



Auditor's Liability under GST Audit

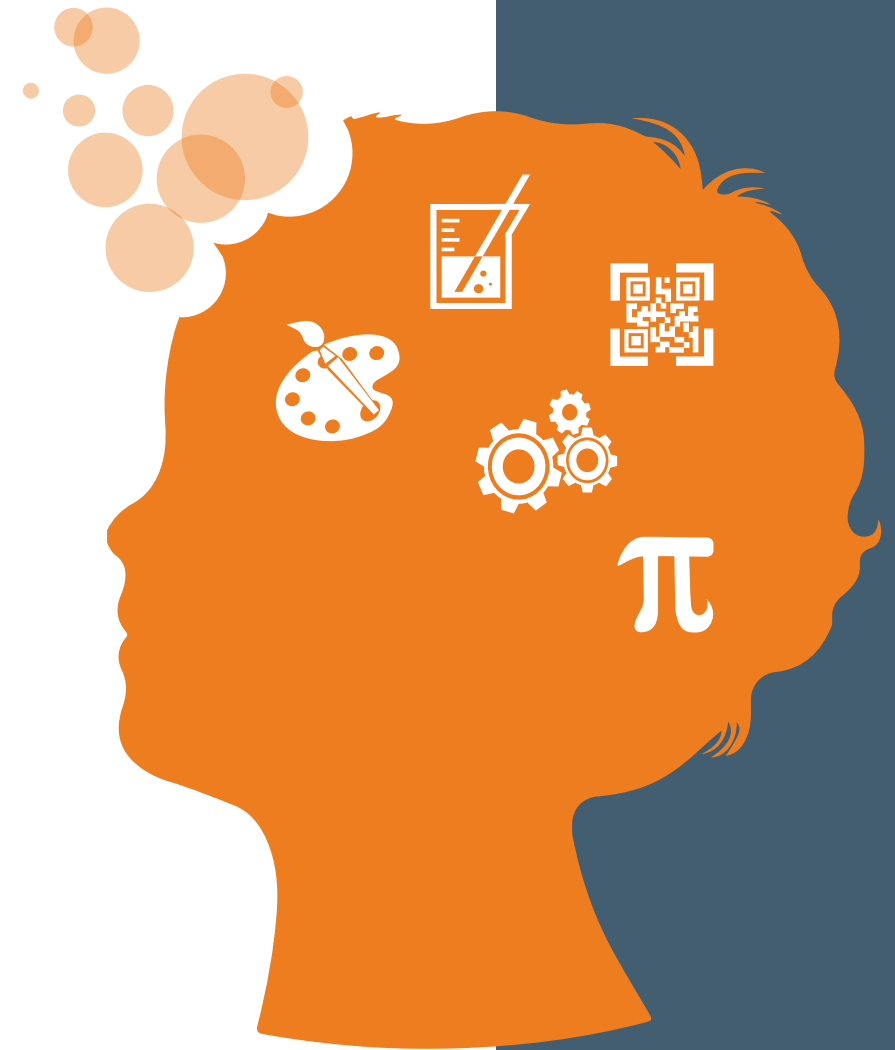
November 2019

The Provision

Section 35(5) of CGST Act

Every registered person

- whose turnover during a financial year exceeds the prescribed limit
- shall get his accounts audited by a chartered accountant or a cost accountant and
- shall submit a copy of
 - the audited annual accounts,
 - the reconciliation statement under subsection (2) of section 44 and
 - such other documents in such form and manner as may be prescribed.

