

CHAPTER-V
REVENUE SECTOR

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5.1 General

5.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the GoN during the financial year 2022-23, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-Aid received from GoI during the year and the corresponding figures for the preceding four years are shown in **Table 5.1.1**.

Table 5.1.1: Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
1.	Revenue raised by the State Government					
	• Tax Revenue	846.43	958.23	1,022.74	1,300.89	1,461.88
	• Non-Tax Revenue	255.24	339.29	242.60	303.58	478.41
	Total	1,101.67	1,297.52	1,265.34	1,604.47	1,940.29
2.	Receipts from the GoI					
	• Share of net proceeds of divisible Union Taxes and Duties	3,792.41	3,267.08	3,409.25	4,875.46	5,400.19
	• Grants-in-Aid	6,543.33	6,858.69	6,752.84	6,971.21	6,758.78
	Total	10,335.74	10,125.77	10,162.09	11,846.67	12,158.97
3.	Total revenue receipts of the State Government (Sl. No. 1 and 2)	11,437.41	11,423.29	11,427.43	13,451.14	14,099.26
4.	Percentage of 1 to 3	10	11	11	12	14

Source: Finance Accounts of the respective years

The above table indicates that during the year 2022-23, the revenue raised by the State Government (₹1,940.29 crore) was 14 per cent of its total revenue receipts. The balance 86 per cent of the receipts during 2022-23 was from the GoI.

The details of tax revenue raised against the Budget Estimates (BEs) during the period 2018-23 are shown in **Table 5.1.2**.

Table 5.1.2: Details of the Tax Revenue against the Budget Estimates (BEs)

(₹ in crore)

Sl. No.	Head of revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage of 2022-23 over 2021-22
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
1.	State Goods and Services Tax	250.00	469.64	340.37	613.22	541.25	663.81	726.72	830.34	957.65	959.09	16
2.	Other Taxes on Income and Expenditure	37.50	35.32	37.50	30.64	37.50	31.24	37.50	30.50	32.94	30.13	(-1)
3.	Land Revenue	0.65	1.13	0.81	1.04	1.20	1.09	1.25	1.23	0.85	1.09	(-11)
4.	Stamps and Registration Fees	2.40	2.53	2.64	2.79	3.10	2.25	3.10	3.39	3.10	3.43	1

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Sl. No.	Head of revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage of 2022-23 over 2021-22
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
5.	State Excise	5.10	4.65	5.10	3.24	5.50	4.54	5.50	3.32	3.20	4.40	33
6.	Taxes on Sales, Trade etc.	225.00	186.69	252.89	175.15	265.50	205.50	325.00	261.87	280.00	246.55	(-6)
7.	Taxes on vehicles	105.00	126.22	121.04	113.93	131.72	93.29	145.00	141.04	115.00	187.64	33
8.	Taxes on Goods and Passengers	14.60	20.16	18.91	18.09	25.00	15.62	25.00	21.43	20.00	21.58	1
9.	Taxes on Duties and Electricity	0.06	0.09	0.09	0.08	0.11	5.40	0.10	7.77	4.75	7.97	3
10.	Other Taxes and Duties on Commodities and Services	0.25	0.00	0.80	0.05	0.25	0.00	2.45	0.00	0.00	0.00	0
Total (Own Tax Revenue)		640.56	846.43	780.15	958.23	1,011.13	1,022.74	1,271.62	1,300.89	1,417.49	1,461.88	12

Source: Budget documents and Finance Accounts of the respective years

During 2022-23, GST collection of the State increased by 16 per cent from ₹830.34 crore in 2021-22 to ₹959.09 crore in 2022-23. Both 'State Excise' and 'Taxes on Vehicles' increased by 33 per cent from ₹3.32 crore and ₹141.04 crore in 2021-22 to ₹4.40 crore and ₹187.64 crore respectively in 2022-23. Tax revenue under 'Taxes on Duties and Electricity' observed a growth of three per cent. Revenue generated from 'Stamps and registration fees' and 'Taxes on Goods and Passengers' increased by one per cent each respectively. There was decrease in revenue under 'Land Revenue' and 'Taxes on Sales, Trade, etc.' by 11 and 06 per cent compared to the previous year.

Details of the Non-tax revenue raised against the BEs during the period 2018-23 are shown in **Table 5.1.3**.

Table 5.1.3: Details of Non-Tax Revenue raised against the BEs during 2018-23

Sl. No.	Head of revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage of 2022-23 over 2021-22
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
1.	Interest Receipts	5.00	12.06	7.95	5.73	8.50	4.55	7.00	5.10	3.25	7.13	40
2.	Miscellaneous General Services	14.50	24.15	23.50	22.18	21.00	21.45	24.50	19.34	11.10	28.70	48
3.	Power	158.00	147.97	160.00	159.31	175.00	171.42	185.00	211.92	225.00	286.35	35
4.	Road Transport	11.00	8.74	8.50	8.43	8.90	3.24	9.00	5.45	5.10	7.92	45
5.	Forestry and Wildlife	13.00	12.62	11.00	13.72	12.50	11.55	14.25	19.07	15.00	26.60	39
6.	Housing	5.80	6.77	6.70	6.40	6.80	7.11	7.50	7.71	6.55	13.43	74

Sl. No.	Head of revenue	2018-19		2019-20		2020-21		2021-22		2022-23		Percentage of 2022-23 over 2021-22
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	Actuals
7.	Co-operation	0.10	7.77	0.10	1.41	2.25	3.03	1.65	1.80	1.90	0.25	(-86)
8.	Roads and Bridges	1.50	1.54	1.40	0.73	1.62	0.51	0.75	1.17	0.80	0.63	(-46)
9.	Other Administrative Services	5.80	6.52	6.75	2.86	7.00	1.87	6.00	3.45	1.30	4.48	30
10.	Others	132.75	27.10	103.12	118.51	28.66	17.87	27.76	28.57	20.67	102.92	260
Total (Non-Tax Revenue)		347.45	255.24	329.02	339.29	272.23	242.60	283.41	303.58	290.67	478.41	58

Source: Budget documents and Finance Accounts of the respective years

The revenue receipts under the head 'Housing' increased by ₹5.72 crore from ₹7.71 crore during 2021-22 to ₹13.43 crore during 2022-23 due to increase in 'Minor Heads: 106-General Pool Accommodation, 700-Other Housing and 800-Other Receipts'. The revenue receipts under the heads 'Miscellaneous General Services', 'Road Transport' and 'Interest Receipts' increased by 48 per cent, 45 per cent and 40 per cent from ₹19.34 crore, ₹5.45 crore and ₹5.10 crore to ₹28.70 crore, ₹7.92 crore and ₹7.13 crore respectively. The revenue receipts under the head 'Co-operation' decreased by 86 per cent from ₹1.80 crore to ₹0.25 crore due to decrease in 'Minor Heads: 101-Audit Fees and 800-Other Receipts'. Similarly, the revenue receipts under head 'Roads and Bridges' decreased by 46 per cent from ₹1.17 crore to ₹0.63 crore due to decrease in 'Minor Head: 102-Tolls on Roads'.

5.1.2 Goods and Services Tax

Goods and Services Tax (GST) was implemented with effect from 01 July 2017 on supply of goods or services or both. GST is concurrently administered by the Union (Central GST) and the States (State GST) on supply within the State while Integrated Goods and Services Tax (IGST) is levied on inter-State supply of goods or services or both.

The Central Goods and Services Tax (CGST) Act 2017, the Nagaland State Goods and Services Tax (NGST) Act 2017 and the Integrated Goods and Services Tax (IGST) Act 2017 and allied Rules of all the three Acts are applicable in the State of Nagaland.

