



GOVERNMENT OF KARNATAKA
(Department of Commercial Taxes)

No.KGST Adcom (e-Gov)/CR 07/2020-21

Office of the Commissioner of Comml. Taxes,
(Karnataka), Vanijya Therige Karyalaya,
Gandhi Nagar, Kalidasa Road,
Bengaluru-560009, dated:19.12.2020

COMMISSIONER OF COMMERCIAL TAXES CIRCULAR No: GST-14 /2020-21

Sub: Salient features of KGST Act,2017- e-Shodane (electronic Scrutiny of High risk cases, Audit Observations & DRC under Assessment module) {e-Audit} - Certain instructions reg.

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Audit is an important tool in tax administration to ensure compliance with the provisions of tax laws. The Karnataka Goods and Services Act, 2017(the Act) provides for audit of the registered taxable person by way of examination of records, returns and other documents maintained or furnished by the registered person under the Act or the rules, to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess compliance with the provisions of the Act or the rules made thereunder. The Audit activity requires a detailed examination with focussed and clinical approach.

2. GST being Information Technology (IT) driven law and core functions viz: Registration, Returns, Payments and Refunds are being carried out through on-line mode, inquiry into the data furnished or claimed by the taxpayers is required to be tested and verified through a process of audit and assessment with reference to the provisions of the KGST Act and Rules. Therefore, a uniform approach is required to be established in the department to dissect the data with the same set of procedures and parameters with regard to Audit, Assessment and Adjudication (AAA) proceedings required to be undertaken by the proper officers in respect of the cases falling under the State jurisdiction.

3. In this background, an e-Audit module has been developed by the Department in association with NIC, Karnataka and is being launched to undertake Audit and Assessment proceedings as per the provisions of the KGST Act. Procedure to be followed based on **e-GST AUDIT Module** is required to be specified. Hence, the following procedure and guidelines have been put in place to have uniformity in the department with regard to audit and assessment proceedings required to be undertaken under Section 65, 73 and 74 of KGST Act.

4. The e-Shodane provides an online platform system for the entire Audit/ Assessment process starting from selection of cases for audit, assignment of cases, communication with the Registered Taxable Person and ending with Audit Report/passing of Assessment order. The module captures log of the activities performed by the proper officers at different stages of the proceedings.

1. Selection and Assignment of Cases for Audit/Assessment:

The module provides for selection of cases for audit by way of Wild Card Selection and Risk Based Scrutiny.

- i. **Wild card selection:** This is one of the modes of selection of cases during the audit proceedings. If the proper officer, either by information or through other sources comes across cases wherein there is scope for additional revenue involvement and or due liability on the part of the supplier / recipient, and such cases are not listed under risk based scrutiny, the proper officer may request for assignment of such cases of respective jurisdiction for audit after consultation with respective Joint Commissioner, providing valid reasons for such selection. Further, in respect of the Enforcement reports uploaded by the officers of the concerned divisions which do not form a part of risk based scrutiny, the concerned Joint Commissioner shall allot such cases through wild card selection.
- ii. **Risk Based Scrutiny:** The following risk factors are identified for selection of cases for Audit for the year 2017-18. The system will assign the audit cases based on following risk factors to the Audit Officers for scrutiny. Further, additions/modifications to the risk factors would be undertaken as and when required.

Sl. No.	Code	Description
1	R1>R3B	Total Output tax declared in Form GSTR 1 is more than that declared in Form GSTR-3B
2	R3B>R2A	Total ITC declared in Form GSTR 3B is more than that declared in Form GSTR-2A
3	SERVICE SECTOR	Service sector case having more than Rs. 10 crore aggregate turnover per year
4	TRAN 1	Transitional input credit carried forward from earlier tax regime
5	DELAYED ITC	If ITC availed in Form GSTR 3B filed after 23/04/2019 for the FY 2017-18
6	EVASIONPRONE	Top taxpayer dealing in evasion prone commodities
7	ITC BLOCK	Input tax credit blocked cases
8	OLD REFUND	Refund sanctioned by the LGSTOs/SGSTOs under Manual Refund process (Upto 25/09/2019)
9	NEW REFUND	Refund sanctioned by the LGSTOs/SGSTOs under Online Refund process (after 26/09/2019)
10	INT REPORTS	Cases having enforcement reports

The Audit Officer shall scrutinize the cases assigned to him/her with reference to the information available online in the GST Pro/ Prime module and either recommend such cases for assignment of Audit or reject such cases recording reasons for such rejection. All such cases either rejected or recommended for Audit will be forwarded to the respective Joint Commissioner (Admn.). The system is designed in such a way that, an Audit Officer can recommend only Twenty cases for issue of assignment. The subsequent requests exceeding Twenty is not allowed by the system. Such subsequent cases will be allowed only when the

Audit Officer disposes/completes audit of a case by issue of GST Form ADT-02. Thus, normally an Audit Officer will be having Twenty cases for disposal at any given point of time.

