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How to write effective Internal Audit Report

Rahul Sharma
B.Com, FCA, MBA (Fin.), Ll.b., CAIIB

1. **Reporting must ensure (Concept of Reporting)** : Reporting is the final outcome of any audit exercise, improper reporting can make whole audit exercise futile. While drafting we must keep in mind that – Firstly, Audit report is the outcome of audit which report user (Management, Senior Executives and Audit Committee) will see so it should be as per their requirement, Secondly, Report must explain context of Audit and testing efforts undertaken by the auditors, Thirdly, Audit report must be simple i.e. it is clear and easily understandable, Fourthly, Report is written in a logical manner (i.e. Scope and content of report is logically addressed), Fifthly, On reading of report it must be understandable to a person who is not part of audit process undertaken and Lastly, Executive summary is written in such a manner that it is stand – alone.

   Further to ensure its effectiveness auditor should check how much Audit Recommendations previous reports are implemented, How many findings are repeated in report, Your report focus future rather than past, Audit opinion, finding, conclusions and recommendations really represent the key issues and finally that all Recommendations are practical.

   We must always pay attention to the objective of Internal Audit which is to provide opinion on the control systems (risk management arrangements) in respect of the areas reviewed and to make recommendations for improvements, where appropriate.

   Before Writing a report we must take time, understand scope and objective, make notes to clarify ideas and assemble facts & findings and identify recommendations.

2. **Order of Report Writing (Procedure of Reporting)** : To make and Internal Audit report useful it should be written in such a way that it is divided in following parts :-

   - Main Body of report which contains Statement of facts and findings. This part may further contain sub parts like :-
     - Brief description of Auditee in first few pages
     - Comprehensive Index in next few with brief remarks
     - Logically sequenced paragraphs on areas under review – this sub part may have back ground, methods employed and results
   - Conclusions and recommendations: conclusions and opinions on areas under review and recommendations to improve them are to be made part of this section.
   - Introduction of something (Concept or Mechanism) which has been made part of main body
   - Appendices : Auditor need to put together a glossary, reference, bibliography etc to support facts and findings in the main body.

3. **Guiding Lamp Posts (Principles)**: All audit reports needs to be customized. The report highlights a problem and recommends action which should be taken to change things.

   - **Simplicity** : report should be short and must have unadorned sentences and meaningful paragraphs. Exaggerated prose, overuse of adjectives and flamboyancy should be avoided.

     All parts of report must make sense, repetition must be avoided as far as possible, caveat to recommendations must be avoided, emotive language must be avoided.
   - **House Style** : It must be ensured that whole of the report is written in a consistent house style. If we are using passive voice then whole of the report must be in passive voice, on the other hand if active voice is used we should use it in whole of the report.
   - **Presentation** : Report must not have presentation problems. We must check that Headings are appropriate, logical and serially numbered. Report must reflect the work undertaken by the auditor, report must be free from errors related with spellings, grammar and punctuations. Name of auditors must also be on report.

- **Review** : Report must be reviewed considering – a. Suitability of report for users, b. Title are consistent with scope, c. Summary/Index cover main points, d. all component parts are given appropriate weight, e. all necessary paragraphs are incorporated and unnecessary paragraphs are eliminated and f. possibility to add value in layout.
- **Content** : Firstly, The content Audit report must have a. Observation of Auditor (Duly supported by sufficient evidence as far as possible in terms of quantitative data). Secondly, Audit report should contain clearly spelt implications of the observation of the auditor and Finally, Recommendations of the auditor must find place in audit report. Auditee's comments may also be made part of audit report.

