised/earned. If a specific event causing such gain occurs and the gain is realised, then only the gain is disclosed.

In terms of GST, in this case, the contingent gain of Rs. 1 crore will be against services provided by Company X to Company Y as agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act and will be subject to GST only after actual occurrence of the event.

Similarly, contingent Liability is that kind of a liability which is non-existent as on date, but it may become an actual liability in the future.

For example, a customer has filed a suit against the company for compensation. This can become an actual liability in the future if the firm loses the case. However, as on date, it is not a liability as the outcome is not known today. Now, let's assume that the company's legal department thinks that the claimant has a strong case, and the business estimates a Rs. 2 lakh loss if the firm loses the case.

Since this liability is estimated, the firm will disclose this liability in its books as a footnote below balance sheet.

Product warranties given by the company can also be considered a contingent liability, since there is no certainty about the exact number of units that will be returned by customers for repair or replacement.

5. AS 5/ IND AS 8 : NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

AS 5 mainly deals with the following items:

(i). Net Profit or Loss for the Period – These can be categorized into Profit/Loss from ordinary activities and from extraordinary activities.

(ii). Prior Period Items - While preparing the financial statements, there are certain items which actually correspond to prior accounting periods. The income or losses due to these items are a result of error or omission in the financial statements of the prior period. By nature, these items are not frequent.

Now, Profit or loss from ordinary activities is such which arise in the normal course of business, i.e. they are a part of business and related activities. Examples: Profit/loss on sale of goods, services.

Profit or loss from extraordinary activities is such which do not arise under the normal course of business. These activities do not occur regularly. Example: – Profit on sale of fixed assets, Loss due to theft.

As, profit out of normal business activities have GST implication, the point of concern can be whether the goods/services dealt with are exempted or taxable and whether the turnover for which such profit element has been disclosed is at par with the Turnover on which GST liabilities have been fulfilled or not.

Similar is the case for profit out of extraordinary activities. Even if such activities are extraordinary, they will form a part of the Turnover for GST Audit and accordingly tax should be paid.

However, it may be stated that permanent transfer/disposal of fixed assets will be treated as supply even if made without consideration where input tax credit has been availed on such assets.

Again, availment of ITC will be blocked for goods lost, stolen, destroyed, written off.

So, any profit/loss arising out of extraordinary events will indicate a counter-check of such transactions from the GST angle.

Furthermore, there are certain estimates which are used while preparing the financial statements for any period. For example estimate on the useful life of machinery, estimate on the realisable value of an item in inventory. At times, these estimates are required to be revised due to any reason Accounting policies are the accounting principles and method of applying those principles while preparing the financial statements. A change in accounting policy should be undertaken only in two cases: (i) If the change is required by law or accounting standard; or (ii) If the change helps in better presentation of financial statements

Any change in an accounting policy which has a substantial/material effect is also disclosed as per AS 5.

e.g. 1, There was a theft of goods in the warehouse of ABC Pvt. Ltd. in the 2018-19 amounting to Rs. 40 lakh. The same has been detected in the year 2019-20 at the time of physical verification of inventory. The theft is not expected to take place on a frequent or regular basis and is not in a normal course of business of ABC Pvt. Ltd. Thus, the same qualifies to be an extraordinary item. Also, the theft took place in the financial year 2018-19 but was discovered in 2019-20. This suggests that although the loss related to

prior period, it was not shown and the profit was overstated by such amount i.e. Rs. 40 lakh. While taking the effect of such loss in the current year, this is a prior period item. Thus, such loss will be disclosed in the current year's financial statements as per AS 5. Accordingly, appropriate ITC already enjoyed on such goods is to be reversed as per GST Laws.

e.g. 2, the rate of depreciation of a particular asset is changed from 7% to 10% due to a statutory change. The business firm charges depreciation in his books which is inclusive of GST. Such tax portion depreciated is not entitled for ITC. Accordingly in the changed scenario where the depreciation amount will be enhanced as per AS 5, the amount of ITC reversal will also increase as per the GST Laws.

6. AS 6 & 10/ IND AS 16: PROPERTY, PLANT AND EQUIPMENT (PPE) & DEPRECIATION ACCOUNTING AND ACCOUNTING FOR FIXED ASSETS

As per AS 6 & 10, at the time of recognition, an item of property, plant and equipment (PPE) that qualifies for recognition as an asset should be measured at its cost.

Elements of cost include Purchase cost i.e. purchase price including import duties after deducting applicable discounts/rebates + Directly attributable and necessary costs to bring the asset to the location and condition necessary for it to be operating + costs of dismantling and restoration.

Some examples of directly attributable costs are – (i) Costs of employee benefits arising directly from the construction or acquisition of the item of PPE; (ii) Costs of site preparation; (iii) Initial delivery and handling costs; (iv) Installation and assembly costs; (v) Professional fees; (vi) Costs of testing whether the asset is functioning properly , after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) Administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset. However, in some circumstances, such expenses as are specifically attributable to the construction of a project or to the acquisition of a fixed asset or bringing it to its working condition, may be included as part of the cost of the construction project or as part of the cost of the fixed asset.

In this case, three sections of the GST laws, viz. S. 16(1), S. 16(3) and S. 17(5) need to be referred to. S. 16(1) of the CGST/SGST Act(s) mandates that to enjoy ITC on the asset (i.e. PPE in terms of the AS), the related goods

or services or both need to be of the nature of being used or intended to be used in the course or furtherance of business. This is also to mention that business is also defined in the GST Laws.

At the same time, S. 17(5), lays down conditions where ITC is not available.

So, although an asset may be booked and accordingly depreciated as per AS 6 & 10, the same may not qualify for ITC.

e.g. Company X manufacturing processed food receives works contract service for constructing a warehouse. The same property will be recognized in the books as per AS 6 & 10, but ITC on the same will not be available as per Sec. 17(5) of the CGST/SGST Act(s).

Now, as per AS 6 & 10, the cost of Fixed Assets is the amount of cash paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition or construction. Where applicable, that amount recorded as per the books may be the amount attributable to that asset when initially acquired in accordance with the specific requirement of other Indian accounting standards.

From the GST perspective, as per Section 16(3) where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the input tax credit on the said tax component shall not be allowed. In nutshell, Input tax credit shall not be allowed on the tax component of the cost of capital goods and plant and machinery if depreciation on such tax component has been claimed under the provisions of the Income Tax Act, 1961.

7. AS 7/ IND AS 11: CONSTRUCTION CONTRACT

AS 7 Construction Contract describes the accounting treatment of the revenue and of a construction contract. There are different types of construction contract like fixed price contract, cost-plus contract etc. Fixed price contract is very common where the contract between the contractee and contractor is agreed against a fixed price. In some cases, there may be a clause of escalation in the contract which is mutually agreed for various reasons like increase of the cost of raw materials, delay in completion etc.

Divisible contract and indivisible contract: In divisible contract the elements of each contracts are clearly segregated. But in indivisible contract both the contractor and contractee agree lump-sum consideration for the entire contract. The word “Turnkey" is commonly used in the construction industry

in case of indivisible contract. It represents an indivisible composite contract with “single point Turnkey responsibility”. According to this single point turnkey responsibility the Contractor undertakes all the things necessary for the project implementation from design to procurement of materials and construction of Works, from inception to completion, and makes ready for the use of the Owner. Here, only one entity takes the total responsibility for design, supply and execution of a project and provides a fully-equipped facility, ready for operation “at the ‘turn of the key’.

Revenue of a contract and costs of a contract are two important areas for the audit officers. Revenue of a contract includes agreed initial revenue as well as revenue from escalation. In cost plus remuneration or cost plus a margin type of agreement both the cost and the remuneration and percentage amount on such cost will form part of revenue. Even claim of incentive for completion of project before time or for various reasons will also form part of revenue. The treatment of such revenue may vary in GST.

e.g.1: A contractor received mobilization advance of Rs.50 lakh on 30.08.2017. it will form part of GST revenue. The time of supply is the date of raising receipt voucher or 30.08.2017 whichever is earlier. If, this advance is adjusted with any RA bill within one year it will be treated as liability of the contractor though it is a revenue in GST.

e.g.2: A contractor maintaining books as per AS 7 booked revenue for FY 2017-18 for Rs.1.5 Cr for which revenue accrued on 25.11.2017 but no invoice is generated (commonly known as unbilled revenue). Whether it will be part of GST Turnover for the FY 2017-18?

Yes, it will be part of GST turnover. As per provisions of sec 13 read with sec 31 and rule 47 the time of supply of this service is this case is the date of payment or provisions of service whichever is earlier. Provision of service is made on 25.11.2017. As per provisions of rule 47 the contractor was supposed to raise invoice within 30 days of provisions of service. But, he failed. So, 25.11.2017 is the time of supply.

e.g.3: A contractor received an incentive of Rs.55 Lakh due to completion of construction project before the agreed time. Whether it will be part Turnover in GST? Then which type of supply is this?

Yes, it will form part of turnover in GST, since there is a supply of service. But, this is not any construction service. This is nothing but 'agreeing to the obligation to do an act' which is a kind of service as per 5 (e) of Sch. II under sec 7 of the CGST/SGST Act.

e.g.4: There may be a situation when the contractee may claim a penalty from the contractor for various reasons like delay in completion, inferior quality of works, construction machinery used not as per specification of the agreement etc. Whether this penalty will also be part of turnover in GST? If so, then what kind of service is it and who is the supplier of service?

Yes, it will form part of turnover in GST, since there is a supply of service. But, this is not any construction service. This service is nothing but 'agreeing to the obligation to tolerate an act' which is a kind of service as per 5 (e) of Sch. II under sec 7 of the CGST/SGST Act. The contractee is the supplier of such service to the contractor in this case.

Work-in-progress – As per AS 7 when a contractor incurs costs that relate to future activity in a contract. Such costs are recognized as an asset if it is probable that they will be recovered.

In such cases the RTP as a contractor is eligible to claim ITC on such costs subject to fulfillment of conditions and restrictions of the Acts and Rules made there under.

8. AS 13/ IND AS 40: ACCOUNTING FOR INVESTMENTS

A business entity may have investments for various diverse reasons such as, operations, where the assessment of the performance of the business may largely, or solely, depend on the results of such investment activity.

Some investments are intangible e.g., shares while others exist in a physical form e.g., land & buildings. By nature, an investment may be in the form of a debt, other than a short- or long-term loan or a trade debt, representing a monetary amount owing to the holder and usually bearing interest. Again, it may be in the form of results and net assets of an enterprise such as equity shares.

As per this AS 13, the financial accounts are required to disclose the acquisition and disposal of all the investments.

Accordingly, the P/L A/c is required to include the following items:

- Income from interest & dividends;
- Profits and losses on disposal of current investments;
- Profits and losses on disposal of investments;

Now, as money is not covered under goods as per the GST Act(s).

Again, relating to investing activities, permanent transfer or disposal of business assets where input tax credit has been availed on such assets have been termed as an activity to be treated as supply even if made without consideration.

Furthermore, where financing activities are concerned, services by way of (a) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services) and (b) inter se sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers are exempted from GST.

As per the GST Laws, interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized.

So, acquisition of capital, taking a loan, payment/receipt of interest or dividend will not attract GST, but any service charge or /processing fee incurred at the time of a loan will attract GST.

