SPOTLIGHT IS NOW ON GST AUDITOR

The auditor community has always been the cynosure with the government authorities as well as the public. We had Enron, the not-so-recent Satyam and the very recent flight of two highly sociable individuals, just a few amongst the multitudes of reported cases of money laundering, NPA's and the like. Auditors, and their reporting, have had to face the brunt of scathing remarks of the intellectual community and the old concept of the auditor being a watchdog and not a bloodhound (though being a dog in either case!), somewhere lost its meaning. It is interesting to note how the government quite casually shifts the responsibility, which should be shouldered by the business community and / or the authorities, on to the willing auditors who take pride in being "Atlas" and bearing the weight of the world. And never once thinking of giving a "shrug", toppling the burden and letting it roll away.

GST AUDIT & RECONCILIATIONS – FEW COMPLEXITIES

With the GST audit report and reconciliation format released by the government yesterday, September 13, 2018, the auditors have, once again, been given the opportunity to have their moment-to-fame (read that as "infame"!) and hog the limelight in yet another arena, with all the complexities that it brings. Now why do I say that ? Let me try and explain.

1. The first reading of Form GSTR-9C, which comprises of two parts, one being the reconciliation statements of turnover, input tax credit, tax paid and so on, and the other being the audit report, seems pretty innocuous. However, as they always say, the devil lies in detail, and here too, it lurks in not just the fine print, but the bold script too. First and foremost, conceptually, the auditor is supposed to carry out the attest function based on the documents and records and financial statements of the client. His primary responsibility lies in giving his professional opinion on these and also point out the discrepancies observed by him. But here, the first part comprising of the reconciliation statements is to be certified by the GST auditor with no leeway for him to point out any discrepancy or disclose any observation that he may have. The second part, which is the audit report, rightly bears reference to the first part and provides a mechanism to disclose his audit observations. Does this not create an anomalous situation ? In the first part, the auditor certifies that everything is "true and correct" and in the second part he gives his qualifications subject to which everything is "true and correct". A better approach would have been that the reconciliation statement is to be certified by the management of the company and the auditor focuses on its verification and then certification along with disclosures for discrepancies in the audit report.

2. Though I would love to debate on the requirement on "true ***and correct***", similar requirement has been on the statute book in regard to tax audit under the Income Tax Act, 1961, for enough and more years, so I will let it pass. Though, seriously, does the government expect us to certify "correctness" in today's world of complex financial transactions and the humongous volume ? I really wish they would don the mantle of such a responsibility on their heads for once!

3. Now let us move on to certain specific certification requirements provided for the GST auditor. Since GST is a new law, with many new concepts introduced, there are many areas which are surrounded by ambiguities and interpretational differences. The various advance rulings given by the enthusiastic authorities have just added to the *melee* and the auditor is expected to put his neck on the line for judgement day. One such requirement for the auditor is to categorically commit to a value for "Deemed Supply under Schedule I" while reconciling turnover. Now, this itself is like the CA examinations, where it is easy to get into but a nightmare to get out of successfully. To clarify to the reader, Schedule I supplies talk about supplies between specified persons, including related persons and branch offices of the same company, where no consideration is involved. So these are unrecorded transactions. While it is easy to determine such supply in case of supply of tangible goods, it becomes a ghoulish affair where services are involved. How does the auditor identify ? How does he value ? All becomes a subjective exercise and open to interpretation. But then, the auditor must certify that everything is "true and correct"! The recent advance ruling in the case of *Columbia Asia Hospital Private Limited* opened the can-of-worms by ruling that employees of Head office are different from employees of branches and centralized functions like accounting, marketing, administrative etc. done by HO employees are services rendered by HO to its branches and subject to GST as deemed supply under Schedule I. It went a step further to state that the salary of such employees should be considered for

valuation of such supplies. Now just consider the dilemma of the GST auditor. How does he certify and what does he certify! And whatever he does, he will be open to criticism because such things can only be determined by jurisprudence. Government, of course, happily keeps silent, does not provide any clarifications, and enjoys from the stands.

4. Another interesting feature of the certification requirement is the complete, end-to-end reconciliation of all the line items in the Profit & Loss Statement with the value and the total GST paid on each such line item. Now, I really wonder, how many accounting systems were designed to readily throw out such reports with a single click on the keyboard. Of course, such information does reside in the systems in some way in most cases and can be pulled out. But where the GST paid is not available as input tax credit, many organization do not capture the tax separately and gross up the cost itself. All in all, a herculean effort, and to what benefit ? On one hand, the entire reconciliation for input tax credit being availed is being sought for and then this too! Now consider the situation where the management fails to provide this information to the auditor. Or if it provides, it is not "true and correct". What is the poor auditor going to do - give a disclaimer in the audit report, while certifying in another place that everything is "true and correct" ? Surely, such statistical collection of information could be made optional, at least in the first year and give time to industry to collect such information on a real time basis at the time of accounting entry itself.

CONCLUSION

Maybe the government will take note and provide safeguards for the auditors or maybe they will not. So, *"Que Sera, Sera"* – whatever will be, will be. GST audit is here and it is here to stay. For now, it has to be done the way the government has mandated. Now it rests upon the auditors to build up adequate systems and processes to carry out the GST audit in the most professional manner, explicitly aware of the risks of incorrect reporting together with the responsibility they carry for tax reporting on behalf of the government and the stakeholders, whether as watchdogs or as bloodhounds.

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Dated : September 14, 2018