4. **Various Assurance Levels** : Various areas of audit report may have different level of assurance. There can be four level of assurance(Can be well understood by examples):
   - **Substantial**: A sound system of control which should provide management with assurance that risk are being appropriately managed is in existence for store.
   - **Adequate**: A generally sound system of control but with a few identified weaknesses (shown as annexure) which could, if not rectified, put controls system at risk.
   - **Limited**: Significant weakness have been identified (shown as annexure) which would, if not rectified promptly, place control system of stores at serious risk.
   - **No**- A system of control and risk management is not present for stores

5. **Rule of Grammar to be observed** : There are some grammatical rules which are often violated at the time of writing of report :
   - **Apostrophes Rule**: An "s" with an apostrophe immediately after it shows that there is more than one owner (word is plural).
     - Small companies'
     - Creditors' meeting

     Apostrophes are not used for non possessive plurals : 1980s, MPs etc.
   - **Subject/Verb agreements Rules:**
     - Singular subject must have a singular verb and plural subject shall have a plural verb
     - Two or more singular subjects are joined by and use a plural verb. If two or more singular subject ae joined by or or nor use singular verb

- Use singular verb after everyone, everybody, nobody, someone, every, one, another and much
- Use plural verb after both, few, many, others and several
- If the group is acting as one unit use a singular verb

⦿ **Use of Capital Alphabets Rules:**

- Capital Alphabets are used for particular and lower case are general example this year's Budget was a boring budget.
- Capital Alphabets are used for days, months, holidays but not for seasons
- Capital Alphabets are used for First, last and principal words of books, plays and programmes e.g. My experiences with Truth
- Use Capital Alphabets for periods, trade names, countries, continents, streets, roads, motorways and other public places, academic qualifications and academic and religious titles

⦿ **Numbers: Figures or words Rules:**

- Numbers from one to ten are expressed as words (Two, Four)
- Numbers from 11 onwards are expressed as figures (32,75,564)
- Use number for Dates and Times (3 September 9.30 am), dimension and weights, numbers following noun (page3, chapter8)
- Use word for Exact amounts when they begin a sentence – Thirty companies
- Approximate amount and fractions – about a thousand attended

6. **The Fog Factor:** The fog index refers to a readability test that aims to determine the level of text difficulty, or how easy a text is to read. The index provides a reader with the number of years of education that he or she hypothetically needs to understand and digest a particular text on the first reading.

⦿ **How to Calculate the Fog Index**

To calculate a fog index score, we need to know the three following components:

1. Average sentence length
2. Percentage of long words present in the text
3. Sum of the average sentence length and the percentage of long words

To calculate the average sentence length, we need to divide the number of words by the number of sentences in a text sample. To find the percentage of long words, we divide the number of long words by the total number of words and multiply the result by 100. A long word is defined as a word with at least three syllables.

Finally, the sum between the average sentence length and the percentage of

long words is computed to arrive at the fog index. There are a few exceptions to what is defined as a long word. Here is a list of the exceptions for long words:

- Words starting with a capital letter such as company names
- Combined “short-words” such as “share-holders” or “over-draft”
- Words with three syllables just because we added “ed” or “es” (e.g., created or practices)
- Short three-syllable words, such as “media”

⦿ Ideal Fog Index Level

For business writing, we aim for a fog index of between 20 to 25. For longer and more technical text scripts, such as official reports, we aim for 30 to 35. Anything more than these suggested figures is getting too complex to be understood by the average reader. The easier it is for the reader to understand what you are saying, the more likely they will want to read your message.

GST Legal Updates- October, 2024

CA. Sooraj B

Five Circulars have been issued by the CBIC in the month of October 2024, clarifying various matters which were recommended by the 54th GST Council Meeting. A gist of the matters clarified by the Circulars is given below :-

1. **Circular 234- Clarifications regarding applicability of GST on certain services –**

a) Affiliation Services provided by CBSE to various schools

It has been clarified that the service is taxable with effect from 18th June 2021, which is the date of issue of Circular 151 on the matter. It has been further clarified that the service, provided till 17th June 2021 shall be regularized on as is where is basis.