9. AS 15/ IND AS 19: EMPLOYEE BENEFITS

The objective of this Standard is to prescribe the accounting treatment and disclosure for employee benefits in the books of employers except employee share-based payments.

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees. This may be in the form of long/short term employee benefits, post-employment benefits, termination/retirement benefits etc.

Now, as per entry no. 1 of Schedule III, Services by an employee to the employer in the course of or in relation to his employment, is an activity which is treated neither as a supply of goods nor as a supply of services. Thus the employee benefits provided to an employee and recorded as per AS 15, does not come under the purview of GST.

e.g. 1, Mr. A receives an arrear payment of Rs. 70,000/- after retiring from Company X. Here, the expense will be recorded as post-employment benefit as per AS 15. From the GST perspective it may be said that, although at the time of recording of such expense, there exists no employer-employee relation between A & X, the said expense will not attract any GST as it is an accrued expense for Company X in terms of employer-employee relation only.

The guiding factor in this case will be the term “employee”. If the expenses are borne on a person who is not an employee as per the pay-roll, the same will be treated as a consideration paid against receipt of supply of services from that person.

e.g. 2, Salary paid to a full-time Director of a company is a consideration paid to him out of employer-employee relationship. Hence such will not attract GST. But, remuneration paid to independent director and remuneration other than salary to employee director (such as, sitting fees) are not considerations out of employer-employee relationship. Hence, such will be treated as consideration paid against receipt of supply of services as per the GST Act(s) and will be taxable @ 18%.

Furthermore, as per the provision to entry no. 2 of Schedule I, gifts of value upto Rs. 50,000/- in a financial year by an employer to an employee shall not be treated as supply of goods or services or both. Otherwise, such gift whose value exceeds Rs. 50,000/- will be treated as a supply even though made without a consideration.

e.g. 3, Company X gives a mobile phone worth Rs. 25000/- to each member of its sales team as a gift in 2018-19. This will not be treated as a supply. But if the same Company X gives a high-end laptop worth Rs. 60,000/- to the head of the sales team, the same will be treated as a supply.

10. AS 16/ IND AS 23: BORROWING COSTS

This Standard is applied in accounting for borrowing costs. Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. This includes:

- Interest and commitment charges on borrowings
- Discounts and premiums related to borrowings
- Ancillary costs incurred in connection with arrangement of borrowings
- Finance charges in respect of assets acquired under finance lease
- Exchange differences arising from foreign currency borrowings to the extent they are regarded as adjustment to interest costs.

In this case, this is to mention that detailed discussions regarding GST implication on interests, other financial fees (processing fees etc) and that on foreign exchange have already been made in Paras 3 & 9 respectively.

11. AS 17/ IND AS 108: SEGMENT REPORTING

The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates.

If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information needs to be presented only on the basis of the consolidated financial statements.

Here, the concept of related person and distinct person comes in under the GST Laws.

As per entry no. 2 of Schedule I, Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business is an activity to be treated as supply even if made without any consideration.

In the explanation provided to Section 15(5) of the CGST/SGST Act(s), persons will be “related’’ if:

- such persons are officers or directors of one another’s businesses;
- such persons are legally recognised partners in business;
- such persons are employer and employee;
- any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them;
- one of them directly or indirectly controls the other;
- both of them are directly or indirectly controlled by a third person;

- together they directly or indirectly control a third person; or
- they are members of the same family.

Again, as per Section 25(4) of the CGST/SGST Act(s), a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as "distinct persons".

This means that two separate branches, or cost centres, or business segments (as per AS 17) of the same Company having two different GST registration numbers will be treated as related and distinct persons.

In this case, if such segmented accounting happen to be of two different cost centres having one single GST registration, special care needs to be taken to ensure that the summation of the segmented accounts have been duly reported in the GST Returns under the single registration and accordingly tax liability has been discharged.

12. AS 20/ IND AS 33: EARNINGS PER SHARE

AS 20 prescribes principles for the determination and presentation of earnings per share for comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise.

In common parlance, earnings from shares means dividend. The term 'dividend' has not been defined under the GST law. However, Section 2(35) of the Companies Act, 2013 defines the term 'dividend' to include any interim dividend. It is an inclusive and not an exhaustive definition. In common parlance, 'dividend' means the profits of a company, not retained in the business but distributed among the shareholders in proportion to the amount paid-up on the shares held by them.

The Supreme Court in CIT vs. Girdhardas & Co. (Private) Ltd. [1967 SCR (1) 777] observed that the expression "dividend" has two meanings-

- As applied to a company which is a going concern, it ordinarily means the portion of the profits of the company which is allocated to the holders of shares in the company.
- In case of a winding up, it means a division of the realised assets among the creditors and contributories according to their respective rights.

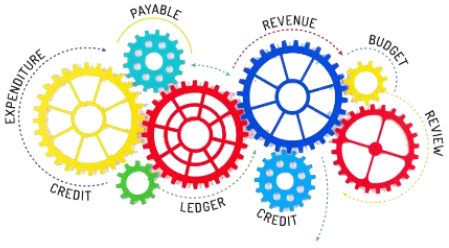
Now, as per S. 2(52) of the CGST/SGST Acts, “goods’’ means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

Thus, dividend Income may be treated as not being in the ambit of GST as such is a money income and money is excluded from goods.

Also, Section 17(3) of the CGST/SGST Act provides that the value of exempt supply under Section 17(2) shall be as prescribed and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

It is pertinent to note that Section 2(101) of the said Acts provides that “securities” shall have the same meaning as assigned to it in Section 2(h) of the Securities Contracts (Regulation) Act. The term ‘dividend’ in itself is not included in the said definition. However, it becomes relevant to examine if the earning of dividend on account of holding shares (qualifying as ‘security’ under the definition) is in any manner connected to the expression, “transaction in security”.

The above examples and discussion on accounting standards are indicative only. Audit officer may go through other accounting standards also if required.



ANNEXURE 17 (p.xi)

Recommendations for Model GST Audit Best Practices and Procedure as per the report of the sub-committee on point No, 1 of the Terms of Reference for the CoO on GST Audit

Recommendation – 01

Basis for selection of cases for audit
Identification of cases for audit is of threefold:

Based on risk assessment:

Selection of cases on the basis of compliance risks is very essential and integral to GST audit. Currently, the returns data of taxpayers i.e., GSTR-3Bs are being considered by various States and the Centre. The guiding principle of audit envisages selection of taxpayers for audit based on certain risk parameters. The Commissioner/Appropriate authority by a general or specific order may select any registered person for audit of his books of accounts for a specific period. on certain parameters as he may deem fit.

The Commissioner/ Appropriate Authority may fix the criteria of selection basis This turnover limit while fixing the selection criteria may vary from State to State, in different Zonal levels of a particular State and also for service sector when compared to that for goods.

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All risk parameters are required to be identified and all probable aspects need to be considered to identify non- compliance and non-payment / short payment of tax, interest, late fee, penalty etc. availment of credit and claims for refund and evasion of tax. The taxpayers may be classified into three

segments, Large/Medium/Small based on the total turnover. The States can also be divided into three Categories, viz. I II and III based on the taxpayer's spread across various segments. By and large, the categorization may be uniform across the States subject to the availability of more risky taxpayers in a particular category. Example for categorization is given below. This may vary from State to State and in the Centre. An illustrative scheme of classification is discussed hereinbelow:

Large - taxpayers with turnover more than Rs. 40 Crore for category 1 Commissionerates, Rs. 30 Crores for category 2 Commissionerates and Rs. 20 crores for category 3 Commissionerates.

Medium – taxpayers with turnover Rs.10 Crores to Rs.40 Crores for category

1 Commissionerates, Rs. 7.5 Crores to Rs. 30 Crores for category 2 Commissionerates and Rs. 5 Crores to Rs.20 crores for category 3 Commissionerates.

Small – taxpayers with turnover below Rs. 10 Crores for category 1 Commissionerates, below Rs. 7.5 Crores for category 2 Commissionerates and below Rs. 5 Crores for category 3 Commissionerates.

The above schema is only indicative and should be adapted keeping in view the risk profiles, revenue involved and the resources available to conduct the audit.

The turnover includes total taxable, exempt and zero rated supplies of goods and services but excludes non-GST supplies during a financial year.

To select the taxpayers for audit in an effective manner, secondary data source (such as VAT/Service Tax/Central Excise/Custom data, Income Tax data etc.) may be considered along with the primary data source (i.e. GST data).

The weightage of each parameter may vary depending upon its importance in selection of taxpayers for audit. Based on the average weight, considering all the parameters, a final score may be calculated on the basis of which the final selection may be done.

The final selection of taxpayers to be audited may be done based on the descending order of the final score thus calculated. In case, more than one

RTP has the same final score, the parameter of declared liability will then be considered and a taxpayer with more declared liability will be selected first.

A Selection Committee may be constituted to identify various risk parameters for selection for audit considering all the aspects where there are chances of lack of compliance of the Act resulting in short payment of tax etc. such as: Entity level risks (e.g. Turnover, Tax, ITC, Refund, Commodity such as Iron & Steel, Paints & Chemicals, Textiles, Cement, Medicine, Footwear, Branded food grain, Automobiles etc., Service: Works contract, Real Estate, Information Technology, Consultancy service, Manpower service, Hospitality, Travel & Tourism, Leasing etc.).

Risks associated with compliance behaviour (e.g. late filing of return, non-submission of Form GSTR-1, Form GSTR-3B, Form GSTR-9 Form GSTR-9C).

Certain representative selection criteria that can be considered for risk assessment are given below:-

1. Ratio of Taxable turnover – present year vis-à-vis previous year.
2. Ratio of ITC reversed vis-à-vis Total ITC availed during the year.
3. Ratio of total ITC availed in this year vis-à-vis previous year. Ratio of IGST payment at the time of import vis-à-vis Total
4. ITC availed ({Col.2 of table 4(A) (1) & (2) of GSTR-3B} in corresponding period).
5. Ratio of tax paid through ITC to total tax liability
6. Ratio of nil/exempt supplies (Col.2 of Table 3.1(C) of GSTR- 3B) to total turnover (excluding non GST supplies) (col.2 of Table 3.1(a) + (b) + (c) of GSTR-3B).
7. Ratio of Zero-rated supplies (col.2 of Table 3.1(b) of GSTR-3B) to total turnover (excluding non-GST supplies) (col.2 of Table 3.1 (a)+(b) + (c) of (GSTR-3B).
8. Ratio of Non-GST supplies to total turnover. {(Col.2 of Table 3.1(e) / (col.2 of Table 3.1 (a) + (b) +(c) of GSTR-3B)}.
9. Ratio of inward supplies (liable to reverse charge) to total turnover [col.2 of Table 3.1(d)}/Col.2 of 3.1 (a)+(b)+(c) of GSTR-3B)].
10. Ratio of ITC shown in Table 4A(5) of GSTR 3B and ITC as per GSTR-2A.
11. Ratio of tax paid under reverse charge (as per {Col.3+4+5+6 of Table

3.1(d)} to ITC taken on import of services/other reverse charge (other than import of goods) {Col.2+3+4+5 of Table 4A (2+3) of GSTR 3-B}.

