

Goods & Services Tax

Central Goods & Services Tax Act, 2017

Departmental Audit under GST”

Advocate Forum, New Delhi

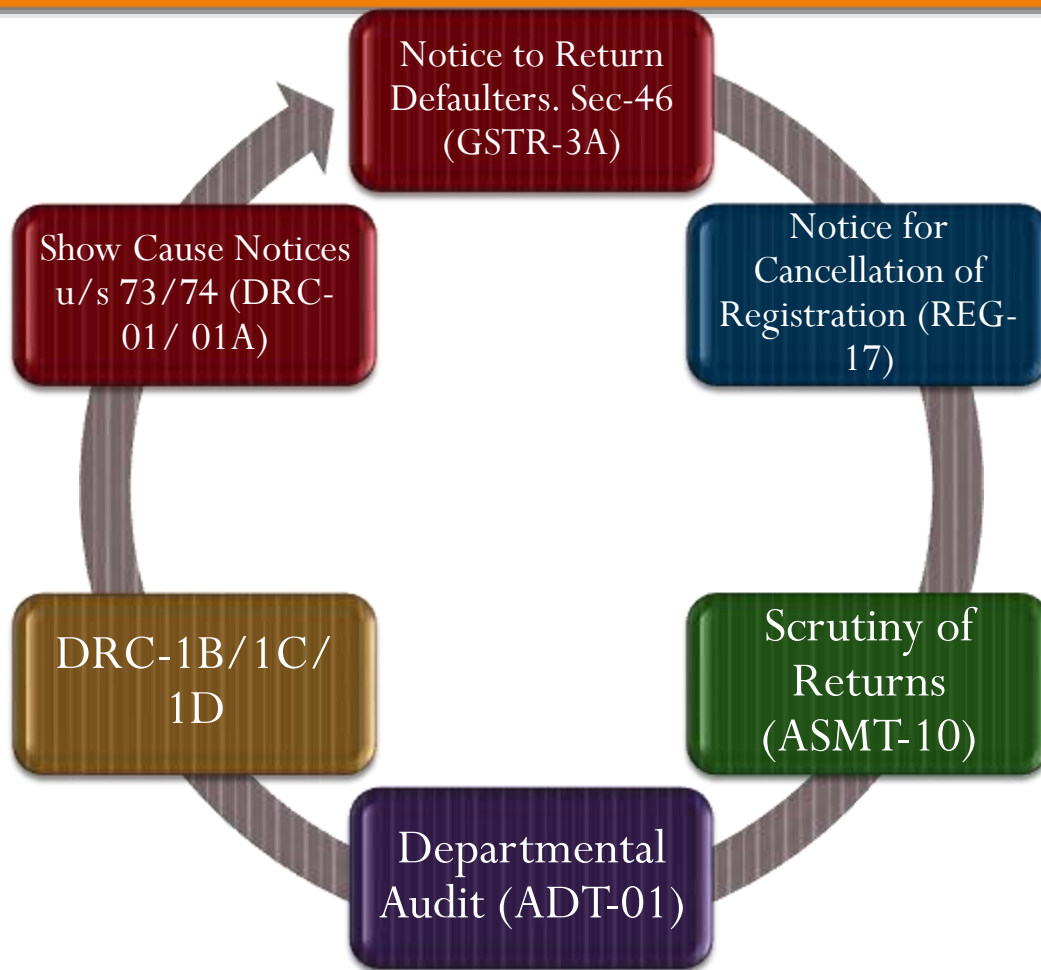
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Handling Notices & Adjudication





Audit under GST

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“Objective of audit of taxpayers is to measure the level of compliance of the taxpayer in the light of the provisions of the CGST Act 2017 and the rules made there under.”