It is also clarified that with effect from 8th October 2024, the service is exempt by virtue of Notification 8/2024 (Central Tax -Rate).

b) Affiliation Services provided by Universities to various colleges

It has been clarified that the service is taxable with effect from 1st July 2017.

c) Ancillary Services provided by Goods Transport Agencies (GTAs)

It has been clarified that ancillary services provided by GTAs such as loading and unloading, packing, unpacking, transhipment, temporary warehousing etc shall be treated as a composite supply of transport of goods and shall be taxable at the same rate as is applicable to services by way of transportation of goods by road provided by a GTA. It is also clarified that the method of invoicing used by GTAs will not alter the nature of composite supply of service. It is further clarified that if such services are not provided in the course of transportation of goods and are invoiced separately, then these services will not be treated as composite supply of transport of goods.

d) Applicability of GST on Preferential Location Charges (PLC) collected along with consideration for sale/ transfer of residential / commercial properties

It has been clarified that location charges or Preferential Location Charges (PLC) paid along with the consideration for the construction services of residential commercial/industrial complex forms part of composite supply where supply of construction services is the main service and PLC is naturally bundled with it and are eligible for same tax treatment as the main supply of construction service.

e) Regularizing payment of GST on certain support services provided by an electricity transmission or distribution utility

GST Council in its 54th meeting held on 09th September, 2024 has recommended to exempt supply of services by way of providing metering equipment on rent, testing for meters/ transformers/capacitors etc., releasing electricity connection, shifting of meters/service lines, issuing duplicate bills etc., which are incidental or ancillary to the supply of transmission and distribution of electricity provided by transmission and distribution utilities to their consumers. The same have been exempted vide notification No. 08/2024-Central Tax (Rate) dated 08.10.2024 effective from 10.10.2024.

As recommended by the 54th GST Council, the payment of GST on services provided by an electricity transmission or distribution utility which are incidental or ancillary to the supply of transmission and distribution of electricity by such utility, such as those listed in para 9.1 above is hereby regularized on 'as is where is' basis from 01.07.2017 to 09.10.2024.

2. Circular 235 - Clarifications regarding applicability of GST on certain goods – reg.

a) GST rate on seats of motor cycle – clarified to be 28%

b) GST rate on seats of cars – clarified to be 18% before 10th October 2024 ; 28% from 10th Oct 2024 (Notification 5/2024-CTR)

c) GST rate on extruded or expanded products, savoury or salted (other than un-fried or un-cooked snack pellets, by whatever name called, manufactured through process of extrusion) -12% only with effect from 10th October 2024; before 10th October 2024 -18%

3. Circular 236 - As is Where is- what it is?

In a number of cases, the CBIC has clarified that the applicability of GST/the GST rates on certain goods/services shall be regularized on as is where is basis. This Circular clarifies the scope the term "as is where is ", as follows :-

In the context of GST, the phrase 'regularized on as is where is' basis means that the payment made at lower rate or exemption claimed by the taxpayer shall be accepted and no refund shall be made if tax has been paid at the higher rate. The intention of the Council is to regularize payment at a lower rate including nil rate due to the tax position taken by taxable person, as full discharge of tax liability. The tax position of a taxable person is reflected in the returns filed by the person where the applicable rate of tax (or relevant exemption entry) on a transaction/supply is declared.

Thus, in cases where the matters have been regularized on "as is" or " as is, where is basis", in case of two competing rates and the GST is paid at lower of the two rates, or at nil rate where one of the competing rates was nil under notification entry, by some suppliers while other suppliers have paid at higher rate, payment at lower rate shall be treated as tax fully paid for the period that is regularized.

The Circular also provides three illustrations to further clarify the scope of the term. One of the illustrations, to be specifically noted is that for example where the interpretational issue is between 5% and 12% rates and some taxpayers have paid 5 %, others have paid 12% while certain tax payers have not paid GST on supply of "X", and the GST Council recommends to clarify that the applicable rate is 12% and regularize the past on "as is where is basis" which is notified on 1.12.2023, this means that for the period prior to 1.12.2023, the 5% GST paid by tax payer will be treated as tax fully paid and they would not be required to pay duty differential between 5% and 12%. For those tax payers who have paid 12%,no refund would be made. **However, the regularization would not apply to situations where no tax has been paid. In such cases, the applicable tax i.e. 12% shall be recovered.**

4. Circular 237 - Clarifying the issues regarding implementation of provisions of sub-section (5) and sub-section (6) in section 16 of CGST Act, 2017-reg.

