



CHAPTER – V
REVENUE SECTOR



CHAPTER – V: REVENUE SECTOR

5.1 Introduction

5.1.1 Trend of Revenue Receipts

Tax and non-tax revenue raised by the Government of Arunachal Pradesh (GoAP) during 2022-23, the share of net proceeds of Taxes assigned to States, Grants-in-Aid received from the Government of India (GoI) during the year and corresponding figures for the preceding four years are shown in **Table 5.1**.

Table 5.1: Trend of Revenue Receipts

		(₹ in crore)				
Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue raised by the State Government						
1.	Tax revenue	1068.04	1228.73	1431.10	1639.79	2237.35
	Non-Tax revenue	608.87	651.38	836.53	774.67	1017.87
Total		1676.91	1880.11	2267.63	2414.46	3255.22
Revenue Receipts from the GoI						
2.	Share of net proceeds of Taxes assigned to States	10436.14	8987.57	10472.58	14643.90	16689.17
	Grants-in-Aid	4082.91	4020.87	4383.30	4173.28	3843.75
Total		14519.05	13008.44	14855.88	18817.18	20532.92
3.	Total revenue receipts of the State Government (1 + 2)	16195.96	14888.55	17123.51	21231.64	23788.14
4.	Percentage (1 w.r.t 3)	10.35	12.63	13.24	11.38	13.68

Source: Finance Accounts of the respective years

Table 5.1 reveals that during 2022-23, revenue raised by the State Government (₹3,255.22 crore) was 13.68 per cent of the total revenue receipts. The balance 86.32 per cent of the receipts was from GoI. The total revenue receipts of the State Government had increased during 2022-23 by ₹2,556.50 crore (12.04 per cent) over the previous year. The increase was mainly due to rise in the Share of net proceeds of divisible Union taxes and duties by ₹2,045.27 crore (13.96 per cent). The Tax and Non-Tax Revenue of State Government increased by ₹597.56 crore (36.44 per cent) and ₹243.20 crore (31.39 per cent) during the same period. However, the increase was offset by decrease in Grants-in-Aid by ₹329.53 crore (7.90 per cent) during the same period.

Details of tax revenue raised against Budget Estimate (BE) during 2018-19 to 2022-23 are shown in **Table 5.2**.

Table 5.2: Details of Tax Revenue

(₹ in crore)

Head of Revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage Increase (+)/ Decrease (-) in 2022-23 over 2021-22	
	BE	Actual	BE	Actual	BE	Actual*	BE	Actual	BE	Actual*	BE	Actual
State Goods and Services Tax	382.08	601.00	393.06	801.55	324.00	859.29	474.28	1131.00	521.71	1607.05	10.00	(+)42.09
Land Revenue	7.79	14.58	16.12	15.97	15.00	7.52	16.00	6.83	17.60	47.67	10.00	(+)597.95
Stamps and Registration Fees	6.14	9.16	12.60	8.14	7.00	10.47	10.00	12.48	11.00	17.82	10.00	42.79
State Excise	130.96	136.73	208.36	144.97	157.00	238.02	230.12	115.92	253.13	280.87	10.00	142.30
Taxes on Sales, Trade, etc.	374.73	268.74	311.44	219.82	270.00	283.09	394.90	324.61	434.39	221.82	10.00	(-)31.67
Taxes on Vehicles	29.59	32.43	38.00	38.12	33.00	32.71	27.00	48.94	29.70	62.11	10.00	26.91
Taxes on goods and passenger	0	5.40	-	0.16	0	-	-	0.01	-	0.01	-	-
Total	931.29	1068.04	979.58	1228.73	482.00	1431.10	1152.30	1639.79	1267.53	2237.35	10.00	36.44

Source: Annual Financial Statements of the respective year, published by GoAP

* Finance Accounts Volume I and II of Government of Arunachal Pradesh of the respective year published by the Office of the Principal Accountant General, Arunachal Pradesh

The increase of tax revenue by ₹597.56 crore (36.44 per cent) in 2022-23 as compared to the previous year was mainly on account of increase in contribution of State Goods and Services Tax (SGST) by ₹476.05 crore, State Excise by ₹164.95 crore and Land Revenue by ₹40.84 crore. However, the increase was offset by decrease in Taxes on Sales, Trade etc. by ₹102.79 crore.

Details of non-tax revenue raised against BE from 2018-19 is shown in Table 5.3.

Table 5.3: Details of Non-Tax Revenue

(₹ in crore)

Head of Revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage Increase (+)/ Decrease (-) in 2022-23 over 2021-22	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Power	340.50	287.08	442.37	247.95	286.00	243.28	350.00	384.35	385.00	532.84	10.00	38.63
Interest Receipts	92.26	88.01	118.84	62.49	98.84	34.12	-	47.21	-	93.13	-	97.27
Forestry & Wild Life	33.15	14.72	66.26	6.52	20.00	8.68	45.00	15.15	49.50	9.28	10.00	(-)38.79
Public works	13.50	11.02	31.30	7.74	15.00	17.33	19.00	33.18	20.90	64.48	10.00	94.33
Miscellaneous General Services	94.63	12.49	37.26	12.78	15.00	0.01	21.00	9.22	23.10	9.32	10.00	1.08
Other Administrative Services	18.75	25.48	35.64	129.79	25.00	367.29	26.07	83.66	28.68	25.42	10.01	(-)69.62
Police	16.10	3.62	14.86	4.27	5.00	3.94	11.00	7.96	12.10	8.77	10.00	10.18
Medical & Public Health	1.02	25.42	5.23	21.23	10.00	5.73	6.80	4.75	7.48	3.52	10.00	(-)25.89
Co-operation	1.49	0.83	5.80	0.71	1.00	1.27	3.00	0.60	3.30	0.65	10.00	8.33
Other Non-Tax Receipts	188.60	140.20	292.44	157.90	124.16	154.88	368.13	188.59	404.94	270.46	10.00	43.42
Total	800.00	608.87	1050.00	651.38	600.00	836.53	850.00	774.67	935.00	1017.87	10.00	31.39

Source: Annual Financial Statements of the respective year, published by GoAP

* Finance Accounts Volume I and II of Government of Arunachal Pradesh of the respective year published by the Office of the Principal Accountant General, Arunachal Pradesh

During 2022-23, there was increase in collection of non-tax revenue by ₹243.20 crore (31.39 per cent) over the previous year. The increase was mainly on account of increase in receipts under Power by ₹148.49 crore, Other Non-Tax receipts by ₹81.88 crore, interest receipts by ₹45.92 crore and Public works by ₹31.30 crore. However, the increase was offset by decrease in receipts under Other Administrative Services by ₹58.24 crore, Forestry & Wild Life by ₹5.88 crore and Medical & Public Health by ₹1.23 crore.

5.1.2 Analysis of arrears of revenue

The arrears of revenue indicate delayed realisation of revenue due to the Government. The arrears of revenue as at the end of the year were furnished (August 2023) by the Tax, Excise & Narcotics Department in respect of 23 Superintendents of Tax (STs) out of total 28 STs as of March 2023. However, the Department could not furnish arrears of revenue as at the end of the year (March 2022) and collections of arrears of revenue during the year 2022-23. As such, promptness of the Department to realise outstanding arrears of revenue and actual realisation during the year could not be assessed. The details of arrears of revenue as of March 2023 are in **Table 5.4**.

Table 5.4: Details of outstanding revenue

(₹ in crore)				
Head of Revenue	Amount outstanding as on 01 April 2022	Collection of arrear of revenue during 2022-23	Total amount outstanding as on 31 March 2023	Amount outstanding for more than five years as on 31 March 2023
0040- Taxes on Sales, Trade etc.	247.92*	NA	11.63	10.93
0039- State Excise	NA	NA	0.66	0.56
0006-SGST	NA	NA	0.23	0.00
0040- VAT	NA	NA	84.75	1362.00
Total	NA	NA	97.27	1373.49

Source: Information furnished by the State Government

* Information as per State Finances Audit Report for the year ended 31 March 2022 published by the Office of the Principal Accountant General, Arunachal Pradesh

It is evident from **Table 5.4** that recovery of ₹1,373.49 crore was pending for more than five years. Clearance of arrears of such magnitude requires focused efforts by all Departments concerned and a push for coordination with other departments such as banks, police department and quasi-judicial/ judicial bodies involved in the process of recovery before expiry of the statutory time limit for such recovery.

5.1.3 Arrears in Assessments

Timely assessment is important for ensuring better tax compliance and increasing the collection efficiency. The details of the assessments made were called for from the department to assess whether there were any arrears in making the assessments. The Department furnished (August 2023) arrears of assessment in respect of 23 out of 28 STs for 2022-23 as detailed in **Table 5.5**.

Table 5.5: Details of arrear of assessments of revenue

Head of Revenue	Opening Balance	New cases due for assessment during 2022-23	Total assessments due	Cases disposed of during 2022-23		Balance at the end of the year
				Number	Percentage	
0040- Taxes on Sales, Trade etc.	446*§	4	450	4	0.89	446
0039- State Excise	7	4	11	4	36.36	7
0006-SGST	4	4	8	4	50.00	4
0040-VAT	73	24	97	16	16.49	81
Total	530	36[#]	566	28	4.95	538

Source: Data furnished by the State Government

*Information as per State Finances Audit Report for the year ended 31 March 2022 published by the Office of the Principal Accountant General, Arunachal Pradesh

§ Information received from 25 Superintendents out of 28 STs.

Information received from 23 Superintendents out of 28 STs.

As can be seen from **Table 5.5**, the Departments could complete the assessment of only 4.95 per cent of the cases leading to addition to the arrears. Since the assessments have to be completed within the timeframe stipulated in the tax laws, delays in completing assessments are fraught with the risk of foregoing revenue. Pendency in assessment may result in non/ short realisation of Government revenues and further accumulation in arrears of revenue.

5.1.4 Evasion of tax detected by the Department

The evasion of tax detected by the Tax, Excise & Narcotics Department, cases finalised and demands for additional tax raised are important indicators of revenue collection efforts of the State Government. Promptness in disposal of refund cases is an important indicator of the performance of the Department. High pendency of refund cases may indicate red tape, vested interest, prevalence of speed money, etc. Details of evasion of tax detected are given in **Table 5.6**.

Table 5.6: Details of evasion of Tax detected

(₹ in crore)

Head of Revenue	Cases pending as on 01 April 2022	Cases detected during 2022-23	Total	Number of cases in which assessment completed and additional demand raised		Number of cases pending for finalisation as on 31 March 2023
				Number	Amount	
1	2	3	4 (2+3)	5	6	7 (4-5)
0039- State Excise	01	03	04	0	0	04
0040-Taxes on Sales, Trade etc.	105*	0	105	0	0	105
0042-Taxes on Goods and Passengers	59	5	64	5	0.016	59
Total	165	8	173	05	0.016	168

Source: Information furnished by the State Government

*Information as per State Finances Audit Report for the year ended 31 March 2022 published by the Office of the Principal Accountant General, Arunachal Pradesh

The inability to complete the assessments in a timely manner, coupled with weak monitoring mechanism, contributed to delay in assessment of cases. During 2022-23, out of 173 cases, only five cases (2.89 per cent) were cleared leaving a pendency of 168 cases.

5.1.5 Pendency of Refund Cases

The pendency of refund cases furnished by the Tax, Excise & Narcotics Department is detailed in **Table 5.7**.

Table 5.7: Details of refund cases in 2022-23

Sl. No	Particulars	SGST		VAT	
		Number	Amount	Number	Amount
1.	Claims outstanding at the beginning of the year	135*	10.63	1	0.23
2.	Claims received during the year	8	1.65	1	1.56
3.	Refund made/ rejected during the year	5	0.20	0	0.00
4.	Balance outstanding at the end of year	138	12.48	2	1.79

Source: Information furnished by the State Government

* Information as per State Finances Audit Report for the year ended 31 March 2022 published by the Office of the Principal Accountant General, Arunachal Pradesh

It is evident from **Table 5.7** that the Department could not even clear the refund cases which got added during the current year, leading to addition to the arrears. The Department cleared five refund cases out of total 143 cases pending during 2022-23 leaving pendency of 138 cases.

5.1.6 Response of the Government/ Departments towards Audit

The Principal Accountant General, Arunachal Pradesh, conducts periodical inspection of Government Departments to test-check transactions and verify maintenance of important accounts and other records, as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during inspections and not settled on the spot, which are issued to the Heads of Offices inspected, with copies to the next higher authorities for taking prompt corrective action. Heads of Offices are required to take appropriate actions on the audit observations contained in the IRs, and report compliance to the Principal Accountant General, Arunachal Pradesh within one month from the date of issue of IRs. Serious financial irregularities are reported to the Heads of Departments and the Government.

Inspection Reports issued upto March 2023 disclosed that for Revenue Receipts 1,665 paragraphs involving ₹6,598.10 crore relating to 453 IRs remained outstanding at the end of March 2023 along with corresponding figures for the preceding years. The details are shown in **Table 5.8**.

Table 5.8: Details of pending Inspection Reports

Particulars	March 2019	March 2020	March 2021	March 2022	March 2023
Number of IR pending	379	400	414	434	453
Number of outstanding Audit Observations	1,332	1,456	1,526	1,607	1665
Total amount involved (₹ in crore)	6,307.87	6,348.86	6,414.14	6,489.63	6598.10

Source: Monthly Progress Report maintained by the Office of the Principal Accountant General, Arunachal Pradesh

Department-wise details of the IRs and audit observations outstanding as on 31 March 2023 and amounts involved are shown in **Table 5.9**.

