GST Audit Certification

GST law mandates an audit to be conducted by a Chartered Accountant and to provide a 'true and correct' statement of particulars in Form GSTR 9C for each registered person by Dec 31, 2018. As to whether this is yet another 'audit' of the financials was one concern, while the nature of assurance expected of an auditor was another. Authors of this article have identified some key aspects in the law and the forms notified that seem to allay these concerns. Besides that, the ask of the Government is made clear in the various tables in Form GSTR 9, Form GSTR 9A and Form GSTR 9C – there is no information that is beyond their reach and knowledge anymore, whether it relates to sale of those five petro products or alcoholic liquor or sale in an overseas project office-liaison office or turnover from high sea sale. Report everything, albeit under exempt turnover category or a new 'no supply' category that's found a place in the forms. Read on to know more…

A Form prescribed under a rule, in furtherance of the purposes of the section, supplies the precise extent and meaning that ought to be ascribed to words in the section that are capable of meaning something more or something else. That's the guidance of Hon'ble SC in *CIT v. Ajanta* Electricals (1995) 4 SCC 182. And section 35(5) of the CGST Act may continue to use liberal expressions like *'Every registered person.... shall "get his accounts audited".....and submit a copy of the audited account....'*; whether registered person had to 'get' another audit done of the financials or simply 'submit' the audit already carried out, is quite clear now. Without having to look into the audit of financials, the auditor's work is cut out in Forms that have been notified right when yet another audit under Income-tax Act was underway. Here's


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a look at 'the ask' of the Government through this exercise of Annual Return and Reconciliation Statement.

GSTR 'new' Forms

Annual Return

Every person with a GSTIN needs to prepare Annual Returns, even if no transactions are carried out during 9-month financial year 2017-18. No such return is required by holders of registration as ISD, TDS-TCS, casual and non-resident taxable persons.

Annual Return is a 'summation' of data reported for the year (or GST period) 2017-18. Interesting to see that, Form GSTR 9 refers to data filed 'during' the year. Considering that returns for 2017-18 were permitted to be filed 'belatedly', returns filed 'during' alludes to returns 'for' 2017-18.

Annual Return admits that GSTR 1 and GSTR 3B are in harmony with each other. That is, no turnover reported in GSTR 1 has been omitted in GSTR 3B while paying tax. And no turnover that is taxed in GSTR 3B has gone unreported in GSTR 1. That's to explain concerns whether data from GSTR 1 or 3B should flow into GSTR 9.

Annual Return is not the place to rectify errors in the data reported in GSTR 1 / 3B. It's the experience with VAT that seems to fuel this expectation that GSTR 9 will be that fix-it-all chance. But consider if everyone were to start rectifying in GSTR 9, GSTR 1/3B would be otiose.

Someone said Garbage-in-Garbage-out, to borrow analogy from computer software industry, is the key to GSTR 9. And it doesn't seem all that far from the truth when we see that a 'system generated' GSTR 9 would be available for preparing Annual Returns.

There' another place for rectification, that's GSTR 9C. But then, what about registered persons who are not required to file GSTR 9C. There cannot be a different requirement for such persons, GIGO and administration will address errors that went unresolved even after due date for GSTR 1 was extended to October 31, 2018.

But that is no reason to permit registered persons to rectify, to some extent, in GSTR 9 and some more in GTSR 9C. Data hygiene is about continuity of link from one form to next.

GSTR 9A

Annual Return for taxable persons who have opted for composition of tax is required in GSTR 9A which contains a truncated information flowing from GSTR 1.

Credit related information does not appear in GSTR 9A as it pertains to composition taxable persons who are not eligible for input tax credit.

GSTR 9B

With the introduction of TCS from 1 October, 2018 these transactions will need reporting for 2018-19 and not now.

Reconciliation Statement

Everyone whose 'aggregate turnover' for the entire 12 months of 2017-18 exceeded ₹ 2 crore is required to submit GSTR 9C. And yes, 'turnover' is used in section 35 but is not defined; 'financial year' is used in section 44 but is not stated whether 12 months or 9 months.