5. The Joint Commissioner (Admn.) on receipt of such requests may accept and recommend assignment of such cases for audit or reject the request recording reasons for such acceptance or rejection and the Joint Commissioner (Admn.) has to digitally sign the recommendations with the Digital Signature Certificate (DSC). Subsequently the cases are forwarded to the Additional Commissioner (Audit), who intturn would act upon the recommendation of the Joint Commissioner (Admn.) through Accept/ Reject/ Hold. The cases are then forwarded to the Commissioner, who in turn will Accept/Reject/ Hold the cases for Audit by digitally signing the assignment of cases.

The Joint Commissioner (Admn.) has the option to assign or reassign the cases to any Audit officer [of the respective jurisdiction] other than the Audit Officer who has recommended the case for Audit under scrutiny.

6. The system is built in such a way that the cases are assigned to the DCs/ACs/ CTOs in proportion of 1:1.5:2 for scrutiny based on pecuniary limits. The system also allots the audit assignments in a controlled way, whereby each officer will be having twenty cases in his/ her account at any given point of time for disposal. As soon as the Audit Officer disposes one case, a new case will be added/assigned for further proceedings under Section 65 of KGST Act, 2017.

7. The Audit officer will receive the assignments for Audit in his login, as soon as the Commissioner approves and assigns the case for Audit. The said information also flows to the jurisdictional Joint Commissioner (Admn.).

8. The Audit Officer may conduct the Audit either at the place of business of the Registered Person or at his/ her Office as provided u/s 65(2). The Audit Officer has to issue information of the date of Audit in Form ADT-01 to the Registered Taxable Person (RTP), not less than fifteen working days prior to the conduct of audit. Presently, the audit module provides for generation of Form ADT-01 online and its communication/service to the authorized e-mail id of the RTP. The Endorsements (Reminders) issued, requests for adjournments received and granted have to be recorded in the log by the Audit Officer.

9. The Audit Officer shall conduct audit of records and books of account by verification of books; returns; statements furnished; correctness of turnover, exemptions, deductions claimed; rate of tax applied on supply of goods/services or both; ITC availed and utilized; Refund claimed and other relevant issues. In case the audit officer requires additional information, he may issue Notice seeking additional information to the RTP. Further, the Audit Officer has to record the observations in audit notes and may inform the RTP of any discrepancies noticed as provided under rule 101 (4) of the KGST Rules, 2017. The RTP may file reply to such notice which will have to be recorded in the log. The Audit Officer shall finalize the findings of audit after due consideration of the reply by following principles of natural justice.

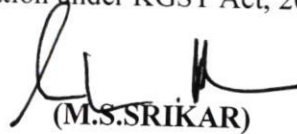
10. The Audit Officer has to conclude the Audit and inform the findings of audit, his rights obligations and reasons for findings to the RTP in Form ADT-02 within Thirty days from conclusion of Audit as required u/s 65(6). The Audit Officer shall complete the Audit within Three months from the commencement of audit as required u/s 65(4). The time starts from the date on which records and other documents called for, are made available by RTP or actual institution of audit whichever is later. The Audit Officer has to key in the date of commencement of audit at preliminary report menu and take due care to complete the audit within the prescribed time limit.

11. If the Audit cannot be completed within the specified time, the Audit Officer has to request the Joint Commissioner (Admn.) for extension, who in turn, on satisfaction of reasons for such request, shall make recommendation to the Commissioner, through Additional Commissioner(Audit) for extension. The Commissioner may extend the time by a further period not exceeding Six months, for reasons to be recorded in writing. The Audit Officer shall exercise due diligence while requesting for extension of time limit, which has to be well in advance.

12. If the audit results in detection of tax not paid or tax short paid or tax erroneously refunded or ITC wrongly availed/ utilized and if the taxable person does not accept the findings of the Audit officer and fail to pay tax as per FORM GST ADT-02 and Audit report, the Audit officer shall proceed to conclude the demand & recovery proceedings under section 73 or 74 as the case may be by seeking separate assignment for the same.

13. All communications between the proper officer and the RTP has to be through the Government mail Id and to the registered e-mail Id of the RTP.

14. The officers may refer the KGST Audit Manual 2020 for the detailed procedure and process for undertaking audit, assessment and adjudication under KGST Act, 2017.



(M.S.SRIKAR)
Commissioner of Commercial Taxes

(Karnataka), Bengaluru.

Commissioner of Commercial Taxes
Karnataka, Bangalore.

To
All the Officers in the State.