Goods and Services Tax Network (GSTN), a non-Government Company set up by Government of India provides both front-end and back-end services to Nagaland being a Model-II State. Front-end services provided to taxpayers include registration, return filing and payment of tax, while back-end services include approval of registration, taxpayer detail viewer, refund processing and MIS reports.

Implementation of GST necessitated smooth transitional provisions which enable migration of all existing businesses to the new regime. The transitional provisions have been specifically incorporated in all the three GST Acts/Rules.

5.1.2.1 GST Registrations

As per the GST Act, every taxpayer with turnover of above ₹10 lakh (enhanced to ₹20 lakh with effect from 01 April 2019 in respect of dealers dealing with sale of goods only) has to be registered under GST.

The category wise registrations under GST as on March 2023 are shown in **Table 5.1.4**.

Table 5.1.4: Registered taxpayers under GST

Types of Taxpayers	Number of dealers	Percentage of total
Normal Taxpayers	7,615	76.18
Composition Taxpayers	1,954	19.55
Tax Deductors at Source (TDS)	326	3.26
Tax Collectors at Source (TCS)	98	0.98
Input Service Distributors (ISD)	3	0.03
Others (casual, NRTP, OIDAR)	0	0.00
Total Registrants	9,996	100.00

Source: Information provided by State Taxation Department

The total registrations under GST in Nagaland as on March 2023 was 9,996 of which, normal taxpayers accounted for 76.18 per cent, TDS accounted for 3.26 per cent and others (including TCS, composition taxpayers and ISD) accounted for 20.56 per cent.

5.1.2.2 State GST Revenue

The comparison of budget estimates and the corresponding actual collection of GST during the period from 2017-18 to 2022-23 is shown in **Table 5.1.5**.

Table 5.1.5: Revenue from GST during 2017-18 to 2022-23

(₹ in crore)

Year	Budget Estimate (BE)	Revised Estimate (RE)	Actuals
	State GST	State GST	State GST
2017-18	-	140.66	187.57
2018-19	250.00	301.21	469.64
2019-20	340.37	491.36	613.22
2020-21	541.25	462.94	663.81
2021-22	726.72	895.00	830.34
2022-23	957.65	975.00	959.09

Source: Budget documents and Finance Accounts of the respective years

It could be seen from the above table that the actual collection of revenue from SGST during 2017-18 to 2020-21 was more than the target as projected in the revised estimates whereas SGST collection during 2021-22 and 2022-23 was short of the target as projected in the revised estimates for the respective years.

5.1.2.3 Compensation under SGST

As per the Goods and Services Tax (Compensation to States) Act 2017, States will be compensated for the shortfall in revenue arising on account of implementation of the GST considering an annual growth of 14 per cent from the base year 2015-16, for a period of five years. During 2022-23, the State Government did not receive any compensation under GST (Compensation) Act 2017.

5.1.2.4 Trends of Integrated GST apportionment to the State

IGST collected will be apportioned between the Centre and the State where the goods or services are consumed. The revenue will be apportioned to the Centre at the CGST rate, and the remaining amount will be apportioned to the consuming State.

The trends of IGST apportionment to the State are shown in **Table 5.1.6**.

Table 5.1.6: Integrated Goods and Services Tax

(₹ in crore)

IGST component	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
IGST apportioned to the State as per Section 17 of IGST Act 2017	133.27	331.41	457.98	451.65	617.57	720.50
IGST provisionally/ad-hoc apportioned to the State	11.00	41.78	10.56	24.33	25.30	15.71

Source: Information provided by the Department

5.1.2.5 GST Return filing pattern

The filing of GSTR-1 and GSTR-3B returns is mandated under Section 37 and 39(1) of the NGST Act. The system envisages that both the returns are linked to enable the assessing officer to accurately assess the tax dues of the dealer, for a particular month.

The trends of filing of GSTR-1 and 3B as on 31 March 2023 for the period from April 2022 to March 2023, as compiled from the information furnished by the Department, is depicted in the following **Table 5.1.7**.

Table 5.1.7: Filing pattern of GSTR-1 and GSTR-3B

Return Type	GSTR-1			GSTR-3B				Returns filed by due date	Per cent filed by due date
	Month	Due for filing	Return filed	Return filing per cent	Due for filing	Returns filed as on the last day of the report period	Return filing per cent		
April 2022	6,106	5,440	89	6,106	5,527	91	Data not available	Data not available	
May 2022	6,184	5,508	89	6,184	5,593	90			
June 2022 (Monthly)	6,268	5,581	89	6,268	5,674	91			
June 2022 (Quarterly)	1,178	1,066	90	1,178	1,117	95			
July 2022	6,325	5,629	89	6,325	5,711	90			
August 2022	6,418	5,705	89	6,418	5,782	90			
September 2022 (Monthly)	6,462	5,860	91	6,462	5,849	91			
September 2022 (Quarterly)	1,200	1,134	95	1,200	1,132	94			
October 2022	6,546	5,894	90	6,546	5,883	90			
November 2022	6,648	5,936	89	6,648	5,927	89			
December 2022 (Monthly)	6,661	5,951	89	6,661	5,930	89			
December 2022 (Quarterly)	1,219	1,155	95	1,219	1,148	94			
January 2023	6,715	5,912	88	6,715	5,904	88			
February 2023	6,117	5,934	97	6,117	5,920	97			
March 2023 (Monthly)	6,161	5,930	96	6,161	5,898	96			
March 2023 (Quarterly)	1,188	1,153	97	1,188	1,138	96			

Source: Information provided by Department

It can be seen from the above table that filing of GSTR-1 increased from 89 per cent in April 2022 to 97 per cent in March 2023 and filing of GSTR-3B increased from 91 per cent in April 2022 to 96 per cent in March 2023.

5.1.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2023 on seven principal heads of revenue amounted to ₹8.09 crore out of which ₹2.84 crore was outstanding for more than five years as shown in **Table 5.1.8**.

Table 5.1.8: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2023	Amount outstanding for more than five years as on 31 March 2023
1.	Nagaland Value Added Tax	3.11	1.43
2.	Petroleum Tax	4.84	1.28
3.	Central Sales Tax	0.01	0.01
4.	Purchase Tax	0.00	0.00
5.	Professional Tax	0.04	0.03
6.	Nagaland Sales Tax	0.09	0.09
7.	GST	0.00	0.00
Total		8.09	2.84

Source: Departmental figures

Recommendation: The Department may review the arrears and take action for recovery under the law.

5.1.4 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department in respect of Sales Tax/VAT on Sales, Trades etc. are shown in **Table 5.1.9**.

Table 5.1.9: Arrears in assessments

Head of Revenue	Opening Balance of arrears in assessment as on 1 April 2022	New cases due for assessment during 2022-23	Total assessment due	Cases disposed-off during 2022-23	Balance at the end of the 31 March 2023	Percentage of cases disposed to the total assessment due
	(in number)					(in per cent)
1	2	3	4	5	6	7 (5 to 4)
Taxes/VAT on Sales, Trades, etc.	783	216	999	451	548	45

Source: Departmental figures

The arrears in assessment decreased by 30 per cent from 783 to 548 cases with the addition of 216 cases, which became due for assessment during 2022-23 and 451 cases were disposed of (45 per cent of the total assessment due) during the year.

5.1.5 Pendency of Refund Cases

The number of refund cases under Sales Tax/NVAT and State GST pending at the beginning of the year 2022-23, claims received during the year, refunds allowed

during the year and the cases pending at the close of the year 2022-23 as reported by the Department are shown in **Table 5.1.10**.