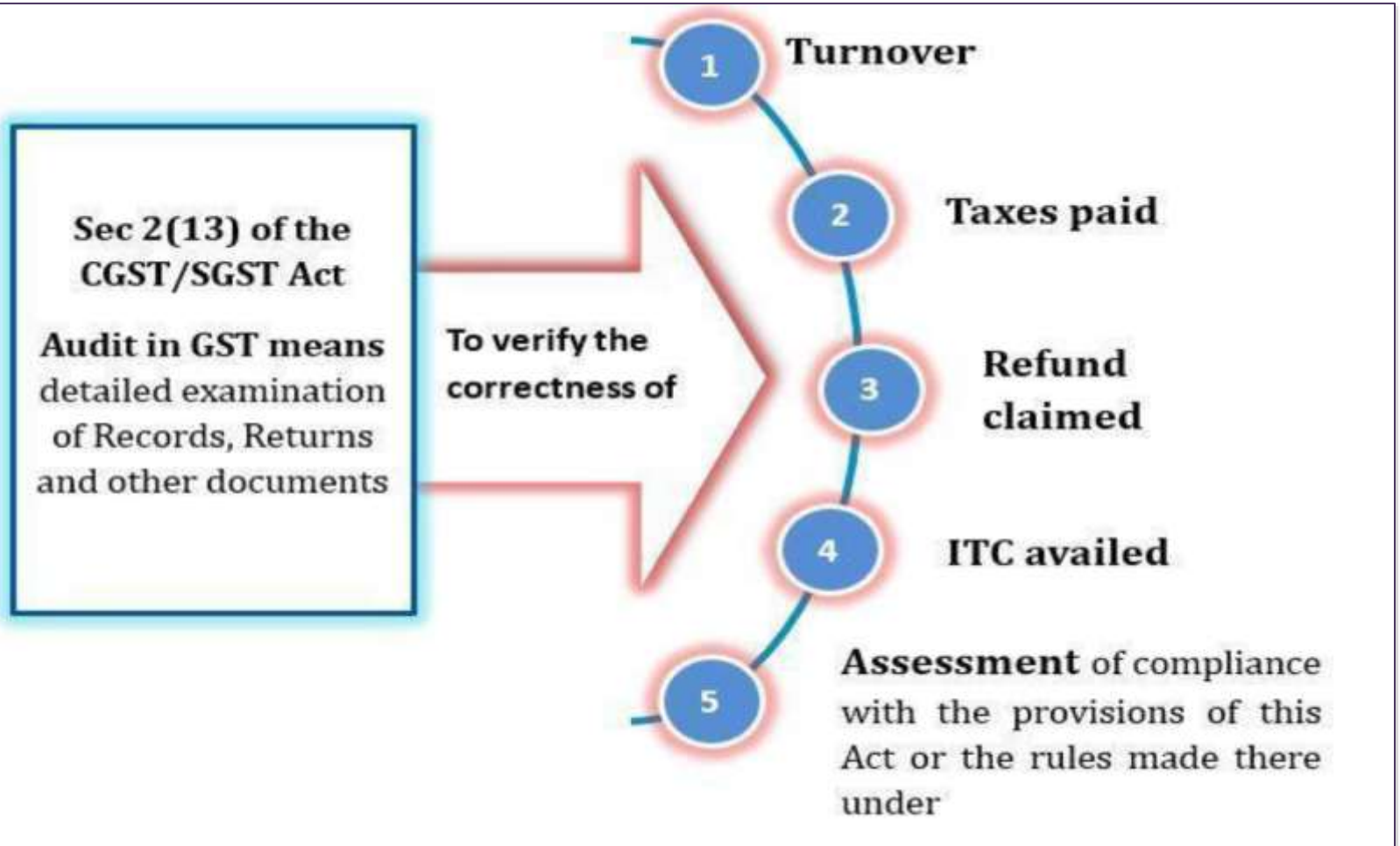
**Departmental
Audit (Sec. 65)**

By Department Officers

**Special Audit
(Sec. 66)**

By Empaneled CA/CMA

'Audit' defined: Section 2(13) of the CGST Act, 2017



'Audit' defined: Section 2(13) of the CGST Act, 2017

“audit” means the examination of records, returns and other documents

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

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

and to assess his compliance with the provisions of this Act or the rules made thereunder;



Departments Rights/ Powers

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Access to Business Premises: Section 71 of the CGST Act, 2017

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 programs, 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 audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.

Access to Business Premises: Section 71 of the CGST Act, 2017

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 (18 of 2013);
- (v) the **income-tax audit report**, if any, under section 44AB of the Income-tax Act, 1961 (43 of 1961); and
- (vi) any other **relevant record**,

Power to call for information: Section 151 of the CGST Act, 2017

- Substituted vide The Finance Act, 2021 dated 28-03-2021 w.e.f. 01-01-2022
- Section-151. The Commissioner or an officer authorised by him may, by an order, **direct any person to furnish information relating to any matter dealt with in connection with this Act**, within such time, in such form, and in such manner, as may be specified therein.