Table 5.9: Department-wise details of IRs and Audit Observations

Sl. No.	Department	Nature of receipts	No of outstanding		Money value involved
			IRs	Audit Observations	
1.	Sales Tax	Taxes on Sales, Trade etc.	124	609	348.89
2.	Excise	State Excise	78	202	21.28
3.	Land Management	Land Revenue	42	189	5648.59
4.	Transport	Taxes on Motor Vehicle	65	249	54.60
5.	State Lottery	Lottery	06	21	187.62
6.	Geology & Mining	Non-ferrous Mining & Metallurgical Industries	28	79	159.55
7.	Environment & Forest & Wild Life	Forestry & Wild Life	110	316	177.57
Total			453	1665	6598.10

Source: Monthly Progress Report maintained by the Office of the Principal Accountant General, Arunachal Pradesh

Audit did not even receive first replies within one month from the date of issue of IRs from 19 Heads of Offices for 19 IRs issued during 2022-23. The large pendency of IRs due to the non-receipt of replies indicated that Heads of Offices and Departments did not initiate necessary actions to rectify the defects, omissions and irregularities pointed out in IRs.

Recommendation: *The Government may introduce an effective system for ensuring prompt and appropriate response to audit observations.*

5.1.7 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of settlement of IRs and Paragraphs in the IRs. However, no Departmental Audit Committee meeting for Revenue Sector was held during 2022-23. As can be seen from Para 5.1.6, there is large pendency of IRs. In view of this, the Government may ensure holding of regular Audit Committee meetings to expedite clearance and settlement of outstanding audit observations.

5.1.8 Response of Departments to Draft Audit Paragraphs

The Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller & Auditor General of India are forwarded by the Principal Accountant General, Arunachal Pradesh to the Principal Secretaries/ Secretaries of concerned Departments, drawing their attention to audit findings and requesting them to send responses within four weeks. The reply of the Department/ Government is incorporated in the respective paragraph.

5.1.9 Follow-up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the

PAC. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. 113 paragraphs (including two performance audits & two Subject Specific Compliance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Arunachal Pradesh for the years 2008-09 to 2020-22 were placed before the State Legislative Assembly between 03 September 2010 and 04 September 2023. The action taken explanatory notes from the concerned departments on these paragraphs were not furnished within the specified time.

As of March 2023, the PAC has discussed 53 selected paragraphs under Revenue Sector from three departments pertaining to the Audit Reports for the years from 2008-09 to 2016-17. Out of 53 paragraphs, 44 paragraphs were settled by the PAC and the remaining nine paragraphs were recommended for further examination.

5.1.10 Analysis of mechanism for dealing with issues raised by Audit

To analyse the system of addressing issues highlighted in Inspection Reports/ Audit Reports by the Department/ Government, action taken on Paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one department is evaluated and included in this Audit Report.

The succeeding paragraph 5.1.10.1 discusses the performance of the State Transport Department under revenue head 0041 and cases detected during the course of local audit during the years 2013-14 to 2022-23.

5.1.10.1 Position of Inspection Reports

The summarised position of the Inspection Reports issued during the last 10 years (2013-14 to 2022-23) to various offices under the administrative control of the State Transport Department as on 31 March 2023 is shown in **Table 5.10**.

Table: 5.10 Position of Inspection Reports

(₹ in lakh)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para	Money value	IRs	Para	Money value	IRs	Paras	Money value	IRs	Para	Money value
2013-14	39	105	750.23	0	0	0	0	0	0	39	105	750.23
2014-15	39	105	750.23	0	0	0	1	5	15.56	38	100	734.67
2015-16	38	100	734.67	3	16	164.88	0	0	0	41	116	899.55
2016-17	41	116	899.55	8	58	264.33	0	9	178.65	49	165	820.35
2017-18	49	165	820.35	1	11	3.60	0	0	0	50	176	823.95
2018-19	50	176	823.95	0	0	0	0	11	105.24	50	165	718.71
2019-20	50	165	718.71	6	42	907.89	0	0	0	56	207	1626.60
2020-21	56	207	1626.60	3	14	1389.64	1	2	0.03	58	219	3016.21
2021-22	58	219	3016.21	2	13	124.40	0	9	41.74	60	223	3098.87
2022-23	60	223	3098.87	5	32	2360.18	0	9	510.84	65	246	4948.21

Source: Monthly Progress Report maintained by the Office of the Principal Accountant General, Arunachal Pradesh

It is evident from the above table that against 39 outstanding IRs with 105 paragraphs at the beginning of 2013-14, the number of outstanding IRs remained at 65 with 246 paragraphs at the end of 2022-23.

5.1.10.2 Recovery of Accepted Cases

The position of Compliance Audit Paragraphs included in Audit Reports of the last 10 years, those accepted by the respective department and amounts recovered are mentioned in the following **Table 5.11**.

Table 5.11: Status of recovery from accepted Paragraphs in Audit Reports during the period from 2011-12 to 2020-22

Sl. No.	Year	No. of Paragraphs included	Money value of Paragraphs (₹ in crore)	Amount recovered during the year	Cumulative position of recovery of accepted cases as 31 March 2022
1.	2011-12	22	5.71	Nil	Nil
2.	2012-13	07	2.31	Nil	Nil
3.	2013-14	12	6.94	Nil	Nil
4.	2014-15	06	1.43	Nil	Nil
5.	2015-16	07	12.78	Nil	Nil
6.	2016-17	05	2.25	0.01	0.01
7.	2017-18	05	5.69	0.002	0.002
8.	2018-19	08	72.61	Nil	Nil
9.	2019-20	05	6.35	Nil	Nil
10.	2020-22	04	4.82	Nil	Nil
Total		81	120.89	0.012	0.012

Source: Report of the C&AG of India on Social, Economic, General and Revenue Sectors of the respective years.

From **Table 5.11** it can be seen that there were negligible recoveries even in accepted cases during the last 10 years. Recoveries of accepted cases were to be pursued as arrears recoverable from the concerned parties. No effective mechanism for pursuance of the accepted cases was put in place by the Department/ Government. Further, arrear cases, including accepted audit observations, were not available with the office of the Commissioner, Tax, Excise & Narcotics Department. In the absence of a suitable mechanism, the department could not monitor recoveries of accepted cases.

Recommendation: *The Department may take immediate action to pursue and monitor prompt recovery of dues involved in accepted cases.*

5.2 Audit Planning and Result of Audit

The Unit offices under various Departments are categorised into high, medium and low risk units, according to their revenue position, past trends of audit observations and other parameters. An Annual Audit Plan is prepared on the basis of risk analysis, which includes critical issues in Government Revenues and Tax Administration, i.e. Budget Speech, White paper on State Finance, Reports of the Finance Commission (Central and State), recommendation of the Taxation Reforms Committee, Statistical analysis of the revenue earnings, factors of the tax administration, audit coverage etc. During 2022-23, out of 178 auditable units, 30 units (16.85 per cent) were planned for audit under revenue sector and 19 units (10.67 per cent) were actually audited.

5.3 Coverage of this Chapter

This chapter contains one Subject Specific Compliance Audit (SSCA) report *viz.* ‘Department’s Oversight on GST Payments and Return Filing’.

Subject Specific Compliance Audit (SSCA)

Tax, Excise and Narcotics Department

5.4 Department’s Oversight on GST Payments and Returns Filing

5.4.1 Introduction

Introduction of Goods and Service Tax (GST) has replaced multiple taxes levied and collected by the Centre and States. GST, which came into effect from 01 July 2017, is a destination-based consumption tax on the supply of goods or services or both levied on every value addition. The Centre and States simultaneously levy GST on a common tax base. Central GST (CGST) and State GST (SGST)/Union Territory GST (UTGST) are levied on intra state supplies, and Integrated GST (IGST) is levied on inter-state supplies.

Section 59 of the Arunachal Pradesh GST (APGST) Act, 2017 stipulates GST as a self-assessment-based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has had no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the Act read with rule 99 of APGST Rules, 2017 stipulate that the proper officer may scrutinize the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Department of Tax, Excise and Narcotics, Government of Arunachal Pradesh in this new tax regime.

5.4.2 Audit Objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the Department with respect to tax compliance under GST regime. Audit of ‘Department’s oversight on GST Payments and Returns filing’ was taken up with the following audit objectives to seek an assurance on:

- i. Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- ii. Whether the scrutiny procedures, internal audit and other compliance functions of the Ranges were adequate and effective.

5.4.3 Audit methodology and Scope

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period July 2017 to March 2018. Through data analysis a set of 12 deviations were identified across the domains of input tax credit (ITC), discharge of tax liability, registration and returns filing. Such deviations were followed up through a **Centralised Audit** (Limited Audit)¹, whereby these deviations were communicated to the relevant State Departmental field formations (Ranges) and action taken by the jurisdictional formations on the identified deviations was ascertained without involving field visits. The centralised audit was supplemented by a **Detailed Audit** involving field visits for verification of records available with the jurisdictional field formations. Returns and related attachments and information were accessed through the back-end system of State tax Department i.e. GSTN-boweb (Back Office Web) as much as feasible to examine data/documents relating to taxpayers (*viz.*, registration, tax payment, returns and other Departmental functions). The detailed audit also involved accessing relevant granular records from the taxpayers such as invoices through the respective field formations. This apart, compliance functions of the Departmental formation such as scrutiny of returns were also reviewed in selected Ranges.

The review of the scrutiny of returns by the Department and verification of taxpayers' records covered the period from July 2017 to March 2018, while the audit of the functions of selected Range covered the period from 2017-18 to 2020-21. The SSCA covered only the State administered taxpayers. The field audit was conducted from August 2022 to November 2022.

Entry conference of this SSCA was held on 03 March 2022 with the Commissioner, Department of Tax, Excise and Narcotics, Government of Arunachal Pradesh along with the officers of the Department wherein the audit objectives, sample selection, audit scope and methodology were discussed. The Exit Conference was held on 01 May 2023 with the Commissioner, Department of Tax, Excise and Narcotics, Government of Arunachal Pradesh along with the officers of the Department in which the audit findings were discussed. Response of the Department was obtained and incorporated suitably in the relevant paragraphs.

5.4.4 Audit Sample

A data-driven approach was adopted for planning, as also to determine the nature and extent of substantive audit. The sample for this SSCA comprised a set of deviations identified through data analysis for centralised audit that did not involve field visits; a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayer's records at departmental premises; and a sample of Ranges for evaluating the compliance functions of the Ranges.

There were *three* distinct parts of this SSCA as under:

¹ Centralised Audit did not involve seeking taxpayer's granular records such as financial statements related ledger accounts, invoices, agreements etc.

(i) Part I- Audit of Ranges

Four Ranges²with jurisdiction over the selected sample of cases for Detailed Audit were considered as the sample of Range for evaluation of their oversight functions.

(ii) Part II–Centralised Audit

The sample for Centralised Audit was selected by identification of high-value or high-risk deviations from rules and inconsistencies between returns through data analysis for evaluation of the adequacy and effectiveness of the scrutiny procedure of the Department. Accordingly, 94 cases were selected for Centralised Audit under this SSCA.

(iii) Part III-Detailed audit

It was conducted by accessing taxpayers' records through Ranges for evaluation of the extent of tax compliance by taxpayers. The sample of taxpayers for Detailed Audit was selected on the basis of risk parameters such as Excess ITC, Tax Liability mismatch, Disproportionate exempted turnover to total turnover and Irregular ITC reversal. The 15 taxpayers selected for Detailed Audit comprised Large³, Medium⁴ and Small⁵ strata taxpayers as well as taxpayers selected randomly.

The details of sample for centralised audit, detailed audit and audit of Ranges selected for this SSCA are brought out in *Appendix-5.1*.

5.4.5 Audit Criteria

The source of audit criteria comprised the provisions contained in the APGST Act, IGST Act and Rules made thereunder. In addition, the notifications and circulars issued by state tax department relating to filing of returns, rates of tax on goods and services, payment of tax, availing and utilizing ITC, scrutiny of returns and oversight of tax compliance also formed part of the audit criteria.

5.4.6 Audit Findings

The audit findings are categorised into the following three categories:

- Oversight on Range functions– Audit of Ranges
- Centralised Audit (Limited Audit)
- Detailed Audit

5.4.6.1 Oversight on Range functions - Audit of Ranges

The role of Ranges is to provide oversight for ensuring compliance by taxpayers in respect of accuracy of the taxable value declared, calculation and payment of tax liabilities, filing of returns etc. For evaluating the functions of the Ranges, the audit areas include

(i) Action on non-filers (ii) Effectiveness of scrutiny and (iii) Cancellation of registration.

² Pasighat, Tawang, Zone-I Naharlagun, Zone-II Itanagar

³ First strata comprise large taxpayers – top 2.0 per cent of taxpayers based on turnover.

⁴ Second strata comprise medium taxpayers – next 8.0 per cent of taxpayers based on turnover.

⁵ Third strata comprise small taxpayers – remaining 90 per cent of taxpayers.

(i) Lack of action on non-filers

Section 46 of the APGST Act, 2017 read with Rule 68 of APGST Rules, 2017 stipulates issue of a notice in Form GSTR-3A requiring filing of return within fifteen days if the taxpayer had failed to file the return within the due date. Further, Section 62 of APGST Act, 2017 read with Rule 100 of APGST Rules, 2017 stipulates that in case the taxpayer fails to file the returns even after such notice, the proper officers may proceed to assess the tax liability of the said person to the best of their judgment, taking into account all the relevant material which is available or gathered and issue an assessment order in Form ASMT-13.