12. Ratio of ISD credit {Col.2+3+4+5 of Table 4A (4) of GSTR-3B) to total ITC taken {Col.2+3+4+5 Table 4A of GSTR-3B}.

13. Ratio of ITC reversed {Col.2+3+4+5 of table 4(B) of GSTR 3B} to ITC taken {Col.2+3+4+5 of table 4(A) of GSTR-3B}.

14. Ratio of zero-rated supply to SEZ as per Table 6(B) of GSTR-1 to total GST turnover.

15. Ratio of deemed exports as per Table 6(C) of GSTR-1 to total GST turnover.

16. Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1.

17. Claim of ITC from cancelled RTPs, aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return.

18. Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS deducted as reflected in Form GSTR-7 submitted by TDS deductor.

19. Turnover declared by RTP in Form GSTR-3B compared to turnover on which TCS collected as reflected in Form GSTR-8 submitted by TCS collector.

20. Refund claimed against purchase from taxpayer having no auto-population of ITC in Form GSTR-2A.

21. Purchases from non-existent RTPs.

22. RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.)

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

24. 10% of the selection of the taxpayers may be done on a random basis.

25. Relating to compliance behaviour-based risk (e.g. late filer of return)– RTPs defaulting in filing GSTR-3B for 3 months will be marked 5, those defaulting for 2 months will be marked 3.33 & those defaulting by 1 month will be marked 1.67.

26. Taxpayers claiming ITC of more than the amount from eligible ITC.

27. Taxpayers who have filed all returns and tax adjusted from cash ledger is less than an amount.

28. Taxpayers who have filed all returns and difference in tax liability in

GSTR-1 > GSTR-3b by n amount.

29. Composition tax payers having turnover more than 1.25 crore.

30. Newly registered taxpayers with high turnover more than an amount.

31. Newly registered taxpayers with turnover exceeding a pre-decided threshold and cash payout percentage below a certain threshold

32. Taxpayers with (a) multiple use of pan (b) multiple use of email id (c) multiple use of mobile no.

33. Refund amount is greater than the amount.

34. Shipping bill/export proof submitted by taxable person not verified from Ice gate.

35. Turnover declared in GSTR 3b must be compared with TDS/TCS deducted (it should be more than 100 times than TCS deducted and more than 50 times than TDS deducted).

36. Taxable persons dealing in evasion-prone commodities/services as per HSN/SAC code.

37. High spike by n amount in e-way bill value in n months.

38. Ratio of Output Tax paid in cash to the total turnover in the current year is n percentage higher to the ratio of the same in the previous year.

39. Ratio of Output Tax paid to Net Profit in the current year is "n" percent higher to the ratio of the same in the previous year.

40. Taxable Person whose Turnover is less than "n" percentage of turnover from previous year.

41. Ratio of expenses to turnover in the current year is greater than by "n" percent than the ratio of the same in the previous year.

42. Inward supply from bogus dealers.

43. Zero cash set-off against tax liability.

44. Inward supply received but no outward supply.

45. GSTR-1 submitted but GSTR-3B not submitted.

46. Manufactures whose cash set-off is less than 5 per cent.

47. Three or more cases apprehended by mobile squad.

48. Cancellation of E-way bill is more than 2 per cent.

Based on Local Risk parameters/wild card entry:

Several State GST Departments have mobile squads for checking the correctness of the documents carried in support of the goods transported in the state and it is an integral part of their enforcement activity to supplement

their efforts to prevent and check tax evasion. It is the experience of the States that tax is evaded by businesses by transporting goods without documents or with fake/ invalid documents or by recycling of old documents that were not checked earlier, enabling them not to record and declare the corresponding transactions in their books. Apart from the seller and purchaser, unscrupulous transporters also form part of the network indulging in tax evasion. Based on the inputs gathered from mobile squad vigilance, risk parameters can be identified by the Officers of Anti-evasion/Enforcement wings and the corresponding tax payers may be selected for audit based on the above risk assessment. Percentage of taxpayers that may be selected on the basis of the above risk assessment may be left to the decision of the State GST Departments.

Random selection:

Tax payers (roughly around 10%) may also be selected randomly on the basis of local intelligence networks which otherwise may not be covered strictly by the overall risk parameter selection. The discretion for selecting cases may rest with the appropriate authority of a Zone or a Division.

Recommendation – 02: Scope of audit

Whether restricted to only the flagged risk parameters or all business transactions of the auditee.

Risk parameters are meant for determining the total risk score based on which registered persons would be selected for audit. When, once a registered person is selected, the audit should be carried out as per definition of 'Audit' (under Section 2(13) of the CGST Act/ KGST Act). Thus, audit would not be restricted only to the flagged risk parameters and audit should be taken up based on desk review conducted by the audit team and audit plan prepared accordingly. An efficient and effective Audit system in all aspects based on a checklist will increase voluntary compliance. A focused audit increases taxpayers' cooperation, shortens audit and improves audit yield.

Recommendation – 03: Norms for audit and co-ordination among audit officers.

Audit of all or some of the other related registered persons in the value chain based on audit findings in selected primary cases. Norms for such action i.e., whether to have the same audit officer for all cases, approach for coordination among different audit officers, oversight etc.

State audit jurisdictions do not have an annual scheduling of Audit for a financial year. Such elasticity in planning Audit of related registered persons in the value chain based on audit findings in selected primary cases is possible. Whereas, in the CGST audit manual, the annual Schedule for audits for a financial year would be drawn at the beginning of the year and there is a need to adhere to such schedule, taking up the audits of other registered persons in the value chain based on audit findings, may not be possible during the same year. Furthermore, taking up audit of other persons in the value chain may not always yield good results unless they are part of a fake credit chain. However, if the risk scores of such registered persons in the value chain are identified to be higher, the same can be taken up for audit during subsequent audit years. Whether to have the same Audit Officer for all such cases including monitoring the same may be left to the discretion of the divisional heads or any officer authorized by the State Commissioner.

Recommendation – 04: Open ended assignment for Audit.

Audit of other years of the same auditee based on audit findings in selected cases.

In general, when a registered person is selected for audit based on risk scores arrived at for a financial year or multiples thereof, the audit is to be taken up for the entire period for which previous audit (GST audit) is not covered. It need not be restricted to a particular financial year, a complete audit by clubbing more than one financial year is to be done. In other words, a taxpayer may be subject to Audit from the un-audited period till the last return filed up to the date of visit. The Parameters to analyze data base can be ascertained by adopting the following method as -

Recommendation 05 - Authorization for Audit.

Authorization of the officers for selection of cases for audit and the process for final approval of a case for audit i.e., administrative system of audit in a State including the assignment issuing authority.

Commissioner/Additional Commissioners in-charge of Audit work or any other wing entrusted with the task of monitoring audit mechanism in a State may finalize a list of 70% of the taxpayers to be taken up for audit by each Joint Commissioner (Divisional Head), based on risk scores arrived at State level. Joint Commissioner (Divisional Head), may be authorized to select 20% of the tax payers for audit based on local risk parameters and 10% of the tax payers at random based on local intelligence network. However, all such selections must be ratified by the Commissioner/Pr. Commissioner head of Audit before the audit is authorised. The issue of overall number of cases that could be taken up for audit is dealt separately. These numbers may be changed from one year to the next based on audit detections and recoveries in each of these categories.

Note: The practice followed in CGST Audit is as under:-

The registered persons are selected on the basis of assessment of the risk to revenue. This process, which is an essential feature of audit selection, is known as ‘Risk Assessment’. It involves ranking of the registered persons according to a quantitative indicator of risk known as a ‘risk parameter’. Risk Assessment Programme jointly run by DG (Audit) & DGARM. Lists of

category– wise taxpayers provided by DGARM. Allocation of units as per Large, Medium and Small amongst the audit teams. Allot to the Audit teams 70% of the taxpayers out of the 80% list of Taxpayers provided by DGARM. Allot 10 % of taxpayers out of the Random list of Taxpayers amongst the Audit Teams. The remaining 20% of the taxpayers to be audited should be selected by the Audit Commissionerate based on local risk factors, after obtaining approval from the jurisdictional Chief Commissioner.

Recommendation – 06 -Basis/criteria for allocation of cases for audit-cadre, turnover

Taxable turnover-wise allocation of cases or pecuniary jurisdiction for audit may be considered based on the corresponding State's GST department's administrative architecture. Audit officers in many States are in the cadres of Deputy Commissioner, Assistant Commissioner and Commercial/State Tax Officer, while it may not be so in others. In keeping with the hierarchical structure in a State, taxpayers for audit may be assigned to the officers. Allocation of cases for audit may be based on the turnover as may be decided by the appropriate authority.

Recommendation – 07 Numerical targets for Audit

Fixing numerical targets, both upper and lower limits, on the number of cases that are to be audited in a year by the State

For conduct of audits in a State, targets may be fixed for every year depending upon the number of officers allocated/available for conduct of audits. The calculation of target can be made by taking into account the total number of working days in a year, the norms for number of days required to complete the audit of different years and the working strength of the audit officers.

Recommendation – 08: Time limit for completion of Audit

Time limit for completion of audit of various sectors: large, medium, small etc., (lesser than that mandated by the Act).

Section 65 (4) of the CGST Act/ SGST Act specifies that the audit initiated shall be completed within three months from the date of Commencement. The word commencement of audit as explained under the said subsection is the date on which the records and other documents called for by the authorities

are made available by registered person or date of actual institution of audit whichever is earlier. However, it would be reasonable to fix a lesser duration for Audit depending upon the volume and complexity so that the limited audit resources are utilised optimally. Reliance on documents already available in the system and devising a simpler procedure for audit for certain classes of taxpayers, such as small taxpayers would also enable earlier completion of audit.

Recommendation – 09: Feedback mechanism

Feedback mechanism and its functioning – in selection of cases for audit, in the process and conduct of audit and in the acceptance of final audit report.

Feedback mechanism under the GST Audit is an important component of the GST eco-system itself; feedback obtained from the taxpayer fraternity in regard to the strength and weakness of the audit system itself will go a long way in not only fixing the rough edges, but also establishing a vibrant and robust audit system. Feedback exercise should be a regular feature in the GST administrative calendar in each and every State. Feedback can be through various modes of taxpayer engagement, such as Third Party surveys, analysis of social media feeds for keywords related to taxpayer's experience of audit, interactive online and physical sessions with taxpayers through industry chambers and associations etc.

Further feedback from each exercise should also be made systematically available to their tax managers in order to enable refinement of targeting practises, increasing audit quality and performance, and to identify areas in which audit capacity can be augmented.

Recommendation – 10: Audit Monitoring Committee

Post-audit process –

(i) Committee for review of the audit report

(ii) recommendation for adjudication and the adjudicating authority.

Audit is treated to be completed, when an audit report which may contain objections detected during the audit is finalised by the Department. But before finalising the objections, the initial objections being raised by the audit officer

may be taken up for discussion by a Committee of officers in a monthly/periodical meeting (which could be called “Audit Monitoring Committee”) with regard to the sustainability/correctness or otherwise in respect of each objection. This system of AMC that may be instituted in each State department will probably reduce unproductive disputes and also standardise practices. The Audit Monitoring Committee may consist of the Joint Commissioner (Divisional Head), Deputy Commissioner, Assistant Commissioner and GST Officer (Commercial Tax Officer, Sales Tax Officer as the case may be). However, the constitution of such a committee may be decided by the State Commissioner to suit the administrative architecture in the State.