Audit by Tax Authorities

Sec.65/Rule.101

Order for Audit

- The Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person

Period of Audit

- The period of audit to be conducted shall be a **financial year or part thereof or multiples thereof**

Audit by Tax Authorities

Sec.65/Rule.101

Place of Audit

- The officer may conduct audit at the **place of business of the registered person** or in their office

Notice of Audit (ADT-01)

- The registered person shall be informed by way of a notice not less than 15 working days prior to the conduct of audit

Audit by Tax Authorities

Sec.65/Rule.101

Time Limit for conducting Audit

- The Audit shall be completed within a period of 3 months (further extendable for 6 months) from the date of commencement of the audit

Commencement of Audit

- “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

Know Your **RIGHTS** AS A **TAXPAYER**



ClearPath Advisors

Taxpayers Rights

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Taxpayers Rights during GST Audit



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Documentation & Preparation for Departmental Audit

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Documentation & Preparation for Departmental Audit



Audited Financial Statements, Balance Sheet, Profit & Loss Account, Schedules, Notes on Accounts, Trial Balance

Tax Audit Report u/s 44AB, 92E of Income Tax Act, Form-3CD, Form-26AS, Cost Audit Report

Branch/GSTIN wise records and reconciliation with consolidated financial statements.

Documentation & Preparation for Departmental Audit



Copies of GSTR-1, GSTR-3B, GSTR-2A, GSTR-9 and GSTR-9C

Inter-returns reconciliation of GSTR-1 & GSTR-3B, GSTR-2A/2B & GSTR-3B

Reconciliation of Annual Return with Financial Statements. GSTR-9C and other reconciliations.