Table 5.1.10: Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales Tax/VAT		State GST	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	-	-	34	1.41
2.	Claims received during the year	-	-	31	3.46
3.	Refunds made during the year	-	-	19	0.36
4.	Refunds rejected during the year	-	-	7	0.13
5.	Balance outstanding at the end of the year	-	-	39	4.39

Source: Information furnished by the Department

As can be seen from **Table 5.1.10** above, out of the total 65 pending refund cases valued at ₹4.87 crore under the State GST, 19 cases valued at ₹0.36 crore (7.39 per cent) were refunded and seven cases valued at ₹0.13 crore were rejected. The Department, however, did not make any interest payments for the 19 refund cases settled during the year. The balance 39 cases involving ₹4.39 crore (90.14 per cent) under the State GST were yet to be refunded at the end of the year (March 2023).

Under Section 56 of the NGST Act, the Taxation Department is liable to pay interest at the rate of six per cent per annum, if any tax ordered to be refunded to the applicant is not refunded within 60 days from the date of receipt of application. As such, the Department may expedite the process of refund in such cases which are outstanding to avoid payment of interest on delayed refund.

Recommendation: *The Department may put in place a mechanism to monitor pendency of refund cases to ensure that there is no delay in refund dues and the payment of interest may be avoided.*

5.1.6 Cases of evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Department, cases finalised and the demands for additional tax raised were requisitioned (July 2023) from the Commissioner of State Taxes, Nagaland, Dimapur. The Commissioner of State Taxes, Nagaland, Dimapur replied (July 2023) that no evasion of tax was detected.

5.1.7 Response of the Government/Departments towards Audit

The Principal Accountant General (Audit), Nagaland conducts periodical inspection of the Government departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and which are not settled on the spot, are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the Offices/Departments are required to promptly comply with the observations contained in the IRs, rectify the defects, omissions and report compliance through initial reply to

the Principal Accountant General (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Department and the Government for response. If replies to such serious and important audit observations are not found acceptable/convincing, these are included in the Report of the C&AG of India.

IRs issued upto March 2023 revealed that 402 paragraphs involving ₹411.36 crore relating to 94 IRs remained outstanding. Such details along with the corresponding figures for the preceding two years are shown in **Table 5.1.11**.

Table 5.1.11: Details of outstanding audit observations

Particulars	March 2021	March 2022	March 2023
Number of outstanding IRs	84	91	94
Number of outstanding audit observations	353	392	402
Amount involved (₹ in crore)	396.90	408.93	411.36

Source: IRs of Revenue Sector

5.1.7.1 Outstanding Inspection Reports and Audit Observations

The Department-wise details of the IRs and audit observations outstanding as on 31 March 2023 and the amount involved are shown in **Table 5.1.12**.

Table 5.1.12: Department-wise details of IRs and audit observations outstanding

Sl. No.	Name of Department	Name of Receipts	No. of outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade, etc.	37	257	174.05
2.	Finance	Miscellaneous General Services/Lottery	6	22	216.03
3.	Transport	Taxes on Vehicles/Taxes on Goods & Passengers	43	104	17.51
4.	Forest & Environment	Forest & Wildlife	8	19	3.77
Total			94	402	411.36

Source: IRs of Revenue Sector

The pendency of IR due to non-receipt of replies was indicative of the fact that the Heads of Offices/Departments had not initiated necessary action to rectify the defects, omissions and irregularities pointed out by the Principal Accountant General (Audit) in the IRs.

Recommendation: The State Government may consider putting in place an effective system for prompt and appropriate response to audit observations.

5.1.7.2 Departmental Audit Committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees are constituted by the Government. These Committees are chaired by the Secretaries of the Administrative Departments concerned and attended by the officers concerned of the State Government and officers of the Principal Accountant General (Audit), Nagaland. The Audit Committees need to meet regularly in order to expedite clearance of the outstanding audit observations.

During 2022-23, the outstanding audit observations were taken up with the State Government wherein 32 Management Letters were issued by the Principal Accountant General (Audit). However, no Audit Committee meeting was convened during the period to clear the outstanding audit observations.

Recommendation: The State Government may ensure holding of regular meetings of the Audit Committees for ensuring effective remedial action on the audit observations.

5.1.7.3 Follow up on the Audit Reports-summarised position

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 C&AG 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 Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately.

Nineteen paragraphs¹, two Performance Audits² and one Subject Specific Compliance Audit³ (SSCA) included in the Reports of the C&AG on the Revenue Sector of the GoN for the years 31 March 2016 to 31 March 2022 were placed before the State Legislative Assembly between March 2017 and September 2023.

PAC discussed (during August 2019 to April 2021) nine paragraphs⁴ pertaining to the Reports of the years March 2016 to March 2019. Of these, two paragraphs were dropped following the departments' reply; recommendations made by the PAC were accepted and action taken by the Government for five paragraphs, and the PAC gave recommendations for two paragraphs, which are pending presentation in the State Legislative Assembly. The Departments did not furnish *suo-moto* explanatory notes to the Principal Accountant General (Audit) through the Nagaland Legislative Assembly Secretariat in respect of paragraphs/reviews which appeared in the Audit Reports.

During 2022-23, no PAC meeting was held and no Action Taken Note was received.

5.1.8 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the Departments/Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for Taxation Department was evaluated.

¹ Three paragraphs of Audit Report 2015-16, three paragraphs of Audit Report 2016-17, three paragraphs of Audit Report 2017-18, two paragraphs of Audit Report 2018-19, five paragraphs of Audit Report 2019-20 and three paragraphs of Audit Report 2020-22.

² Two Performance Audits in Audit Report 2015-16 *viz.* Nagaland State Lotteries and Computerisation of Motor Vehicle Department.

³ One SSCA in Audit Report 2019-20 *viz.* Processing of refund claims under Goods and Service Tax.

⁴ Three paragraphs each of Audit Reports 2015-16, 2016-17 and 2017-18.

The succeeding **Paragraphs 5.1.8.1** and **5.1.9** discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted and also the cases included in the Audit Reports for the years 2017-18 to 2022-23.

5.1.8.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years and their status as on 31 March 2023 are shown in **Table 5.1.13**.

Table 5.1.13: Position of Inspection Reports

(₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value
2018-19	71	324	404.63	9	49	23.10	2	55	50.77	78	318	376.96
2019-20	78	318	376.96	12	65	40.83	6	21	12.73	84	362	405.06
2020-21	84	362	405.06	2	11	3.03	2	20	11.17	84	353	396.92
2021-22	84	353	396.92	7	46	17.78	0	7	5.77	91	392	408.93
2022-23	91	392	408.93	3	15	3.92	0	5	1.48	94	402	411.37

Source: IRs of Revenue Sector

It is evident from the above table that against 71 outstanding IRs with 324 paragraphs as on 01 April 2018, the number of outstanding IRs increased to 94 with 402 paragraphs at the end of March 2023. The Department needs to take adequate steps to settle the outstanding IRs to avoid accumulation of the IRs and paragraphs.

5.1.9 Recovery in cases accepted by the Departments

The position of paragraphs included in the C&AG's Audit Reports of the last five years, those accepted by the Departments and the amounts recovered are shown in **Table 5.1.14**.

Table 5.1.14: Position of recovery of accepted cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year
2017-18	3	19.86	1	3.34	0.05
2018-19	2	21.02	0	0.00	0.00
2019-20	5	31.42	0	0.00	0.00
2020-22	3	25.61	1	7.47	2.48
Total	13	97.91	2	10.81	2.53

Source: Previous C&AG Reports

From the above table, it may be seen that during the last five years, the Department accepted paragraphs with an amount of ₹10.81 crore as against which, they recovered only ₹2.53 crore. Thus, it is evident that the progress of recovery even in accepted cases was very slow during the last five years.