As recommended by the 53rd GST Council Meeting, the Finance Act (2) of 2024, had introduced Section 16(5) in the CGST Act, whereby the due date to avail input tax credit for the financial years 2017-18 to 2020-21 was extended to 30th November 2021, retrospectively from 1st July 2017. Further relief was also provided to taxpayers who could not avail input tax credit in respect of financial years 2017-18 to 2020-21, due to cancellation of their registration The Finance Act (2) of 2024, had introduced Section 16(6) in the CGST Act whereby it was provided that where registration was cancelled and ITC is claimed in respect of an invoice /debit note after 30th November of the financial year following the financial year to which the invoice or debit note pertains, the period between date of cancellation/effective date of cancellation and the date of revocation of cancellation shall be excluded, provided the return in which the ITC in question is claimed, is filed within 30 days of revocation of cancellation.

By virtue of Notification 22 of 2024, a special procedure has been prescribed under Section 148 of the CGST Act for rectification of orders where taxpayers are eligible to avail ITC under the provisions of Section 16(5) /16(6) of the CGST Act but where not eligible before introduction of these Sections. This Circular clarifies a few matters related to the procedure as follows :-

- Registered persons against whom order u/s 73/74/107/108 has been issued for wrong availment of ITC on account of contravention of the provisions of Section 16(4) of the CGST /SGST Act but where such ITC is now available as per the provisions of Section 16(5) of Section 16(6) of the CGST Act and where appeal against the order has not been filed.
- Above registered persons shall file electronically on the common portal an application for rectification of order issued u/s 73/73/107/108, within 6 months of the issue of notification i.e by 7th April 2024.
- Along with the application, Annexure-A (attached to the Notification 22/2024) shall be uploaded by the registered person.
- The authority to rectify the order shall be the authority who had passed the order.
- The rectified order shall be issued within three months from the date of the said application.
- Where such rectification adversely affects the applicant, principles of natural justice shall be followed by the authority carrying out the rectification.

- Where no demand notice is issued – Proper officer to consider the new sections and act accordingly
- Where demand notice is issued but order is not passed – order to be passed considering the new sub sections
- Where order is passed and appeal is filed – appellate authority to decide appeal, considering the new sub sections
- Where order is passed but appeal not filed – file rectification application prescribed under Notification.22/2024

  Rectification Procedure

  Where order u/s 73/74 is passed, the taxpayer shall proceed as follows :-

  Services .....User Services ..... My applications .....Application for rectification of order
  Where order u/s 107 is passed, the taxpayer shall proceed as follows :-

  Services .....User Services .....View Additional Notices/Orders ..... View hyperlink in the order .....Case details.....Application tab ..... Select the order and click "Initiate Rectification link"

- Refund of pre deposit will be available (Corrigendum to Circular 237)

5. Circular 238 - Clarification of various doubts related to Section 128A of the CGST Act, 2017.

Based on the recommendations of the GST Council made in its 53rd meeting, Section 128A has been inserted in the Central Goods and Services Tax Act, 2017 with effect from 01.11.2024 to provide for waiver of interest or penalty or both, relating to demands under section 73 of the CGST Act pertaining to Financial Years 2017-18, 2018-19 and 2019-20, subject to certain conditions. Subsequently, based on the recommendations of the GST Council made in its 54th meeting, Rule 164 has been inserted in Central Goods and Services Tax Rules, 2017. with effect from 01.11.2024 vide notification No.20/2024-Central tax dated 8th October 2024, providing for procedure and conditions for closure of proceedings under section 128A of CGST Act.

Further, vide notification No. 21/2024-Central tax dated 8th October 2024, 31.03.2025 has been notified under sub-section (1) of section 128A of CGST Act as the date on or before which the full payment of tax demanded in the notice/ statement/ order needs to be made by the taxpayer to avail the benefit of waiver of interest or penalty or both under the said section.

