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BA Economics Honours | Semester III | Calicut University

GST Audit and Investigation Techniques

Course Code: ECO3VN202 • Module 2

Module II: Different Steps of Audit

Conducting a departmental or statutory GST audit follows a standardized procedural sequence designed to ensure transparent administration, respect natural justice, and minimize operational disruption to the taxable person.

Unit 7 & 8: Selection of Auditees and Risk-Based Parameters

Modern tax administrations have transitioned from random manual scrutiny to automated **Risk-Based Selection** using data analytics and artificial intelligence engines (BIFA - Business Intelligence and Fraud Analytics, ADVAIT). Key risk flags include:

- Persistent variance between turnover declared in GSTR-1 and GSTR-3B.
- Substantial mismatch between Input Tax Credit (ITC) claimed in GSTR-3B and auto-populated credit in GSTR-2B.
- Negative tax liability trends despite growing gross sales.
- Voluminous circular trading transactions with fly-by-night or newly registered shell entities.
- Frequent cancellation and re-registration under different PAN or GSTINs.

Unit 9, 10 & 11: Assignment, Notice, Commencement, and Draft Report

The operational lifecycle of a departmental audit under Section 65 comprises:

1. **Audit Notice (Form GST ADT-01):** The proper officer issues a mandatory statutory notice informing the auditee at least 15 working days prior to the commencement of the audit.
2. **Commencement of Audit:** Defined as the date on which records and accounts called for are made available by the registered person, or the actual institution of audit at the business place, whichever is later. The audit must be completed within 3 months (extendable up to an additional 6 months by the Commissioner).
3. **Verification and Desk Review:** Examination of sales registers, purchase ledgers, bank statements, stock registers, and ITC apportionments under Rules 42 and 43.
4. **Draft Audit Findings:** The officer communicates preliminary audit findings to the registered person to elicit replies or reconciliations before finalizing the report, honoring natural justice.

Unit 12, 13 & 14: Core GST Returns, Payment Forms, and ITC Verification

Auditors cross-examine key statutory electronic forms:

- **GST REG-06:** Certificate of Registration showing authorized business locations and HSN codes.
- **GSTR-1:** Monthly/quarterly statement of outward supplies of goods and services.
- **GSTR-2A & GSTR-2B:** Dynamic and static auto-generated ITC statements based on suppliers' GSTR-1 filings. GSTR-2B serves as the definitive legal benchmark for eligible ITC under Section 16(2)(aa).
- **GSTR-3B:** Self-declared summary return for tax payment and ITC utilization.
- **GST CMP-08:** Quarterly statement for payment of tax under composition scheme.
- **GST PMT-06:** Electronic payment challan for tax remittance into designated banks.
- **DRC-03:** Intimation of payment made voluntarily or against show-cause notices.

Input Tax Credit (ITC) Verification: Involves tripartite reconciliation among books of accounts (purchase ledger), portal disclosures (GSTR-2B/3B), and underlying electronic invoices (e-invoicing and e-way bills). Ineligible credits under Section 17(5) (blocked credits: motor vehicles, food and beverages, outdoor catering, club memberships) must be identified and reversed with interest under Section 50.

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Policy Synthesis and Analytical Evaluation

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