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

5.1.9.1 Action taken on recommendations accepted by Government

The draft Reports of the Performance Audits (PAs) conducted by the Principal Accountant General (Audit) are forwarded to the departments concerned/Government to furnish their replies. These PAs are also discussed during the exit conference and views of departments/Government are taken into account while finalising PAs for inclusion in C&AG Audit Reports. Besides, audit also makes recommendations against some specific issues brought out in the paragraphs wherever felt appropriate.

During 2015-16, two PAs under Revenue Sector were highlighted in the C&AG's Audit Report wherein nine recommendations were made for consideration by the Government. The Government reported that action was taken in respect of the recommendations which featured in the PAs (details are given in *Appendix 5.1.1*). No PA on Revenue Sector was conducted during 2016-17 to 2022-23.

5.1.10 Audit Planning

The offices under various departments are, for the purpose of audit, categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* include critical issues in government revenues and tax administration *i.e.*, budget speech, white paper on State Finances, Reports of the Finance Commission (State & Central), recommendations of the Taxation Reforms Committee, statistical analysis of revenue earnings during the past five years, factors of tax administration, audit coverage and its impact during past five years.

Out of 22 auditable units, no auditee units were planned for audit during 2022-23. however, a Subject Specific Compliance Audit on Departments' oversight on GST payments and Return filing in Nagaland was conducted during 2022-23.

5.1.11 Coverage of this chapter

This chapter contains one Subject Specific Compliance Audit Paragraph on Departments' oversight on GST payments and Return filing in Nagaland.

Subject Specific Compliance Audit

FINANCE (TAXATION) DEPARTMENT

5.2 Departments' oversight on GST payments and Return filing in Nagaland

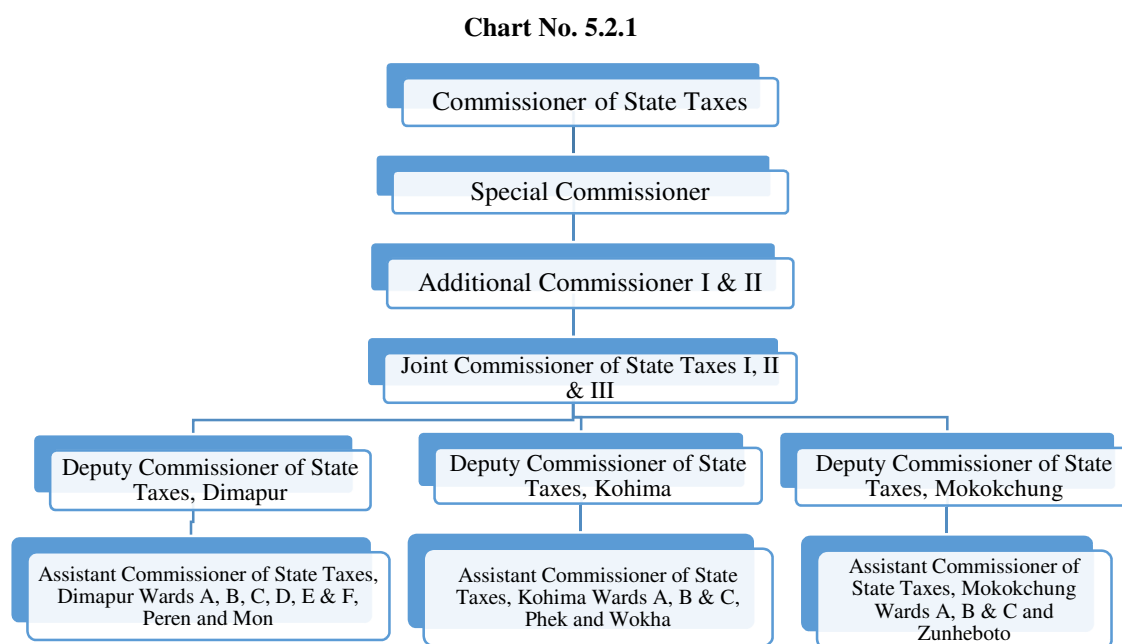
5.2.1 Introduction

Goods and Service Tax (GST) came into effect from 01 July 2017 replacing multiple taxes levied and collected by the Centre and States. GST 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.

The norms of GST necessitate that every registered taxable person shall self-assess the taxes payable, pay the same and furnish a return for each tax period. GST returns must be filed online regularly on the common GST portal, failing which penalties will apply. Even if the business has had no tax liability during a particular tax period, it must file a 'nil' return mandatorily. According to the nature and unique features of business categories, different formats are prescribed for the returns by each category of taxpayers like normal taxpayer, composition taxpayer, casual taxpayer, non-resident taxpayer, e-commerce operators, and the periodicity of returns filing also changes accordingly.

5.2.1.1 Organisational set up

The Commissioner of State Taxes is the head of the Department of State Taxes. He exercises overall control and supervision of the entire tax administration in the State. The Commissioner is assisted by one Special Commissioner, one Additional Commissioner and three Joint Commissioners in the Directorate. For efficient tax administration, the State is also divided into three Zones each headed by a Deputy Commissioner of State Taxes. The organisational set up of the Department of State Taxes, Nagaland under GST regime is shown in **Chart 5.2.1**.



Source: Departmental records

5.2.2 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 Return filing' was taken up with the following audit objectives to seek an assurance on:

- Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and

- Whether the scrutiny procedures, internal audit and other compliance functions of the Departmental field formations were adequate and effective.

5.2.3 Audit scope

The scope of audit comprised examination of taxpayers' compliance, scrutiny process and subsequent follow up carried out by the Department on returns filed by the registered taxpayers. In addition, the SSCA included review of records of a sample of taxpayers for the year 2017-18. The scope of this SSCA also included examination of the functions of selected Departmental field formations (Wards).

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 four selected Wards covered the period from July 2017 to March 2021. The SSCA covered only the State administered taxpayers. The field audit was conducted from April 2022 to December 2022.

Entry conference of this SSCA was held on 29 April 2022 with the Department in which the audit objectives, sample selection, audit scope and methodology were discussed. The exit conference was held on 14 July 2023 with the Department in which the audit findings were discussed. The replies received from the Department have been suitably incorporated in the relevant paragraphs.

5.2.4 Audit methodology and Sample selection

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 Wards for evaluating the compliance functions of the Wards.

There were three distinct parts of this SSCA as under:

(i) Part I- Audit of Wards

For the purpose of evaluation of oversight functions, four Wards⁵ with jurisdiction over highest number of selected samples for Detailed Audit were considered as the sample for audit of Wards.

(ii) Part II- Centralised Audit

Audit analysed GST returns data pertaining to 2017-18 as made available at GSTN premises and identified a set of deviations and logical inconsistencies between GST returns filed by tax payers. A set of 10 parameters were identified such as mismatch of ITC availed between annual returns and books of accounts, and short payment of interest. Audit selected a sample of 98 high risk cases for assessing the adequacy and effectiveness of the scrutiny procedures of the Department.

⁵ Kohima Ward B, Dimapur Wards A, B and E

(iii) Part III-Detailed audit

Audit selected 15 taxpayers for detailed audit which involved field visits for verification of records available with the seven⁶ Wards. Taxpayers' records like returns and related attachments and information were accessed through Wards for assessing the extent of tax compliance by taxpayers. Efforts were made to access the relevant granular records from the taxpayers on a risk-based approach such as invoices through the respective Wards.

The details of audit sample for centralised audit, detailed audit and for audit of Wards are brought out in *Appendix 5.2.1*.