In addition to such a committee, an online exchange of Inter -zonal / Inter-divisional audit insights / findings may also be a useful knowledge sharing platform. Any zone or a division which has come across interesting audit findings may make use of the said platform and update it once in fifteen days (or such frequency that can be decided by State gst administration). such information sharing would be important for identifying productive areas of audit, documents and records required for supporting a particular line of audit inquiry. it would also help to build capacity by enabling exchange of knowledge.

Adjudication authority can be established as per the administrative arrangement of each state/centre. It should be ensured that the show cause notice for the recovery of tax as decided by the audit monitoring committee may, preferably, be raised within a period of one month of the meeting. the adjudication of such show cause notices maybe completed within a period of six months. Principles of natural justice should be followed in the adjudication proceedings.

Recommendation – 11: Post-adjudication proceedings follow- up

Mechanism for post-adjudication proceedings and follow-up of additional demand created, ascertaining the correctness of the order for its sustainability, putting up proper defence in appeal, etc.

Section 108 of the CGST Act/ SGST Act empowers a revisional authority to take up review of any decision taken by his subordinate officers. a Revision or Review wing under the supervisory control of jurisdictional Chief

Commissioner (CGST) or the State Commissioner (SGST) should take up review of all adjudication orders so as to ensure there is no loss of revenue on account of some incorrect interpretations/orders. existing Revisional Authorities in the State Administration can also be entrusted with the task of review of adjudication orders. review should end in full, partial or non-acceptance of the adjudication orders, with appropriate subsequent action in each of the three events.

Recommendation – 12: A Central repository of audit outcomes

CENTRAL REPOSITORY OF AUDIT OUTCOMES:

At the Central Government level, the Director General-Audit is preparing a monthly/quarterly audit bulletin containing important audit objections raised during each quarter. The same may be considered for circulation amongst the audit officers of all the States too. **The State of Karnataka** maintains a compilation of interesting audit paras that are discussed i**n the *'IDEA-i Meet'* platform (*Inter Divisional Exchange of Audit insights*) held once in a fortnight.** Similarly, each State may have its own mechanism of maintaining and circulating Audit outcomes. gst administrations may consider creation of a joint knowledge sharing platform that would enable exchange of knowledge, audit findings and other relevant information. such a repository would go a long way in driving convergence of taxpayer experience of audit under different GST administrations.

Recommendation – 13: Coordination between State an Central audit officers

Coordination between State and Central audit officers - in similar cases, similar businesses, exchange of approaches, findings, outcome in appeals etc.

A coordination cell may be established by the GST Council consisting of senior officers from the Centre and the State in order to have collaborative and cohesive strategies for audit and also to share various initiatives developed by the Centre and the State and this will certainly usher in regular sharing of best practices.

Recommendation – 14: E-Audit Module

Role of technology in automating audit process – Connecting electronically every audit procedure seamlessly - the E-audit modules developed by States, or those in the pipeline, to introduce technology in the audit process and its interface with the audit officer and the auditee.

It is recommended that the e-audit module should attempt to capture as many functions as possible and senior administration should be able to extract all mis reports related to audits.

From the feedback submitted by various States, it is found that some of the States are preparing software requirement specification for Audit backend, based on the workflow system of Audit. Several states are also using the audit workflow created by GSTN. Some States and CGST already have functional audit modules. The functionalities that may be designed by the States should cover the entire Audit processes such as Selection, Planning, and actual conduct of Audit, Reporting, Payment, Closure and Adjudication. Capturing the data electronically at each stage of audit will probably enhance the performance of the Audit team and create intellectual and professional atmosphere.

2. The Department of Commercial Taxes, **Karnataka** has developed an automated online Audit module called ***E-Shodhane Online Audit module*** in collaboration with NIC, Bengaluru, *i.e.,**www.gst.kar.nic.in/gstprime*** whereby registered persons are selected for scrutiny based on risk evaluation method and the audit officers seek assignment for audit electronically. It's an end-to-end digital back office application which covers the entire audit process starting from the selection of cases to the finalisation of audit report and adjudication process with the exception of on-premises audits physically carried out by designated Audit teams. To be more precise, the Audit module is not 100% seamlessly connected electronically. Certain audit processes are to be carried out by the audit officers physically and results of such audit processes are to be uploaded onto the system.

3. The GSTN has also developed the GST Audit Module which is an end-to-end digital back-office application that helps in carrying out the entire GST audit process electronically (with the exception of on-premises audits physically carried out by the designated Audit teams). Right from selection of

taxpayers for auditing and assigning the same to various Audit Teams to serving the Final Audit report and/or SCN to the Taxpayer, every Audit proceeding is seamlessly connected electronically.

Some of the Model-II States are found to have adopted the GSTN Audit Module. GST Audit Modules developed by GSTN and the State of Karnataka broadly have the same features with minor tweaks as the GST Audit process is partly dictated by the GST Act itself. Therefore, E-audit Modules that may be developed by States may have these common audit tools with tweaks that conform to their administrative structure.

AUDIT MIS APP

MIS APP is a tool which focuses on the need for sound information for decision making and which aims to find the relationship between an audit officer and their audit practice.

MIS and Audit processes are targeted at satisfying the information required for appraisal of performance of Audit Divisions on a real time basis.

MIS is a system that enables the Audit Divisional head and the Head Office or Audit Commissionerate to have access to dependable information for planning and decision making. This information could be either qualitative or quantitative or both depending on the method employed in the process.

An MIS APP Tool on the lines mentioned herein may be developed exclusively for audit officers to upload the day- to-day activities with respect to the findings of the Audit, Audit observations made, demand created, collected and the recovery made thereof. Benefits for MIS: -

MIS plays the role of information generation, communication, decision making, management, Administration, and operation of an organisation. The benefits accruable from an effective MIS could be reiterated thus:

1) The MIS App fulfils the informational needs of an Individual or a group of individuals.

2) MIS satisfies a variety of systems such as query system, analysis system, modelling system & decision support system. The MIS helps in strategic planning, management control and operational control.

3) MIS helps in target setting like Audit disposals, recovery and Refund.

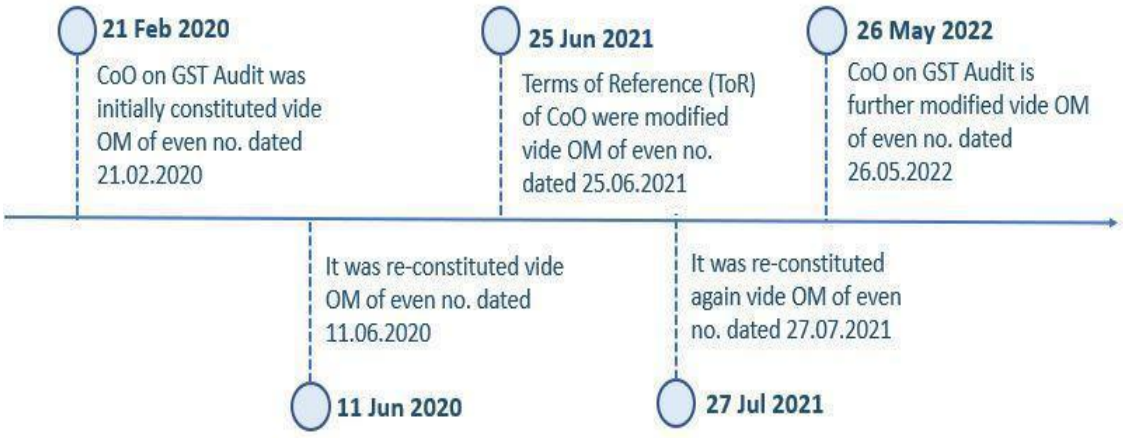
The MIS assists the Head Office or Audit Commissionerate in goal setting, strategic planning , evolving audit plans and implementation of the same.

ANNEXURE 18 (p.x)

Constitution and purpose of the Committee of Officers (CoO) on GST Audit[1] and modified Terms of reference.

Purpose of the formation of the Committee:

Committee of Officers (CoO) on GST Audit was constituted in pursuance of discussion and decision in the 1st National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit and to follow uniform practices for GST Audit in Centre and State Tax administration. Timeline with respect to the Committee of Officers is presented below.

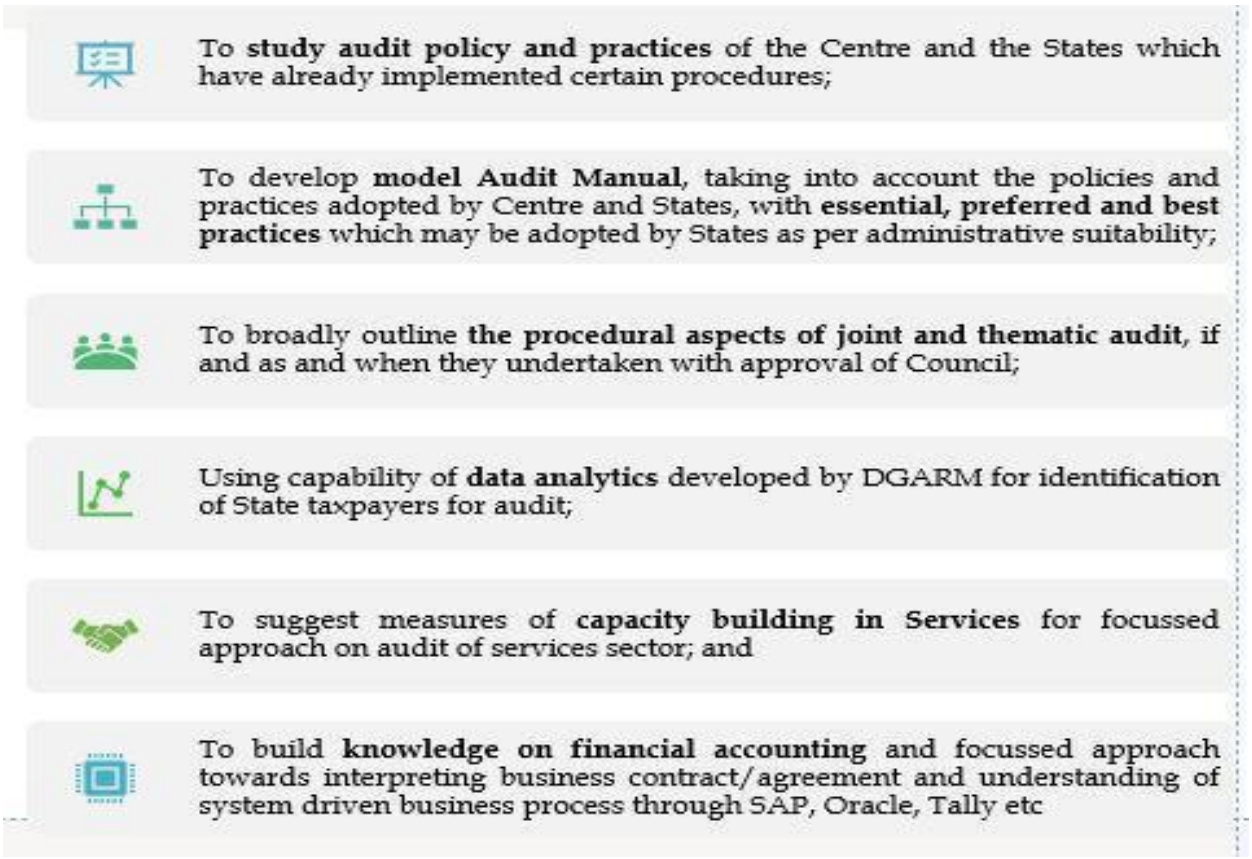


Initial Terms of Reference (ToR)

