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BA Economics Honours | Semester III | Calicut University

GST Audit and Investigation Techniques

Course Code: ECO3VN202 • Module 1

Module I: Purpose and Principles of Audit

Under the Goods and Services Tax (GST) regime instituted by the Central Goods and Services Tax (CGST) Act, 2017, audit serves as a paramount institutional instrument to ensure compliance, verify taxable turnover, and validate tax remittances. The shift from departmental assessment to self-assessment under GST places the primary onus of truthfulness upon the registered person, making risk-based audit and post-clearance verification essential for revenue security.

Unit 1, 2 & 5: Definition, Aims, and Types of Audits in GST

According to **Section 2(13) of the CGST Act**, an *audit* means the examination of records, returns, and other documents maintained or furnished by the registered person under this Act or 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 (ITC) availed, and to assess compliance with the provisions of this Act or rules.

GST law recognizes three major statutory audit types:

1. **Departmental Audit by Tax Authorities (Section 65):** The Commissioner or any officer authorized by general or specific order can undertake an audit of any registered person for such period, at such frequency, and in such manner as prescribed. The audit may be conducted at the place of business of the registered person or in their office.
2. **Special Audit by Chartered Accountant or Cost Accountant (Section 66):** Directed by the Assistant Commissioner with prior approval of the Commissioner during any stage of scrutiny, inquiry, or investigation, if they are of the opinion that the value has not been correctly declared or the credit availed is not within normal limits. The expenses of audit and remuneration are paid by the government.
3. **Internal Audit and Compliance Review:** Voluntary internal risk-audits undertaken by registered entities to detect discrepancies between portal returns (GSTR-1, GSTR-3B) and financial books before statutory intervention.

Unit 3 & 4: Determination of Tax and Levy of Late Fee

Statutory determination of tax defaults is governed by two core provisions:

- **Section 73 (Non-Fraudulent Cases):** Pertains to determination of tax not paid, short paid, erroneously refunded, or ITC wrongly availed or utilized for any reason other than fraud, willful misstatement, or suppression of facts. Notice must be issued at least 3 months prior to the statutory limit of 3 years from due date of annual return.
- **Section 74 (Fraudulent Cases):** Applies where tax evasion involves fraud, willful misstatement, or active suppression of facts to evade tax. Notice must be issued at least 6 months prior to the statutory limit of 5 years from due date of annual return, carrying 100% penalty.

Levy of Late Fee (Section 47): Failure to furnish returns (GSTR-1, GSTR-3B, GSTR-9) by due dates attracts mandatory statutory late fees under CGST and SGST acts per day of continuing default, subject to prescribed statutory maximum caps.

Unit 6: Core Principles of Tax Audit

Professional tax audit adheres to core principles: Professional Skepticism, Objectivity and Independence, Confidentiality of Commercial Records, Evidential Materiality, and Systemic Reconciliation between electronic tax ledgers and certified financial statements.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Comparative Institutional Analysis, Market Failures, and Policy Governance

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Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

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