PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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CAG's AUDIT REPORT ON GST PRESENTED

Compliance Audit Report of the Comptroller and Auditor General of India on Goods and Services Tax (Report No. 20 of 2026) for the period ended March 2024 was presented in Parliament here today.

The Report contains significant results of compliance audit of the Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. The report deals mainly with the issues involving levy and collection of Goods and Services Tax. This report is divided into four chapters. Chapter I provides a brief description of the nature of indirect taxes, organizational structure of CBIC, trends in Indirect Taxes revenue and comparative growth of various components of Indirect Taxes. Chapter II describes the CAG's audit mandate for audit of revenue receipts, audit universe, audit sample, and result of audit efforts. Chapter III includes the findings of the third phase of audit of IT system of the GSTN. Chapter IV discusses the systemic and compliance issues, observed during the course of the Subject Specific Compliance Audit (SSCA) of Works Contract and Construction Services under Goods and Services Tax. Major audit observations are as under:

The indirect taxes collections increased by ` 1,14,847 crore (eight per cent) during FY24 over FY23. Central GST revenue increased by 13 per cent (`1,08,804 crore) during FY 24 over FY 23.

(Paragraph 1.3)

The third phase of audit of IT system of the GSTN was conducted to assess the extent to which GSTN has implemented the audit findings of the earlier two phases of audit and to evaluate the additional functionalities deployed in Registrations and Returns modules and IGST settlement reports, while also reviewing IT Governance and IT Security.

(Paragraph 3.2)

Audit observed deficiencies in eight features in the front-end taxpayer registration module in terms of improper and inadequate validations and deficiencies in seven functionalities in the tax officers' module relating to approval and cancellation of registrations, alert mechanism to monitor potential breaches and process delays in approval of registration.

(Paragraph 3.5)

Audit observed nine deficiencies in mapping business rules and not implementing functionalities relating to filing of returns, verifying eligibility of taxpayers, discharge of tax liability, reversal of Input Tax Credit and systemic alerts to Proper Officers to facilitate monitoring.

(Paragraph 3.6)

Audit observed five deficiencies pertaining to various settlement reports not being generated and discrepancies in apportionment of IGST in cases where settlement reports were generated.

(Paragraph 3.7)

There were a few gaps in IT Governance and IT Security areas, involving partial compliance to IT frameworks, gaps in infrastructure planning in terms of enhancing portal capacity and moving to more resilient data centers.

(Paragraph 3.8)

Some of the important audit recommendations to rectify issues observed during IT audit of GSTN are as under.

i. GSTN may expedite the rectification of the deficiencies in validation in the front-end taxpayer registration module.

ii. GSTN may expedite the rectification of the improper restriction imposed on eligible taxpayers opting for Composition Levy Scheme.

iii. GSTN may rectify the deficiencies in functionalities of uploading physical verification reports, incorrect mapping of business rule relating to cancellation of registrations and integration of banking platforms.

iv. GSTN may expedite developing a mechanism for monitoring the value of services supplied by taxpayers under the Composition Levy Scheme.

v. GSTN may expedite the process of rectifying the discrepancies in functionalities of sequential return filing.

vi. GSTN may rectify the inconsistencies and discrepancies in auto populated values in returns as it is a critical element in ensuring compliance and simplification of return filing process.

vii. GSTN may address the issue of inconsistency of rules with the revised settlement procedure and not settling IGST collected against compounding of offences.

(Paragraph 3.10)

The Subject Specific Compliance Audit (SSCA) on Works Contract and Construction Services, of CBIC administered taxpayer records for the period April 2020 to March 2022, focused on identifying both key areas of compliance as well as instances of non-compliance by the taxpayers and/or Department. Audit selected a total of 850 taxpayers and 71 Ranges.

(Paragraph 4.2 & 4.5)

Audit observed 123 cases of compliance deficiencies, with a revenue implication of ₹190.98 crore, due to incorrect availment of concessional rate of tax/exemptions on works contracts relating to construction of road, bridges, railways and earthwork, short discharge of liability on works contract services provided to Government authority/entity, short discharge of liability by builder/developer under RCM, irregularities in residential real estate/real estate projects, irregular availing of ITC on ongoing/completed projects, not discharging GST on unaccounted 'on-money' income discovered by Income Tax authorities and short discharge of tax liability in execution of metro projects.

(Paragraph 4.7.3)

Audit also observed 1,057 compliance deficiencies involving 522 taxpayers due to not declaring service codes and additional places of business in GST Registration, mismatch in availment of ITC and short levy of tax and interest, involving an amount of ₹188.98 crore.

(Paragraph 4.7.4)

Nineteen Ranges did not provide the details of scrutiny of GST returns filed by taxpayers. Audit observed deficiencies in oversight functions in 57 Ranges across the sampled Ranges. While four Ranges did not conduct scrutiny as envisaged, deficiencies in scrutinised cases were noticed in 11 Ranges, which reflect gaps in assessed tax / interest involving an amount of ₹3.18 crore.

In 73 cases across 12 Ranges, Audit observed delays, mainly in issue of ASMT10 and ASMT12 and action taken under Section 73 and 74 of the GST. Follow up of cases red flagged by the Directorate General of Audit and Risk Management (DGARM) was deficient in 76 cases across 10 Ranges involving a financial implication of ₹12.81 lakh.

(Paragraph 4.7.5)

Some of the important audit recommendations are as under.

- The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where the concessions related to works contract services are availed by sub-contractor/sub-sub-contractors who are executing works of road, bridge and railways to ensure proper discharge of tax by taxpayers.
- The Department may institute a mechanism for reviewing (by selecting for scrutiny or internal audit etc.) cases where taxpayers executing works contracts or construction services receive services from Governments or procure inputs and input services from unregistered suppliers to ensure proper discharge of tax under RCM by such taxpayers.
- The Department needs to ensure effective co-ordination between CBDT and CBIC and leverage the information of unaccounted income available with the Income Tax authorities to determine corresponding GST liability of taxpayers providing works contract and construction services.

(Paragraph 4.10)