To prepare a **comprehensive All India GST Manual** taking into account procedures & practices in vogue in different States and Centre;
To explore having **joint and collective GST Audit** by Centre & State for the taxpayers in many sectors that have all India presence like Telecom, Airlines, Banking, Railway etc.;
To explore **conducting thematic audit** by both tax administration;
Using capability of **data analytics** developed by DGARM for identification of State taxpayers for audit;
To suggest measures of **capacity building in Services** for focused approach on audit of Services sector; and
To **build knowledge on financial accounting** and focused approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.;

[1] **(From the Presentation of Ashima Bansal, Joint Secretary GST Council)**

Modified Terms of Reference (ToR):



Members (State):

Sl. No.	Name of the Member	Designation
1	Dr. Ravi Kumar Surpur [**Co-Convenor**]	Commissioner of Commercial Taxes, Rajasthan
2	Smt. Shikha C.	Commissioner of Commercial Taxes, Karnataka
3	Shri Samir Vakil	Special Commissioner, State Tax, Gujarat
4	Shri Anil Banka	Special Commissioner of State Tax, NCT of Delhi
5	Shri Amit Gupta	Additional Commissioner, State Tax, Uttarakhand
6	Shri Ravi Jesuraj S.	Additional Commissioner of Commercial Taxes, Karnataka
7	Shri Arun Kumar Mishra	Special Secretary, State Tax, Bihar
8	Shri Prasad Joshi	Joint Commissioner, State Tax, Maharashtra
9	Shri C. Palani	Joint Commissioner, State Tax, Tamil Nadu
10	Shri Narayan Chandra Guriya	Joint Commissioner, State Tax, West Bengal

11	Shri Vivek Singh	Joint Commissioner, State Tax, Uttar Pradesh
12	Shri K. Sridhar	Deputy Commissioner (ST), Puducherry

Members (Centre/GSTC/GSTN)

Sl. No.	Name of the Member	Designation
1	Dr. Amandeep Singh **[Convenor]**	Addl. DG, DG Audit Headquarters, CBIC - [Convenor]
2	Shri Sanjay Mangal	Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC
3	Shri Rajiv Jain	Pr. Commissioner, Meerut
4	Shri Nitish Kumar Sinha	Principal ADG/ADG, DGGI Headquarters, CBIC
5	Shri Gurusharan Singh	Pr. ADG/ADG, DG Analytics & Risk Management
6	Shri Yogendra Garg	Pr. ADG/ADG, NACIN, Faridabad
7	Shri Dheeraj Rastogi	EVP, GSTN
8	Smt. Ashima Bansal	Joint Secretary, GST Council Secretariat
9	Shri Kshitendra Verma	Director, GST Council
10	Shri Karan Chaudhary	Under Secretary, GST Council

Annexure-III

Thematic Audit

1. Introduction

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

The various scenarios which may necessitate conducting thematic audit are as follows:

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

2. Constitution of co-ordination committee

For conducting thematic audit, GST Council may form a co-ordination committee at all India level which should choose themes for conducting audit, constitute a Committee of Officers for selecting taxpayers in a state for conducting thematic audit, coordination among various Audit Authorities for evolving a common minimum audit plans for a given theme and, monitor actual audit by the field formations and disseminate audit outcome to appropriate stakeholders.

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

- Pr. DG/DG (Audit) or any Pr. Additional Director General (Audit) / Additional Director General (Audit) as nominated by him;

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

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

Parameters which emerge from the systematic and methodical risk analysis conducted by GSTN, DGARM, ADVAIT and the state revenue intelligence units/economic intelligence units.

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

In addition to above, risky themes identified by the State and Central Tax Authorities based on local intervention can also be used for determining a local theme. Certain risk - based parameters may also be adopted for selection of Taxpayers for conducting theme -based audit such as:

- Taxpayers showing abnormal growth;
- High revenue contributing Taxpayers;
- Sectors/units flagged by the CAG or PAC or otherwise where credible information is available to point out that the provisions of the Act are not being followed or where issues like place of supply issues or point of taxation are cropping up;
- Taxpayers availing benefit of major exemption notification;
- Sectors with low cash pay-out

- Taxpayers engaged in supply of risky and sensitive commodities and services viz., advertising services, event management services, metals, chemicals, entertainment services and Health & education related auxiliary services etc.

3. Constitution of Committee of Officers

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

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

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

4. Role of Audit field formations (of Central and State Tax) for conducting audit

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

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

5. Standard Operating Procedure (SOP) for conducting Theme based Audit.

a. The Co-ordination Committee (CC) shall select the themes for Audit and communicate the Themes to the Committee of officers (CoO) responsible for Audit.

b. For a given theme, the committee of officers shall select the tax payers to be audited in that particular state.

c. Audit groups earmarked for conducting the theme based audit shall request the selected tax payer(s) for providing necessary documents viz. Balance sheet(s), 3 CD reports(statement of particulars required to be furnished under Section 44AB of the Income Tax Act, 1961), profit and loss statements, income tax returns etc. The concerned audit group shall also take out various GST returns filed by the said taxpayer and examine/scrutinise them. They will accordingly prepare the Desk Review (DR) and also the Audit Plan (AP). As with entity-based audit discussed in earlier section above, as much data as possible may be gathered from the documents/returns already available in the system.

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

e. The Committee of Officers shall also indicate a date on which audit of all such taxpayers irrespective of their jurisdiction (whether under Centre or State) shall commence.

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

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

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

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

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

k. As regards unpaid/short paid GST is concerned where the taxpayer is not in agreement with the audit para and is not willing to pay outstanding GST along with interest and penalty, the audit groups shall prepare demand cum show cause notice to be adjudicated by the appropriate Tax Officer. Before issue of demand cum show cause notice, the taxpayers may be given pre-consultation so as to give them one more opportunity to explain their point of view to the senior tax officers before a final decision is arrived at. The Tax Authorities may also use this opportunity to explain the department's view point to the taxpayers and encourage them for voluntary compliance. This will reduce unnecessary litigation which is good for both the taxpayer as well as government.

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

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

2. Joint Audit

Introduction

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

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

From the available database provided by GSTN, the Coordination Committee may select certain taxpayers under this category for joint audit. It is proposed that the taxpayers may be selected for joint audit based on clear and mutually agreed criteria/risk parameters between different tax administrations. Examples of such criteria include:-

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

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

2.1 Committee of Officers (hereinafter referred to as Supervisory Committee)

For the purpose of actual audit, the Coordination Committee may constitute a committee of officers for supervising joint audit of a multi locational taxpayer. It is proposed that this committee may comprise the following:-

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

2.3 Standard Operating Procedure for conducting Joint Audit

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

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

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

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

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

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

g. The Supervisory Committee shall, before finalising the audit paras, resolve any inconsistency or conflicting interpretation on any point of law made by the

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

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

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

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

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

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

m. After adjudication proceedings, recovery action against the taxpayer shall be taken by the appropriate jurisdictional tax authority (i.e. Central Tax Commission-

erates or State Tax Officers) in accordance with Section 79 of the CGST/SGST Act read along with relevant rules and provisions issued therein.

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

Annexure-IV

REPORT ON USING CAPABILITY OF DATA ANALYTIC DEVELOPED BY DGARM FOR IDENTIFICATION OF STATE TAXPAYERS FOR AUDIT

TERMS OF REFERENCE OF THE COMMITTEE

The Committee of Officers (CoO) on GST Audit constituted as per decisions taken in1st National GST Conference on 25.11.2019 has constituted sub-committees to work in respect of terms of reference of the CoO on GST. This sub-committee has been constituted to study, examine and make suggestions on the issue of 'using capability of Data Analytic developed by DGARM for identification of State Taxpayers for Audit'. Consequently, a meeting of the sub-committee was held on 04.06.2020to deliberate on the issue.

DELIBERATIONS & DECISIONS OF THE COMMITTEE

2. As mandated by the Committee of Officers (CoO) on GST Audit, Shri Sanjay Gupta, ADG, DGARM provided the perspective of the data analytic task completed by DGARM. He apprised the Committee members about the capabilities of data analytics developed by DGARM in identifying the risky taxpayers for GST Audit.

3. He informed that a high powdered Risk Engine Committee was formed by CBIC to identify the risk parameters. The committee discussed the trends of tax compliance in GST regime and deliberated upon the risk scenarios and risk parameters associated with these scenarios. The broad principles adopted by the Risk Engine Committee for identification of risk parameters were as follows:

a) Selection of only normal taxpayers, i.e. the taxpayers who are required to file GSTR-1/GSTR- 3B returns.

b) Selection of only those taxpayers who had filed >04 GSTR-3B returns in the financial year.

c) Taxpayers divided in to three segments namely Large/Medium/Small for comprehensive coverage based on turnover.

d) The Committee identified 28 risk parameters to identify risky taxpayers for audit including Entity level risks, risks associated with compliance behavior, various ratios and export details etc.

e) All risk parameters were based on internal data i.e. GST, customs and erstwhile Central excise and Service tax

f) The weightage of each parameter varies depending upon its importance in selection of risky taxpayers.

g) For the purpose of selection, comprehensive risk score, total score emerging from all the risk parameters to be calculated

h) A taxpayer with higher Risk Score is considered more risky. Within the same risk score, a taxpayer with more Declared Liability is considered riskier.

i) The Committee identified 28 risk parameters to identify risky taxpayers for audit including Entity level risks, risks associated with compliance behavior, various ratios, export details

j) The risk score to be calculated annually for selection of risky taxpayers

k) 70% of the tax payers are selected for Audit based on risk scores

l) 10% of the selection of the tax payer are be done on random, using statistical techniques, out of the remaining taxpayers

m) The jurisdictional Commissioner may also select 20% of the taxpayers for audit based on local inputs and the criteria suggested by DG (Audit)

n) The identified taxpayers with complete details of relevant data areshared in the form of a report through on-line portal along with Advisory explaining the reasons for selection of each tax payer

4. Based on these parameters, about 45000 risky taxpayers were identified and shared on online portal with the field formations of CBIC for selection to conduct GST audits for FY 2017-18. An advisory was also issued giving reasons for selected taxpayers.

5. He further informed that for the GST Audit of FY 2018-19, a fresh Committee has been constituted by CBIC to review/re-calibrate the risk parametersin view of the relevance of certain risk parameters and availability of comparative GST data for two FYs. The Committee has fine-tuned the earlier parameters on the basis of learning acquired from past experience and availability of external data source now. The present Committee has submitted its recommendations on 23rd May 2020. The revised parameters are under consideration of the board and likely to be approved soon.

6. He further informed that DGARM has capabilities of identifying risky taxpayers for GST Audit falling under state jurisdiction; that for GST Audit for FY 2017-18, DGARM identified risky taxpayers for audit for few states on specific request and shared the output with the respective states.

7. Ongoing through the details of the identified risk parameters, the Committee was convinced about the usefulness of risk parameters for Audit identified by DGARM. There was a view to evolve a permanent mechanism by DGARM to identify the risky taxpayers falling in state jurisdiction and share the lists of risky taxpayers for audit with respective states on permanent basis. It was also suggested to share risk parameters with the states.