5.2.5 Audit criteria

The source of audit criteria comprised the provisions contained in the NGST Act, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by the State Tax Department relating to filing of returns, rates of tax on goods and services, payment of tax, availing and utilising ITC, scrutiny of returns and oversight of tax compliance also formed part of the audit criteria.

5.2.6 Compliance verification mechanism of the Department

Four systemic areas were identified for examination in audit viz **(i) effectiveness of scrutiny of returns (ii) effectiveness of internal audit (iii) action on late-filers and non-filers (iv) cancellation of registration**. Accordingly, relevant information was called for from the selected four Wards. The role of Ward is to ensure compliance by taxpayers in respect of accuracy of the taxable value declared, calculation and payment of tax liabilities and filing of returns. The Wards have a broad set of functions to be exercised in this regard, which were assessed as part of this SSCA. During such verification, the following shortcomings were noticed:

5.2.6.1 Effectiveness of scrutiny of returns

Section 61 of the NGST Act, 2017 stipulates that the Proper Officer may scrutinise the return and related particulars furnished by the taxpayers to verify the correctness of the returns and information. Under Rule 99 of NGST Rules, 2017, discrepancies noticed, if any, are to be communicated to the taxpayer for seeking their explanation. If the explanation offered is found acceptable by the Proper Officer, the proceeding shall be dropped, the taxpayer shall be informed accordingly and no further action in the matter shall be taken. However, if the taxpayer does not furnish a satisfactory explanation within 30 days of being informed (extendable by the Proper Officer) or does not take any corrective measures, the Proper Officer may initiate appropriate action, including the issue of demand notices under Section 73 or Section 74 of the Act or refer the matter to Departmental internal audit, special audit or anti evasion wing. With a view to assessing whether due process was followed in the scrutiny of returns, Audit examined all the **183 cases** of scrutiny conducted by the four selected Wards and observed the following irregularities:

⁶ Dimapur Ward A to E, Wokha Unit and Kohima Ward B

- **Lack of detailed guidelines for scrutiny of returns:** Information regarding guidelines/mechanism/SOP devised by State GST Department for scrutiny of returns was sought for by Audit (August 2022). As per reply received from the Department (October 2022), no specific guideline on scrutiny of GST returns was issued. Since scrutiny of returns is a core function, vital for ensuring compliance to tax rules and regulations and for preventing leakage of revenue, there is a need for proper/standardised set of guidelines/mechanism. The Department further replied (December 2023) that SOP for Scrutiny of Returns has been issued in September 2023.
- **Deficiencies noticed in closed cases:** Out of 183 cases where returns were scrutinised, by the Proper Officers in the four selected Wards, there were 19 cases which were closed by the Department. Audit scrutiny of these 19 closed cases revealed that in five cases, the tax liability was partially discharged by the taxpayers and in six other cases, interest was not paid or partly paid as shown in *Appendix 5.2.2*. In reply (December 2023), the Department stated that in four out of six cases, interest was recovered from the taxpayers concerned.
- **Deficiencies in non-finalised cases:** During 2017-18 to 2020-21, the Proper Officers scrutinised 183 cases and issued ASMT-10⁷ in the four selected Wards. It was noticed that replies to 154 out of 183 cases had not been submitted by the taxpayers even after a lapse of 515 to 1,078 days from the date of issue of ASMT-10. However, the Proper Officers had not determined tax and other dues under Section 73 or Section 74 of the Act or referred the cases for Departmental audit or the anti-evasion wing to initiate further proceedings on the dealers. The tax/ITC implication in these cases was ₹10.94 crore as shown in *Appendix 5.2.3*. The observation was communicated (November 2022) to the Department. In reply (December 2023), the Department stated that reversals/recoveries were made in 11 out of 154 cases and the remaining cases are under process.

Recommendation: The Department may follow the detailed guidelines/SOP for selection of returns for scrutiny based on risk parameters and follow the detailed procedures for scrutiny of returns in a time-bound manner.

5.2.6.2 Effectiveness of Internal Audit

Section 65 of the NGST Act stipulates that the Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. Section 2 (13) of the NGST Act defines “Audit” as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the Rules made thereunder or under any other law for the time being

⁷ conveying discrepancies in Returns filed by Taxpayers and seeking explanations to be submitted on the date specified in the notice.

in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the Rules made thereunder.

Information regarding conduct of internal audit, guidelines and mechanism devised by the State Taxes Department for internal audit during the period from 2017-18 to 2020-21 was sought for by Audit (August 2022). In reply (October 2022), the Department stated that the process for commencement of internal audit is under way. The Department further replied (December 2023) that for Audit, the relevant provisions under the Act & Rules was followed as Audit Manual is readily accessible and available in the back office.

Recommendation: The Department may take prompt steps to initiate the audits under Section 65 of the Act so that timely action could be initiated against the defaulters before time-barring of cases.

5.2.6.3 Action on late-filers and non-filers

Section 46 of the NGST Act read with Rule 68 of NGST Rules requires issuance of a notice in Form GSTR-3A to taxpayers who fail to furnish returns (GSTR-1, GSTR-3B) requiring them to furnish returns within fifteen days. Further, Section 62 of the NGST Act stipulates that where a registered person fails to furnish his return even after the service of notice, the Proper Officer may proceed to assess the tax liability of the said person to the best of his judgement in ASMT-13 (best judgement assessment order). Audit accessed the profile of taxpayers and returns filed by taxpayers of the four selected Wards during 2017-18 to 2020-21 from the GST Portal and observed the following irregularities:

- (a) There were 40,740 GSTR-3B returns filed by due date, 21,026 returns not filed and 60,782 returns filed after due date.
- (b) Notice in GSTR-3A was issued in 1,211 out of 21,026 cases of GSTR-3B non-filers and the best judgement assessment procedure was not completed. On being pointed out, the Department replied (August 2022) that the returns were filed by the taxpayers after GSTR-3A was issued. However, Audit observed that returns were not filed even after a lapse of 485 to 683 days.
- (c) The Department did not initiate action on the remaining non-filers by issuing GSTR-3A and best judgement orders in ASMT-13⁸. The Department has accepted the audit observation.

The observation was communicated (November 2022) to the Department. No specific reply was received (December 2023).

⁸ Order in best judgement assessment initiated by the Department if a tax payer (GST registered entities) fails to file returns within prescribed time limit.

5.2.6.4 Cancellation of Registration

In the four Wards selected for audit, there were 601 cases of cancellation during 2017-18 to 2020-21 of which 326 cases were *suo-moto* cancellations and 275 cases were cancelled on request by the taxpayers. Audit observations regarding cancellation of taxpayer registrations are as follows:

(I) Date of cancellation prior to date of application

Rule 20 of the NGST Rules 2017 read with Circular No. 04/2018-GST dated 26 October 2018 provides that the taxpayer applying for cancellation of registration shall submit the application in Form GST REG-16 on the GST 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.

Scrutiny of records revealed that 170 out of 275 cases of cancellation on taxpayers’ request were cancelled with effect from dates prior to the date of application of the taxpayer as shown in **Appendix 5.2.4**. The observation was communicated (November 2022) to the Department. In reply (December 2023), the Department admitted that the effective date of cancellation was mistakenly approved from dates prior to the date of application of the taxpayer.

(II) Delay in issuance of cancellation order

Rule 22 of the NGST Rules states that cancellation order in form REG-19 is to be issued within 30 days from the date of application made by the taxpayers or date of reply to REG-17 in case of *suo-moto* cancellation. Rule 22(3) of the NGST Rules provides that where a person who has submitted an application for cancellation of his registration is no longer liable to be registered, the Department shall issue an order in form GST REG-19, within a period of thirty days from the date of application or, as the case may be, the date of the reply to any show cause issued, cancel the registration with effect from a date to be determined by Department and notify the taxable person, directing him to pay arrears of any tax, interest or penalty including the amount liable to be paid under sub-section (5) of Section 29.

