

IMPORTANCE OF OTHER RECONCILIATIONS IN GST AUDIT

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INTRODUCTION:

With the requirement to get the records audited annually under GST Laws, the auditor is required to come up with reconciliation of turnover, input tax credit availed, taxes paid between Financial Statements and GST Records maintained. The said reconciliation statement is required to be prepared in the format as prescribed under Part A of Form GSTR-9C as notified under Notification 49/2018-Central Tax dated 13.09.2018.

Upon careful consideration of this reconciliation statement, the information sought therein for reconciliation cannot be readily extracted from books of accounts or from GST records. It is required to draw certain other reconciliation statements before we proceed to work on the reconciliation required under GSTR-9C. This article focusses on such other reconciliation statements to be prepared for smooth preparation of the reconciliation statement as prescribed in GSTR-9C. These statements are indicative and are not exhaustive and would vary from one tax payer to another tax payer depending on their business structure, manner of record maintenance etc.

RECONCILIATION OF TURNOVER BETWEEN GSTR-3B AND GSTR-1:

In order to compare the turnover and tax payment with that of books of accounts, it is every important to understand what is the exact turnover that is disclosed in returns filed under GST for the Financial Year as a whole and how much tax has been paid in this regard. This information is required to be obtained from the monthly filings of GSTR-1 and GSTR-3B returns.

The GSTR-3B return is a summary return assessing the tax liability for a month. It captures information about taxable, exempted, exported turnover and the corresponding tax payable thereon. Further, it also captures the ITC availed, reversals made and the details of GST payment by using ITC as well as cash.

On the other hand, GSTR-1 return is a declaration about details of supplies undertaken during a month. This return can be amended by making necessary changes in subsequent returns. In this return, the invoices issued by registered person for B2B supplies are to be declared individually. The invoices issued by registered persons for exports or for deemed exports or for supplies to SEZ are also required to be declared individually. The invoices issued by registered persons for exempted supplies, B2C supplies are to be declared on consolidated basis except in cases where the individual invoice value is more than Rs 2,50,000 (each invoice is required to be declared separately in these cases). The adjustments if any made to invoices by way of debit notes or credit notes shall be declared individually for B2B supplies and on consolidated basis in case of B2C supplies.

The turnover declared in these two returns could be different as GSTR-3B cannot be amended while the turnover declared in GSTR-1 return of a particular month can be amended in GSTR-1 return to be

filed for subsequent months by way of debit notes/credit notes or amendment to invoices. Further, while filing annual return in GSTR-9, it is required to aggregate the value of supplies declared in GSTR-1 returns filed for the months of July 2017 to March 2018 alone. Sometimes, invoices issued for FY 2017-18 may not be declared in GSTR-1 returns filed during July 2017 to March 2018 and there could be adjustments by way of debit notes or credits or amendments or cancellations of invoices declared in GSTR-1 returns for the above period. These details are generally disclosed in GSTR-1 returns filed for the months of April 2018 to September 2018.

The turnover declared in GSTR-3B returns is not considered for filing annual return while tax payment would be made only when the turnover is declared in GSTR-3B returns. The impact of the adjustments/amendments to GSTR-1 returns filed during July, 2017 to March 2018 and during the period April 2018 to September 2018 are required to be appropriately considered in GSTR-3B returns and accordingly the tax adjustments or additional payments are required to be undertaken.

In view of the above reasons, it is required to prepare a reconciliation statement of turnover declared in GSTR-1 returns and GSTR-3B returns. This reconciliation will help us in understanding the following;

- a) The exact amount of taxable turnover considered for GST compliance for the period July 2017 to March 2018
- b) Whether the applicable tax for taxable turnover has been appropriately paid along with interest if any by making necessary disclosures in GSTR-3B returns filed up to the month of September 2018.
- c) The amount received towards if any during the period July 2017 to March 2018 and the extent of these advances that remained unadjusted by way of invoices issued during the said period. This information is required for filing column 5B of GSTR-9C. This amount will not be part of the turnover recorded in books of account.
- d) The amount of taxable turnover on account of deemed supplies under schedule I will also be identified. This information is required for filing Sl.No. 5D of GSTR-9C. This amount will not be part of the turnover recorded in books of account.
- e) The aggregate value of adjustments made by way of debit notes and credit notes and their corresponding impact on the amount of GST paid and their treatment in GSTR-3B returns.

Upon reconciling the difference between GSTR-3B and GSTR-1 returns filed, the resultant turnover details can be compared with that of books of accounts to reconcile the turnover between financial records and GST records as per the requirements of GSTR-9C.

DRAWING UP OF TURNOVER OF A PARTICULAR GSTN:

In case of a business entity having multiple units located in different states, then registration under GST is required to be taken separately for each state. The audit under GST is required to be carried independently for each of the registration. In such cases, the auditor is required to determine the turnover of a registration for which audit is being conducted as such amount will not be readily available in financial statements. Therefore, a statement is required to be prepared drawing up registration wise turnover as per financial records and the aggregate of the same should match with the turnover shown in financial statements.

RECONCILIATION OF ITC AVAILED BETWEEN GSTR-2A AND GSTR-3B:

It is important to note that GSTR-2A is a facilitation measure given to recipient of supply to ensure that the corresponding supplier is depositing the taxes collected from him with Government. This fact of non-reflection of supply in GSTR-2A does not impact the ability of recipient tax payer to avail ITC on self-assessment basis. The apprehension that no ITC can be availed in the event of non-reflection of supply details in GSTR-2A is without legal basis. This position has been clarified by CBIC vide their press release dated 18.10.2018.