The Circular clarifies a number of matters in relation to Section 128A. A few important clarifications are given below :-

Time limit for filing the application

- The application in FORM GST SPL-01 or FORM GST SPL-02, as the case may be, shall be filed within a period of three months from the date notified under section 128A (1), i.e., within three months from 31.03.2025
- However, as per the first proviso to sub-section (1) of Section 128A, where a notice has been issued under section 74, and the Appellate Authority or Appellate Tribunal or a court directs the proper officer to redetermine the tax as if the demand notice is issued under section 73, in accordance with the provisions of section 75(2), then same is covered under clause (b) of sub-section (1). Therefore, as mentioned in proviso to sub-rule (6) of Rule 164, in such cases, an application in FORM GST SPL-02, can be filed within six months from the date of communication of order of the proper officer redetermining the amount of tax to be paid under section 73.
- It may be noted that, in case the taxpayer has been issued multiple notices/ statements/ orders pertaining to demands under section 73, for period from July 2017 to March 2020, he is required to file a separate application in FORM GST SPL-01 or FORM GST SPL-02, as the case may be, in respect of each of the concerned notice/ statement/ order.

Payment regarding

- With respect to a notice or statement referred to in clause (a) of sub-section (1) of Section 128A, i.e., a notice or statement that is yet to be adjudicated, the payment towards the tax demanded in the said notice shall be made by the taxpayer through FORM GST DRC-03.
- With respect to an order referred to in clause (b) and clause (c) of sub-section (1) of Section 128A, the payment towards such tax demanded shall be made by the taxpayer, only by the making the payment against the debit entry created in the Part II of the Electronic Liability Register (ELR) by the demand order.
- In cases where the payment towards tax demanded in the demand order has already been made through FORM GST DRC-03, the procedure prescribed in rule 142(2B) may be followed. In such cases, the taxpayer shall be required to file an application in FORM GST DRC-03A as prescribed in the said rule, in order to adjust the amount already paid vide the FORM GST DRC-03, towards the demand created in the ELR-Part II, before filing the application for waiver under Section 128A in FORM GST SPL-02. For the purposes of determining

the date of payment of full amount of tax, the date on which the amount has been paid through FORM GST DRC-03 may be considered and not the date on which the said amount has been adjusted using FORM GST DRC-03A.

- Such payment shall be made on or before the date notified under section 128A (1), i.e., on or before 31.03.2025.
- Where applications are filed in respect of cases referred to in the first proviso to sub-section (1) of section 128A, then the applicants shall be required to make the payment on or before the date notified under section 128A (1) specifically for those cases, i.e., within six months of the communication of the order of the proper officer redetermining the amount of tax to be paid under section 73.
- Where the taxpayer is deducting the amount of input tax credit which was denied on account of contravention of sub-section (4) of section 16, but which is now available as per retrospectively inserted provisions of sub-section (5) or sub-section (6) of section 16 of the CGST Act, he is not required to file an application for rectification for the same in terms of the special procedure notified under section 148 vide notification No. 22/2024-Central tax dated 8th October 2024.

It is further mentioned that, in cases referred to in sub-rule (3) and sub-rule (4) of rule 164, the applicant can file the application for waiver of interest or penalty or both under section 128A, in respect of a notice/ statement/ order mentioned in sub-section (1) of section 128A, only after payment of full amount of tax demanded in the said notice/ statement/ order, including on account of demand pertaining to erroneous refund, if any, and also on account of demand pertaining to the period other than the period mentioned in sub-section (1) of section 128A, if any, in the said notice/ statement/ order.

Appeal regarding ....

- No appeal shall lie under section 107, against an order issued in FORM GST SPL-05 concluding the proceedings under section 128A. The order issued in FORM GST SPL-07, rejecting the application for waiver, shall be, however, appealable in accordance with sub-section (1) of section 107 within the time limit specified therein, by filing an application in FORM GST APL-01. In such cases, normally, no pre-deposit may be required to be paid by the taxpayer for filing the said appeal, as the said amount may already have been paid as a part of payment of tax dues involved in the demand notice/ statement / order before filing an application in FORM GST SPL-01 or FORM GST SPL-02. However, in cases where no amount of tax dues has been paid or amount

of tax dues paid is less than the requisite amount for pre-deposit for filing appeal as per sub-section (6) of section 107, the remaining amount of pre-deposit will be required to be paid for filing the said appeal.

Other Important FAQs

- Whether the benefit provided under Section 128A will be applicable to taxpayers who have paid the tax component in full before the date on which the said section has come into effect?