Filing of returns is related to payment of tax as the due date for both the actions are the same, which implies risk of non-payment of tax/penalty in the case of non-filers.

On independent examination of the MIS COMP 01 GSTR-3B -Non-filers report of SSOID on non-filers of returns and comparison with non-filers identified by the range offices, it is noticed that there were 1184 cases of GSTR 3B non-filers who have not filed returns ranging from 01 to 45 months during the period 2017-18 to 2020-21 as detailed in **Table 5.12**.

Table 5.12

Sl. No.	Range	No. of defaulters of GSTR 3B	Delay in months	
			Minimum	Maximum
1.	Pasighat	120	1	45
2.	Tawang	38	2	45
3.	Zone-I	478	1	45
4.	Zone-II	548	1	45
Total		1184	1	45

Source: GST portal

None of the ranges have taken any cognizance of the defaulters. On enquiry about the system followed to identify the cases, the range officers revealed that during years 2017-18 to 2020-21 no system was followed for the detection of defaulters of GSTR-3Bs and as a result no GSTR-3A was served to the defaulters and no action was initiated to assess the tax liabilities of the defaulters on best judgement basis.

The Department stated (May 2023) that it will look into the matter and take necessary corrective measures to address the issue.

(ii) Effectiveness of scrutiny

As per Section 61 of the APGST Act, 2017, various returns filed by taxpayers have to be scrutinised by the proper officer to verify the correctness of the returns, and suitable action should be taken on any discrepancies or inconsistencies reflected in the returns. The Proper officer designated for this purpose is the Range officer.

Further, Rule 99 of APGST Rules, 2017, envisages procedure for scrutiny of returns which included issuance of notices by the proper officer for intimating discrepancies in Form GST ASMT-10, wherever required, reply of taxpayer in ASMT-11, order of acceptance in ASMT-12 and initiation of action under Sections 73/74.

From the information obtained from the four range officers, it was noticed that only one range officer i.e. Superintendent of Tax, Excise and Narcotics, Zone-I had conducted scrutiny of only 15 returns during the period 2017-18 to 2020-21. Further, it was also noticed that the range office recovered revenue of ₹1.15 crore from a taxpayer pertaining to the year 2019-20 & 2020-21 as detailed in **Table 5.13**.

Table 5.13: Details of scrutiny of returns

Year	Scrutiny of returns					
	Number of Taxpayers whose returns were scrutinised	Number of returns scrutinised	Number of repeated Taxpayers	Number of cases where ASMT-10 were issued	Cases where discrepancy accepted by Taxpayer	
					Number	Amount recovered (₹ in crore)
2017-18	NIL	NIL	NIL	41 ⁶	NIL	0
2018-19	3	3	NIL	1	NIL	0
2019-20	3	3	NIL	2	1	0.98
2020-21	9	9	NIL	3	1	0.17

Source: GST Portal & Range records

However, the remaining three range officers did not conduct any scrutiny of the returns during this period. No reasons were found on record for conducting scrutiny of such few returns or for non-conducting of scrutiny of returns despite having access to the MIS reports from the GST portal. In the absence of scrutiny of taxpayers by the range officers, possibility of non-detection of tax evaders and incorrect returns cannot be ruled out.

The Department stated (May 2023) that the Range Officers have not been able to carry out scrutiny of the returns mainly due to lack of proficiency in the Back Office system. It was also stated that the department had recently organised training for the staff and the position would improve in the near future.

Recommendations:

The Department may-

- *strengthen the monitoring mechanism in Ranges to detect non-filers of returns and ensure timely action against defaulters.*
- *ensure the scrutiny of returns in a time bound manner before the cases become time barred.*

(iii) Cancellation of registration

Delay in cancellations

Section 29 of the APGST Act, 2017, read with Rule 20 of the APGST Rules, 2017 allows for cancellation of registration by the taxpayer in certain situations like closure of business, turnover falling below threshold for registration, transfer of business/merger/amalgamation,

⁶ All the 41 ASMT-10 were issued by the Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun in respect of refund cases and transitional credit cases pointed out by audit during the year 2017-18.

change of PAN, non-commencement of business within the stipulated time-period and death of the proprietor. The taxpayer applying for cancellation of registration should apply in REG-16 on the GST common portal within a period of 30 days of the occurrence of the event warranting the cancellation.

Section 29(2) of the APGST Act, 2017 allows for *suo moto* cancellation of the registration of taxpayer by tax officer on the grounds of contravention of the Acts or Rules by the taxpayer, composition taxpayers not filing return for three consecutive tax periods, normal taxpayers not filing return for continuous period of six months, registered persons not commencing business within six months from date of registration and registration obtained by means of fraud, wilful misstatement or suppression of facts.

As per Rule 22 of the APGST Rules, 2017 the cancellation order in form REG-19 has to be issued within 30 days from the date of application (taxpayers request) or date of reply to REG-17 in case of *suo moto* cancellation.

i) From the data obtained from GSTN MIS report 1.18 - List of Suo Moto Cancellation and Cancellation on Application in respect of the four ranges it was noticed that out of total 416 cases of cancellation on taxpayers request in 241 cases the cancellations were delayed ranging from 31 to 681 days from date of application. Further, out of 1,417 cases of *suo-moto* cancellation in the range it was noticed that in 873 cases the cancellations were delayed ranging from 30 to 755 days from date of initiation of notice (date of receipt of reply to REG-17 is not reflected in the report). The details of delay in cancellation of registration are detailed in **Table 5.14**.

Table 5.14: Delay in cancellation

Range	<i>Suo motu</i> cancellation			Cancellation on taxpayer's request		
	Total No cancellations	No. of cases of delay in cancellation	Range of delay (in days)	Total No cancellations	No. of cases of delay in cancellation	Range of delay (in days)
Pasighat	112	81	39 to 406	59	42	31 to 681
Tawang	23	4	47 to 208	23	9	39 to 466
Zone-I	742	439	30 to 410	180	139	31 to 473
Zone-II	540	349	33 to 755	154	51	33 to 537
Total	1417	873	30 to 755	416	241	31 to 681

Delay in cancellation of registrations is fraught with the risk of filing of GSTR-1 (for outward supplies) to facilitate other party to claim ITC and non-filing of corresponding GSTR-3B (relating to sales) to evade tax liability by the taxpayers. Some such cases were noticed in the four ranges as detailed in **Table 5.15**.

Table 5.15: Filing of returns after cancellation

Range	No. of taxpayers filing GSTR-1 after cancellation	No. of taxpayers filing GSTR-3B after cancellation
Pasighat	12	12
Tawang	0	1
Zone-I	16	13
Zone-II	6	6

The matter was intimated to the Department in October 2022 and November 2022. The Department replied (May 2023) that during 2017-18 and the early years of GST the system was still in the nascent stage and the system has many technical/connectivity issues. However, now the system is being streamlined.

ii) Further, from the report generated from GSTN portal vide SSOID it was also noticed that the four range offices had taken suo-moto cognizance in 1417 cases for cancellation and 416 cases on request of taxpayers during 2017-18 to 2020-21 as detailed below. The details of suo moto cancellation and cancellation on taxpayers request is also furnished in **Table 5.16**.

Table 5.16: Details of cancellation

Sl. No.	Range	Cancellation as per MIS report			Cancellation data furnished by the Range Officer			Show cause notice issued cases ⁷	Cancellation order REG-19 issued cases
		Suo motu cancellation	Cancellation on taxpayer's application	Total	Suo motu cancellation	Cancellation on taxpayer's application	Total		
1	Pasighat	112	59	171	Data not furnished	Data not furnished	Data not furnished	6	NIL
2	Tawang	23	23	46	Data not furnished	Data not furnished	Data not furnished	0	NIL
3	Zone-I	742	180	922	94	156	250	12	NIL
4	Zone-II	540	154	694	1075	153	1228	19	NIL
Total		1417	416	1833	1169	309	1478	37	NIL

Source: GST Portal

Table 5.16 indicates that:

- Two of the range officers, namely i) Superintendent of Tax, Excise and Narcotics, Pasighat & ii) Superintendent of Tax, Excise and Narcotics, Tawang did not furnish the details of cancellation.
- There was a huge variation⁸ between the cancellation data obtained from the GSTN portal by Audit and the data furnished by the range officers.
- Out of total 416 cases of cancellation requests received from taxpayers by the range officers REG-17 was issued in only 37 cases.
- The range officers did not produce any copies/details of the REG-19 cancellation orders.

The Department stated (May 2023) that many of the issues pointed out by audit are due to problem in the GST application. It further stated that the matter will be looked into and necessary corrective action will be taken.

⁷ The show cause notice issued cases pertains to Cancellation on taxpayer's application.

⁸

Range	Variation between MIS data and Range record	
	Suo-moto cancellation	Cancellation on taxpayer's application
Zone-I	648	24
Zone-II	(-)535	1

Cancellation of registration from dates prior to the application date

Rule 20 of the APGST Rules, 2017 provides that the taxpayer applying for cancellation of registration shall submit the application in FORM GST REG-16 on the common portal within a period of 30 days of the “occurrence of the event warranting the cancellation”. The circular also specifies that the order for cancellation should be issued in FORM GST REG-19 with the effective date of cancellation being the same as the date from which the applicant has sought cancellation in FORM GST REG-16. In any case the effective date should not be a date earlier than the date of application for the same.

Audit scrutiny of the data obtained from GSTN MIS report 1.18 - List of Suo Moto Cancellation and Cancellation on Application in respect of the four Range Offices revealed that out of total 416 cases of cancellation at taxpayers’ request, in 198 cases the Range had cancelled registrations with effect from dates prior to the application dates which ranged between 01 to 1128 days. In all 198 cases the date of cancellation was based on the requested date of the taxpayer which was prior to the date of application. The details are given in ***Appendix-5.2***.

The cases were reported to the Department in October 2022 and November 2022. The Department replied (May 2023) that the matter will be looked into and if required, corrective measures would be taken.

Non-furnishing of details of REG-20

Rule 22(1) of the APGST Rules, 2017 stipulates that where the proper officer has reasons to believe that the registration of a person is liable to be cancelled under Section 29, he shall issue a notice to such person in FORM GST REG-17, requiring him to show cause, within a period of seven working days from the date of the service of such notice, as to why his registration shall not be cancelled. Sub-section (2) further states that reply to the show cause notice issued under sub-rule (1) shall be furnished in FORM REG-18 within the period specified in the said sub-rule. Also, as per sub-section (4) where the reply furnished under sub-rule (2) is found to be satisfactory, the proper officer shall drop the proceedings and pass an order in FORM GST REG-20.

From the GSTN MIS report 1.18 - List of *Suo Motu* Cancellation and Cancellation on Application it is seen that the four Range Offices had taken suo-moto cognizance in 1417 cases for cancellation. However, when Audit test-checked the status of 235 of these 1417 taxpayers from GST Portal it was noticed that 57 were active as on date (*i.e.* filing returns). This suggests that in 57 cases proceedings were dropped on the basis of the response from the taxpayer. But as none of the range officers furnished any details of the replies of taxpayers to REG-17 nor produced REG-20s issued by them hence in the absence of any details it was not possible to check due diligence exercised by the Range officers for dropping the proceedings. The details are in **Table 5.17**.

Table 5.17: Details of cancelled taxpayers who were filing returns

Range	Total No of <i>suo motu</i> cancellation	No. of taxpayers whose status test-checked	No. of taxpayers who were active and filing returns
Pasighat	112	112	21
Tawang	23	23	4
Zone-I	742	50	10
Zone-II	540	50	22
Total	1417	235	57

Source: GST Portal

The matter was intimated to the Department in October 2022 and November 2022. The Department replied (May 2023) that in case of *suo-moto* cancellation by the system the REG-20 is also generated by the system which cannot be retrieved by the user.

Non-conducting follow-up action on non-filing of GSTR -10

Section 45 of the APGST Act, 2017 read with Rule 81 of APGST Rules, 2017 stipulates that any person whose registration was cancelled should file final return in form GSTR-10 within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The last date for furnishing of GSTR-10 by those taxpayers whose registration has been cancelled on or before 30.09.2018 was extended till 31.12.2018 vide notification No. 45/2018–State Tax dated the 26th October, 2018.

Section 46 of the APGST Act read with rule 68 of the APGST Rules, 2017 requires issuance of a notice in FORM GSTR-3A to a registered person who fails to furnish return under section 39 or section 44 or section 45. If the taxpayer still fails to file the final return within 15 days of the receipt of notice, then an assessment order in form ASMT-13 under Section 62 of the APGST Act read with Rule 100 of the APGST Rules shall have to be issued to determine the liability of the taxpayer under sub-section (5) of Section 29 (i.e., debit ITC equivalent to inputs, and inputs contained in semi-finished and finished goods held in stock or capital goods or the output tax payable on such goods whichever is higher). If the taxpayer files the final return within 30 days from the issue of order ASMT-13, then the said order shall be deemed to have been withdrawn. However, the liability for payment of interest and late fee shall continue.

Out of 1417 *suo motu* cancellations during 2017-18 to 2020-21, it was noticed that only in 17 cases was GSTR 10 filed and out of 416 cases of cancellations on taxpayer's request, only in 41 cases GSTR 10 was filed. The details are shown in **Table 5.18**.