Audit observed that in 249 out of 601 cases of cancellation, there were delays in issuance of REG-19⁹ ranging from 01 to 929 days. Audit further observed that the reason for delay in cancellation was because the Department did not monitor the cancellation process. The observation was communicated (November 2022) to the Department. In reply (December 2023), the Department stated that option for issuing SCN was disabled in the system which caused the delay in cancellation.

⁹ Order of cancellation.

(III) Reason for dropping of proceedings for cancellation not in GSTN Portal

The provisions of Rule 22(4) of the NGST Rules regulate the issuance of orders in Form GST REG-20 for dropping the proceedings of GST registration cancellation process.

Audit observed that in 326 *suo- moto* cases under four Wards, in 35 cases proceedings were dropped after issue of Form REG-17 on the basis of the reply given by the taxpayers during the proceeding for cancellation. However, Audit could not examine whether the dropping of proceedings was done as per the relevant provisions of NGST Rules as Form REG-20 was not available in the GST Portal.

The observation was communicated to the Department (November 2022). In reply (December 2023), the Department stated that in cases where applications of cancellations were received manually, the records were uploaded after verifying that all pending returns are filed. Therefore, Form REG-20 was not available in the GST Portal due to uploading of records at a later stage after verification of manual applications by the Proper Officer.

(IV) Follow-up action on non-filing of GSTR-10

As per Section 45 of the NGST Act 2017, GSTR-10 has to be filed by the taxpayer 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. F.NO.FIN/REV-3/GST/1/08(Pt-1) (Vol-1)/297 dated 26 October 2018.

Further, as per Section 46 of the NGST Act, GSTR-3A has to be issued to the taxpayer, where GSTR-10 has not been filed. If the taxpayer still fails to file the final return within 15 days of the receipt of notice, an assessment order in FORM ASMT-13 under Section 62 of the NGST Act read with Rule 100 of the NGST 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 of the date of service of the 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. If the said return remains unfurnished within the statutory period of 30 days from the issuance of order ASMT-13, then the Department may initiate proceedings under Section 78 and recovery under Section 79 of the NGST Act.

As mentioned in **Paragraph 5.2.6.4** above, there were 601 cases of cancellation of registration during 2017-18 to 2020-21. Audit observed that GSTR-10 was filed in only 53 cases. Audit also observed that the Department had no information/reports to track the filing of GSTR-10 by the taxpayers and thus recovery proceedings of tax liability could not be initiated by the Wards. Audit further observed that best

judgement orders in ASMT-13 were also not issued by the Department as a result of which tax liability, if any, could not be recovered.

The observation was communicated to the Department (November 2022). In reply (December 2023), the Department stated that the taxpayers who had not filed GSTR-10 are identified and GSTR-3A notices are being issued.

5.2.7 Centralised audit

Audit analysed GST returns 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 10 risk parameters, which can be broadly categorised into two domains - ITC and Tax payments.

Out of the 13 prescribed GST returns,¹⁰ 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-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 ₹five crore 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.
- 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

¹⁰ 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).

overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

5.2.7.1 Audit findings based on Data Analysis

The data analysis pertaining to State jurisdiction on the 10 identified parameters and extent of deviations/inconsistencies observed are summarised in **Table 5.2.1**.

The audit observations are summarised below:

Table – 5.2.1: Summary of data analysis and extent of mismatches (Centralised Audit)

(₹ in crore)				
Sl. No.	Parameter	Algorithm used	Number of deviations/mismatches	Amount of deviations/mismatches
Domain-ITC				
1.	ITC mismatch between GSTR-2A and GSTR-3B - [D1]	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A(5) (accrued on domestic supplies) considering the reversals in Table 4B(2) but including the ITC availed in the subsequent year 2018-19 from Table 8C of GSTR- 9.	10	40.71
2.	ITC availed under Reverse Charge Mechanism (RCM) vs payment of tax in GSTR- 3B/GSTR-9 – [D2]	RCM payments in GSTR-3B Table 3.1(d) was compared 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 - tax discharged in Table 3.1(d) vis-a-vis ITC availed Table 4A(2) and 4A(3)	10	0.07
3.	Short payment of tax under RCM vs ITC availed in GSTR-3B/GSTR- 9 – [D3]	RCM payments in GSTR- 9 Table 4G (tax payable) was compared with ITC availed in GSTR- 9 Table 6C, 6D and 6F (ITC availed), In cases where GSTR-9 was not available, RCM payment in GSTR-3B Table 3.1(d) was compared with GSTR-3B 4(A)(2) and 4A(3). Greater of difference in GSTR-9 and GSTR-3B considered where both were available.	10	0.21
4.	Incorrect availing of Input Service Distributor credit – [D4]	ISD transferred in GSTR-9 Table 6G or GSTR-3B Table 4(A)(4) was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR- 6 of recipient GSTINs	8	0.17
5.	Mismatch of ITC availed between Annual returns and Books of accounts [D5]	Positive figure in GSTR-9C Table 12F and examination of reasons provided in Table 13 for mismatch	10	3.36
6.	Reconciliation between ITC availed in Annual returns with expenses in financial statements [D6]	Positive figure In GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch	10	17.24
Domain-Tax payments				
7.	Mismatch in turnover declared in GSTR-9C Table 5R – [D7]	Negative figure in GSTR-9C Table 5R and examination of reasons provided in Table 6 for mismatch	10	198.37

Sl. No.	Parameter	Algorithm used	Number of deviations/ mismatches	Amount of deviations/ mismatches
8.	Mismatch in taxable turnover declared in GSTR-9C Table 7G – [D8]	Negative figure in GSTR-9C Table 7G and examination of reasons provided in Table 8 for mismatch	10	5.88
9.	Mismatch in tax paid between books of accounts and returns – [D9]	Negative figure in GSTR-9C Table 9R and examination of reasons provided in Table 10 for mismatch	10	0.32
10.	Short payment of interest – [D10]	Interest calculated at the rate of 18 per cent on cash portion of tax payment on delayed filing of GSTR-3B vis-a-vis interest declared in GSTR-3B	10	1.12

Source: Departmental figures

5.2.7.2 Summary of deficiencies noticed during Centralised audit

Based on responses received in 98 cases of audit queries, the extent of compliance deviations in respect of the 10 parameters is summarised in **Table 5.2.2**.

Table – 5.2.2: Summary of deficiencies

(₹ in crore)

Audit Dimension	Cases where reply received		Department reply accepted to Audit		Compliance Deviation							
					Accepted by Dept. including cases where action is yet to be initiated				Department's reply not acceptable to Audit (Rebuttal)		Total	
					Recovered		SCN/ASMT 10/ Notice issued		No.	Amount		
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
<i>I</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>6+8+10</i>	<i>7+9+11</i>
Excess ITC [D1]	10	40.71	6	40.26	2 ¹¹	0.17	1	0.10	2	0.19	4	0.46
ITC RCM avail[D2]	10	0.07	4	0.01	4	0.05	1	0.00	1	0.00	6	0.05
ITC RCM Ratio[D3]	10	0.21	10	0.21	0	0.00	0	0.00 ¹	0	0.00 ²	0	0.00
ISD credit incorrectly availed by the recipients[D4]	8	0.17	8	0.17	0	0.00	0	0.00	0	0.00	-	0.00
Table 12F of Form 9C[D5]	10	3.36	7	3.15	0	0.00	2	0.18	1	0.03	3	0.21
Table 14T of Form 9C[D6]	10	17.24	10	17.24	0	0.00	0	0.00	0	0.00	-	0.00
Table 5R of Form 9C[D7]	10	198.37	7	15.54	0	0.00	3	*182.84	0	0.00	3	182.84
Table 7G of Form 9C[D8]	10	5.88	7	0.51	0	0.00	3	*5.37	0	0.00	3	5.37
Table 9R of Form 9C[D9]	10	0.32	9	0.30	1	0.02	0	0.00	0	0.00	1	0.02
Short payment of interest on delayed payments [D10]	10	1.12	0	0.00	3	0.21	7	0.91	0	0.00	10	1.12
Total	98	267.44	68	77.37	9¹²	0.45	17	189.40	4	0.22	30	190.07

* Mismatch in Turnover ₹188.21 crore (₹182.84 crore + ₹5.37 crore)

1. Amount involved is ₹28,600/-

2. Amount involved is ₹26,562/-

¹¹ Partial recovery in one case and full recovery in one case.