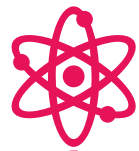


Understanding

A u d i t



Audit means



Examination of

records, returns and other documents



To verify

the correctness of turnover declared,
taxes paid, refund claimed and input tax
credit availed,



Report

GSTR 9C



Which records?

maintained or furnished by the
registered person under this Act or the
rules made thereunder or under any
other law for the time being in force



And to assess

his compliance with the provisions of
this Act or the rules made thereunder



Part B – The responsibility

Examination of

Balance sheet, Profit and Loss account and Cash Flow



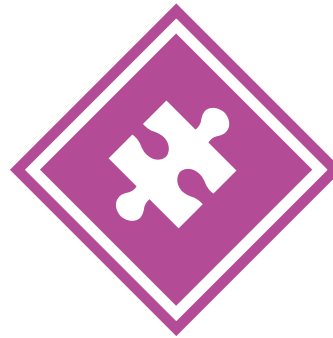
We Report further

observations/ comments / discrepancies / inconsistencies



We report that

Proper books of accounts, records and documents as required by law are maintained



Only when auditor of financial and GSTIN are same

Opinion on

Particulars in GSTR 9C are true and correct, subject to specified disqualifications



Sign and Send

Client will upload the signed form along with requisite documents



Different Situations of Error by Auditor



Wilful abetment for Assessee

S.132 in cases where he abets the commission of an offence - imprisonment for a term which may extend to six months or with fine or with both.



Ignorance of law

One may not be able plead ignorance of law moreso, when he has undertaken to audit the legal compliance of another person



Technical Error

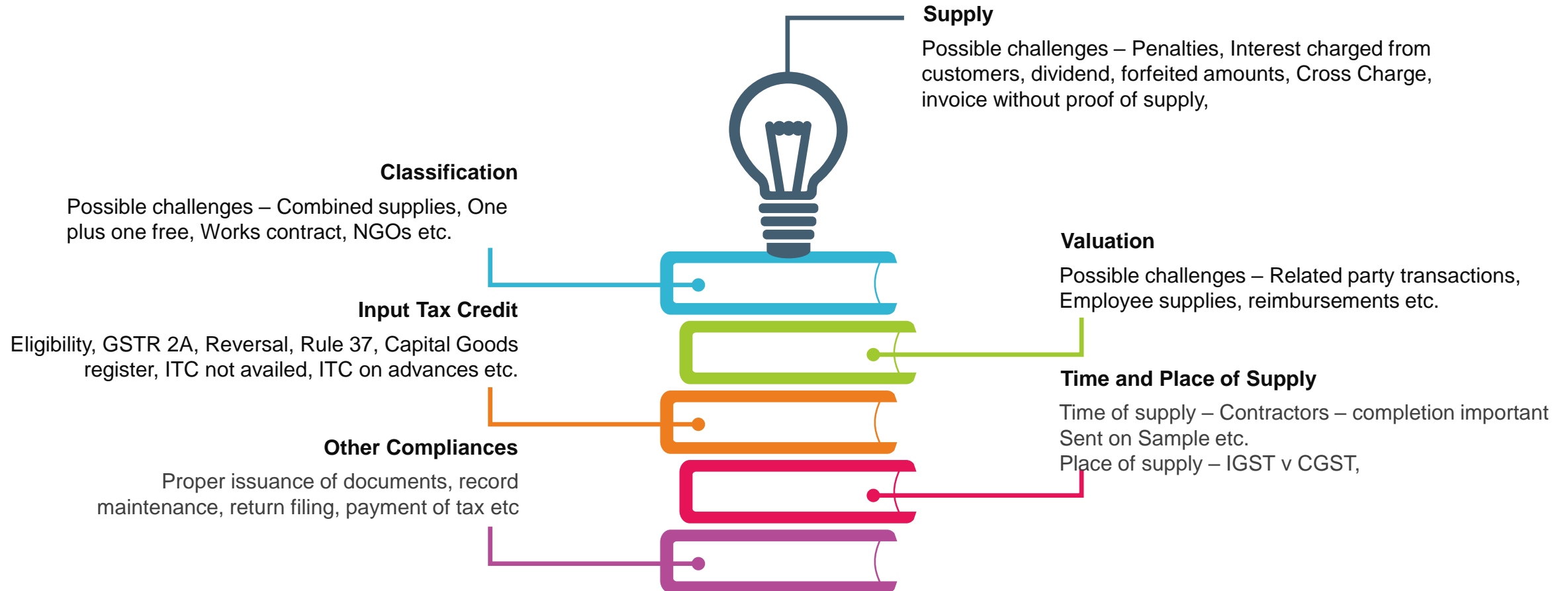
Technical Error if justified with the base of reaching such conclusion can safeguard any bias against the professional