Table 5.18: Details of GSTR 10 filed by cancelled taxpayers

Range	<i>Suo motu</i> cancellation		Cancellation on taxpayer's request	
	Total no of cancellation order issued	No. of GSTR 10 filed	Total no of cancellation order issued	No. of GSTR 10 filed
Pasighat	112	1	59	11
Tawang	23	1	23	4
Zone-I	742	5	177	6
Zone-II	540	10	154	20
Total	1417	17	416	41

Source: GST Portal

It was informed by the Range officers that there were no information/reports available with them to track the filing of GSTR -10. In the absence of such a mechanism, no recovery proceedings were initiated by the four ranges.

The Department stated (May 2023) that the matter will be looked into and necessary corrective measures will be taken under intimation to audit.

Recommendation: The Department may monitor the status of cancellation of registrations and action taken thereon in consonance with the provisions of the Act and Rules utilising the Management Information System (MIS) of the GST portal.

5.4.7 Inconsistencies in GST returns - Centralised audit

Audit analysed GST returns data pertaining to 2017-18 as made available by GSTN. Rule-based deviations, and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 12 parameters, which can be broadly categorized into two domains - ITC and Tax payments.

Out of the 12 prescribed GST returns,⁹ the following basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data:

- GSTR-1: monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-3B: monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR-6: monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.
- GSTR-8: monthly return to be filed by the e-commerce operators who are required to deduct TCS (Tax collected at source) under GST, introduced in October 2018.
- GSTR-9: annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source/Tax Collector at Source, Casual Taxable Person and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- GSTR-9C: annual audit form for all taxpayers having a turnover above ₹5 crores in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.

⁹ GSTR-1, GSTR-3B, GSTR-4 (taxpayers under the Composition scheme), GSTR-5 (non-resident taxable person), GSTR-5A (Non-resident OIDAR service providers), GSTR-6 (Input service distributor), GSTR-7 (taxpayers deducting TDS), GSTR-8 (E-commerce operator), GSTR-9 (Annual Return), GSTR-10 (Final return), GSTR-11 (person having UIN and claiming a refund), CMP-08, and ITC-04 (Statement to be filed by a principal/job-worker about details of goods sent to/received from a job-worker).

- GSTR-2A: a system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1 / 5, ISD details from GSTR-6, details from GSTR-7 and GSTR- 8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

5.4.7.1 Audit findings based on Data Analysis

The data analysis pertaining to Arunachal Pradesh on the 12 identified parameters and extent of deviations/inconsistencies observed are summarised in **Table 5.19**.

Table 5.19: Summary of data analysis and extent of mismatches (centralised audit)

Sl No	Parameter	Algorithms used	Number of deviations/ mismatches	Amount of deviation/ mismatches (₹ in crore)
1.	Short payment of interest on delayed payments	Interest calculated at the rate of 18 <i>per cent</i> on cash portion of tax payment on delayed filing of GSTR- 3B vis-a-vis interest paid in GSTR-3B Table 6.1.	10	8.66
2.	Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)	Positive figure in GSTR-9C Table 12F.	10	0.80
3.	ISD credit incorrectly availed by the recipients	ISD received in GSTR-9 Table 6G or GSTR-3B Table 4(A) (4) of the recipients was compared with ITC transferred in GSTR-6 of the distributor.	4	0.02
4.	Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available	Taxpayers who had not filed GSTR-3B but filed GSTR-1 or where GSTR-2A available, indicating taxpayers had carried the business without discharging tax.	2	0.03
5.	Mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C)	Negative figure in GSTR-9C Table 9R.	10	12.76
6.	Mismatch in availing of ITC under Reverse Charge Mechanism ¹⁰ (RCM)	RCM liability declared in GSTR-9 Table 4G was compared with ITC availed in GSTR-9 Table (6C+6D+6F). In cases where GSTR-9 was not available, RCM liability in GSTR-3B Table 3.1(d) was compared with GSTR-3B Table {4(A)(2) + 4(A)(3)}.	9	0.49
7.	Mismatch in availing of ITC under RCM without payment	In cases where GSTR-9 was filed, the RCM payments in Table 4G were compared with ITC availed in Table 6C, 6D and 6F. In cases where GSTR-9 was not available, RCM payments in GSTR-3B Table 3.1(d) were compared with GSTR-3B 4(A)(2) and 4A(3).	5	0.002

¹⁰ In Reverse Charge Mechanism the liability to pay tax is fixed on the recipient of supply of goods or services or both instead of the supplier or provider for certain notified categories of goods or services or both

Sl No	Parameter	Algorithms used	Number of deviations/ mismatches	Amount of deviation/ mismatches (₹ in crore)
8.	Mismatch in taxable turnover between annual return and financial Statements (Table 7G of GSTR-9C)	Negative figure in GSTR-9C Table 7G.	4	6.41
9.	Mismatch in availing of ITC	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B {Table 4A(5)} (accrued on domestic supplies) considering the reversal in Table 4(B)(2) but including the ITC availed in subsequent year 2018-19 from Table 8(C) of GSTR-9.	10	4.15
10.	Mismatch in turnover between annual return and financial statements (Table 5R of GSTR-9C)	Negative figure in GSTR-9C Table 5R.	10	208.64
11.	Unsettled liabilities	Greater of tax liability between GSTR1 (Table 4 to 11) and GSTR-9 (Table 4N, 10 & 11) was compared with tax paid details declared in Tables 9 and 14 of GSTR-9. In cases where GSTR-9 was not available, tax paid details declared in Table 3.1(a) ¹¹ and 3.1(b) ¹² in GSTR-3B were compared with GSTR-1 liability. The amendments and advance adjustments declared in GSTR-1 and GSTR-9 were duly considered.	10	32.01
12.	Reconciliation between ITC declared in annual return with expenses and in financial statement (Table 14T of GSTR-9C)	Positive figure in GSTR-9C Table 14T.	10	69.97
Total			94	343.94

5.4.7.2 Summary of deficiencies noticed during Centralized audit

Non-submission of reply by the department

Audit selected a sample of 94 cases from amongst the top deviations /inconsistencies in each of the 12 parameters for the year 2017-2018. The audit queries were issued to the respective Ranges between April 2022 to November 2022 without further scrutiny of taxpayer's records. The audit check in these cases was limited to verifying the Department's action on the identified deviations/mismatches.

Out of 94 inconsistencies, initial responses of 29 inconsistencies were yet to be received (May 2023) involving mismatch amounting to ₹26.28 crore¹³ as detailed in **Table 5.20**.

¹¹ Outward taxable supplies (other than zero-rated, nil rated and exempted)

¹² Outward taxable supplies (zero-rated)

¹³ The mismatch amount is inclusive of unreconciled turnover (TO) in table 5R of GSTR 9C in one case of ₹3.55 crore and unreconciled taxable turnover (TTO) in table 7G of GSTR 9C in two cases totaling ₹4.45 crore.

Table 5.20: Reply not received

(₹ in crore)

Audit Dimension	Sample		Department Reply not received		Percentage	
	Number	Amount of mismatch	Number	Amount	Number	Amount
1	2	3	4	5	6	7
Short payment of interest on delayed payments	10	8.66	3	6.25	30.00	72.17
Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)	10	0.80	4	0.30	40.00	37.50
ISD credit incorrectly availed by the recipients	4	0.02	4	0.02	100.00	100.00
Cases where GSTR-3B not filed but GSTR1 or GSTR-2A available	2	0.0258	1	0.0002	50.00	0.78
Mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C)	10	12.76	1	2.97	10.00	23.28
Mismatch in availing of ITC under Reverse Charge Mechanism (RCM)	9	0.49	3	0.02	33.33	4.08
Mismatch in availing of ITC under RCM without payment	5	0.002	2	0.00001	40.00	0.50
Mismatch in taxable turnover between annual return and financial Statements (Table 7G of GSTR-9C)	4	6.41	2	4.45	50.00	69.42
Mismatch in availing of ITC	10	4.15	4	1.75	40.00	42.17
Mismatch in turnover between annual return and financial statements (Table 5R of GSTR-9C)	10	208.64	1	3.55	10.00	1.70
Unsettled liabilities	10	32.01	4	6.97	40.00	21.77
Reconciliation between ITC declared in annual return with expenses and in financial statement (Table 14T of GSTR-9C)	10	69.97	0	0.00	-	-
Total	94	343.94	29	26.28	30.85	7.64

Considering the overall rate of conversion of inconsistencies into compliance deviations as brought out in the next paragraph, the Department is required to expedite verification of these cases as a priority. Details of these cases are listed in *Appendix-5.3*.

Table 5.21: Top ten cases in terms of money value where response is yet to be received

Sl. No	GSTIN	Name of the taxpayer	Jurisdiction Range	Mismatch amount (₹ in crore)
1	12AAACM9786A1ZM	M.G.Contractors Private Limited	Khonsa	6.00
2	12ATTPD0313P1ZQ	Brand Eagles	Tawang	5.61
3	12AKNPB9493R1ZD	M/s KangkimBorang	Pasighat	3.55 ¹⁴
4	12AAGCS4032F1ZV	Shree Gautam Construction Co. Limited	-do-	3.55 ¹⁵
5	12AACFB3337K1ZT	M/s Badri Rai & Company	Khonsa	0.91 ¹⁶
6	12ADEPT9187E2ZA	Reniya Enterprises	Zone-II, Itanagar	0.52

¹⁴ Taxable Turnover in Table 7G of GSTR-9C¹⁵ Turnover in Table 5R of GSTR-9C¹⁶ Taxable Turnover in Table 7G of GSTR-9C

Sl. No	GSTIN	Name of the taxpayer	Jurisdiction Range	Mismatch amount (₹ in crore)
7	12AFQPT2028E1ZL	M/s Taro Tagia Construction	-do-	0.51
8	12AADCC8088Q1Z3	M/s Chennai Network Infrastructure Limited	-do-	0.50
9	12CRPPM4207D1Z3	M/s Darang Enterprise	Pasighat	0.48
10	12AACCB3413B1ZP	M/s Bhartia Infra Project Limited	-do-	0.39

Recommendation: The Department may urgently pursue the inconsistencies and deviations pointed out by Audit, for which responses have not been provided and intimate the results to Audit.

5.4.7.3 Result of Centralised audit

Based on responses received from the Department to the Audit Queries, the extent to which each of the 12 parameters translated into compliance deviations is summarised in **Table 5.22**.

Table 5.22: Summary of deficiencies (Centralised audit)

(₹ in crore)

Audit Dimension	Cases where reply received		Department reply accepted by Audit		Compliance deviations							
	No.	Amt.	No.	Amt.	Recovery made or SCN issued		ASMT-10/ Notice/ DRC-01A issued		Department's reply not acceptable to Audit (Rebuttal)		Total	
					No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1	2	3	4	5	6	7	8	9	10	11	12	13
Short payment of interest on delayed payments	7	2.41	0	0.00	0	0.00	6 ¹⁷	2.33	1	0.08	7	2.41
Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)	6	0.50	2	0.28	0	0.00	1	0.05	3	0.17	4	0.22
ISD credit incorrectly availed by the recipients	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available	1	0.0256	0	0.00	0	0.00	1	0.0256	0	0.00	1	0.0256
Mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C)	9	9.79	3	0.66	1	7.88	5	1.25	0	0.00	6	9.13
Mismatch in availing of ITC under Reverse Charge Mechanism (RCM)	6	0.47	1	0.30	0	0.00	3	0.16	2	0.01	5	0.17

¹⁷ Out of the six cases, one case amounting to ₹0.97 crore is under investigation by the Director General of GST Intelligence (DGGI), Guwahati and another case amounting ₹0.20 crore is under recovery by the Department.

Audit Dimension	Cases where reply received		Department reply accepted by Audit		Compliance deviations							
					Recovery made or SCN issued		ASMT-10/ Notice/ DRC-01A issued		Department's reply not acceptable to Audit (Rebuttal)		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Mismatch in availing of ITC under RCM without payment	3	0.002	0	0.00	0	0.00	3	0.002	0	0.00	3	0.002
Mismatch in taxable turnover between annual return and financial Statements (Table 7G of GSTR-9C)	2	- ¹⁸	0	0.00	0	0.00	1	-	1	-	2	-
Mismatch in availing of ITC	6	2.40	0	0.00	0	0.00	4	1.86	2	0.54	6	2.40
Mismatch in turnover between annual return and financial statements (Table 5R of GSTR-9C)	9	- ¹⁹	3	-	0	0.00	5	-	1	-	6	-
Unsettled liabilities	6	25.04	2	21.78	0	0.00	3	2.70	1	0.56	4	3.26
Reconciliation between ITC declared in annual return with expenses and in financial statement (Table 14T of GSTR-9C)	10	69.97	6	59.89	0	0.00	4	10.08	0	0.00	4	10.08
Total	65	110.61	17²⁰	82.91	1	7.88²¹	36²²	18.46	11	1.36	48	27.70

¹⁸ Total unreconciled taxable turnover (TTO) in table 7G of GSTR-9C in the four cases is ₹6.41 crore out of which Department's reply in respect of mismatched TTO of ₹1.95 crore in two cases is received and in both cases compliance deviations have been observed.

¹⁹ Total unreconciled turnover (TO) in table 5R of GSTR-9C in the 10 cases is ₹208.64 crore out of which Department's reply in respect of mismatched TO of ₹205.09 crore in nine cases is received, in three cases involving mismatched TO of ₹27.03 crore, valid explanations were provided by the Department and the compliance deviations in the remaining six cases involving mismatches of ₹178.06 crore have been observed.

