Types of Reviews / Audit in GST

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Introduction:

The common audits we come across in India can be bifurcated into two parts:

A. **Statutory audits**: Companies Audit, Bank audit, Audit of insurance companies, Environmental audit, Energy audits etc. In taxation audit under Income Tax Act, 1961. In Indirect taxes the audit was prevalent [pre gst] under some of the local State VAT Acts and a mechanism of departmental audit and special audits was built in under the provisions of erstwhile Central Excise and Service Tax laws. Further, with the introduction of Goods and services tax laws, government has incorporated various audit requirements including audit by the independent professionals in line. The reconciliation and audit under section 35(5) for those above the threshold of Rs. 2 crores of aggregate turnover is yet to be notified.

B. **Internal Audit:** Internal audit is not mandated in the statute but conducted at the behest of the management. It has variants such as of operational audit which is a voluntary appraisal activity undertaken by an organization to provide assurance over the effectiveness of internal controls, risk management and governance to facilitate the achievement of organizational objectives. Internal audit can be performed by employees of the organization or by the professionals independent of the organization and who report to the management.

   Unlike external audit, whose scope is primarily restricted to matters that concern the financial statements, the scope of work of an internal audit can be very broad and can encompass any matters which can affect the achievement of organizational objectives. It could also be restricted by the management. Internal audit is centered around certain key activities which include:

- Examining the effectiveness of internal controls and strengthening the same with various preventive, detective and corrective controls.
- Monitoring compliance with laws and regulations
- Reviewing and verifying where necessary the financial and operating information
- Evaluating risk management policies and procedures of the company
- Examining the operations/ process for their effectiveness and efficiency.
- The role of information technology has increased by leaps and bounds and the controls embedded are critical. Examining the software used, the integration to the system would be of paramount importance.

The component of GST inwards for any service or goods could range between 5-20% of the total expenditure. The outward charge of GST could range between 0- 28 % for majority of products or services. This is significant and review of this is required by the tax authorities as well as management. In this article we examine the various options available to the management. We do not look at investigations or revenue audits as required under CGST Act 2017.

Types of GST Review:

The internal audits and management reviews that businesses can undertake from the stand point of Goods and Services Tax can be as under:

1. **Complete Health check reviews:**

   GST health check reviews can be conducted on the periodical basis covering all functions having GST impact. This could include sales, procurements, inventory, finance etc. Such reviews would be also helpful for GST mandatory statutory audit and more importantly it provides management with the comfort on level of compliance in the organization. This exercise is also value additive where various benefits available in the law are also identified on timely basis. Broadly, this would cover the following:

   - Review of GST outward supplies, tax rates applied, concessions, and exemptions claimed, fulfilment of related conditions, export benefits claimed etc.
   - Review of GST input tax credits claimed to assess eligibility, ineligibility, completeness, documentation for credits, transitional credits carry forward etc.

- Review of procedural compliances including GST registrations obtained, payment of taxes, filing of returns, disclosure of ITC & outward supplies in returns, movement of goods for job work, carry forward of credits etc.
- Review of reverse charge compliance by reviewing the expense ledgers on sampling basis, payments made, availment of re-credit after payment, eligibility of such credits, rate and abatements if any claimed including documentation.

2. **Area specific reviews:**

   Management can decide to conduct area specific reviews as per the need and requirement of the organization. Various areas that can be reviewed on specific basis from GST point of view can be sales, procurements, IT, ERP/ systems, exports & refunds, **ITC credits**, reverse charge, compliance and documentation, agreements/ contracts, disputes & litigation management etc. Areas specific reviews are very niche and specific, its coverage is more in-depth and it helps management in streamlining and strengthening the specific business process being reviewed.

   In the light of the fact that the Income Tax form 3CD has added clause 44 relating to GST and the limitation of time for input tax credit upto September 2018 return filing, the need to complete a ITC review is imperative. [Readers may visit idtc@icai.in for detailed article with review program in this regard]

3. **Inter-branch transactions review:**

   With the advent of 'distinct persons', transactions which would have gone untaxed are not only brought to tax but are required to be reported as inward-outward supply, respectively. And these transactions cancel each other in the consolidated financials at the entity-level. As such, identifying what are inter-branch transactions, reviewing the accounting entries and reporting them for GST purposes during each tax period requires close attention. With the introduction of IT systems, trade has almost forgetting branch-departmental account which GST is brining to the fore. And in case of banks, the option in section 17(4) increases the importance of this review. Reference may also be had to the implied transaction of management oversight services by Head Office to all branches (being distinct persons).