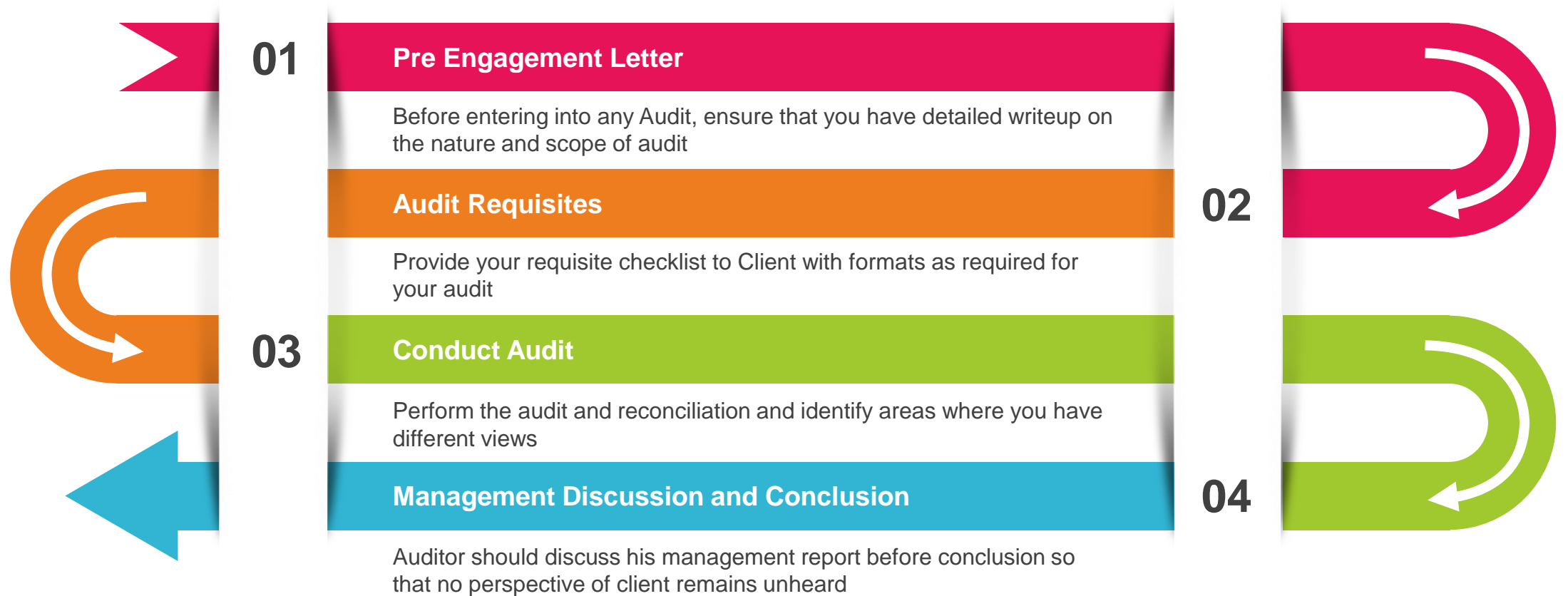
Proper audit procedure not followed

Procedure as laid down for Audit documentation would form equally an important role, negligence can be costly