²⁰ All of the 17 cases amounting to ₹82.91 crore accepted by audit based on other valid explanation given by Department.

²¹ Recovery of ₹7.88 crore deposited vide DRC-03 on 17/09/2022 pertains to interest on late payment of tax of ₹21.22 crore under the dimension mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C).

²² Out of 36 cases, the Department issued notices in four cases for ₹1.33 crore, issued notice conveying discrepancies to the taxpayer in Form ASMT-10 in 32 cases for ₹17.13 crore

Summary of Central Audit

Audit noticed deviations from the provisions of the APGST Act in 65 cases (Column No. 2) involving a short levy/mis-match of ₹110.61 crore (Column No. 3), constituting 69.15 per cent of the 94 inconsistencies/mis-matches in data, for which the Department provided responses. The Department has accepted the audit observations or initiated action in 37 cases (Column Nos. 6 and 8) with monetary effect of ₹26.34 crore (Column Nos. 7 and 9). Out of these cases the Department has recovered ₹7.88 crore in one case, issued notices in four cases for ₹1.33 crore, issued notice conveying discrepancies to the taxpayer in Form ASMT-10 in 32 cases for ₹17.13 crore.

In 17 cases (Column No. 4), constituting 18.09 per cent, where the Department's reply was acceptable to Audit and had valid explanations.

In the remaining 11 cases (Column No. 10) of ₹1.36 crore (Column No. 11), constituting 11.70 per cent, the Department's reply was not acceptable to audit. Out of these 11 cases, in six cases amounting to ₹0.97 crore audit called for additional reply from the Department and in remaining five cases, audit recommended for recovery amounting to ₹0.39 crore.

Table 5.23: Top case for each dimension of Centralized audit (for compliance deviation pertaining to cases of recovery, ASMT-10, SCN issued and under correspondence with Department/taxpayer)

Sl. No.	Dimension	GSTIN	Name of the taxpayer	Jurisdictional range	Mismatch (₹in crore)	Action taken
1	Short payment of interest on delayed payments	12AACCT8781G1Z8	M/S T.K. Engineering Consortium Private Limited	Zone-I	0.97	Result of investigation of DGGI, Guwahati is awaited from the Department.
2	Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)	12AAACM9786A1ZM	M.G.Contractors Private Limited	Khonsa	0.15	Reply sought from the Department.
3	ISD credit incorrectly availed by the recipients	12AAJCS4414Q1Z3	Techno Electric & Engineering Company Limited	Bhalukpong	0.009	Reply sought from the Department.
4	Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available	12AZGPD8594F1ZD	Tamar Doyom and Brothers	Daporijo	0.0256	Notice issued by the Department
5	Mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C)	12AAPCS2430L1ZB	Sky One Airways Private Limited	Zone-I	0.58	ASMT-10 issued by the Department

Sl. No.	Dimension	GSTIN	Name of the taxpayer	Jurisdictional range	Mismatch (₹in crore)	Action taken
6	Mismatch in availing of ITC under Reverse Charge Mechanism (RCM)	12BCHPM5663D1ZT	Landmarks	Namsai	0.15	ASMT-10 issued by the Department
7	Mismatch in availing of ITC under RCM without payment	12BNUPG4859H1ZN	M/s T.T. Enterprises	Zone-I	0.002	ASMT-10 issued by the Department
8	Mismatch in taxable turnover between annual return and financial Statements (Table 7G of GSTR-9C)	12BFJPG4525B1Z4	Arunachal Ayush Agency	Zone-I	1.92	ASMT-10 issued by the Department
9	Mismatch in availing of ITC	12AAACN7396R1ZS	M/s Navayuga Engineering Co. Ltd.	Tezu	0.74	Notice issued by the Department
10	Mismatch in turnover between annual return and financial statements (Table 5R of GSTR-9C)	12ADCPM4505H1Z2	Jugal Kishore Mahanta	Likabali	94.93	Additional reply sought from the Department
11	Unsettled liabilities	12AACCS8560Q1ZV	Sushee Infra & Mining Ltd	Zone-I	21.22	ASMT-10 issued by the Department
12	Reconciliation between ITC declared in annual return with expenses and in financial statement (Table 14T of GSTR-9C)	12ACNPH3544D1Z1	Surya Enterprises	Zone-I	2.96	ASMT-10 issued by the Department

Illustrative cases resulting from centralized audit are given below:

Dimension - Short payment of interest on delayed payments

Section 50 of APGST Act, 2017, stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made thereunder but fails to pay the tax or any part thereof to the Government within the period prescribed should, for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during 2017-18 was identified using the tax paid details in GSTR-3B and the date of filing of the GSTR-3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

Audit observed that in case of taxpayer, M/s T.K. Engineering Consortium Private Limited having GSTIN 12AACCT8781G1Z8 under Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun, the GSTR-3B return pertaining to the month of March 2018 involving tax liability amounting to ₹3.27 crore, was filed with delay. This resulted in short payment of interest amounting to ₹0.97 crore which was communicated (May 2022) to the

Department. The Department forwarded the reply of the taxpayer in September 2022 who stated that he was already under investigation by the Director General of GST Intelligence (DGGI), Guwahati for the period 2017-18 including the matter of non-payment of interest. The Department stated (May 2023) that as the taxpayer is under investigation and all the records are with the DGGI, Guwahati hence the matter will be taken up with the DGGI for records.

Dimension - Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)

Table 12F of GSTR-9C reconciles ITC declared in annual return (GSTR-9) with ITC availed as per audited annual financial statement/ books of accounts.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of APGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the annual return with the financial statements.

Unreconciled ITC of ₹0.15 crore declared in Table 12F of GSTR-9C, being ITC availed in GST returns mismatching with eligible ITC based on financial statements, in case of M.G. Contractors Private Limited having GSTIN 12AAACM9786A1ZM under Superintendent of Tax, Excise and Narcotics, Khonsawas noticed and communicated to the Department (May 2022). Reminder was also issued to the Department. Further progress in this regard was awaited (October 2023).

Dimension - ISD credit incorrectly availed by the recipients

To analyse whether the ITC availed by the taxpayer is in excess of the amount transferred by the Input Service Distributor (ISD), ITC availed as declared in the returns of the taxpayer is compared with the ITC transferred by the ISD in their GSTR-6. The methodology adopted was to compare Table 6G²³ of GSTR-9 or Table 4A(4)²⁴ of GSTR-3B of the recipient taxpayers under the jurisdiction of this State with the sum of Table 5A²⁵, Table 8A²⁶, and Table 9A²⁷ of GSTR-6 of the respective ISD.

In case of taxpayer Techno Electric & Engineering Company Limited having GSTIN 12AAJCS4414Q1Z3 under Superintendent of Tax, Excise and Narcotics, Bhalukpong audit observed that the ITC availed in table 6G of GSTR-9 was ₹0.021 crore and the ITC transferred by the ISD in table (5A+8A+9A) of GSTR-6 was ₹0.012 crore. This resulted in excess availment of ITC transferred by the ISD amounting to ₹0.009 crore, which was communicated to the Department (June 2022). Further progress in this regard was awaited (October 2023).

²³ ITC received from ISD

²⁴ Inward supplies from ISD

²⁵ Distribution of the amounts of eligible ITC for the tax period

²⁶ Mismatch of ITC reclaimed and distributed

²⁷ Redistribution of ITC distributed to a wrong recipient

Dimension - Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available

At the data level, Audit attempted to identify those taxpayers who have not filed GSTR-3B but have filed GSTR-1 or whose GSTR-2A was available. GSTR-3B return is the only instrument through which the liability is offset, and ITC is availed. The very availability of GSTR-1 and 2A and non-filing of GSTR-3B indicates that the taxpayers had undertaken/ carried on the business during the period but have not discharged their tax liability.

Audit observed that in case of taxpayer Tamar Doyom and Brothers having GSTIN 12AZGPD8594F1ZD under Superintendent of Tax, Excise and Narcotics, Daporijo, the returns (GSTR-3B) pertaining to 2017-2018 involved tax liability amounting to ₹0.0256 crore were not filed by the taxpayer. This resulted in non-discharge of liability of ₹0.0256 crore, which was communicated (May 2022) to the Department. In response, the Department stated (August 2022) that notice has been issued to taxpayer. Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in tax paid between books of accounts and annual return (Table 9R of GSTR-9C)

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of APGST Rules, 2017, in Form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in tax paid between the annual return (GSTR-9) and the books of accounts. Table 9 of the GSTR-9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return. The unreconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or *vice versa* or incorrect levy of CGST/SGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) for the transactions of 2017-18 carried out in the subsequent year during the period from April to September 2018.

Unreconciled payment of tax declared in Table 9R of GSTR-9C, amounting to ₹0.58 crore in case of the taxpayer Sky One Airways Private Limited having GSTIN 12AAPCS2430L1ZB under Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun was communicated to the Department (May 2022). In response, the Department stated (August 2022) that ASMT-10 has been issued. Reminder was also issued to the Department. Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in availing of ITC under Reverse Charge Mechanism

In reverse charge mechanism (RCM), the liability to pay tax is fixed on the recipient of supply of goods or services instead of the supplier or provider in respect of certain categories of goods or services or both under Section 9(3) or Section 9(4) of the APGST Act, 2017 and under sub-section (3) or sub-section (4) of Section 5 of IGST Act, 2017.

GSTR-9 is an annual return to be filed once for each financial year by the registered taxpayers who were regular taxpayers, including special economic zone (SEZ) units and SEZ developers. The taxpayers are required to furnish details of purchases, sales, input tax credit or refund claimed or demand created, etc.

To analyse the veracity of ITC availed on tax paid under RCM for the year 2017-18, the datasets pertaining to monthly return GSTR-3B and annual return GSTR-9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. The methodology adopted was to compare the RCM payments in GSTR3B Table 3.1(d)²⁸ with ITC availed in GSTR-9 Table 6C²⁹, 6D³⁰ and 6F³¹. In cases where GSTR-9 was not available, the check was restricted within GSTR-3B where the tax discharged part in Table 3.1(d) was compared with the ITC availed part of Table 4A(2)³² and 4A(3)³³.

Audit observed that in case of taxpayer M/s Landmarks having GSTIN 12BCHPM5663D1ZT under Superintendent of Tax, Excise and Narcotics, Namsai the ITC available in table 3.1(d) of GSTR-3B was NIL and the ITC availed in Table 6C, 6D and 6F of GSTR-9 was ₹0.15 crore resulting in mismatch of ITC availed amounting to ₹0.15 crore which was communicated to the Department (May 2022).

In response, the Department stated (June 2022) that ASMT-10 has been issued to concerned taxpayer. Reminder was also issued to the Department. Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in availing of ITC under RCM without payment

The extent of availing of ITC under RCM for the year 2017-18 without discharging equivalent tax liability or, in other words, short payment of tax under RCM was analysed by comparing the datasets pertaining to GSTR-3B and annual return GSTR-9 to check whether the tax has been discharged fully on the activities/transactions under RCM. In cases where GSTR-9 was filed, the RCM payments in Table 4G³⁴ were compared with ITC availed in Table 6C, 6D and 6F. In the cases where GSTR-9 was not available, RCM payments in GSTR-3B Table 3.1(d)³⁵ were compared with GSTR-3B 4A(2) and 4A(3).

Audit observed that in case of taxpayer T.T. Enterprises having GSTIN 12BNUPG4859H1ZN under Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun, the RCM payments in table 3.1(d) of GSTR-3B were NIL but the ITC available in GSTR-3B 4A(2) and 4A(3) was ₹0.002 crore resulting in mismatch in availing of ITC under RCM without payment amounting to ₹0.002 crore which was communicated to the Department (May 2022).

In response, the Department stated (August 2022) that ASMT-10 has been issued to the concerned dealer. Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in taxable turnover between annual return and financial Statements (Table 7G of GSTR-9C)

²⁸ Inward supplies (liable to reverse charge)

²⁹ Inward supplies received from unregistered persons liable to reverse charge

³⁰ Inward supplies received from registered persons liable to reverse charge

³¹ Import of services

³² Import of services

³³ Inward supplies liable to reverse charge (other than Import of Goods and Services)

³⁴ Inward supplies on which tax is to be paid on reverse charge basis

³⁵ Inward supplies (liable to reverse charge)

Table 7G of GSTR-9C captures the unreconciled taxable turnover between the annual return GSTR-9 and that declared in the financial statement for the year after the requisite adjustments.

Audit query on unreconciled taxable turnover in Table 7G of GSTR-9C, amounting to ₹1.92 crore was issued in respect of taxpayer, Arunachal Ayush Agency having GSTIN 12BFJPG4525B1Z4 under Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun and communicated to the Department (May 2022). In response, the Department stated (August 2022) that ASMT-10 has been issued. Reminder was also issued to the Department. Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in availing of ITC

GSTR-2A is a purchase related dynamic tax return that is automatically generated for each transaction/ business by the GST portal, whereas GSTR-3B is a monthly return in which summary of outward supplies along with ITC declared and payment of tax are self-declared by the taxpayer.

To analyse the veracity of ITC utilization, relevant data were extracted from GSTR-3B and GSTR-2A for the year 2017-18 and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR-2A with all its amendments and the ITC availed in GSTR-3B in Table 4A(5)³⁶ considering the reversals in Table 4B(2)³⁷ but including the ITC availed in the subsequent year 2018-19 from Table 8C of GSTR-9.