So, authors suggest that everyone whose 'aggregate turnover' for 12 months of 2017-18 exceeded ₹ 2 crore, to submit GSTR 9C. And the rest can wait and agitate as this is only a suggestion. One-GSTIN-one-GSTR 9/9A-9C, no-GSTIN-no-GSTR 9/9A-9C.

There are several situations where ₹2 cr can be reached in April-June and ₹0 in July-March. It's for this reason that professional judgement is invited. Any additional suggestion would only be a view rather than information from the law.

About GSTR 9C, it's a reconciliation and as a reconciliation, it requires two data points with some differences the need to be explained. Financial statements of the registered person are 'derived' from that of the Entity. And reconciled with GSTR 9. And with GIGO, so that all reconciliations will appear in one place, here.

Deriving financial statements has been discussed in detail in the Technical Guide (draft) issued by ICAI. Of course, it would be a 12-month data that will be reduced to 9-months by an exclusion in 5G.

Reconciliation is a not an effort to 'make it tally' but explain 'why' after admitting it 'doesn't'. So, please don't be anxious if it doesn't tally because there are inherent differences in the way revenue is recognized in books and way turnover is arrived at

in GST. In fact, there's reason to worry if they tally.

There will be reconciliation differences and that needs to be explained, even though no tax is due on such difference.

Authorship

GSTR 9-9A

Registered Person retains authorship to Annual Returns. Auditor may have advised but authorship does not shift. Unless registered person claims expertise in GST law, admittedly there's a reliance on the work of experts in identifying, recording and reporting transactions in the returns filed 'for' the year. Such advice may be as to:

- Supply 'categorization' as goods or services
- Determination of 'supply' itself
- Identifying 'time' of supply
- Admitting 'place' of supply
- Documenting 'value' of supply
- Declaring it to be 'sole' consideration
- Claiming 'credit' as permitted
- Restricting claim to 'extent' eligible
- Maintaining record of all the above

Unless these and some more are disclosed, one might assume GST expertise resides in-house!

GSTR 9C

Reconciliation with financial statements, whether audited by the same or different auditor, is left entirely to authorship of auditor. The word authorship is used so as to understand in the context of audit.

Authorship is not limited to the 'numerals' reported but everything, numerals, supply (classification and valuation), tax payable, et al except data furnished to auditor in GSTR 9.

Data exchange is like a 'relay', where one user prepares data and hands over to the next user who works upon the data handed and prepares incremental data set only to hand it over to the next user.

A garment cannot but carry the characteristics of the cloth from which it was cut. GSTR 9C will also carry effects of estimation and assumptions made in preparing financial statements as well as own (or guided) understanding of GST law in preparing GSTR 9.

Annual Return and Reconciliation Statement must be prepared (and read) mindful of the extent of expertise available with its authors.

Audit or Certificate

Nature of Exercise

GSTR 9C requires certain 'particulars' furnished '.....are true and correct subject to.....' Auditor's opinion is where 'subject to' begins and qualifies data declared to be 'true and correct'.

If there are extensive qualifications, it may belie the truth-and-correctness of the 'particulars' furnished. So, the engagement would be extensive to derive *prima facie* comfort about its truth-and-correctness and then call-out the areas where one or other aspect is wanting.

Assurance

Regardless of the words used to express the level of assurance, whether true-and-correct or true-and-fair, the nature of the exercise itself determines the degree of assurance possible. Extracts from SA 200 state it best:

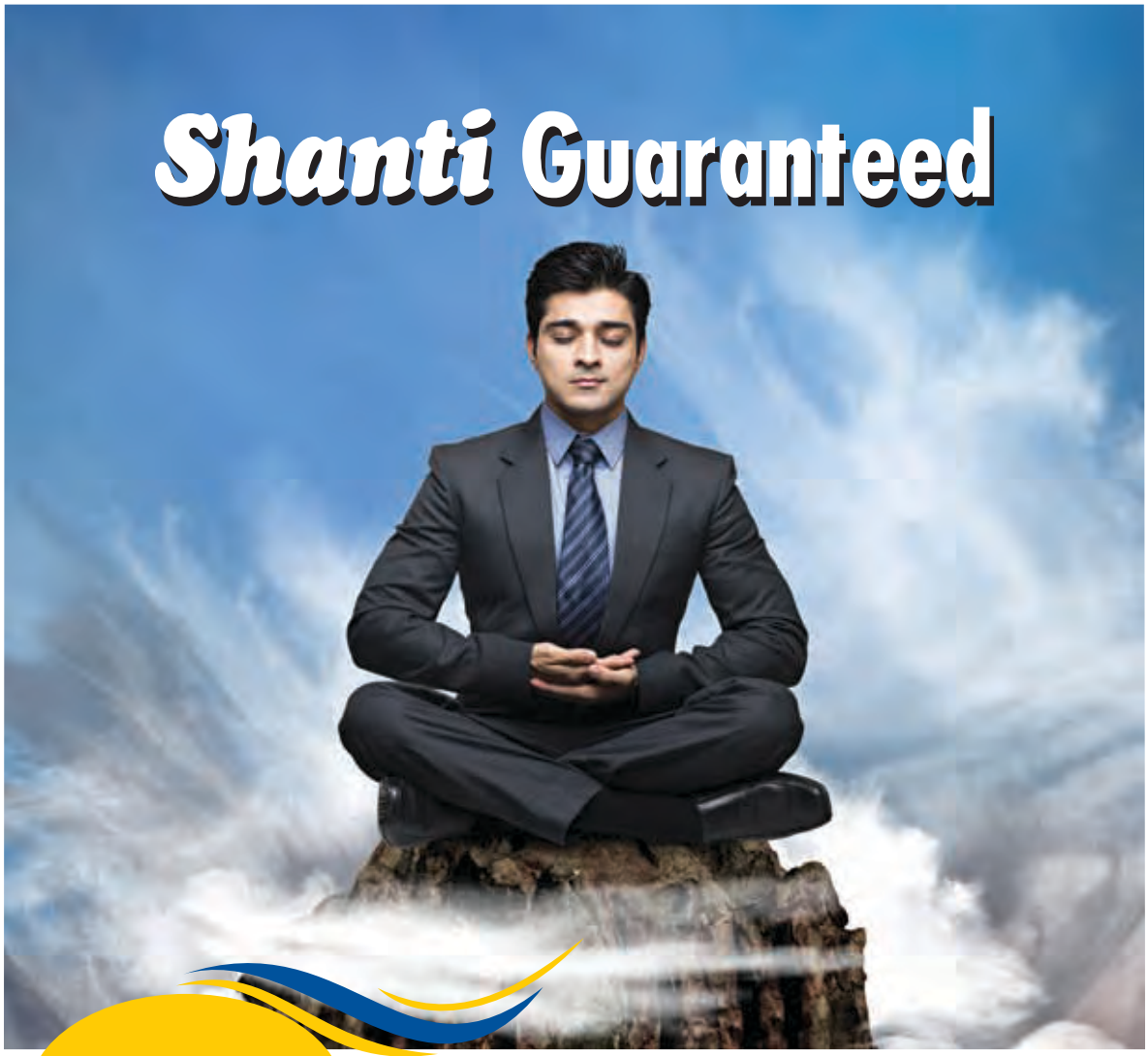
- *"Reasonable assurance is a high level of assurance"*
- *"...reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive"*
- *".....Judgements about materiality are made in the light of the surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users...."*

So, call it what you want but it seems to be 'reasonable assurance', no more, no less.

Approach

As regards the approach to the work by an auditor, it is expected that his training as a Chartered Accountant, knowledge of standards published by ICAI, methods applied in validating data to reach an opinion and experience in exercising professional judgement must be brought to bear. And cannot be stated better than relying on more extracts from SA 200:

- *"The Standards on Auditing (SA) establishes the*



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independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs."