4. **Review of invisible-supplies:**

Transactions that are not for 'monetary consideration' are also liable to GST. As such, even without an accounting entry, the said transaction will need to be reported for GST purposes and reconciled in the Annual Returns. For example, exchange of goods will not involve any monetary consideration and as such no accounting entries are warranted, even impermissible. There are many other instances where even without an accounting entry, there would be a transaction liable to be reported for GST purposes. This review attends to take advantage of the understanding of the business domain and identify the manner – timing and valuation – of such transactions which could be referred as 'invisible' transactions.

5. **Due Diligence reviews:**

   In business restructuring deals, tax due diligence of buyer side is required. This may require to be done voluntarily by buyer or based on specific direction by seller. The review is intended to highlight the tax exposure which may carry on to the new entity. This becomes more critical in cases where entity is exposed to multiple indirect tax laws. The review identifies areas of non-compliance current or in long term, potential risks and even threats, changes required if any in the terms of the contract and also suggest alternative structuring strategy to optimise tax incidence.

6. **Systems and processes reviews:**

   Indirect tax systems impact almost all financial transaction of business. This necessitates having proper control system to manage tax function at transaction levels. The businesses have now become system driven where human interference is reduced to very minimal. The complex business structure coupled with system automation requires flawless tax system inbuilt as a robust system in all the business processes. Therefore, this review assists management in identifying the risks and gaps at various levels of GST compliance and the possible threat if the same remains unaddressed. The review helps management in incorporating various preventive, detect and corrective controls at various levels of a business process and it helps in streamlining and strengthening the entire business process cycle from its inception to the end which eventually cuts down the chances of mistakes, errors and frauds thereby improving the overall compliance matrix. Examples of such reviews may be:

- Maintenance and data-flow in ‘control accounts’ where some factor such as credit reversal for delay in payment to suppliers, tax payment for delay in return of inputs sent to job-worker, tax payment on disposal of fully depreciated assets in books (but less than 5 years old) and such other post-procurement conditions prescribed by GST law;
- Ongoing review of payment of tax by suppliers which may not always be through monitoring GSTR-2A but additional checks by admission of timely tax remittance (invoice-wise) by the supplier;
- EWB auto-acceptance review where the portal accepts EWBs within 72 hours but the underlying supply may not relate to the entity. Continuous monitoring is one aspect but the omission to reject in a timely manner resulting in auto-acceptance implies an admission of inward supply which may not be the case; and
- Such other key factors that require continuous monitoring as section 35(1) requires the accounts and records to be contemporaneously maintained and not specially prepared during an annual audit event.

7. **IT/ ERP systems review:**

GST as we have seen is IT dependent. The GSTN has been the focal point of compliance. Many tax payers have automated their processes and even the return filing is performed electronically with utilities provided by the GSTN as well as independent software vendors. The need for keeping the data confidential is the key objective when sharing data. Even in management decision making reliance is placed on the output of the IT systems and the ERP. Any error in the initial configuration/ set up, data entry, data transfer, software coding of utilities could have substantial impact on businesses. Therefore businesses would need get the audit of the IT/ ERP systems and software validated.

Business would also need to get an IT/ERP audit done not just from the compliance side, but to assess what are the Technology features that an organisation is missing out. Today most of the reports are prepared in Microsoft Excel, without that application Finance & Taxation team could not perform their duties. However it brings the limitation of possibilities of Data Processing beyond Excel. Business can explore / assess what are the manual functions still that are performed. In today’s world any work done on Microsoft

Excel to be termed as Manual work, like use of Calculator in Financial statement a decade back.

Possible Automations one can think of

a) Filing of Returns straight from ERP to GSTN Portal
b) Generation of e-Way Bill along with raising of Invoice
c) Integrated Reconciliation of 2A with Book of Accounted
d) Sending Reminders (Email/SMS) to Vendors wherever there is deficiency in Credits.
e) Rule based Alerts for in eligible Credits.
f) Reminder for procedure compliance like
   - Inputs to be received back from job worker with in 1 year
   - Raising of Invoice in timely manner for supply on approval or Basis

As we see today functioning of an ERP with GST compliance is basic minimum expectation from professionals today.

Conclusion:

Today in there is an evolving GST law with Government proactively and regularly seeking to amend the law for fitment of rates, Act and Rules to make GST simple and easy. The compliance in this period therefore is challenging and applicability would depend on the date of amendment. Some issues are not very clear for which one needs an in depth understanding. The role of high automation is however certain. Therefore the Chaptered Accountants who have this knowledge, audit skills need to get tech savvy and then they would be well placed to comply as employees and provide the review services as practitioners.

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- Indirect Taxes Committee