Audit observed that in case of taxpayer M/s Navayuga Engineering Co. Ltd. having GSTIN 12AAACN7396R1ZS under Superintendent of Tax, Excise and Narcotics, Tezu the ITC available as per GSTR-2A was ₹5.87 crore and the ITC availed in table 4A (5) of GSTR-3B was ₹6.61 crore. This resulted in mismatch of ITC availed amounting to ₹0.74 crore which was communicated to the Department (May 2022).

The Department issued notice to the taxpayer (May 2022). The reply of the taxpayer was received in June 2022 wherein the taxpayer stated that the GSTR-2A in GSTN database was not up-to-date which has resulted in mismatch in ITC available between GSTR-2A and GSTR-3B. The taxpayer stated that as per the recent GSTR-2A available, the total mismatch is ₹ 0.23 crore. The taxpayer also stated that he is in possession of the invoices of the ITC. But, the documents enquired for the same were not provided.

Further progress in this regard was awaited (October 2023).

Dimension - Mismatch in turnover between annual return and financial statements (Table 5R of GSTR-9C)

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of APGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in turnover reported in the annual

³⁶ all other eligible ITC

³⁷ other ITC reversed

return *vis-à-vis* in *the financial* statements. The unreconciled amount in the cases where the turnover declared in GSTR-9 is less than what was declared in the financial statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of supplies leading to evasion or short payment of tax. It could also be a case of non-reporting of both taxable and exempted supplies.

Table 5R of GSTR-9C captures unreconciled turnover between the annual return GSTR-9 and that declared in the financial statements for the year after the requisite adjustments.

Audit query on unreconciled turnover in Table 5R of GSTR-9C, amounting to ₹94.92 crore was issued in respect of taxpayer, Jugal Kishore Mahanta having GSTIN 12ADCPM4505H1Z2 under Superintendent of Tax, Excise and Narcotics, Likabali and communicated to the Department (May 2022). The Range office forwarded the reply of the taxpayer in July 2022. The taxpayer claimed that the difference in turnover has occurred as the annual turnover declared in Table 5P includes turnover of his branch in Assam amounting to ₹94.92 crore and the reasons are also mentioned in Table 6 of GSTR 9C. The taxpayer also furnished his consolidated balance sheet and consolidated profit and loss account for 2017-18. However, Audit could not segregate the turnover of Arunachal and Assam branch from the financial statements and hence called for the GSTR 9 of GSTR 9C of the Assam Branch for 2017-18 from the Superintendent in September 2022. The Range Officer issued notice to the taxpayer in September 2022.

Further progress in this regard was awaited (October 2023).

Dimension - Unsettled liabilities

GSTR-1 depicts the monthly details of outward supplies of Goods or Services. These details were also assessed by the taxpayer and mentioned in annual return GSTR-9 in the relevant columns. Further, taxable value and tax paid thereof are also shown in GSTR-3B.

To analyse the undischarged tax liability, relevant data were extracted from GSTR-1 and GSTR-9 for the year 2017-18 and the tax payable in these returns was compared with the tax paid as declared in GSTR-9. Where GSTR-9 was not available, a comparison of tax payable between GSTR-1 and GSTR-3B was resorted to. The amendments and advance adjustments declared in GSTR-1 and 9 were also considered for this purpose.

For the algorithm, tables 4 to 11 of GSTR-1 and tables 4N, 10 and 11 of GSTR-9 were considered. The greater of the tax liability between GSTR-1 and GSTR-9 was compared with the tax paid declared in tables 9 and 14 of GSTR-9 to identify the short payment of tax. In the case of GSTR-3B, tables 3.1(a)³⁸ and 3.1(b)³⁹ were taken into account.

Unsettled liabilities, amounting to ₹21.22 crore were noticed in case of taxpayer Sushee Infra & Mining Ltd having GSTIN 12AACCS8560Q1ZV under Superintendent of Tax, Excise and Narcotics, Zone-II, Itanagar, which was communicated to the Department (May 2022). In response, the Department forwarded the reply of the taxpayer (September 2022). The taxpayer stated that the outward GST liability declared in GSTR-9 of 2017-18 has

³⁸ Outward taxable supplies (other than zero rated, nil rated and exempted).

³⁹ Outward taxable supplies (Zero rated).

been paid through different DRC-03. Audit noticed that the payment of GST of ₹21.27 crore for 2017-18 was belatedly deposited through four DRC-03 between 27/05/2020 and 20/10/2020. Audit also calculated the interest on the delayed payments of tax at ₹8.05 crore. It was noticed that the taxpayer deposited interest of ₹7.88 crore through DRC-03⁴⁰ in September 2022.

The Department replied (May 2023) that the concerned Range Officer has already issued notice to the taxpayer and the case will be followed to its logical conclusion.

Further progress in this regard was awaited (October 2023).

Dimension - Reconciliation between ITC declared in annual return with expenses and in financial statement (Table 14T of GSTR-9C)

Table 14T of GSTR-9C reconciles ITC declared in annual return (GSTR9) with ITC availed on expenses as per audited annual financial statement/ books of accounts.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of APGST Rules, 2017, in Form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the annual return with the expenses reported in the financial statements.

Unreconciled ITC of ₹2.48 crore declared in Table 14T of GSTR-9C, being ITC availed in GST returns mismatching with eligible ITC based on expenses reported in financial statements, in case of Surya Enterprises having GSTIN 12ACNPH3544D1Z1 under Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun, was noticed and communicated to the Department (May 2022). In response, the Department stated (August 2022) that ASMT-10 has been issued. Reminder was also issued to the Department. Further progress in this regard was awaited (October 2023).

5.4.7.4 Analysis of causative factors

Considering the Department's response to 65 cases out of the sample of 94 data deviations/inconsistencies, the factors that caused the data deviations/inconsistencies are as follows:

Deviations from GST law and rules:

Out of the 94 deviations summarized in Table 11 above, the Department has accepted the audit observations or initiated examination in 65 cases with short levy/mismatch of ₹110.61 crore. Out of these cases, the Department issued notices in four cases for ₹1.33 crore, issued notice conveying discrepancies to the taxpayer in Form ASMT-10 in 32 cases for ₹17.13 crore. The top five accepted cases and illustrative cases are featured below:

⁴⁰ ARN: AD1209220000205 dated 17/09/2022.

Table 5.24: Top five cases accepted or action initiated by the Department

Sl. No	GSTIN	Name of the taxpayer	Jurisdictional range	Dimension	Tax (₹ in crore)	Action taken
1	12ADDPL5211G1Z7	M.L. Enterprises	Aalo	Short payment of interest on delayed payments	0.20 crore	The department has issued notice (September 2022) to the taxpayer to deposit the interest.
2	12ABSFS7939P1Z4	Satyam Steel & Alloys	Banderdewa	-do-	0.08 crore	The department stated (May 2023) that it will issue notice to the taxpayer to deposit the interest.
3	12CYNPK5384A1ZJ	L.K. Hub	Longding	Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C)	0.02 crore	The Department stated (May 2023) that the audit findings have been noted and necessary steps will be taken. Final action was awaited in Audit.
4	12AANFK3761D1ZK	M/s Kamlang Construction Products	Namsai	Mismatch in availing of ITC under Reverse Charge Mechanism (RCM)	0.01 crore	The department stated (May 2023) that the taxpayer is willing to make payment but tracking of the case could not be done because of technical glitch. Final action was awaited in Audit.
5	12AACFN7495C1ZF	Namdang Veneer & Saw Industries	Commissioner of Tax, Excise & Narcotics, Itanagar	Mismatch in availing of ITC under Reverse Charge Mechanism (RCM)	0.005 crore	The Department stated (May 2023) that the accounting of RCM should have been done by the system itself but it has not happened. Final action was awaited in Audit.

Short payment of interest on delayed payments -M.L. Enterprises (GSTIN: 12ADDPL5211G1Z7) - ₹0.20 crore

Section 50 of APGST Act, 2017, stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made thereunder but fails to pay the tax or any part thereof to the Government within the period prescribed should, for the period for which the tax or any part thereof remains unpaid, shall pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during 2017-18 was identified using the tax paid details in GSTR-3B and the date of filing of GSTR-3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

Audit observed that in case of taxpayer, M.L. Enterprises having GSTIN 12ADDPL5211G1Z7 under Superintendent of Tax, Excise and Narcotics, Aalo, the GSTR-3B return pertaining to the month of February 2018 involving tax liability amounting to ₹1.24 crore, was filed with delay. This resulted in short payment of interest amounting to ₹0.20 crore which was communicated (May 2022) to the Department. The Department issued ASMT-10 (May 2022) to the dealer and notice for payment of dues was issued in September 2022. Final action was awaited in Audit (October 2023).

Short payment of interest on delayed payments - Satyam Steel & Alloys (GSTIN: 12ABSFS7939P1Z4) - ₹ 0.08 crore

Audit observed that in case of taxpayer, Satyam Steel & Alloys having GSTIN 12ABSFS7939P1Z4 under Superintendent of Tax, Excise and Narcotics, Banderdewa the returns (GSTR-3B) pertaining to the months of July 2017 to March 2018 were filed with delay. This resulted in a short payment of interest amounting to ₹0.08 crore which was communicated (April 2022) to the Department. The Department forwarded the reply of the taxpayer (October 2022). The taxpayer claimed that the delay was only of some days in the initial months due to complex structure of GSTR return filing on the portal and also due to various technical glitches on the portal. However, the reply of the taxpayer is not satisfactory as there was delay in filing of GSTR-3B returns for all the nine months (77 days to 166 days) of the financial year 2017-18.

The Department stated (May 2023) that the notice will be issued to the taxpayer and the recovery will be monitored from the Commissionerate level. Final action was awaited in Audit. (October 2023).

Mismatch in ITC availed between annual return and financial statements (Table 12F of GSTR-9C) - L.K. Hub (GSTIN: 12CYNPK5384A1ZJ) - ₹ 0.02 crore

Table 12F of GSTR-9C reconciles ITC declared in annual return (GSTR-9) with ITC availed as per audited annual financial statement/ books of accounts.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of APGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the annual return with the financial statements.

Unreconciled ITC of ₹0.02 crore declared in Table 12F of GSTR-9C, being ITC availed in GST returns mismatching with eligible ITC based on financial statements, in case of L.K. Hub having GSTIN 12CYNPK5384A1ZJ under Superintendent of Tax, Excise and Narcotics, Longding was noticed and communicated to the Department (May 2022). In response, the Department forwarded the reply of the taxpayer (August 2022). The taxpayer stated that the excess ITC of ₹0.02 crore (CGST ₹0.01 crore and SGST ₹0.01 crore) was mistakenly claimed in GSTR-3B but did not mention the period during which it was claimed. Further, the taxpayer also stated that he had reversed the same during the months from April 2018 to September 2018, but audit observed from the GSTR-3Bs filed during

these months that there was no reversal of ITC. Audit finding was intimated Range Officer in August 2022.

The Department stated (May 2023) that the audit findings have been noted and necessary steps will be taken. Final action was awaited in Audit (October 2023).

Mismatch in availing of ITC under Reverse Charge Mechanism (RCM) - M/s Kamlang Construction Products (GSTIN: 12AANFK3761D1ZK) - ₹0.01 crore

To analyse the veracity of ITC availed on tax paid under RCM for the year 2017-18, the datasets pertaining to monthly return GSTR-3B and annual return GSTR-9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. The methodology adopted was to compare the RCM payments in GSTR-3B Table 3.1(d) with ITC availed in GSTR-9 Table 6C, 6D and 6F. In cases where GSTR-9 was not available, the check was restricted within GSTR-3B where the tax discharged part in Table 3.1(d) was compared with the ITC availed part of Table 4A (2) and 4A (3).

Audit observed that in case of taxpayer M/s Kamlang Construction Products having GSTIN 12AANFK3761D1ZK under Superintendent of Tax, Excise and Narcotics, Namsai exhibited excess availing of ITC under Reverse Charge Mechanism (RCM) to the tune of ₹0.59 lakh and the matter was communicated to the Department (May 2022). In response, the Department forwarded the reply of taxpayer (July 2022). The taxpayer admitted to excess claim of ITC amounting to ₹0.50 lakh by mistake but stated that the balance ₹0.09 lakh was availed as import of services in GSTR-3B. However, after scrutiny of returns/documents furnished by the taxpayer audit observed that ITC of ₹0.09 lakh availed as import of services in GSTR-3B is not admissible as it pertained to insurance on personal motor vehicle. Thus, the taxpayer is liable to pay ₹0.59 lakh (₹0.50 lakh+ ₹0.09 lakh) as excess claim of ITC which was intimated to the Department in October 2022 to recover the outstanding dues of ₹0.59 lakh.

The Department stated (May 2023) that the taxpayer is willing to make payment but tracking of the case could not be done because of technical glitch. However, system will be fixed and necessary corrective action will be taken and results intimated to Audit. Final action was awaited in Audit (October 2023).

Mismatch in availing of ITC under RCM - Namdang Veneer & Saw Industries (GSTIN: 12AACFN7495C1ZF) - ₹0.005 crore

Audit observed that in case of taxpayer Namdang Veneer & Saw Industries having GSTIN 12AACFN7495C1ZF under the jurisdiction of the Superintendent of Tax, Excise and Narcotics, Changlang exhibited excess availing of ITC under Reverse Charge Mechanism (RCM) to the tune of ₹0.54 lakh and the matter was communicated to the Department (May 2022). In response, the Department forwarded the replies of the taxpayer (May 2022 and October 2022) wherein it was stated that the excess availing of ITC under RCM occurred due to clerical error during filing of GSTR-3B in the Financial Year 2017-18 which was detected by him in 2018-19. He also stated that he has paid the balance tax amount in the GSTR-3B of July 2018. However, when audit checked the GSTR-3B it was noticed that

the taxpayer has recorded his payment of CGST ₹0.27 lakh and SGST ₹0.27 lakh in Table 6.1(A) which is meant for payments of tax other than reverse charge. As such, Audit could not verify whether the payment actually relates to the excess ITC availed by the taxpayer.