- *"SAs are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audit of other historical financial information"*
- *"....An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion."*

Although the exercise is an 'audit', the extent of reporting is a 'certificate' and this seems to be certification by carrying out an audit – audit certificate.

Maintenance of books

Maintained or Prepared

Responsibility to 'maintain' books and records are that of the registered person. Maintenance indicates regularity and timely. With the pervasiveness of information technology, each registered person does not 'maintain' books and records pertaining to its operations. In fact, all information is available but with the Entity. Only such information as it relates to the Registered Person are furnished after it is 'extracted, compiled and specially prepared'.

There lies the expectation-compliance gap. And this ought not to be frowned upon as that's the doing of increased use of IT but not unreliable by any standard. However, a clear disclosure of this fact, would hold Registered Person-Auditor in good stead so that the 'user' is mindful of the nature of the compliance.

GAAP Effect

Of the various concepts and conventions in book-keeping, 'money measurement' needs special mention in the context of GST. Books of accounts do not permit recording of transactions that are not reflected by a financial measure. Money measurement means a transaction that is undertaken in monetary terms are only permitted to be recorded.

GST is not fettered by such things and travels far beyond to impose tax on 'barter and exchange' which do not enjoy a financial measure. And then there are transactions in GST that are at 'notional value' where the transacted value is not acceptable in certain situations and remedial measurement is provided in the rules.

So, GST contains transactions that need to be identified and reported even when GAAP does not even permit recording them in the books.

UQC applied

Goods imported in 'square meters' and supplied domestically in 'square feet' and scores of other differences on account of unit-of-measurement, or unit quantity code (UQC). Do records maintained (regularly and timely) reflect quantitative information in either or both? Worse still, if it's in only one of them, is a conversion factor used to reflect information in the other and what about restatement differences? There will be differences that are not indicative of any wrong doing. Disclosure continues to save the day.

AS-ICDS-Ind AS divergence

Then there's the aspect of relevant standards applied for accounting. Ind AS varies in many respects with Accounting Standards (ICAI) that continues to be applicable if the requirement for conversion, either by threshold or timeline, are not applicable to the enterprise.

Divergence in information carried in financials are bound to cause concern to a user unless the auditor makes suitable disclosure. For example, Ind AS 116 requires Lessee to capitalize assets in its books at the NPV of MLP (net present value of minimum lease payments). "Auditor to explain!"

ICDS (Income Computation and Disclosure Standards) is also not free from variance with AS. For example, ICDS II does not call for exclusion of 'recoverable taxes' paid on purchase of goods whereas AS2 does. Interestingly, ICDS V excludes such taxes in line with AS10. "Auditor to please explain again!

And there more which cannot but be accepted by users if it weren't for the auditor to come forward with clear disclosure of the extent of variance and reasons for the same.

Reporting in GSTR 9-9A

Garbage in-Garbage out (GIGO)

It's an IT-terminology that is unmistakably clear in stating what the output is all about. Annual Return will carry data reported in GSTR 1/3B. No

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new tax liability will be admitted and reported in GSTR 9-9A. No new credit will be discovered and claimed in GSTR 9.

It's the 15-month period (Jul 2017 to Sept 2018) over which data has been permitted to be reported 'for' 2017-18, that requires a consolidation in GSTR 9-9A. Some experts hold the view that Annual Return can contain 'new' information because it's not a pre-filled form and that view may be proved right, but the authors feel reluctant to accept such view for reasons stated later in this article.

Rectifications – where?

Rectification whenever error is discovered. Rectification by anyone who discovered the error (Registered Person or Auditor). Whether rectification was carried out or not would require yet another reconciliation. So, it seems that all data lying all over the 15 months that data was reported be complied in one place and all rectification reported after verification by auditor.

GSTR 9-9A is not the last word on tax compliance. Registered Persons above the threshold permitted to get their compliances verified by the auditor. And those below the threshold liable to verification by authorities. Seems simple, plausible and workable but time will tell if this is the Government's view too.

Reconciliation in GSTR 9C

Turnover 'derived'

Financial statements provide the 'start' to this reconciliation. And 'turnover' for 2017-18 is to be 'derived' from audited annual financial statements of the Entity.