Documentation & Preparation for Departmental Audit

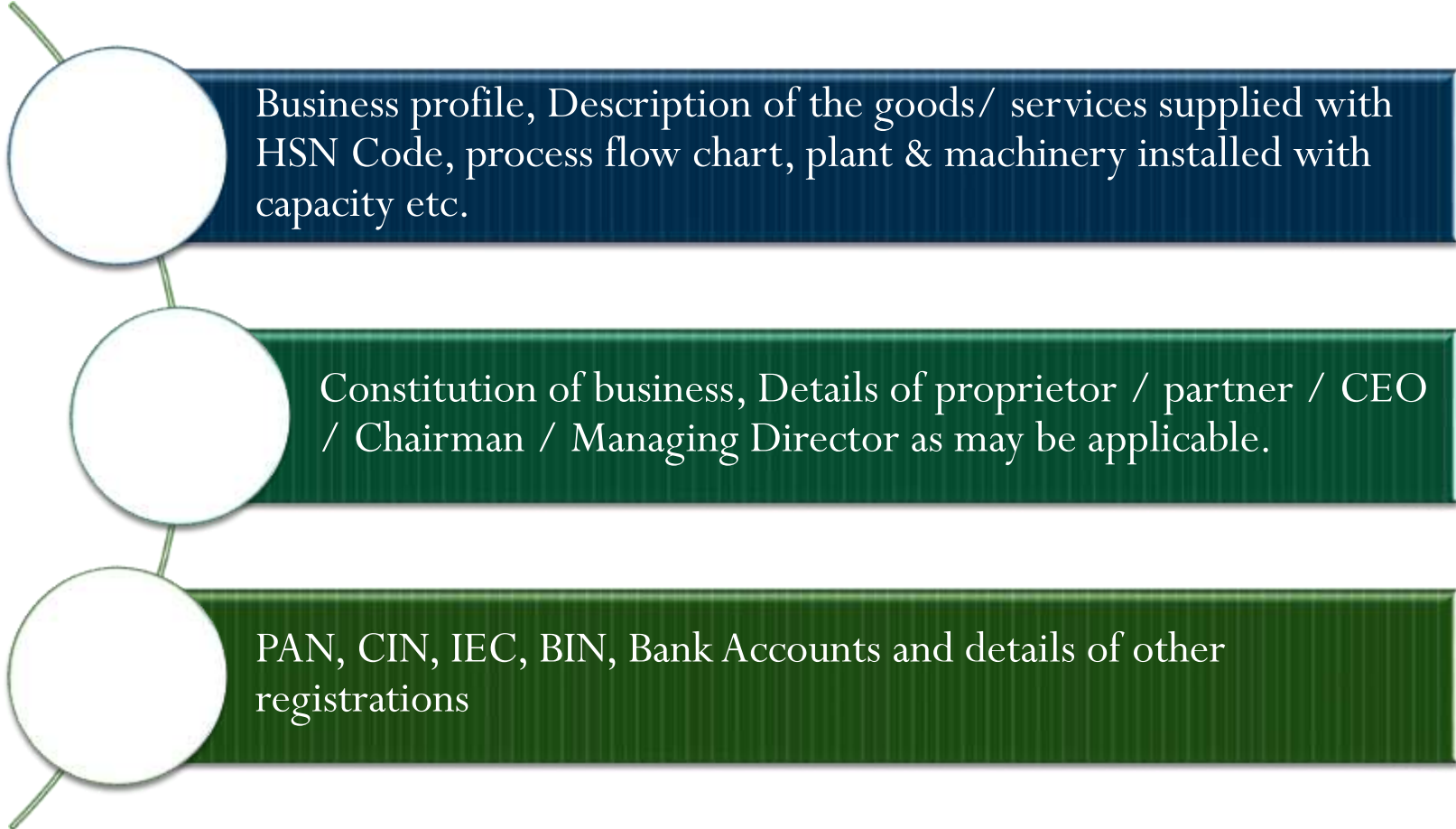


GST Registration Certificate, amendment applications and list of place of business including warehouses, shops and place where books of accounts are maintained.

Details of E-Way bill for the audit period for inward and outward supply/movement of goods

Details of last Departmental Audit and the period covered, show cause notices issued and details of litigation.

Documentation & Preparation for Departmental Audit



Audit by Tax Authorities

Sec.65/Rule.101

The proper officer authorised to conduct audit of the records and the books of account of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify

documents on the basis of which the books of account are maintained

the **correctness** of the turnover, exemptions and deductions claimed

the returns

statements
furnished

the rate of tax applied/ITC/Refund

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Audit by Tax Authorities

Sec.65/Rule.101

Discrepancies noticed

- The proper officer may inform discrepancies noticed and the registered person may file his reply

Findings of the Audit

- On conclusion of the audit, the proper officer shall inform the findings of audit to the registered person in Form ADT-02 within 30 days from the conclusion of audit

Detection of tax liability

- 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 or section 74A.



Responding to the Audit Observations/Findings/ Discrepancies

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Audit Memo and Representation

Audit Findings

- Detailed and logical representation is required on Audit findings. Efforts should be made to clarify the facts and figures at this stage.

Voluntary payment of tax

- Issues should be examined in detail including cost benefit analysis and payment may be made at this point of time to avoid penalty.

Reliance on Judicial Pronouncements

- If issue has been settled by tribunal, high court or supreme court, reliance can be made on these and to be part of written representation.



Model GST Audit Manual 2023

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Highlights of Model GST Audit Manual 2023

The Model All India GST Audit Manual 2023, released by the CBIC and the GST Council, serves as a unified guide for GST audits across India.

It standardizes audit procedures for both Central and State tax authorities, aiming to enhance transparency, efficiency, and consistency in the audit process.

Aims to harmonize audit procedures, reducing discrepancies and ensuring uniformity across jurisdictions.

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Highlights of Model GST Audit Manual 2023

GST Audit Manual has been Prepared by The Committee of Officers on GST Audits

Risk-based selection is the Key point of the model. DGARM/GSTN BI tools score every GSTIN on entity risks (high turnover, refunds, sensitive commodities), behavioural risks (late filers, cancelled suppliers) and anomaly ratios (e-way-bill vs GSTR-3B, 2B mismatches, cash-to-credit usage, etc.).