However, Sl.No 8 of GSTR-9 (Annual Return) requires the tax payer to compare ITC availed with that of GSTR-2A statement and is expected to reconcile the difference. The ITC availed as per GSTR-9 return shall be the aggregate of GSTR-3B returns filed for the period July 2017 to March 2018. The corresponding suppliers might have declared some of these supplies in their GSTR-1 returns filed for the period April 2018 to September 2018 also. Therefore, it is required to prepare a reconciliation statement of ITC availed as per GSTR-3B returns filed upto March 2018 with GSTR-2A statements updated upto September 2018. Out of the differential input tax credit between GSTR-2A statements and ITC availed through GSTR-3B up to March 2018, it is required to ascertain the following for reporting in GSTR-9;

- a) ITC available as per GSTR-2A statements but not availed (Sl.No 9E)
- b) ITC available as per GSTR-2A statements but not eligible (Sl.No. 9F)

Upon reconciliation of credit availed between GSTR-2A returns and GSTR-3B returns filed, the following can be identified.

- a) The list of suppliers whose invoices are not at all reflected in GSTR-2A return but ITC availed in GSTR-3B return. In such cases, the auditor is required to verify the invoices and other documents owned by the recipient tax payer (auditee) in this regard to ensure that such documents are in line with the requirements of GST law and conditions to avail ITC as laid down under section 16 of CGST Act, 2017 have been satisfied.
- b) The list of suppliers whose invoices are reflected in GSTR-2A return but no ITC availed in GSTR-3B returns. In such cases, the auditor is required to verify the invoices and other documents owned by recipient tax payer (auditee) to ensure whether ITC can be claimed on these invoices or not. If it is decided that ITC can be claimed in these cases, then ITC can be availed while filing the GSTR-3B return for the month of September 2018 in view of the time restriction under section 16(4) of CGST Act, 2017. In case the deadline is missed out, these cases are to be considered to quantify the amount of eligible ITC reflected in GSTR-2A but no ITC has been availed as required for reporting under Sl.No 9(E) of Annual Return (GSTR-9) as mentioned above.
- c) There could be instances where supplies are reflected in GSTR-2A but no ITC has been availed in GSTR-3B return for the reason that such supplies are ineligible for ITC in terms of section 17(5) of CGST Act, 2017. These amounts are required to be quantified for reporting under Sl.No 9(F) of Annual Return (GSTR-9) as discussed above.
- d) The other reasons for mismatch could be because of failure to account for invoices, debit notes or credit notes properly. In such cases, the auditor is expected to examine these transactions and appropriate action shall be taken.

The reconciliation of ITC availed between GSTR-2A returns and GSTR-3B returns could be considered as an appropriate audit procedure to ensure completeness of the ITC availment by the tax payer (auditee).

RECONCILE THE INPUT TAX CREDIT AS PER BOOKS OF ACCOUNT AND GSTR-3B FILINGS:

Sl.No 12A to 12F of Part IV of GSTR-9C provides for reconciliation of input tax credit availed between financial statements and the annual return under GSTR-9. ITC availed and disclosed in GSTR-3B returns filed for the months of July 2017 to March 2018 are aggregated and disclosed in GSTR-9 return. Effectively, GSTR-9C requires reconciliation of ITC availed as per books of accounts and the ITC availed in GSTR-3B returns filed up to March 2018.

The said reconciliation as prescribed under Sl.No 12A to 12F of GSTR-9C requires to disclose the amount of input tax credit booked in earlier Financial Years but claimed in current Financial Year and the amount of input tax credit booked in current Financial Years but claimed in subsequent Financial Years. This could be because of the reason that invoices are received from vendors between the period April 2018 to September 2018 but the expenditure pertains to Financial Year 2017-18.

In order to quantify these amounts for the purpose of GSTR-9C, it would be appropriate to prepare a reconciliation statement of ITC availed as per input ledgers maintained in finalised books of account for FY 2017-18 and the ITC availed as per GSTR-3B returns filed upto September 2018. This reconciliation will help us in understanding the following;

- a) The amount of ITC availed in books of accounts but not reflected in GSTR-3B returns. The taxpayer is required to ensure that this amount should be availed in GSTR-3B return to be filed for September 2018. In case failure to disclose in September 2018 return, then the auditor is required to ensure that the amounts shall be expensed out in books of accounts.
- b) The amount of ITC not availed in books of accounts but reflected in GSTR-3B returns. The auditor is required to examine these transactions and ensure appropriate changes are to be made in ITC ledgers of the books of accounts. In case the auditor finds that ITC is ineligible but the same is wrongly carried in electronic credit ledger through GSTR-3B returns, ensure that the same is reversed in the GSTR-3B returns to be filed for subsequent months.
- c) The amount of ITC availed in books of accounts and reflected in GSTR-3B returns filed for the April 2018 to September 2018. This amount will be considered as ITC booked in current Financial Year but claimed in subsequent Financial Years for disclosure in Sl.No 12C of GSTR-9C.
- d) The other differences if any between ITC ledgers as per books of account and GSTR-3B returns shall be examined and appropriate action shall be taken. These differences could be on account of reasons like ineligible credit availed in books and not considered for GSTR-3B returns or reversal of common credits attributable to exempted turnover in terms of section 17.

CONCLUSION:

With the requirement to certify that the reconciliation statement in GSTR-9C as true and correct, there is a great responsibility on the auditor to critically examine all the business transactions of the tax payer (auditee) and the resultant GST compliance. The other reconciliation statements would be handy for auditor as alternative compliance procedures to ensure the accuracy of compliance and thereby safely discharge this responsibility.