This is a clear indication that the Government admits that the audited financial statements will be that of the Entity and not of the Registered Person. And for this reason, it's to be derived.

To derive, no new method is to be applied except the information pertaining to Registered Person that are 'extracted, compiled and specially prepared' from the that of the Entity.

Of course, information so derived will have its own estimation and assumptions that would beg to be disclosed so as to ensure completeness when information of all other registered persons is added up.

Adjustment signs "+ / -"

Reconciliation does not mean any one of the information is incorrect. Reconciliation means that one is explainable 'subject to adjustments' to reach the other.

Attention must be paid to the 'sign' assigned to each adjustment. For example, '+' sign against 5B requires 'increase' in turnover of registered person (as stated in financial statements) by amount already reported as turnover in the previous year (unbilled revenue) in respect of which GST-invoice is issued only now and included in 5Q. This reconciles 5A with 5Q.

But, 5E requires 'increase' in turnover by amount of credit notes issued after the financial year that is (somehow) reflected in annual returns. If credit note is not reflected in financial statements (issued after financial year), turnover in 5A will be higher than in 5W. By increasing 5A with the amount such credit note, the gap will only widen.

And then, 5J requires 'decrease' in turnover (as stated in financial statements) by amount of credit notes accounted in financials but not permissible in GST. If credit note so issued has already been accounted, turnover in 5A is already lower than in GSTR 1 (hence GSTR 9). Now, by decreasing turnover in financials, it will further widen the gap between 5A and 5Q.

So, care must be taken to ensure the correct 'adjustment' effect is given, that is, plus or minus, depending on the effect it is to have in bringing turnover in financials to reconcile with turnover in returns. Blindly relying on the 'sign' is not advised, especially, when an expert is assigned this task.

And when no specific row is prescribed, 5O is the one where 'all other' adjustments need to be made. Reference may be had to the Technical Guide (draft) issued by ICAI to support members as they undertake this reconciliation.

Not permissible under section 34

5J makes mention of 'credit note not permissible under GST'. Much has been said about permissibility of 'financial credit note' that is without GST-effect. And that the same will not attract the ire of credit reversal as non-payment to supplier to this extent. Whether recipient will be denied input tax credit or not, the supplier who issued credit note 'not in accordance with section 34' is brought into focus here.

From the earlier discussion about 5E and 5J, it appears that the sign is to be 'reversed' or if the sign is maintained, then a 'negative' value must be applied in these places. On this assumption, authors would submit a view that where such financial credit notes are issued, that is, credit note without GST, the same is liable to increase the turnover and be liable to be tax as an unreconciled difference.

Surely, this view will evoke strong reactions, but it is submitted that member's look out for any clarification that may be issued in this regard that puts this anxiety of the authors to rest.

Working Papers

This reconciliation is not possible without detailed working papers explaining the 'source' of data and its interpretation/treatment to arrive at the 'end' data reflected in GSTR 9C. Something like a bridge to be constructed between the source and the end. This bridge document or worksheet will come in handy when the data reported is called in for a review.

Management Representation

Any exercise of 'audit' involves review of the information (books and records or explanations) furnished by the Registered Person. To this end, the working papers would also need to contain detailed representation on matters affecting compliance that are reviewed.

Broad representations may not suffice. For example, time of supply is well understood along with the requirement to issue invoices timely. But, whether date of invoice coincides with time of supply as per law, is a question that cannot, but be explained by a representation. Hence, care must be taken to go into detailed aspects that registered person has followed that the auditor is to rely upon. The Technical Guide (draft) issued by ICAI discusses these aspects extensively, though not exhaustively, which may be referred.

Responsibility of Auditor

Investigation by Auditor

Auditors have known for long that they are not bloodhounds to sniff out clever devices that are deliberately blended into regular transactions that has not real substance except to produce an economic advantage that would otherwise not be available.