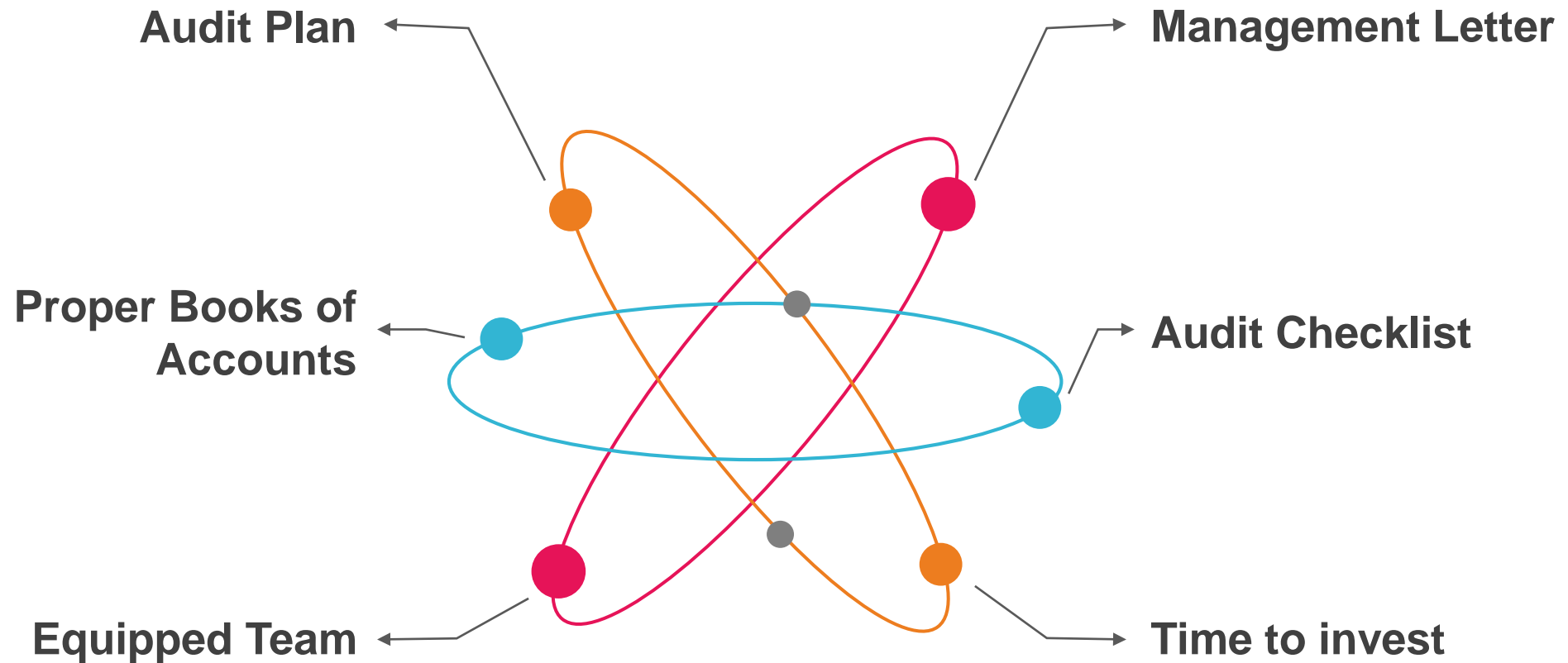
Possible Areas of dispute



Audit Process



Important Requisites



P a r t B



Accounts and Records

Certification in cases where the reconciliation statement (FORM GSTR-9C) is drawn up by the person who had conducted the audit:

* I/we have examined the—

(a) balance sheet as on

(b) the *profit and loss account/income and expenditure account for the period beginning fromto ending on, and

(c) the cash flow statement for the period beginning fromto ending on, —attached herewith, of M/s (Name), (Address),(GSTIN).



Accounts and Records

- **Reporting in case non provision of such accounts and records**

2. Based on our audit I/we report that the said registered person—

*has maintained the books of accounts, records and documents as required by the IGST/CGST/⟨⟨⟩⟩GST Act, 2017 and the rules/notifications made/issued thereunder

*has not maintained the following accounts/records/documents as required by the IGST/CGST/⟨⟨⟩⟩GST Act, 2017 and the rules/notifications made/issued thereunder:

1. Stock records
- 2.

Stock register not maintained

The Assessee has not maintained Stock register as per information and explanation given to us, due to the peculiar nature of varied stocks.