8. The Committee also discussed the effectiveness of the new product developed by NIC, i.e. 'GST Prime' being used by Karnataka state for risk-based audit selectionand if there will be overlapping of risk parameters being used therein vis-s-vis the risk parameters used by DGARM. States may choose any other risk parameter which they consider appropriate.

9. The Committee also deliberated on the importance of local parameters vis-à-vis risk parameters selected by CBIC for selection of taxpayers for audit.

10. After detailed discussions & deliberations, the committee recommended the followings: -

a) As informed by ADG, DGARM, there is capability and expertise with them to identify the risky taxpayers for Audit falling in states'

jurisdictionusing approved risk parameters. He also informed that parameters for FY 2017-18 is final and for FY 2018-19, they are in very advanced stage of finalisation. If any State wants DGARM to select the risky taxpayers list for them, the state should make a specific request to DGARM. DGARM will identify risky taxpayersbased on approved parameters for them and share the list with the state along withrisk scores and risk parameters.

b) For the states who opt, DGARM may evolve and establish permanent mechanism to identify risky tax payers falling under their jurisdiction.

c) If any state only wants risk parameters to be shared with them and they do not want DGARM to identify risky taxpayers for them, DGARM may share approved risk parameters with them.

d) Risk parameters keep evolving over a period of time with feedback and detection of newer modus operandi. Further there may be some local risk factors relevant in their jurisdiction. Thus the States must have the authority to select its own additional risk parameters developed from their expertise, experience and knowledgefrom time to time. However, if any State wants to select the taxpayers list for audit by using expertise of DGARM, we have no objection in such matter.

Annexure-V

Agenda of the Sub-Committee

1. In pursuance of decision in the 1st National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit as well as to follow uniform practices for GST Audit in Centre and State Tax administration, a committee of Officers (CoO) on GST Audit was constituted vide OM of even no. dated 21.02.2020.The modified Terms of reference (ToR) for Committee of Officers (CoO) on GST Audit was issued vide Office Memorandum F. No. 350/Future Initiative/GSTC/2019 dated 25.06.2021. Vide Office Memorandum F. No. 350/Future Initiative/GSTC/2019 dated 27.07.21 the CoO was reconstituted. This sub-committee has been constituted to suggest measures of capacity building in Services for focused approach on audit of services sector

2. The issues to be covered in the above ToR are-

- Training Capacity and frequency of training to be identified.
- Nodal officers from States and ZTIs of NACIN to be identified for the training needs
- Specific service sectors to be identified and its training needs and resources to be finalised.
- A Committee of officers to be created to prepare training modules for specific identified sectors in consultation with the states
- Access to relevant training modules in iGOT to be provided to the State
- Faculty for imparting training needs to be identified

3. Above issues are further categorized in two specific areas

1. Training and Capacity building
2. Identification of Specific Service Sectors for focused training

Training and Capacity Building

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

This training program will identify

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

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

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

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

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

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

Identification of Specific Service Sectors for focused training

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

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

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

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

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

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

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

Annexure-VI

To Build Knowledge on Financial Accounting and Focused Approach towards Interpreting Business Contract / Agreement and Understanding of Systems Driven Business Process through SAP, Oracle, Tally Etc.

REPORT SUBMITTED BY
SUB - COMMITTEE ON GST AUDIT

January 2022

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A. Agenda of the Sub-Committee

A.1 The Committee of Officers (CoO) on GST Audit constituted as per decisions taken in 1st National GST Conference on 25.11.2019 has constituted sub-committees to work in respect of terms of reference of the CoO on GST. This sub-committee has been constituted to study, examine and make suggestions on the issue of 'To build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of systems driven business process through SAP, Oracle, Tally etc.'

A.2 Above agenda can be subdivided into three issues, namely-

- Building knowledge on financial accounting
- Focused approach towards interpreting business contract / agreement
- Understanding of systems driven business process through SAP, Oracle, Tally etc.

A.3 Above issues are discussed in brief in the ensuing pages. The discussions are based on the knowledge and experience gained over the past few years and are augmented with the various sources from the web.

B. Building knowledge on financial accounting

B.1 Introduction

B.1.1 Accounting is reporting through financial statements. It is the process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time and results in the preparation of Financial Statements (including Balance sheet, Profit & Loss account etc.).

B.1.2 Financial accounting is keeping track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income and expenditure statement, trading and P & L account and a balance sheet. GST Audit basically refers to examination of various records, returns and other documents maintained or furnished by the auditee, like

(a) Monthly/ Quarterly/ Annual Return;

(b) Copy of the audited annual financial statements;

(c) Reconciliation statement, reconciling the value of supplies declared in the Annual return furnished for the financial year with the audited annual financial statement in FORM GSTR 9C, etc.;

(d) Such other particulars, as may be prescribed.

B.2 Audit in GST

B.2.1 While implementing the GST Law, the GST officers come across the financial accounts of the taxpayer. Taxpayers' business consists of his daily transactions of outward or inward supplies, and each transaction may have GST implications i.e. either levy of GST or the claim of legitimate and eligible ITC or the GST by way of RCM. Hence, the GST officers are required to have a working knowledge of financial accounting, on the basis of which entire business transactions are recorded and compliance is made by the taxpayer.

B.2.2 GST audit casts a huge responsibility on the auditor for detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilized etc. Hence, it is very important that the auditor possess a good understanding of accounting fundamentals as well as sufficient accounting skills to read and analyze financial statements. Further, there are several transactions which may not appear in the financial accounts and

records maintained by the registered persons such as stock transfers, free samples, services received from outside India from related parties, other supplies made without consideration, etc. Due care must be exercised by the auditor to identify such transactions as there may be no direct reference to these transactions in the financial records. Another skill that is very important is being able to link the 3 financial statements, i.e., income statement, balance sheet, and cash flow statement.

B.2.3 Following are various aspects of financial accounting having impact on GST, which have to be examined and analyzed by the auditor thoroughly:

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

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

- Understanding of "Notes to Accounts" in financial statements which would help in understanding the business of the entity, Taxes / Contingent Liabilities, Cost or Net Realizable Value (Assistance in valuation provision under GST), Information about related parties & Payments made to Related Party / Key Managerial Personnel, Payments made to Foreign subsidiaries/ Associated concerns, Valuation of Inventory etc.

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

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

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

B.2.4 In this context, it is relevant to note that the importance of evaluating the internal mechanism of the entity under audit cannot be over-emphasised. Evaluation of internal control system is a very important step in the actual conduct of audit as it enables drawing of correct samples for auditing and effective targeting of risk areas. Internal control mechanism is actually the sum total of all policies and procedures which are adopted by the entity in order to achieve the objective of "orderly and efficient conduct of its business", including safeguarding of assets, prevention and timely detection of any fraud/error, ensuring accuracy and completeness of recording, classification and disclosure of transactions.

B.2.5 Essentially, the efficacy and effectiveness of internal control mechanism provides a reasonable assurance to the auditor as to the degree of reliance that can be placed on the accounts and financial statements of the auditee. Based on his assessment of the effectiveness of such mechanism the auditor can draw appropriate samples for subjecting them to detailed scrutiny and verification.

B.2.6 The internal control system with regard to accounting have the following objectives: -

→ that ALL transactions are RECORDED
→ that recorded transactions are REAL
→ that ALL transactions are RECORDED TIMELY
→ that all recorded transactions are PROPERELY VALUED
→ that all recorded transactions are PROPERELY CLASSIFIED & POSTED
→ that all recorded transactions are PROPERELY DISCLOSED
→ that all recorded transactions are PROPERELY SUMMARISED

B.2.7 Internal control mechanism provides reasonable assurance, not only to the auditor but also the management, that all essential aspects of all transactions have been properly and appropriately recorded and that there are no material errors of omission or commission. Internal control mechanism can be evaluated through appropriate questionnaires, check lists and through a study of the business process adopted by the entity. It is recommended that such an exercise should be undertaken before commencing the audit and verification process and the outcome of the evaluation exercise should be utilized for deciding the scope and extent of audit and also for identifying which areas of the operations the auditor must specially focus on.

B.3 Understanding the nuance: A perspective through Accounting Standards

B.3.1 The GST Officer, while looking into the financial statements of a Taxpayer/ Company, should first understand the accounting standards applicable to the Taxpayer/company. There could be differences in the manner of the accounting and treatment of certain transactions as per Accounting Standard in the financial statements vis-à-vis the treatment under GST. This can lead to difference in turnover as per GST law and the principles of accounting. This could be better understood through the following example:

B.3.2 Time of Supply Recognition from the GST Perspective:

B.3.2.1 As per the provisions of CGST Act, in respect of 'Time of Supply of Goods' revenue shall be recognized as per Section 12 and in respect of 'Time of Supply of Services' as per Section 13 of the said Act. The Value to be considered for such transactions is as per the provisions of Section 15 of the CGST Act. However, primarily GST is triggered when the entity makes supply of goods or services or both. The definition of supply under GST is very comprehensive and includes sale, transfer, barter, exchange, rental, lease, disposal, stock-transfer etc.

B.3.2.2 On the contrary, in 'financials' revenue is recognized when the goods are sold, or services are rendered. No revenue is recognized when the fixed assets are sold / disposed of, except for profit on sale of such assets or when goods are transferred to the branches.

B.3.2.3 For instance, from an accounting standpoint, revenue from sale of goods is recognized when significant risks and rewards in the goods is transferred by the seller to buyer while in case of services revenue is recognised either on proportionate completion method or completed service contract method. These events may not correspond to the time of supply set out in sections 12, 13 and 14 of the Act and, accordingly, revenue as per the books of accounts may differ with that under GST law.

B.3.2.4 This leads to the concept of billed/unbilled revenues and prior period items.

B.3.3 Value of Supply recognition from a GST perspective

B.3.3.1 Such transactions would result in difference between the revenue reported under GST when compared to the 'financials'.

B.3.3.2 Value of supply of goods or services or both under Section 15 of GST law is the transaction value i.e. the price actually paid or payable for the said supply and would include any duties and taxes paid under any other law other than GST, incidental expenses incurred to meet such supplies, interest charged, if any, etc.

B.3.3.3 Valuation of contracts under Indian Accounting Standards (Ind AS) might differ on certain aspects from GST Laws. For example, the contract value may not include any duties and taxes paid which is refundable, interest on delayed payment, expenditure incurred by the recipient etc. These differences might lead to differences in valuation of contracts.

B.3.4 Supplies without consideration: As per Schedule I of the CGST Act- GST is leviable on certain transactions even if such transactions are made without consideration – like supply of goods from principal to agent, disposal of business assets, supplies to related parties etc. Under Ind AS transactions without any consideration would not form a part of the financial statements and would be treated as a non-balance sheet item / off- balance sheet item.

B.3.5 Post sales discounts: Usually if the entity has a practice of granting discounts to its customers on post-sale basis, then for providing such discounts the entity may raise a financial credit note which will not be subjected to GST but would be reported as discounts in the financial statements.

B.3.6 Hence, capacity building of tax officials in respect of financial accounting is necessary. This can be done through:

1. Imparting Training/capacity building of officers in the field of financial accounting from Institutions like NACIN to:
    a. Analyze and examine Financial Statements, various accounting ratios etc.;
    b. Enhance skills of officers for detecting various loopholes in the financial accounting of any company;
    c. look closely at books of accounts and various returns for detecting tax evasion;
    d. Learn about different strategies used to detect tax fraud and evasion.