But that does not permit auditors to be blind to transactions that are admittedly missing an accounting entry. There's an earlier discussion about limitations from GAAP-based accounting. Now, transactions that are (rightly) missing in the accounts must be specifically examined by the auditor. Transactions lacking consideration (5D) or transactions requiring notional valuation (5M or 5N) will need to be examined and reported. Omitting these on the basis of the books not reflecting such transactions would not be advisable.

However, transactions that don't appear as a reconciliation difference, that is, where either a taxable supply is omitted in the books as well as GSTR 1/3B or impermissible credits are included in the books as well as in GSTR 3B, these are bound to go unnoticed, even by the auditor.

Unless the techniques of auditing applied by the auditor enables discovery of such 'omissions or inclusions', the auditor can hardly be faulted. A word of caution, insight into the business of each auditee and experience of the auditor can tide over possibility of raising questions about the auditor's work in the event of any subsequent discovery by revenue authorities.

Extent of Responsibility

Although it's only a reconciliation, auditor's responsibility extends from validating numerals against each line-item but also their categorization into each of those lines. For example, is the turnover exempt or nil-rated or non-GST or no-supply (table 7). In fact, there are expressions here that are unknown in the law. And only the auditor is to furnish the value by identifying their meaning based on the instructions or insight.

The total taxable turnover (7E) will need to be unfolded into various rates with values in table 9. Here, the auditor becomes responsible not just to report facts as recorded but report his concurrence with those facts.

Understanding HSN is inescapable to discharge

this responsibility. Of course, it is not to launch into an investigation, but audit is no less an inquiry into the reliability of information certified and reported.

This being the first year of GST implementation, exclusion of transactions initiated prior to 1 July, 2017 cannot be based on reason but based on admission made in transition declaration filed along with turnovers reported in the erstwhile returns. Transactions taxable under earlier laws are saved to some extent and are taxed by legal fiction to some extent.

Auditor may well find that overlapping transactions seem to have slipped through and attract GST. Caution is to be exercised while excluding pre-GST transactions, not based on reason, but based on their treatment permitted by law.

Auditor's Report in Part B

Modules

Part-B of GSTR 9C makes room for two different situations. That is, where the same auditor has carried out the audit of the financial statements as well as carrying out the GST audit. And where different auditors are involved in each of these audit exercises.

While this is not new to auditors as ICAI has published SAs dealing with each aspect of such collaborative or interdependent work by members. It is important to consider that auditors may need to identify which module each engagement falls under.

The eventual responsibility of the audited under GST law is identical, whichever module applies in each case.

"Subject to"

This is an area where auditors are experienced in. And for this reason, it seems the form permits auditors opportunity to 'fill in' or 'annex' their observations or qualifications.

As to whether 'observation' is correct or 'qualification' is correct or there's yet another expression – attention invited to – are not fettered by the format. Auditor must use expressions that best described their opinion in each instance.

This is no place to pursue brevity. Information in sufficient detail to help users obtain a clear picture of each situation would be welcomed. Auditors are expected to bring to bear their knowledge and experience here to make clear the situation.

Difference of Opinion

Differences of opinion with auditee are not uncommon and there are ways to address these. Where differences are resolved by agreement, then the liability admitted and duly reported. If differences are unresolved, then reliance may be placed on expert opinion and suitably disclosed.

Disclosure helps not only revenue authorities but also registered persons regarding the interpretation followed. There are experts but there's no finality to views (yet).

Conclusion

GST audit seems to be a 'certification by way of audit' and no one's missing yet another audit of the financials. Everyone holding a registration is required to file Annual Returns for each registration. And everyone crossing the threshold is required get their auditor to certify a Reconciliation Statement. Whether there's any tax due or not, no financial information of a registered person appears to lie beyond the knowledge of revenue authorities. And GST audit certification seems to be that exercise that allows minimally invasive view of all that's gone on in 2017-18. And the Government's ask is clear in these forms, that if experts were to take a look at the information that's reported 'for' 2017-18 and explain it with audited financials, then that's one step closer to doing business with ease! ■

Never ruin an apology with an excuse. *- Benjamin Franklin*