Accounts and Records

- **Section 35 read with Rule 56**

- production or manufacture of goods;
- inward and outward supply of goods or services or both;
- stock of goods;
- input tax credit availed;
- output tax payable and paid; and
- such other particulars as may be prescribed:
 - account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.
 - accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof
 - names and complete addresses of suppliers from whom he has received the taxable supplies;
 - names and complete addresses of the persons to whom he has supplied goods or services, where required under the provisions of this Chapter;
 - the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein.



Accounts and Records

- Section 35 read with Rule 56
 - monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.
 - accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.



Accounts and Records

3. (a) *I/we report the following observations/ comments / discrepancies / inconsistencies; if any:

.....
.....

(b) *I/we further report that, -

(A) *I/we have obtained all the information and explanations which, to the best of *my/our knowledge and belief, were necessary for the purpose of the audit/ information and explanations which, to the best of *my/our knowledge and belief, were necessary for the purpose of the audit were not provided/partially provided to us.

(B) In *my/our opinion, proper books of account *have/have not been kept by the registered person so far as appears from*my/ our examination of the books.

(C) I/we certify that the balance sheet, the *profit and loss/income and expenditure account and the cash flow Statement are *in agreement/not in agreement with the books of account maintained at the Principal place of business atand **additional place of business within the State.



Accounts and Records

4. The documents required to be furnished under section 35 (5) of the CGST Act and Reconciliation Statement required to be furnished under section 44(2) of the CGST Act is annexed herewith in Form No. GSTR-9C.

5. In *my/our opinion and to the best of *my/our information and according to explanations given to *me/us, the particulars given in the said Form No.GSTR-9C are true and correct subject to following observations/qualifications, if any:

- (a).....
- (b).....
- (c)

**(Signature and stamp/Seal of the Auditor)

Place:

Name of the signatory

Membership No.....

Date:

Full address



S o m e
i m p o r t a n t
p o i n t s



Accounts and Records

- What to reconcile?
- Payment of unpaid taxes
- Reverse charge in respect of Financial Year 2017-18 paid during Financial Year 2018-19:
- Net ITC reported in GSTR 3B
- Expense wise turnover
- Credit Notes / Debit Notes



A u d i t o r ' s C o m m e n t s a n d O b s e r v a t i o n s



Understanding engagement

Whether absolute assurance is possible?

- The wording often requires the use of word or phrase like “certify” or “true and correct” to indicate absolute level of assurance expected to be provided by the practitioner on the subject matter.

Inherent risk cannot be reduced to zero

- A practitioner is not expected to reduce the engagement risk to zero. This is because there are inherent limitations attached to the procedures which a practitioner may perform in relation to issuance of a report or certificate, as the case may be.