  In this regard, it is to be mentioned that all such amount paid towards the said demand upto the date notified under sub-section (1) of section 128ASection 128A, as long as the said amount has been paid upto the, irrespective of whether the said payment has been done before Section 128A comes into effect, or after that, and irrespective of whether such payment was made before the issuance of the demand notice or demand order, or after that, shall be considered as paid towards the amount payable in sub-section (1) of date notified under sub-section (1) of section 128A and was intended to be paid towards the said demand.

- Whether amount recovered by the tax officers as tax due from any other person on behalf of the taxpayer, against a particular demand can be considered as tax paid towards the same for the purpose of Section 128A?

  Yes.. Provided the recovery has been made before the date notified u/s 128A

- Whether the benefit provided under Section 128A will be applicable in cases, where the tax due has already been paid and the notice or demand orders under Section 73 only pertains to interest and/or penalty involved?

  Where the tax due has already been paid and the notice or demand orders under Section 73 only pertains to interest and/or penalty involved, the same shall be considered for availing the benefit of section 128A.

  However, the benefit of waiver of interest and penalty shall not be applicable in the cases where the interest has been demanded on account of delayed filing of returns, or delayed reporting of any supply in the return, as such interest is related to demand of interest on self-assessed liability and does not pertain to any demand of tax dues and is directly recoverable under sub-section (12) of section 75

- Whether the benefit under Section 128A is available, if the taxpayer intends to avail partial waiver of interest or penalty or both, on certain issues, by making part payment of the amount demanded in the notice/ statement/ order, as the case may be, and opts to litigate for the remaining issues?

No. Section 128A (1) clearly provides that the waiver of interest or penalty or both is only applicable when the full amount of tax demanded in the notice/ statement/ order is paid

- Whether Section 128A will cover waiver of penalties under other provisions, late fee, redemption fine etc?

  It is clarified that any penalty, including penalties under section 73, section 122, section 125 etc, demanded under the demand notice/ statement/ order issued under section 73, is covered under the waiver provided under Section 128A. However, **late fee, redemption fine etc are not covered** under the waiver provided under Section 128A.

- Whether payment to avail waiver under Section 128A can be made by utilizing ITC?

  YES but if arrears pertain to RCM, such amount has to be paid by debiting the electronic cash ledger

Activities - October, 2024

One Day Workshop on Advanced Excel at ITT Centre, Kozhikode Branch.
Speaker : CA K. P. Rashique, Calicut. (15.10.2024)

Upcoming Events November, 2024

4th
Monday

One Day Seminar

Topic : **Overview & Walkthrough of Office Management Tools**
Venue : **ICAI Bhawan, Kozhikode**
Time : **2:00 PM to 8:00 PM**
Speakers : **CA Ebin Kurian (ClickUp)**
CA. Shijith V C (PMS-Practice Management Software)

16th
Saturday

Seminar

Topic : **Code of Ethics**
Venue : **ICAI Bhawan, Kozhikode**
Time : **2:00 PM to 8:00 PM**
Speakers : **Ankit R Momaya**

21st
Thursday
22nd
Friday

Residential Seminar

Venue :**COE Jaipur**

Important days in November, 2024

7
- TDS/TCS Payment for the month of October, 2024

11
- Filing of GSTR-1 for the month of October, 2024

13
- Filing of GSTR-1 - IFF (QRMP scheme) for the month of October, 2024

15
- Payment and Return Filing of ESI & PF for the month of October, 2024
- Issue of TDS Certificate in Form 16A for July to September, 2024

20
- Filing of GSTR-3B for the month of October, 2024

25
- GST Challan Payment for October, 2024 (for all Quarterly Filers)t

29
- Filing MGT 7/7A for Companies & OPC for FY 2023-24

30
- TDS Payment in Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments), 26QE (Crypto Assets) for October, 2024

Contributions to e-newsletter

Contributions in the form of articles, poems, jokes, travelogues etc. are invited from members for consideration in the monthly e-Newsletter. Interested members may email their contribution to icaikoznewsletter@gmail.com along with name, membership number and mobile number.

Happy
Diwali