The Department stated (May 2023) that the accounting of RCM should have been done by the system itself but it has not happened and further stated that it will look into the matter and take necessary corrective action. Final action was awaited in Audit (October 2023).

Recommendation: The Department may conduct data analysis (as conducted by Audit for Centralised Audit) for GST returns and related data to identify inconsistencies and take necessary steps to enhance taxpayer's compliance.

5.4.8 Detailed audit of GST returns

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight. With finite level of resources, for an effective tax administration, to ensure compliance with law and collection of revenue, an efficient governance mechanism is essential. An IT driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-State data analysis, a detailed audit of GST returns was also conducted as a part of this review. A risk-based sample of 15 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR-9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in CAG field audit office. Based on desk review results, detailed audit was conducted in the field formations (Range Offices) by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices etc. to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

As brought out in the previous paragraphs detailed audit involved a desk review of GST returns and other basic records to identify risks and red flags, which were followed up by field audit to identify the extent of non-compliance by taxpayers and action taken by the field formations (Range Offices). Non-compliance by taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of ITC and discharge of tax payments.

5.4.8.1 Scope limitation (non-production of records)

The Department provided access through the GST portal application-the back-end system of the State Tax Department (boweb) to Audit in its premises.

Audit teams downloaded various returns of selected samples of taxpayers for verification of returns. Although, no granular records relating to the taxpayers were provided by the Department.

The details of non- production of records are summarized in the following paragraphs:

Non-production: During the desk review of taxpayers’ records available in the back-end system, Audit identified the risks related to excess ITC and tax liability mismatches for detailed examination. On the ITC dimension, the mismatches were identified by comparing GSTR-3B with GSTR-2A and GSTR-9, and the declarations made in Table 12 and 14 of GSTR-9C. On the tax liability dimension, the mismatches were identified by comparing GSTR-3B with GSTR-1 and GSTR-9 and the declarations in Table 5, Table 7 and Table 9 of GSTR-9C. However, in 15 sampled cases pertaining to 04 range offices⁴¹, the Department did not produce the corresponding granular records such as the supplementary financial ledgers, invoices, agreement copies etc. required for examining the causative factors for mismatches of ITC and tax liability. Audit requisitioned these granular records of the taxpayers through the respective ranges. The jurisdiction-wise non- production of records is summarized in **Table 5.25**. The case-wise listing of non-production is given in **Appendix-5.4**.

Table 5.25: Non-production of records

(₹ in crore)

Jurisdictional formation	Sample	Non-production	
	Number of tax-payers	Number of taxpayers	Amount of mismatches
Zone-I	5	5	25.79
Zone-II	7	7	27.27
Pasighat	2	2	5.15
Tawang	1	1	0.01
Total	15	15	58.22

The granular records were not produced in 100 *per cent* of cases, as a result the identified risks relating to mismatches/deviations of ₹58.22 crore could not be examined in detail by Audit.

Audit observations were issued to the four range officers in October 2022 and November 2022, but no replies have been received (October 2023).

5.4.8.2 Mismatch relating to Input Tax Credit

Input Tax Credit means the Goods and Services Tax paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes paid on input supplies can be used to set-off for payment of taxes on outward supplies.

Section 16 and 17 of the APGST Act, 2017 prescribe the eligibility and conditions to avail ITC. Credit of CGST cannot be used for payment of SGST/UTGST and credit of SGST/UTGST cannot be utilised for payment of CGST. Rule 36 to 45 of the APGST Rules, 2017 prescribes the procedures for availing and reversal of ITC.

⁴¹ i) Superintendent of Tax, Excise & Narcotics, Pasighat
 ii) Superintendent of Tax, Excise & Narcotics, Tawang
 iii) Superintendent of Tax, Excise & Narcotics, Zone-I
 iv) Superintendent of Tax, Excise & Narcotics, Zone-II

Audit analysed the dataset of GSTR-2A in respect of selected taxpayers along with datasets of GSTR-3B, GSTR-9 and GSTR-9C filed by the taxpayers and noticed mismatches of input tax credit among returns. Audit could not examine mismatches in detail since relevant granular records were not produced by the Department.

The details of mismatches in input tax credit noticed by Audit are given in **Table 5.26**.

Table 5.26: Mismatch in input tax credit claimed by taxpayers

Sl. No	Parameter	No. of cases	No. of range offices	Amount of mismatch (₹ in crore)	Remarks
1	Mismatch between ITC availed in GSTR-9/3B and ITC availed in GSTR-2A: To analyse, the data were extracted from GSTR-9/GSTR-3B and GSTR-2A, and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer and compared the ITC available as per GSTR-2A with all its amendments and the ITC availed in GSTR-3B in Table 4A(5) considering the reversals in Table 4B(2) but including the ITC availed in the subsequent year 2018-19 from Table 8C of GSTR-9.	14	3	28.36	The cases were pointed out to the Department in October 2022 and November 2022. The Department replied (May 2023) that the matter is being followed-up. Final action is awaited (October 2023).
2	Mismatch of ITC due to claiming after limitation period: To analyse, the data were extracted from GSTR-9/GSTR-3B to verify if the ITC was claimed before the limitation period as per Section 16(4) i.e. the due date of furnishing of the return under Section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier.	1	1	0.64	On this being pointed out in audit (January 2023), the Department replied (May 2023) that the taxpayer could not be traced till date but the matter is being followed-up. Final action is awaited (October 2023).

5.4.8.3 Mismatches relating to discharge of tax liability

The taxable event in the case of GST is supply of goods and/or services. Section 9 of the APGST Act, 2017 is the charging section authorising levy and collection of tax called State/Centre Goods and Services Tax on all intra-state supplies of goods or services or both, except on supply of alcoholic liquor for human consumption, on value determined under Section 15 of the Act *ibid* and at such rates not exceeding 20 *per cent* under each Act, *i.e.*, CGST Act and APGST Act. Section 5 of the IGST vests levy and collection of integrated GST on interstate supply of goods and services with Central Government with maximum rate of 40 *per cent*.

Under Section 8 of the Goods and Services Tax (Compensation to States) Act, 2017, a cess is levied on all inter-state and intra-state supply of such goods or services or both which are listed in the schedule of the said Act such as tobacco products, aerated drinks, cigarettes, vehicles etc. Section 9(3) and 9(4) of the APGST Act, 2017 and Sections 5(3) and 5(4) of the Integrated GST Act, 2017 provide for reverse charge levy of tax on certain goods or services, wherein the recipient instead of supplier becomes liable to pay tax.

Audit findings and mismatches noticed related to discharge of tax liabilities are discussed below.

Audit scrutinised GSTR-1, GSTR-3B and GSTR-9 returns filed by the taxpayers for the year 2017-18 and noticed mismatch in discharge of tax liability by comparing the tax liability furnished in the returns. Audit could not examine these mismatches in detail since relevant granular records were not produced by the Department. The details of mismatches are given in **Table 5.27**.

Table 5.27: Mismatch related to discharge of tax liability

Sl. No	Parameter	No. of cases	No. of range offices	Amount of mismatch (₹ in crore)	Remarks
1.	Mismatch of tax payable between GSTR-1 and GSTR-3B or GSTR-9: Tax liability of GSTR-1 was not matching with the tax liability declared in GSTR-3B or GSTR-9	7	3	12.89	The cases were pointed out to the Department in October 2022 and November 2022. The Department replied (May 2023) that the matter is being followed-up. Final action is awaited (October 2023).
2.	Mis-match of differential tax payable: Differential tax declared in Table 10 of GSTR-9 of 2017-18 were matched with payment in GSTR-3B/GSTR-9 of subsequent year 2018-19.	1	1	7.36	Audit reported the matter of the Department in November 2022. The Department stated (May 2023) that the taxpayer furnished replies to the notice, however, the reply given is not relevant to the audit findings. Hence, department has asked the taxpayer to revise their reply. Final Result is awaited (October 2023).

5.4.8.4 Mismatch between turnover/tax paid declared in Annual Return and Financial Statement/Books of Account

Mismatches between turnover/tax paid declared in Annual Return and Financial Statement/Books of Account were detected from the GSTR-9C of the taxpayers. Audit could not examine these mismatches in detail since relevant granular records were not produced by the Department. The details of mismatches are given in **Table 5.28**.

Table 5.28: Mismatch related to turnover/tax paid declared in Annual Return and Financial Statement/Books of Account

Sl. No	Parameter	No. of cases	No. of range offices	Amount of mismatch (₹ in crore)	Remarks
1.	Mismatch in taxable turnover between Annual return and Financial Statements (Table 7G of Form 9C): Negative figure was detected in Table 7G of Form GSTR-9C of 2017-18	2	2	-.42	The cases were pointed out to the Department in October 2022 and November 2022. The Department replied (May 2023) that the matter is being followed-up. Final action is awaited (October 2023).
2.	Mismatch in tax paid between books of accounts and Annual Return (Table 9R of Form 9C): Negative figure was detected in Table 9R of Form GSTR-9C of 2017-18.	3	3	0.41	The cases were pointed out to the Department in October 2022 and November 2022. The Department replied (May 2023) that the matter is being followed-up. Final action is awaited (October 2023).

5.4.8.5 Non-payment of interest on delayed payment of Tax

Section 50 (1) of APGST Act 2017 states that every person who is liable to pay tax in accordance with the provisions of this Act or the rules made there under, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding eighteen per cent., as may be notified by the Government on the recommendations of the Council.

During detailed audit (August 2022 to October 2022), scrutiny of data of returns filing in respect of 15 taxpayers under the four range offices revealed that there were five taxpayers who had filed 13 GSTR-3B returns belatedly after a delay of 01 to 369 days from the expiry of due dates. In these returns, these taxpayers made total payment of GST amounting to ₹2.11 crore from their cash ledger. However, the taxpayers did not pay interest on delayed payment of tax which amounted to ₹0.04 crore as detailed in **Appendix-5.5**. The four range officers also did not issue SCN to the five taxpayers for the default in payment of the interest.

The matter was communicated to the Department in November 2022 to take action against the taxpayers.

The Department stated (May 2023) that in some cases they have already issued notice to the taxpayer and in the remaining cases notice will be issued.

5.4.8.6 Discrepancy of in the Electronic Credit Ledger of taxpayer

As per Section 16(1) of APGST Act 2017, every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or

⁴² Total unreconciled taxable turnover (TO) in table 7G of GSTR-9C in 2 cases was ₹8.56 crore.

both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

Scrutiny of data (September 2022) extracted from GSTR-3B summary for 2017-18 from GSTN portal in respect of the taxpayer M/s Carlsberg India Private Limited (GSTIN: 12AAJCS8454J1Z1) under the jurisdiction of Superintendent of Tax, Excise and Narcotics, Zone-I, Naharlagun revealed that the taxpayer availed total ITC of ₹3.50 crore during the year. It was also observed from the return that the taxpayer reversed total ITC of ₹3.50 crore during the year.

However, when Audit accessed the Electronic Credit Ledger (ECL) for the year 2017-18 from GST portal it was noticed that the ECL from the months July 2017 to January 2018 was not available in the system. Further, no debit entry of ITC reversal was recorded against the GSTR-3B of February 2018 and March 2018. Due to the non-availability of the taxpayer's ECL in the system, Audit could not verify the ITC reversal of ₹3.50 crore and the claims of the taxpayer remain uncertain. The range officer also did not detect the discrepancy in the ECL. The matter was intimated to the Department in November 2022.

The Department stated (May 2023) that the Range Officer has issued notice to the taxpayer but the taxpayer has asked for time to respond to the notices.

5.4.8.7 Non-filing of ITC 04 return by the taxpayer

As per Rule 45(3) of the APGST Rules 2017, the details of challans in respect of goods dispatched to a job worker or received from a job worker or sent from one job worker to another during a quarter shall be included in FORM GST ITC-04 furnished for that period on or before the twenty-fifth day of the month succeeding the said quarter.

Scrutiny of returns (September 2022) summary for 2017-18 obtained from GSTN portal revealed that a taxpayer Carlsberg India Private Limited (GSTIN: 12AAJCS8454J1Z1) registered under the jurisdiction of Superintendent of Tax, Excise and Narcotics, Zone-I, Itanagar submitted one ITC 04 return for the tax period (quarter) July-September 2017 on 12 August 2019. As per the return it was noticed that the taxpayer had sent inputs totalling taxable value ₹4.97 crore to a job worker NEFA Breweries Private Limited (GSTIN: 12AAECN3747J1ZH) during the quarter. From the return it was observed that the inputs were received within the tax period but the ITC 04 did not capture the exact date of receipt back of the finished goods. The taxpayer also did not submit the ITC 04s for the next two quarters of 2017-18 *i.e.* October 2017- December 2017 and January 2018 – March 2018. The Range also did not furnish the books of accounts of the taxpayer for 2017-18 which were called for by Audit.

The Department was intimated in November 2022.

The Department stated (May 2023) that the Range Officer has issued notice to the taxpayer but the taxpayer has asked for time to respond to the notices.