Independence and other ethical requirements

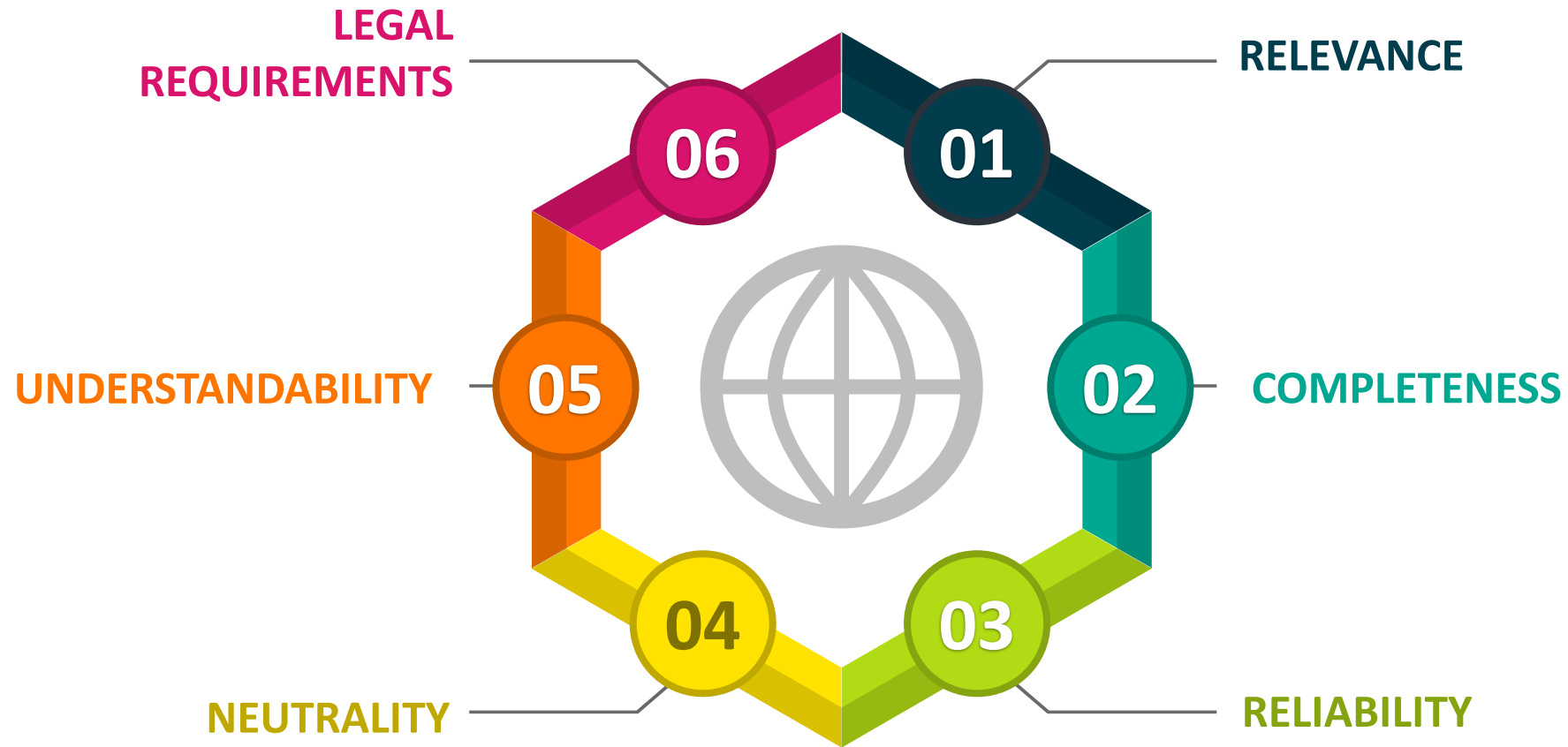
- The practitioner should accept GST audit only if he has no reason to believe that relevant ethical requirements, including independence, is not satisfied.

Written communication to explain scope of engagement

- It is in the interests of both, the engaging party and the practitioner, that the practitioner communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings.



Requisites of information



Observation of Auditor

Observation by auditor of financial statements:

3. (a) *I/we report the following observations/ comments / discrepancies / inconsistencies; if any:

.....

3. (b) *I/we further report that, -

(A) *I/we have obtained all the information and explanations which, to the best of *my/our knowledge and belief, were necessary for the purpose of the audit/ information and explanations which, to the best of *my/our knowledge and belief, were necessary for the purpose of the audit were not provided/partially provided to us.

(B) In *my/our opinion, proper books of account *have/have not been kept by the registered person so far as appears from *my/ our examination of the books.

(C) I/we certify that the balance sheet, the *profit and loss/income and expenditure account and the cash flow Statement are *in agreement/not in agreement with the books of account maintained at the Principal place of business atand **additional place of business within the State.



Observation of Auditor

Observation by auditor of financial statements:

- All discrepancies as the auditor of the financials should be reported here
- Exclusive GST auditors are not required to comment on the above point
- Even things which challenge the true and fair view of the financial statement shall also be reported here
- Any assumptions material to maintain the view of true and fairness should also be reported here.