¹² Excluding partial recovery in one case.

Audit observed deviations in 30 cases comprising mismatch in turnover of ₹188.21 crore and a short levy of tax of ₹1.86 crore constituting 31 *per cent* of the audit sample of 98 cases. Higher rates of deviations were noticed in mismatch in turnover declared in Table 5R and 7G of GSTR-9C.

The Department's reply in 68 cases, constituting 69 *per cent* of the audit sample of 98 cases, amounting to ₹77.37 crore was acceptable to Audit. Out of these 68 cases, the data entry errors by taxpayers comprised 18 cases amounting to ₹0.42 crore (including turnover of ₹0.23 crore). The Department had proactively taken action in 25 cases amounting to ₹41.54 crore (including turnover of ₹0.44 crore) and 25 cases amounting to ₹35.41 crore (including turnover of ₹15.36 crore) had valid explanations. Details of cases in **Table 5.2.2** are given in **Appendices 5.2.5A** and **5.2.5B**.

5.2.7.3 Centralised audit- Reasons for mismatches/deviations noticed during data analysis

Considering the Department's response to 98 mismatches pointed by Audit, reasons for mismatch/deviations were identified as (a) Deviation from GST law and rules, (b) Data entry errors, and (c) Action taken before issue of queries. These reasons along with relevant observations are discussed in the succeeding paragraphs:

(I) Deviation from GST law and rules

Out of 98 deviations summarised in **Table 5.2.2** above, deviation from GST law and rules was observed in 30 cases. Cases accepted or where action was initiated by the Department comprised 26 cases. In the remaining four cases, the reply of the Department was not acceptable to Audit. Top cases are discussed in the succeeding paragraphs:

A. Cases accepted or action initiated by the Department

(i) Excess ITC availed (D1)

To analyse the veracity of ITC utilisation, 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)¹³ from Table 8C of GSTR-9.

- (a) Audit observed that a taxpayer **M/s Vikash Auto Traders** under Ward A, Dimapur had availed ITC of ₹0.22 crore in GSTR-3B against the available ITC of ₹0.11 crore as per GSTR-2A. This resulted in excess availing of ITC of ₹0.11 crore.

On being pointed out (April 2022), the Department replied (September 2022) that the excess ITC had been reversed in GSTR-3B of April-June 2022 dated 06 July 2022.

¹³ All other eligible ITC.

- (b) **M/s Ensign Constructions** under Ward E, Dimapur availed ITC of ₹0.21 crore in GSTR-3B against the available ITC of ₹0.11 crore in GSTR-2A. This resulted in excess availing of ITC of ₹0.10 crore.

On being pointed out (April 2022), the Department replied (September 2022) that show-cause notice had been issued. The Department further replied (December 2023), that the matter is under scrutiny.

(ii) Un-reconciled turnover in Table 5R of GSTR-9C (D7)

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(2) of NGST Rules 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 return *vis-à-vis* the financial statements. The unreconciled amount in cases where the turnover declared in GSTR-9 is less than 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.

M/s Food Corporation of India under Ward D, Dimapur reported a gross turnover of ₹346.91 crore in the financial statements but reported gross turnover of ₹169.44 crore in the Annual Return. Thus, Table 5R of Form 9C showed a difference of ₹177.47 crore in the gross turnover reported.

On being pointed out (April 2022), the Department replied (September 2022) that show-cause notice had been issued. The Department further replied (December 2023) that the mismatch is due to error in reporting turnover in the returns filed by the taxpayer. However, the Department did not furnish records/documents to substantiate the claim.

(iii) Un-reconciled taxable turnover in Table 7G of GSTR-9C (D8)

Table 7 of GSTR-9C is the reconciliation of taxable turnover. Column 7G of this table captures the unreconciled taxable turnover between the annual return GSTR-9 and that declared in the financial statements for the year after requisite adjustments.

M/s Bharat Sanchar Nigam Limited under Ward D, Dimapur reported a taxable turnover of ₹27.11 crore in the books of accounts but reported taxable turnover of ₹21.75 crore in the Annual Return. Thus, there was a discrepancy of ₹5.36 crore in the taxable turnover reported.

On being pointed out (April 2022), the Department replied (September 2022) that show-cause notice had been issued. The Department further replied (December 2023), that the mismatch is due to incorrect booking of liability under revenue head, and inclusion of service tax for the previous year. However, the Department did not furnish records/documents to substantiate the claim.

(iv) Un-reconciled ITC in Table 12F of GSTR-9C (D5)

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

12F of this table deals with unreconciled ITC. The certified reconciliation statement submitted by the taxpayer as required under Rule 80(2) of NGST Rules 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.

M/s Oriflame India Pvt. Ltd under Ward A, Dimapur had availed ₹2.99 crore of ITC as per the Annual Return (GSTR-9). However, in the annual financial statements ITC claimed was declared as ₹2.84 crore. Thus, there was a mismatch of ₹0.15 crore as per Table 12 F of Form 9C.

On being pointed out (April 2022), the Department replied (September 2022) that show cause notice had been issued. The Department further replied (December 2023), that the excess amount was claimed based on Form TRAN 2. However, the Department did not provide any supporting evidence.

(v) Short payment of interest (D10)

As per Section 50(1) of the NGST Act, every person who is 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, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18 *per cent*. Vide notification No. F.NO.FIN/REV-3/GST/1/08 (Pt-1)'V' dated 06/07/2017, the rate of interest on delayed payment was fixed at 18 *per cent* by the State Government. The penal interest is payable only if cash ledger balance is utilised to pay taxes. 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.

(a) **M/s B.P Associates** under Ward B, Dimapur delayed filing of GSTR-3B returns for the period August 2017 to February 2018 by 160 to 715 days. The short payment of interest of ₹0.21 crore on account of delayed payment of tax of ₹0.63 crore during 2017-18 was communicated to the Department (June 2022.) In response, the Department stated (September 2022) that show-cause notice had been issued. The Department further stated (December 2023) that the taxpayer had paid ₹0.01 crore out of ₹0.21 crore in July 2023.

(b) **M/s Greenply Industries Limited**, under Ward Mon, Dimapur, delayed filing of GSTR-3B returns for the period August to December 2017 by 19 to 92 days. The short payment of interest of ₹0.19 crore on account of delayed payment of tax of ₹8.84 crore during 2017-18 was communicated to the Department (June 2022.) In response, the Department replied (September 2022) that show-cause notice had been issued. The Department further stated (Department 2023) that the tax liability was deposited in the Electronic Cash Ledger prior to the due date even though returns were filed late. The reply is not acceptable as tax liability gets discharged only upon filing of GSTR-3B Return. The liability to pay interest arises on delayed filing

of GSTR-3B and merely depositing money in the Electronic Cash Ledger prior to the due date of filing of GSTR-3B return does not amount to discharge of tax liability on the part of the taxpayer.

