

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

NEW DELHI

8th AUGUST, 2022

AUDIT REPORT NO. 5 ON GST PRESENTED

Compliance Audit Report of the Comptroller and Auditor General of India on Goods and Services Tax (Report No. 5 of 2022) for the year ended March 2021 was presented in Parliament here today. The Report contains significant results of compliance audit of Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. This report is divided into six chapters with money value of ₹ 1,251.18 crore.

Major audit observations are as under:

Indirect Taxes collections increased by ₹ 1, 20,555 crore (12.56 per cent) during FY21 over FY20. The annual growth of Indirect Taxes (Y-o-Y), which constantly decreased from 21.33 percent in FY 17 to 1.76 per cent in FY20, saw an upward trend in FY 21. Further, during FY 21 there was a rise in Indirect taxes to GDP ratio when it increased to 5.45 per cent in FY 21 from 4.70 per cent in FY 20. The growth in indirect taxes was due to increase in the receipts from Central Excise Duty and Customs duty, which increased, respectively, by ₹ 1,50,215 crore and ₹ 25,467 crore over the previous year (FY20).

Central GST taxes¹ revenue, however, decreased by 8.34 per cent from ₹ 6,01,784 crore in FY 20 to ₹ 5,51,541 crore in FY21. Central GST taxes as a percentage of GDP also decreased to 2.79 per cent in FY 21 from 2.95 per cent in FY 20 and 3.02 per cent in FY19.

(Paragraph 1.3.1. Paragraph 1.3.1.1 & Paragraph 1.3.2)

In the last Audit Report² on Indirect taxes, Audit had reviewed the progress made in respect of implementation of simplified return mechanism under GST and system-verified flow of Input Tax Credit (ITC). Audit observed that owing to continuing extensions in the roll out of simplified return system, and delay in decision making, the originally envisaged system verified flow of ITC was yet to be implemented despite more than three years of roll out of GST. In the absence of a stable and simplified return system, one of the main objectives of roll out of GST i.e. simplified tax compliance system was yet to be achieved. Accordingly, Audit had recommended that a definite time frame for roll out of simplified return forms may be fixed and

¹ GST revenue included Central Goods and Services Tax, Integrated Goods and Services Tax, UT Goods and Services Tax and GST Compensation Cess.

² Audit Report No. 1 of 2021 (Indirect Taxes- Goods and Services Tax, Central Excise and Service Tax)

implemented as frequent deferments were resulting in delay in stabilisation of the return filing system and continued uncertainty in the GST eco-system.

During 2020-21, Audit further reviewed the status of implementation of simplified return mechanism and noted significant progress with respect to linking of GSTR-1³, GSTR-2B⁴ and GSTR-3B⁵; and restricting input tax credit (ITC) of the recipient taxpayers to the supplies declared by suppliers. However, Audit is of the view that further steps need to be taken to achieve a non-intrusive e-tax system with system-verified flow of ITC such as mandatory filing of GSTR-1 before filing of GSTR-3B and enhanced use of preventive checks in the GST Common portal.

(Paragraph 3.1)

CBIC constituted (July 2017) the Directorate General of Analytics and Risk Management (DGARM) with the aim to study, interpret and analyse indirect tax data and share the outputs with various stakeholders. DGARM identifies high risk taxpayers through use of extensive data analytics on the GST returns data received from GSTN and DG Systems, and Income Tax return (ITR) data received from CBDT.

Audit examined the monitoring and feedback mechanism of DGARM reports and observed that use of manual/semi-automated mechanism for monitoring action by the Department in respect of high risk taxpayers, identified in DGARM reports, is sub-optimal and fails to properly leverage the full power of IT and thus, there is a need to ensure that the entire set of activities should be end-to-end automated as part of the CBIC-GST platform.

(Paragraph 3.3)

During analysis of pan-India data provided by GSTN, Audit noticed significant data inconsistencies between the taxable value and declared tax liability. Inconsistencies were also noticed between the CGST and SGST components of GST, and between ITC figures captured in GSTR-3B and GSTR-9 returns. Due to significant inconsistencies in the GST data, Audit could not establish the reliability of data, for the purpose of finding audit insights and trends in GST revenue, and assessing high risk areas such as tax liability and ITC mismatch at the pan-India level.

(Paragraph 4.6)

Audit recommends that the Ministry should consider introducing appropriate validation controls (controls which prevent unreasonable data entries or alert the taxpayer to unreasonable data or both) supplemented by post-facto data analytics in respect of important data elements, where in data (such as tax amounts; taxable values; tax components, like CGST and SGST; validation of ITC and tax amounts,

³ GSTR-1 is an outward supplies statement as provided in Section 37 of the CGST Act, 2017 and Rule 59 of the CGST Rules, 2017.

⁴ GSTR-2B is an auto-drafted statement containing the details of input tax credit which shall be made available to the registered person in GSTR-3B.