2. Utilizing support of seniors and well experienced tax officers from States and Centre. The sharing of knowledge amongst the officers of both the tax administrations is of utmost importance as tax administrations on both the sides have evolved over the years and both of them have certain unique attributes which have to be factored in before devising an

approach to GST audit. The experience of Central Tax officers in the services and manufacturing and that of the State Tax officers in dealing with the traders can be mutually beneficial to improve the overall quality of the Audit systems and procedures.

3. Creation of various Checklists to be examined during the audit. The checklists to be prepared should also be able to reflect the industry specific factors and the domain expertise of officers from both the tax administrations can be made use of.

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

B.4 Cash Flow - The third important financial statement

B.4.1 A cash flow statement is one of three mandatory financial reports generated by every business organization monthly, quarterly, or yearly. It measures the rate at which a business generates its cash so as to operate and pay its debts. The statement of cash flow complements the other two financial statements of the business, i.e. the income statement and the balance sheet.

B.4.2 The cash flow statement summarizes the inflow and outflow of cash and cash equivalents pertaining to a business. Main objective of a cash flow statement is to help a business keep track of its cash inflow and outflow.

B.4.3 As per GST law Cash flow statement is required to be disclosed as per (Part B of GSTR 9C), though for 2017-18 and 2018-19 its optional, its verification will be an integral part of verification by the GST Officer.

B.4.4 Further, it can also help GST officer to understand the working of a business and its operations. It provides them with details about the business' cash flow, from where is it coming and where it is going. Cash flow is the indicator of the Taxpayer's financial well-being, its liquidity, and its operating ability.

B.4.5 The GST officer needs to calculate and reconcile the Receipts disclosed and find out and confirm that they are appropriately disclosed and subjected to tax.

B.5 Sector specific approach

B.5.1 Some sectors involve complex income streams, financial reporting mechanism etc., of which officers may not always be fully conversant. For example, various income/revenue heads often need to be verified by the officers during audit of Banking, Insurance and Non-Banking Financial Companies (NBFC) sectors. The Banking sector generates income among others through interest income, capital markets operations (e.g., sales and trading services, underwriting services, mergers & acquisition advisory), other fee-based income (e.g., credit card fees, savings/ current accounts charges, mutual fund revenue, investment management fees, custodian fees). The revenues could also come through alternative financial services, investment banking and wealth management. Each of these aspects merit close look by the audit officers for possible implications with regard to GST. Similarly, in the insurance sector, various streams exist like premiums earned, reinsurance, income from investments (e.g., interest, profit on sale/redemption of investments, transfer/gain on revaluation/change in fair value). As these are specialised sectors, it is necessary that the audit-related training modules focus on these sector-specific accounting principles, accounting standards etc. for a better appreciation of audit requirements of these sectors.

C. Interpreting Business Contracts/Agreements

C.1 A business contract/agreement is the statement, either oral or written, of an exchange of promises in business. It is a negotiated and legally enforceable understanding between two or more legally competent parties

C.2 There are different types of business agreements/contracts. Scrutiny of these contracts or agreements constitutes one of the important functions of audit.

C.3 Foreign Technical Collaboration Agreement:

C.3.1 This agreement may be pure technical collaboration agreement or technical-cum-financial collaboration agreement. In the later, there is an equity participation also. Sometimes, collaboration agreements are only financial in nature wherein only equity participation by a foreign company is involved.

C.3.2 RELEVANCE:

- Where there is equity participation, imports from the collaborator may be subjected to scrutiny;
- Payment of royalty/technical know-how fee may involve GST liability towards import of services including IPR;
- Whether consideration paid to the collaborator has been taken into account in arriving at cost of production; etc.
- When the supply is from related party (a) with consideration (Sec 7), (b) without consideration (Class-2, Schedule-I)

C.4 Joint Venture Agreement:

C.4.1 Many a times, a joint venture company is set up by Indian Companies with equity participation. Generally, there is a joint venture agreement or promoter's agreement which defines various terms and conditions subject to which joint venture has been formed.

C.4.2 RELEVANCE:

- Nature of shareholding in the company;
- If there are any clauses regarding pricing pattern for sale to one of the joint venture partners that may have a bearing on related persons sale or sale at arms-length. This may impact valuation;
- The agreement may contain clauses for payment for certain services which may have tax implication;

- There may be provisions for common Managing Director or common Directorship indicating control/management of various companies which may have a bearing on related persons concept; etc.

C.5 Joint Development Agreement in Real Estate Sector and GST Audit

C.5.1 Joint Development Agreements are common in the real estate industry wherein the Land Owner enters into an agreement with a Builder/Developer for the development of the land in lieu of certain consideration. The consideration in such cases can be varied- ranging from a lumpsum payment by the builder to the land owner to a share in the ultimately constructed flats/property or a combination of both.

C.5.2 Such agreements involve an element of transfer of land for developmental purposes. Transfer of Development Rights (TDR) are covered under the GST and there is no ambiguity in this regard unlike the Service Tax period.

C.5.3 Various transactions in a JDA with concomitant GST implications are as follows:

(i) Land Owner to Builder/Developer.

(ii) Builder/Developer to Land Owner.

(iii) Land Owner to Customers/buyers.

(iv) Builder/Developer to Customers/buyers.

(v) Retention of flats/property for own use.

C.5.4 All such transactions have GST implications like the eligibility of ITC, Time of Supply, Rate of Tax, Value of Supply etc. which would require a detailed reading of the various agreements entered between the concerned parties. A case in point is the eligibility of ITC in such cases only for the portion of the flats/property sold before a completion certificate is obtained. The ITC availed and utilized in the flats/property sold after the completion certificate is obtained has to be reversed. The exact liability of the GST on such projects can be arrived at only after the details of the agreements are studied thoroughly in consonance with the provisions of the GST Act and Rules.

C.6 Works Contract:

C.6.1 Works contract is an activity wherein supply of both service and goods takes place, for example, construction of building; erection, commissioning, installation of plant and machinery, etc. In common parlance, a works contract relates to both 'movable property' and 'immovable property'. In the Service Tax regime, the service portion in the supply of works contract service for carrying out construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration of any 'moveable property' or 'immoveable property' was subjected to levy of Service Tax. In the GST period, the definition of works contract has been restricted to any work undertaken for an 'immovable property' only. Consequently, any composite supply (comprising supply of goods and supply of service) on movable property (goods), for example, a fabrication work or paint work done in automotive body shop does not fall within the definition of works contract under the GST; and such contracts would be treated as composite supplies and would be taxed accordingly. Under the GST law, works contract has been treated to be supply of services, as per Entry No. 6(a) in Schedule II of the CGST Act.

C.6.2 Relevance:

- If a works contractor has his project office in a State, he has to take registration in that State once he crosses the threshold limit of Rs. 20 lakhs (Rs. 10 lakhs in a Special Category State).

- As the works contract has been defined to be a supply of service, the works contractor is not entitled to avail of the Composition Scheme, because it is available only to suppliers of goods and the restaurant industry (not serving alcohol).

- Unlike the Service Tax and VAT regimes, no abatement from the value of service is allowed to the works contractor under the GST law.

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

avail of ITC of GST paid on the works contract service received from a works contractor.

- As the supply of works contract service under the GST laws necessarily involves immovable property, the place of supply of service would normally be the place of where the immovable property is located.

- The value of supply of works contract service, involving transfer of property in land or undivided share of land, as the case may be, shall be equivalent to the 'total amount' ('consideration charged for works contract service *plus* the 'amount charged for transfer of land or undivided share of land', as the case may be) charged for such supply *less* the value of land or undivided share of land, as the case may be. The value of land or undivided share of land, as the case may be, in such supply shall be deemed to be one third of the 'total amount' charged for such supply.

C.7 Manufacturing Agreement:

C.7.1 There can be contract / manufacturing agreements which a company might enter into with another company, usually brand owner of repute. Such brand owning companies usually contract out the manufacturing of finished goods to a contract manufacturing facility under certain terms and conditions.

C.7.2 RELEVANCE:

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

C.8 Service Agreement:

C.8.1 There may be service agreements/MOUs on various aspects of the business. In some businesses, Purchase Orders constitute the agreement which contains various terms and conditions for supply of services. Specific focus could be sector-wise service agreements in automobile, FMCG and infra projects.

C.8.2 RELEVANCE:

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

C.9 Job Work Agreement:

C.9.1 Job work agreements would be formal agreements or through letters exchanged between the parties which contain the basic terms and conditions of the job work.

C.9.2 RELEVANCE:

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

C.10 Dealership/Distribution agreement:

C.10.1 Manufacturers/ suppliers usually market goods through a distributor or dealer network; and enter into dealer/distribution/stockist agreement containing various terms and conditions. Supplies by Principal and Agent as defined in CGST Act 2017 are areas of specific focus.

C.10.2 RELEVANCE:

- Whether the agreement contains any condition or terms whereby the dealer/distributor is to advertise on behalf of manufacturer; if so, what are the conditions;
- Post sale discounts
- Warehousing facility
- Whether there is any provision for sharing of expenses;
- Whether the goods under supply require after sale service/warranty;
- Whether there is any separate optional warranty agreement, set to commence immediately after the initial mandatory warranty period;

- Is there any provision in the agreement for delivery of free gift items through dealer;
- What is the discount pattern or incentive offered by manufacturer in the agreement; Is it based on the commercial considerations normally prevailing in the trade or not;
- Whether the agreement provides for any non-refundable security deposit with or without interest; etc.

C.11 Purchase Contract:

C.11.1 Purchase of materials/goods are under specific contracts or by tenders floated. These purchase contracts/tenders may also contain information related to audit.

C.11.2 RELEVANCE:

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

C.12 Lumpsum turn-key contract:

C.12.1 The assessee may have a turn key contract which may involve supply, erection at site and commissioning of the goods.

C.12.2 RELEVANCE:

- Whether the price of the goods is inclusive of erection, commissioning at site;
- Whether any attempt has been made to overload the erection and commissioning charges;
- Whether the machinery is supplied by the manufacturer; etc.

- Case study of solar project (70% of value as goods @ 5% and 30% of value as services @ 18%).

C.12.3 Apart from the above there can be many other types of contracts/agreements such as Works Contracts, Constructions contracts, Leasing contracts , Hire purchase agreements, Franchisee agreements, Non-disclosure agreement, Non-Competitive contract , Insurance and reinsurance agreements / contracts, Banking contracts – to the extent of the Banking fees, charges, penalties charged for services rendered to its customers, other banks, etc. and the exact nature and nuances of such contracts/agreements will have

to be understood by the officers conducting audit by factoring in the scope and type of business activity being conducted by the taxpayer.

C.1.2.4 GST officer has to verify and ensure that the results or outcomes of various agreements are accounted for appropriately and the appropriate compliance is made by the taxpayer.

C.1.2.5 It is the duty of GST officer to not only plug the revenue leakages, but to also keep a close watch on systemic tax planning that may adversely affect GST revenues. It should be ensured that while conducting the audit, the terms and conditions of the contracts are gone through and their impact on the value of the supply should be ascertained appropriately so as to point out any duty evasion. For this, conditions of contract, compliance of such terms & conditions, scope of manipulations while performing the contract (e.g. Supplies under Schedule-II of CGST Act, 2017), liquidated damages, penalty clause etc. need to be checked and factored in appropriately.