Observation of Auditor

Observation / Qualification in GST audit

5. In *my/our opinion and to the best of *my/our information and according to explanations given to *me/us, the particulars given in the said Form No.GSTR-9C are true and correct subject to following observations/qualifications, if any:

(a)

(b)

(c)



Certain important observations

Reconciliation and not assurance on overall compliance

- I/We have based our audit on the clarification issued by CBIC whereby it has been clarified that the scope of the audit is restricted to provide reasonable assurance on the correctness of the reconciliation given in Part A of this Form and auditor is not required to examine other aspects of levy and compliance including but not limited to classification, valuation, rate of tax etc. Any transaction which is beyond those recorded in the accounts and records has been examined or verified by us.

Opinion is not an absolute assurance but a reasonable assurance

- As the basis for the auditor's opinion, SAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.



Certain important observations

Books of accounts when registration obtained during the year

- The Assessee has obtained registration with effect from _____. Being the first year of operation under GST Act and non requirement of maintenance of any books before such date, the Assessee has prepared books of accounts from _____ to March 31, 2018. All figures reported are corresponding to the said period.

Absence of original documents

- I/ We have verified correctness and completeness of the accounts and records required under Section 35 of the CGST Act, 2017 read with Rule 56 of CGST Rules, 2017 from the original documents produced by the Assessee except _____ in absence of such documents in his possession and our report is based on self attested copies of such records.

Non Reversal of ITC on financial Credit notes

- During my verification, I have examined that the Assessee has not reversed the liability under Section 16(4) to the extent of financial credit notes received from its Vendors. Such position has been adopted based on clarification given by CBIC vide Circular No. _____ dated _____.



Certain important observations

Reliance on any assurance / clarification by department

- During my verification, I have examined that the Assessee has relied on the Circular No. ___ dated ___ and has not paid tax / interest / penalty on _____ <event under consideration>.

Late payment of reverse charge

- During my verification, I have examined that the Assessee has not discharged his liability under reverse charge in time during FY 2017-18, however, he has paid the demand along with interest on ___ and thus, no further liability remains on this count.

Reversal under Rule 37 not made

- During my verification, I have examined that the Assessee has not reversed the liability under Rule 37. As per the clarification given to us, the reversal has not been made in absence of mechanism as provided in the statute. However, the interest as required to be paid on such compliance has been duly discharged by the Assessee.



Certain important observations

Destruction / Loss of records

- The Assessee has informed that the accounts and records from the period _____ to _____ has been destroyed / lost due to _____. The Assessee has not been able to reconstruct the accounts / records and was unable to produce corroborative evidences for such records. For the said period, I / We are not in the position to certify or comment on the correctness of figures reported in Part A.

Restriction of access

- Information or documents or agreements relating to _____ were not made available to us. I am unable to verify the accounts and records relating to such transactions. Such values are adopted on the basis of accounts and records produced by the Assessee on self certified basis.

Non maintenance of separate Trial Balance

- The Assessee has not maintained separate Trial Balance for the GSTIN under Audit. The assessee maintained data on all India basis. However, accounts and records as required to be maintained under Section 35 of the CGST Act, 2017 read with Rule 56 of CGST Rules, 2017 is maintained and produced before us for verification. And thus, we have assumed that such records and accounts record proper transactions as required for the present GSTIN.



Certain important observations

Survey under other laws

- A survey was conducted under section 133 of income tax Act, 1961 on the Assessee on _____. The Assessee has disclosed unrecorded income of Rs _____ / unaccounted stock _____ / improper expenses of Rs. _____ during such survey. We have not commented on the implications under GST statutes on such transactions as such information was not recorded in the books of accounts.

Transfer of business

- The Assessee has transferred his business during the year due to _____ (sales /decease etc.) and has transferred his entire business as a going concern w.e.f. _____. Thus, the entire period of audit entails to the figures from _____ to _____.



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Thank You

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