⁵ GSTR-3B is a self-assessed summary monthly return which captures summary of outward supplies and inward supplies liable to reverse charge.

between the annual and monthly returns) is entered by the taxpayer. An effective review and follow up system needs to be developed at GSTN to review and address cases of data inconsistencies. In case of significant deviations, tax officers may be alerted to the inaccuracies and directed to take necessary action.

(Paragraph 4.7)

Audit examined GST refund cases processed and paid by the Central tax authorities pertaining to the period from July 2017 to July 2020. During the course of examination of records, Audit observed certain systemic and compliance issues in relation to grant of refund by the Department, which need to be addressed.

(Paragraph 5.3)

Systemic Issues

Audit observed that there exists a mechanism to match ITC availed by a taxpayer with the GSTR-1 returns filed by the suppliers and to identify fraudulent cases through data analytics after the amount has been paid. However, adequate systems were not in place to prevent and mitigate refund related frauds by using real time/near real time data analytics so as to alert the tax officials before sanction of refunds.

(Paragraph 5.6.1)

Audit analysed the data of Public Financial Management System (PFMS) relating to GST refunds pertaining to the period from July 2017 to September 2019 (Pre-automation) received from 34 Commissionerates and followed it up with substantive audit of the payment process. Audit noticed 410 instances of double payments owing to lack of reconciliation and monitoring by the Department amounting to ₹ 13.73 crore.

(Paragraph 5.6.3)

Even after four years of implementation of GST, a proper system of review and post-audit of refunds had not been effectively institutionalized so that the Department may rectify mistakes in time.

(Paragraph 5.6.4)

Compliance Issues

Audit examined compliance to the provisions of the CGST Act, associated rules, procedures, etc. with respect to a risk-based sample of 12,283 refund cases processed by the Central tax authorities. Audit noticed 522 cases where excess/inadmissible refund of ₹ 185.28 crore was sanctioned due to various reasons such as incorrect computation of Adjusted Total Turnover, consideration of ineligible accumulated ITC, claims which were time-barred etc.

(Paragraph 5.7)

Audit has included 12 recommendations to strengthen the refund processing system. Ministry has accepted nine recommendations and stated that the matter would be taken up with GSTN/DG(Systems)/field formations.

(Paragraph 5.10)

The Department identified 50,000 (Antarang⁶ data set) high value transitional credit cases for verification by CBIC field formations. Audit selected pan-India sample of 8,514 cases for detailed audit based on data analysis of these 50,000 cases.

(Paragraph 6.5)

In spite of requisitions and follow up, the CBIC departmental formations did not produce records of 954 claims. As a result, 11 per cent of sample size representing ₹6,849.68 crore of transitional credit claimed could not be audited. Further, in another 2,209 cases representing ₹19,660.72 crore of credit claimed, records were partially produced as relevant underlying records determining the eligibility of credit were not produced, which constituted a substantial scope limitation.

Audit observed irregularities in 1,132 cases out of 6,999 cases verified by the Department.

(Paragraph 6.8)

Systemic Issues

Audit observed that though the Department had identified the top 50,000 cases for verification as a priority for 2018-19, the exercise was not yet completed, and the Department was yet to verify 8,849 cases⁷. The rate of recovery of detected irregularities was low. Cross jurisdictional issues and lack of co-ordination in Central Tax jurisdictions in some zones impeded verification and initiation of recovery actions.

(Paragraph 6.9.1)

Compliance Issues

Audit review disclosed significant irregularities in the transitional credit claims of taxpayers across various categories regulated by the sub sections of Section 140, Section 142(11) as well as Section 50(1) of the CGST Act 2017 pertaining to payment of interest.

Audit observed 1,686 compliance deviations in 1,438 cases, out of 7,560 cases examined in detail, amounting to ₹ 977.54 crore, constituting a deviation rate of 22 per cent. Irregularities noticed were relatively higher in four categories viz; ineligible credit of duty paid goods in stock without documents, irregular claim on unavailed credit on capital goods, ineligible credit on inputs or input services in transit, and irregular claim on closing balances. Considering that the Department had verified 79 per cent of these claims, the deviation rate suggested that the verification process

⁶ Antarang is the intra-net platform for officers of the CBIC.

⁷ As of November 2021

carried out by the Department suffered from inadequacies. Out of 1,438 cases, where Audit noticed irregularities, 1,132 cases had been verified by the Department, and the Department did not point out irregularities amounting to ₹735.69 crore.

In view of the above compliance findings, Audit recommends

- ensuring verification of the high risk claims reflected in Table 7aB of Tran 1 (credit on duty paid stock without invoices) and the cases where the transitional credit claim under Table 5a (closing credit balance of legacy returns) was in excess of the closing balance of legacy return.
- initiating remedial measures for the compliance deviations pointed out during this audit before the claims become time barred.

(Paragraph 6.9.2)

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