5.4.8.8 Discrepancy between invoice value and ITC declared in return

As per Section 61(1) of the APGST Act 2017, the proper officer may scrutinize the return and related particulars furnished by the registered person to verify the correctness of the return and inform him of the discrepancies noticed, if any, in such manner as may be prescribed and seek his explanation thereto, (2) In case the explanation is found acceptable, the registered person shall be informed accordingly and no further action shall be taken in this regard (3) In case no satisfactory explanation is furnished within a period of thirty days of being informed by the proper officer or such further period as may be permitted by him or where the registered person, after accepting the discrepancies, fails to take the corrective measure in his return for the month in which the discrepancy is accepted, the proper officer may initiate appropriate action including those under section 65 or section 66 or section 67, or proceed to determine the tax and other dues under section 73 or section 74.

Scrutiny (August 2022) of purchase ledger of the taxpayer Shyama Power India Limited (GSTIN: 12AAHCS6024L1ZD) for the month of March 2018 furnished by the Superintendent of Tax, Excise and Narcotics, Zone-II, Itanagar revealed that the taxpayer's total ITC was ₹1.42 crore on his purchases during the month:

Table 5.29: Details of ITC as per purchase ledger

(₹ in crore)			
IGST	CGST	SGST	Total
1.22	0.10	0.10	1.42

However, as per GSTR-3B of March 2018 filed in June 2018 the taxpayer declared total ITC of ₹2.36 crore (excluding reverse charge and ISD) which resulted in mismatch of ITC to the tune of ₹0.95 crore during the month as detailed below:

Table 5.30: Details of excess availing of ITC

(₹ in crore)				
Details	IGST	CGST	SGST	Total
ITC as per GSTR 3B	1.94	0.21	0.21	2.36
ITC as per purchase ledger	1.22	0.10	0.10	1.42
Mismatch in ITC	0.72	0.11	0.11	0.94

It was also noticed that the taxpayer had declared un-reconciled ITC of ₹0.96 crore in Table 12F of GSTR-9C for 2017-18. The taxpayer stated in Table 13 of the GSTR-9C that the unreconciled amount of ₹0.96 crore is due to reversal of ITC made in subsequent Financial Year. However, the taxpayer has declared NIL reversal of ITC in GSTR-9 of 2018-19 which contradicts his claim.

Audit pointed out the discrepancy to the Department in November 2022 and requested to clarify from the taxpayer the reason for the excess availing of ITC of ₹0.95 crore during March 2018 and its subsequent adjustment.

The Department stated (May 2023) that notice has been issued to the taxpayer. Final action is awaited (October 2023).

5.4.8.9 Discrepancy between taxable turnover and tax payable as per GSTR-3B and invoices of outward supplies

As detailed in previous para, Section 61(1) of the APGST Act 2017, empowers the proper officer to scrutinize the return and related particulars furnished by the registered person and if necessary, take appropriate action including those under section 65 or section 66 or section 67, or proceed to determine the tax and other dues under section 73 or section 74.

Audit called (August 2022) for invoices of three months⁴³ of the taxpayer M/s Puna Hinda (GSTIN: 12ABMPH5685D1ZQ) under the jurisdiction of Superintendent of Tax, Excise and Narcotics, Zone-II, Itanagar for detailed scrutiny, and the taxpayer furnished four (04) Nos. of sales invoice issued during the three months. It was noticed that there were variations between the taxable value and tax liability as per GSTR-3Bs of the months and the invoices produced to audit. The taxable value of outward supply did not match in any of the three months whereas the tax payable was matching only in Feb 2017. Further, in the GSTR-3B of November 2017 the taxpayer declared IGST payable of ₹0.22 crore which was paid through Input Tax Credit (ITC) of IGST vide Electronic Credit Ledger (ECL) debit entry dated 20/12/2017⁴⁴ but there was no IGST payable as per the invoice issued in November 2017⁴⁵. Similarly, tax of ₹0.12 crore (CGST ₹0.06 crore and SGST ₹0.06 crore) was payable as per the same outward supply invoice but no payment was made as per ECL. The details are given in *Appendix-5.6*.

The undischarged tax liability of ₹0.12 crore was communicated to the Department in November 2022.

The Department stated (May 2023) that the taxpayer would be contacted to send reply to the audit observation.

5.4.8.10 Discrepancy in opening balance in electronic credit ledger

As per Section 16(1) of the APGST Act 2017, every registered person shall, subject to such conditions and restrictions as may be prescribed and, in the manner, specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

The Electronic Credit Ledger (ECL) (August 2022) of the taxpayer Vodafone Mobile Services Limited (GSTIN: 12AAACS4457Q1Z1) under the jurisdiction of Superintendent of Tax, Excise and Narcotics, Zone-II, Itanagar had an opening balance of CGST of ₹487.84 crore on 1st July 2017. During the subsequent period the taxpayer credited CGST ITC amounting to ₹2.86 crore⁴⁶ and debited CGST ITC amounting to ₹0.87 lakh

⁴³ November 2017, February 2018 & March 2018

⁴⁴ ECL reference no. DI1212170001190

⁴⁵ Invoice no. GST/01 dated 15/11/2017

⁴⁶ Transitional CENVAT Credit: ₹2.76 crore + ITC accrued through inputs: ₹0.10 crore

leaving a balance of CGST to the tune of ₹489.83 crore on 19/09/2017. It was also noticed that CGST amounting to ₹490.59 crore was reversed on 14/10/2017 (reference No. AA2408172028362) as Reversal of Incorrect Opening Balance leaving a negative closing balance of ₹0.76 crore. The details are shown in *Appendix-5.7*.

Audit could not ascertain whether the incorrect opening balance of CGST of ₹487.84 crore from the ECL was due to mistake on the part of the taxpayer or a system error.

The matter was reported to the range officer in January 2023.

The Department stated (May 2023) that it will take necessary action in the matter. Final result is awaited (October 2023).

5.4.8.11 Ineligible ITC on invoices pertaining to different place of supply

Section 42(1) of the APGST Act 2017 stipulates that the details of every inward supply furnished by a registered person (hereafter in this section referred to as the “recipient”) for a tax period shall, in such manner and within such time as may be prescribed, be matched— (a) with the corresponding details of outward supply furnished by the corresponding registered person (hereafter in this section referred to as the “supplier”) in his valid return for the same tax period or any preceding tax period. Further, rule 59 (3) of the APGST Rules 2017 stipulates that the details of outward supplies furnished by the supplier shall be made available electronically to the concerned registered persons (recipients) in Part-A of FORM GSTR-2A, in FORM GSTR-4A and in FORM GSTR-6A through the common portal after the due date of filing of FORM GSTR-1.

Scrutiny of GSTR-2As (August 2022 to October 2022) of selected months of 15 sample taxpayers registered under the jurisdiction of four range offices⁴⁷ revealed that in case of four taxpayers their returns reflected supplies made to other states⁴⁸. There were 19 such inward supply invoices and the total taxable value of the supplies amounted to ₹0.08 crore and the GST on the same is ₹0.01 crore. As the place of supply is in a different state than that of the four taxpayers’ principal place of business, the taxpayer is not eligible to claim the ITC totalling ₹0.01 crore which is detailed in *Appendix-5.8*.

The matter was reported to the range officers in January 2023.

The Department stated (May 2023) that they have issued notice to the taxpayers but reply is still awaited.

5.4.8.12 Non-amendment of registration certificate by the taxpayer

Section 28(1) of the APGST Act 2017 states that every registered person and a person to whom a Unique Identity Number (UIN) has been assigned shall inform the proper officer of any changes in the information furnished at the time of registration or subsequent thereto, in such form and manner and within such period as may be prescribed. Sub-section (2)

⁴⁷ i) Superintendent of Tax, Excise & Narcotics, Pasighat
ii) Superintendent of Tax, Excise & Narcotics, Tawang
iii) Superintendent of Tax, Excise & Narcotics, Zone-I
iv) Superintendent of Tax, Excise & Narcotics, Zone-II

⁴⁸ Assam, Bihar, Uttarakhand & West Bengal

further states that the proper officer may, on the basis of information furnished under sub-section(1) or as ascertained by him, approve or reject amendments in the registration particulars in such manner and within such period as may be prescribed.

Scrutiny of the registration certificate (REG-06) of two taxpayers⁴⁹ (August 2022) under the jurisdiction of the Superintendent of Tax, Excise and Narcotics, Zone-II, Itanagar along with their invoices for 2017-18 revealed that the taxpayers were primarily supplying goods and services which were not declared by them in their REG-06 as detailed in **Appendix-5.9**.

However, the taxpayers did not amend their registration certificates to include these goods & services and as such, their registration certificates were inadequate as on date. The range officer also did not detect the same as he had not conducted scrutiny of returns for FY 2017-18.

The matter was reported to the range officer in October 2022.

The Department stated (May 2023) that they have issued notice to the taxpayers but reply is still awaited.

5.4.8.13 Registration of taxpayer in wrong jurisdiction

As per Section 22(1) of APGST Act 2017, every supplier shall be liable to be registered under this Act in the State or Union Territory, other than special category States, from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds twenty lakh rupees.

During the detailed audit (October 2022) of the taxpayer M/s Soletanche Bachy (GSTIN: 12AAPCS3515G1ZI) in the jurisdiction of the Superintendent of Tax, Excise and Narcotics, Tawang, it was noticed from the registration certificate REG-06 that the principal place of business of the taxpayer is not in that jurisdiction. It was noticed from REG-06 that the principal place of business of the taxpayer falls under the jurisdiction of the Superintendent of Tax, Excise and Narcotics, Ziro. When the records of the taxpayer pertaining to FY 2017-18 were called for, the range office, Tawang was unable to produce the documents due to non-existence of the taxpayer's business under his jurisdiction.

The matter was communicated to the Department in October 2022, however, no reply has been received as on date (March 2023).

The Department stated (May 2023) that they will look into the matter and take necessary corrective measures and results will be intimated to Audit.

⁴⁹ i) M/s Maria Enterprises (GSTIN: 12AFNPN6435Q3ZS)
ii) M/s Puna Hinda (GSTIN: 12ABMPH5685D1ZQ)

Recommendations:**The Department may:**

- *introduce a module to prompt alerts on mismatches in various returns viz., annual return (GSTR-9), reconciliation statement (GSTR-9C), monthly returns (GSTR-1 and GSTR-3B) etc., to aid the proper officer for identifying and verifying the mismatches.*
- *initiate remedial action for all the compliance deviations brought out in this report before they get time barred.*

5.4.9 Conclusion

The Subject Specific Compliance Audit (SSCA) on Department Oversight on GST Payments and Return Filing was undertaken in the context of varying trend of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2017-18. The SSCA entailed assessing the oversight functions of State Jurisdictional formation at two levels – at the data level through global data queries and at the functional level with a deeper detailed audit both of the Ranges and of the GST returns, which involved accessing taxpayer records. The audit sample therefore comprised four Ranges, 94 high value inconsistencies across 12 parameters selected through global queries and 15 taxpayers selected on risk assessment for detailed audit of GST returns for the year 2017-18.

A review of the functions of four Ranges disclosed that there were deficiencies in oversight functions of Ranges such as monitoring of return filing, scrutiny of returns and cancellation of registration.

Further, out of the 94 high value data inconsistencies identified by Audit the Department responded to 65 cases. Of these, 48 cases constituting 73.85 per cent, turned out to be compliance deficiencies with a revenue implication of ₹27.70crore. The Department has not responded to 29 cases of inconsistencies, which have an identified risk exposure of ₹26.28 crore⁵⁰.

Detailed audit of GST returns also suggested significant non-compliance. At the outset, essential records such as financial statements, and granular records such as supplementary financial ledgers, invoices, agreement copies *etc.* were not produced, which constituted a significant scope limitation. These cases represent potential risk exposure towards identified mismatches in ITC availment and tax payments. Out of the 15 cases that were audited either

⁵⁰ The potential risk amount is inclusive of unreconciled turnover (TO) in table 5R of GSTR 9C in one case of ₹3.55 crore and unreconciled taxable turnover (TTO) in table 7G of GSTR 9C in two cases totaling ₹4.45 crore.

fully or partially, Audit observed 28 compliance deficiencies consisting of mismatches of ₹49.66 crore.

Considering the significant rate of compliance deficiencies, the Department must initiate remedial measures before they get time barred. From a systemic perspective, the Department needs to strengthen the effective oversight on return filing, scrutiny of returns and cancellation of registrations. The Department may also consider introducing validation controls in GST returns to improve taxpayer compliance and to facilitate scrutiny of returns.

5.4.10 Summary of recommendations

The State Government may-

- *strengthen the monitoring mechanism in Ranges to detect non-filers of returns and ensure timely action against defaulters.*
- *ensure the scrutiny of returns in a time bound manner before the cases become time barred.*
- *monitor the status of cancellation of registrations and action taken thereon in consonance with the provisions of the Act and Rules utilising the Management Information System (MIS) of the GST portal.*
- *urgently pursue the 29 inconsistencies and deviations pointed out by Audit, for which responses have not been provided and intimate the results to Audit.*
- *conduct data analysis (as conducted by Audit for Centralised Audit) for GST returns and related data to identify inconsistencies and take necessary steps to enhance taxpayer's compliance.*
- *introduce a module to prompt alerts on mismatches in various returns viz., annual return (GSTR-9), reconciliation statement (GSTR-9C), monthly returns (GSTR-1 and GSTR-3B) etc., to aid the proper officer for identifying and verifying the mismatches.*
- *initiate remedial action for all the compliance deviations brought out in this report before they get time barred.*