C.1.2.6 At times this may also require cross-referencing between the contract(s) and the financial statements.

D. Understanding System Driven Business Process through SAP, Oracle, Tally Etc.

D.1 A process is a series of tasks that are completed in order to accomplish a goal. A business process, therefore, is a process that is focused on achieving a goal for a business. Processes are something that businesses go through every day in order to accomplish their mission. The better their processes, the more effective the business. As processes grow more complex, they need to be documented. For businesses, it is essential to do this, because it allows them to ensure control over how activities are undertaken in their organization. It also allows for standardization. The complex nature of the business transactions these days has made it mandatory to make the business processes and specifically the accounting processes to be automated and system driven.

D.2 With the advent of GST, a lot many GST software have also come to the fore which help organizations simplify the process of GST billing, filing returns, and generating GST invoices. An effective GST software can aid businesses in managing their finances, accounts, inventory, purchase, sales, payroll, taxation, and other processes efficiently.

D.3 Financial Accounting System is an accounting system where the financial data of the organization is maintained. It is important for auditors to be well conversant with various related software like SAP, Oracle, Tally etc.; and alsoto various accounting methods like Cash Accounting and Accrual Accounting methods. Hence, the auditors must be well trained in financial accounting concepts and use of financial accounting systems that would help them examine and analyze the accounting process, various transactions and ledgers of the assessee while correlating the same with various GST Returns, financial statements etc. Therefore, it is necessary to:

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

D.4 Audit in an ERP Environment

D.4.1 The objective of an GST auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement or entry feeding level. The auditor has to understand the nature of

the governance structures of the entity i.e. the business structures as well as the IT structures. The IT team is usually the custodian/owner of the application and the business team is the custodian/owner of the data residing within that application, therefore, it is imperative to segregate and understand the roles of both the structures/team. The GST officer has to understand the IT systems and related procedures within IT and business processes by which the transactions are initiated, recorded, processed, reported in the ERP environment. It will also be desirable for the GST officer to get a grasp of the various access controls and rights like the Administrator role/rights, senior management role/rights and the like so as to access data accessible only to a certain level of officers of an entity. A company may be using a variety of software to carry out its various functions as depicted in the table below:

Information System	Purpose	Location	In-house or Packaged
SAP/Tally	Accounting, Supply Chain, Production	USA	Packaged
PayMaster	Pay Roll	India	Packaged
Budgetking	MIS, Budgeting	India	In-house

D.4.2 The GST officer will thus be required to have a good knowledge of the general IT systems and the Automated Application software being used in a business for carrying out the task of audit in an efficient and effective manner.

D.4.3 The modern tools/software like Tally. ERP9 designed specifically for the purpose of preparing and finalizing GST Returns have in-built mechanisms to generate various Reports. For example, the GSTR-1 returns can be generated from Tally. ERP9 in JSON format, compressed in the .zip format and uploaded. An advanced tool such as the Tally.ERP9 not only allows the officers to get a summary of the various reports but also goes a long way in finding out about the mismatches in the data. The knowledge of the ERP software will help the GST officers in reconciling the various figures submitted on the portal with those of the financial statements. Further, the ERP systems are designed to cater to a multitude of taxpayer's needs such as Profit tracking, Fixed Assets Management, Risk Management, Multi- Currency Management and Tax Management and therefore, the GST officer auditing an entity should be able to understand various aspects related to these automated accounts.

D.4.4. The traditional system of bookkeeping mandated the preparation of separate ledgers like the Purchase Ledger, Sales Ledger, Credit Ledger, Bank/Cash Book etc. but the shift to the automated environment has done

away with these requirements and all the transactions are now integrated. An enterprise resource planning system inherently means that all the modules within the system are seamlessly connected with each other and the transactions flow through the relevant modules. Thus, there is one Primary Set of Books and all the transactions reside here. For example, if we take 2 purchase transactions involving 2 Vendors

Purchases Dr - Purchase Control Account

To Vendor 1 A/c - Creditors Control Account

Purchases Dr - Purchase Control Account

To Vendor 2 A/c - Creditors Control Account

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

D.4.5 In such an automated environment, while deciding on the audit procedures the GST officer should consider the risk of material misstatement at the assertion level (at the level of initial entry) for each class of transactions, account balance and disclosure. Thus, the traditional way of conducting audit may not prove to be fruitful for the department because of the inherent risks prevalent due to the complexity of systems, use of sophisticated application software, systems being distributed over geographies, volume of transactions, outsourced processes and the like.

D.4.6 In view of the above cited difficulties, the GST officers will have to mould their thought process and start relying more on what the accountants call the "Controls Based Audit". Some of the basic tenets of conducting audit under systems driven approach are:

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

E. Conclusion

E.1 For the first time, GST has brought the Central and State Tax administration to work in tandem with each other. This is an opportunity as well as a challenge. On the one hand, the cumulative experience of the state and the central administration can create a vast knowledge base. On the other hand, it may accentuate difference of practices and overlapping in audit functions.

E.2 To overcome this issue, a better coordination and sharing of information between the Centre and the States is required.

E.3 Standardization is the key. Appropriate Standard Operating Procedures need to be put in place for cross-jurisdictional issues. Frequency of audit, selection of taxpayers and number of taxpayers to be audited needs to be decided based on risk parameters.

E.4 As the actual audit needs to be done by the field staff, the officers and staff need to be prepared well with the help of proper training and development. Training of auditors in financial accounting, reading of contracts, use of accounting software etc. is imperative.

E.5 Finally, a specialized software could be developed to cull out the relevant data from various business accounting systems so that the process of audit is made more system oriented.

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GOODS AND SERVICES TAX COUNCIL
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F. No. 350/Future Initiative/GSTC/2019 /2050
21.02.2020

OFFICE MEMORANDUM

Sub: Constitution of Committee of Officer (CoO) on GST Audit– reg.

In pursuance of discussion and decision in the 1st National GST Conference on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit and to follow uniform practices for GST Audit in Centre and State Tax administration, with the approval of competent authority, a Committee of Offices (CoO) on GST Audit has been constituted, consisting of the following members:

Centre	State/UT	GSTN	GST Council Sectt.
1. Addl. DG, DG Audit Headquarters, CBIC - **[Convenor]** 2. Pr. Commissioner/ Commissioner, GST Policy Wing, CBIC 3. Pr. Commissioner, Meerut (Shri S. V. Singh) 4. Principal ADG/ADG, DGGI Headquarters, CBIC 5. Pr. ADG/ADG, DG Analytics & Risk Management 6. Pr. ADG/ADG, NACIN, Faridabad	1. Commissioner of Commercial Taxes, Karnataka (Shri Srikar M. S.) – **[Convenor]** 2. Special Commissioner of State Tax, NCT of Delhi (Shri Udit Prakash Rai) 3. Special Commissioner, State Tax, Gujarat (Shri Samir Vakil) 4. Additional Secretary, State Tax, Bihar (Shri Arun Kumar Mishra) 5. Joint Commissioner, State Tax, Maharashtra (Shri Prasad Joshi) 6. Joint Commissioner, State Tax, Assam (Shri Gautam Dasgupta) 7. Joint Commissioner, State Tax, West Bengal (Shri Narayan Chandra Guriya) 8. Joint Commissioner (TRU), Commercial Tax HQ, Lucknow, Uttar Pradesh (Shri Sanjay Kumar Pathak) 9. Deputy Commissioner, State Tax, Uttarakhand (Shri Praveen Gupta) 10. Deputy Commissioner (ST), Puducherry (Shri K. Sridhar)	EVP, GSTN	Joint Secretary, (Shri Dheeraj Rastogi) Director (Ms. Ujjaini Datta) Deputy Commissioner, (Shri Rakesh Agarwal)

2. The terms of reference (ToR) for **CoO on GST Audit** shall be to study, examine and suggest:

a. to prepare a comprehensive All India GST Manual taking into account procedures & practices in vogue in different States and Centre;
b. to explore having joint and collective GST Audit by Centre & State for the taxpayers in many sectors that have all India presence like Telecom, Airlines, Banking, Railway etc.;

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b. to explore having joint and collective GST Audit by Centre & State for the taxpayers in many sectors that have all India presence like Telecom, Airlines, Banking, Railway etc.;
c. to explore conducting thematic audit by both tax administration;
d. using capability of data analytics developed by DGARM for identification of State taxpayers for audit;
e. to suggest measures of capacity building in Services for focused approach on audit of Services sector; and
f. to build knowledge on financial accounting and focused approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.;

3. The **CoO on GST Audit** may submit its report within a period of two month.

4. This issues with the approval of the Revenue Secretary, Govt. of India.

(Rakesh Agarwal)
Deputy Commissioner, GST Council

To,

All Members of the CoO of State and Centre on GST Audit under GST

Copy to

1) OSD to the Revenue Secretary, North Block, New Delhi
2) PPS to the Chairman, CBIC, North Block, New Delhi
3) PPS to the Special Secretary, GST Council Secretariat

Deputy Commissioner, GST Council

Annexure-VIII

GOVERNMENT OF INDIA
GOODS AND SERVICES TAX COUNCIL

F. No.350/Future Initiative/GSTC/2019
5th Floor, Tower-II, Jeevan Bharati Building
Connaught Place, New Delhi
25/06/2021

OFFICE MEMORANDUM

Sub: Modified Terms of Reference (ToR) for Committee of Officers (CoO) on GST Audit -reg.

In pursuance of decision in the 1st National GST Conference held on 25.11.2019 to have joint & collaborative efforts for GST Audit; capacity building for audit as well as to follow uniform practices for GST Audit in Centre and State Tax administration, a committee of Officers (CoO) on GST Audit was constituted vide OM of even no. dated 21.02.2020. (copy enclosed)

2. The terms of reference (ToR) for the CoO on GST Audit were also notified vide said OM dated 21.02.2020. The terms of reference are now modified by the competent authority and are as follows:

a. To study audit policy and practices of the Centre and the States which have already implemented certain procedures;
b. To develop model Audit Manual, taking into account the policies and practices adopted by Centre and States, with essential, preferred and best practices which may be adopted by States as per administrative suitability;
c. To broadly outline the procedural aspects of joint and thematic audit, if and as and when they undertaken with approval of Council;
d. Using capability of data analytics developed by DGARM for identification of State taxpayers for audit;
e. To suggest measures of capacity building in Services for focussed approach on audit of services sector; and
f. To build knowledge on financial accounting and focussed approach towards interpreting business contract/agreement and understanding of system driven business process through SAP, Oracle, Tally etc.

3. The CoO on GST Audit may submit its report to this office at an early date.

4. This issues with the approval of the competent Authority.

Ashima Bansal
Joint Secretary

To,

1. **The Additional DG (Convenor of CoO on GST Audit)**
Directorate General of Audit,
Indirect Taxes, C. R. Building,
I.P. Estate, New Delhi-110109.

2. **Shri Srikar M. S. (Co-convenor of CoO on GST Audit)**
   The Commissioner of Commercial Taxes,
   Karnataka.

Copy to:

1. OSD to Revenue Secretary …….. for information to the Hon'ble Revenue Secretary
2. OSD to the Chairman, CBIC
3. The Joint Secretary (Revenue), Department of Revenue
4. PPS to Additional Secretary, GSTC