Only the high-score cases move to field audit but a small random number is also added for control

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Highlights of Model GST Audit Manual 2023

Nine-Chapter workflow of GST Audit Manual

- **Ch. 1–2** Legal basis, audit objectives & principles
- **Ch. 3** Flow-chart of steps (selection → allotment → team formation)
- **Ch. 4** Planning & desk review—auditors must finish a risk matrix and draft questions *before* visiting the taxpayer
- **Ch. 5** Field visit, issue-wise working papers and Draft Audit Para (DAP)
- **Ch. 6** Follow-up and recovery path (voluntary payment or Sec. 73/74 notice)
- **Ch. 7** Special situations (amalgamations, liquidation, PSU audits)
- **Ch. 8** Thematic, joint & multi-locational co-audits for large groups
- **Ch. 9** Capacity building /specialist pools (IT, valuation, data analytics)

Highlights of Model GST Audit Manual 2023

Technology is mandatory, not optional: Auditors are expected to pull dashboards from GSTN “BI Tools”, DGARM risk reports and the Registered Person Master File (RPMF).

Standardised notices & check-lists: 18 annexures give ready-to-use formats—ADT-01 notice, detailed document list, audit plan template, FAR (Form ADT-02), ratio-analysis sheets, sector-specific check-lists and a master questionnaire.

Speed, Transparency & Collaboration: Audit teams must share draft findings (DAP) for discussion before issuing the Final Audit Report, embedding natural-justice inside the workflow

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Highlights of Model GST Audit Manual 2023

Be “audit-ready” all the time: Maintain reconciliations (3B-1-financials-e-way bill), preserve evidence for ITC and reverse-charge, and check your own ratios against the manual’s red-flag list

States and the Centre are urged to exchange risk flags, making it harder for a taxpayer to Choose for an easier jurisdiction.

Audit Officers must follow the procedures laid down in the manual and GST law – including proper case selection, giving due notice (ADT-01) with sufficient lead time, and adhering to the audit scope and timelines.

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Highlights of Model GST Audit Manual 2023

In summary, the role of tax officers is not only to detect non-compliance but also to guide taxpayers toward better compliance in the future.

The Manual encourages a participative audit; thus, taxpayers should actively engage in discussions, explain their business transactions, and highlight any industry-specific practices or rulings that justify their treatment.

Conduct Internal GST Compliance Reviews: Don't wait for a departmental audit to detect issues. Organizations should perform periodic internal audits or reviews of GST compliance.

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Highlights of Model GST Audit Manual 2023

- **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).

Highlights of Model GST Audit Manual 2023

- 8. Ratio of Non-GST supplies to total turnover. $\{(\text{Col.2 of Table 3.1(e)} / (\text{col.2 of Table 3.1 (a) + (b) + (c) of GSTR-3B})\}$.
- 9. Ratio of inward supplies (liable to reverse charge) to total turnover $[\text{col.2 of Table 3.1(d)} / \text{Col.2 of 3.1 (a)+(b)+(c) of GSTR-3B}]$.
- 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 $\{\text{Col.3+4+5+6 of Table 3.1(d)}\}$ to ITC taken on import of services/other reverse charge (other than import of goods) $\{\text{Col.2+3+4+5 of Table 4A (2+3) of GSTR 3-B}\}$.
- 12. Ratio of ISD credit $\{\text{Col.2+3+4+5 of Table 4A (4) of GSTR-3B}\}$ to total ITC taken $\{\text{Col.2+3+4+5 Table 4A of GSTR-3B}\}$.
- 13. Ratio of ITC reversed $\{\text{Col.2+3+4+5 of table 4(B) of GSTR 3B}\}$ to ITC taken $\{\text{Col.2+3+4+5 of table 4(A) of GSTR-3B}\}$.
- 14. Ratio of zero-rated supply to SEZ as per Table 6(B) of GSTR-1 to total GST turnover.

Highlights of Model GST Audit Manual 2023

- 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.**

Highlights of Model GST Audit Manual 2023

- 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.

Highlights of Model GST Audit Manual 2023

- 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).

Highlights of Model GST Audit Manual 2023

- 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.

Highlights of Model GST Audit Manual 2023

- 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.**

Disclaimer

- The views expressed, presentation made, charts made here are for educational purpose only and may not represent legal provisions of the act, rules or any other provisions of GST law and are personal views of the presenter/author. And presenter/ author shall not be liable for any damages of whatsoever nature due to any action taken on the basis of this presentation.



Thank You

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