- (c) **M/s Unicraft Engineering works**, under Ward A, Mokokchung, delayed filing of GSTR-3B return for the month of March 2018 by 151 days. The short payment of interest of ₹0.15 crore on account of delayed remittance of tax of ₹2.04 crore was communicated to the Department (June 2022.) In response, the Department replied (September 2022) that notice had been issued. The Department further stated (December 2023) that GSTIN 13AFRPT2534G2ZA was cancelled in July 2019 owing to the death of the proprietor and a new GST Registration No. 13ADCPL95671ZF was obtained. In view of the audit observation against the cancelled GSTIN, the tax liability of ₹0.15 crore was paid in October 2022 through the new GSTIN.
- (d) **M/s NEC Energy Private Limited** under Ward A, Kohima delayed filing of GSTR-3B returns for the period August 2017 to March 2018 by 03 to 171 days. The short payment of interest of ₹0.10 crore on account of delayed remittance of tax of ₹2.24 crore during 2017-18 was communicated to the Department (June 2022.) In response, the Department replied (September 2022) that ASMT-10 had been issued. The Department further stated (December 2023) that late filing of GSTR-3B return was due to the delay in release of bill by the Government of Nagaland and requested to drop the paragraph. The reply is not acceptable as the taxpayer must adhere to timely filing of returns.
- (e) **M/s Viu Angami & sons**, under Ward A, Kohima, delayed filing of GSTR-3B returns for the period December 2017 to March 2018 by 166 to 243 days. The short payment of interest of ₹0.09 crore on account of delayed remittance of tax of ₹0.91 crore during 2017-18 was communicated to the Department (June 2022.) In response, the Department replied (September 2022) that ASMT-10 had been issued. The Department further stated (December 2023) that the taxpayer had paid ₹0.09 crore in April 2023.

B. Cases where Department's reply is not acceptable to Audit

The Department has not accepted four deviations out of 98 deviations pointed out by Audit. In these four cases, the Department's reply was not acceptable to Audit. Details of these cases along with the audit rebuttal are featured in **Appendix 5.2.6**. A case is illustrated below:

M/s Golden Traders under Ward A, Dimapur availed ITC of ₹0.28 crore in GSTR-3B against the ITC available in GSTR-2A of ₹0.13 crore during 2017-18. This resulted in mismatch in ITC of ₹0.15 crore.

On being pointed out (April 2022), the Department replied (September 2022) that no excess ITC was claimed by the dealer. The reply is not acceptable as the Department did not provide any supporting evidence such as invoices for availing ITC over and

above the amount admissible as per GSTR-2A. The Department replied (December 2023) that the taxpayer was directed to produce supporting invoices.

(II) Cases of data entry errors

As summarised in **Table 5.2.2** above, there were data entry errors in 18 cases constituting 18 *per cent* of total 98 responses received from the Department. Details of these cases are given in **Appendix 5.2.7**. An illustrative case is discussed below:

M/s Dimapur Agency Centre under Ward D, Dimapur reported a taxable turnover of ₹2.02 crore in the books of accounts but reported taxable turnover of ₹1.82 crore in the Annual Return. Thus, Table 7G of Form 9C shows a discrepancy of ₹0.20 crore in the taxable turnover reported.

On being pointed out (April 2022), the Department replied (September 2022) that the actual turnover was ₹1.82 crore after adjustment of credit notes. The turnover in GSTR-9 was less than the turnover in GSTR-9C as adjustment of credit notes of ₹0.20 crore was erroneously done twice in GSTR-9.

(III) Cases where action was taken before issue of Audit Queries

As summarised in **Table 5.2.2** above, the Department had already taken action in 25 cases constituting 25.51 *per cent* of 98 responses received as detailed in **Appendix 5.2.8**. A case where action was taken before audit intervention is illustrated below:

Audit observed that **M/s A & L Traders** under Ward B, Mokokchung availed ITC of ₹39.05 crore in GSTR-3B against the available ITC of ₹0.21 crore as per GSTR-2A during 2017-18. This resulted in excess availing of ITC of ₹38.84 crore.

On being pointed out (April 2022), the Department replied (June 2022) that excess ITC had been reversed by the taxpayer during February-March 2020.

5.2.7.4 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. Based on the results of desk review, detailed audit was conducted by requisitioning corresponding granular records from the Department such as financial ledgers and invoices to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

(I) Scope limitation

The details of non-production and partial production of records are summarised in the following paragraphs:

(a) Non-production of records

Audit requisitioned records of 15 taxpayers for detailed audit. The jurisdictional Wards did not produce records such as financial statements, invoices and agreement copies, required for examining the reasons for mismatches of ITC and tax liability in 13 out of 15 sampled cases constituting 87 *per cent* of the sample size. Therefore, risks relating to mismatches in ITC claimed and undischarged liability of ₹21.01 crore could not be examined in detail by Audit. The abstract of the mismatches/undischarged liability is shown in **Table 5.2.3**:

Table 5.2.3 – Abstract of ITC mismatch and undischarged tax liability where records not produced

Sl. No.	Parameter	No of cases	No of Wards	(₹ in crore)
				Amount of mismatches
1	ITC mismatch between GSTR- 2A and GSTR-3B	9	5	15.95
2	Mismatch in ITC availed under RCM	1	1	1.13
3	Undischarged Tax liability as per GSTR-9 Table 9	2	2	1.99
4	Mismatch between GSTR-1 and GSTR-3B liability	5	2	1.94
Total				21.01

Source: Departmental records

The audit observation was communicated to the Department (December 2022). Case-wise details are shown in **Appendix 5.2.9**. The Department replied (December 2023) that with the advent of GST, no physical records of the taxpayers were maintained in the office and taxpayers were hesitant to provide records to the C&AG as no specific provision is available under GST Act. Section 16 of the C&AG's DPC Act, 1971 empowers C&AG to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having Legislative Assembly. Therefore, it is the duty of the Department to obtain and furnish relevant records to Audit, as also, since the cases have been red flagged on the basis of identified risks.

(b) Partial production of records

In the remaining two cases, records were partially produced as granular taxpayer records such as invoices and agreement, were not provided. The list of cases of partial production is shown in **Table 5.2.4**:

Table-5.2.4-List of cases in which partial records are produced

(₹ in crore)

GSTIN	Name of the taxpayer	Ward	List of records not produced	Mismatch amount
13AAACS8577K4ZV	M/s State Bank of India	Dimapur Ward D	Supplementary financial ledgers, invoices	2.43
13AAHCS6024L1ZB	M/s Shyama Power India Ltd	Dimapur Ward A		0.66
Total				3.09

Source: Departmental records

As can be seen from the above table, there was a mismatch of ₹3.09 crore on account of ITC and undischarged liability. However, during Audit, only partial records were made available, which prevented a detailed examination of the risks associated with these mismatches.

Audit observation was issued to the Department (December 2022). The Department replied (December 2023) that the remaining records will be produced on receipt of the same from the taxpayers.

Recommendation: The State Government may instruct the departmental units for ensuring timely and complete production of records to Audit.

(II) Lack of action on non-filers of GST returns

Rule 80 of NGST Rules envisages that every registered person whose aggregate turnover during a financial year exceeds two crore rupees shall get his accounts audited and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C along with annual return filed in FORM GSTR-9. Section 46 of the SGST Act, 2017, read with Rule 68 of the SGST Rules, 2017, stipulates issue of a notice in FORM GSTR-3A followed by issue of an assessment order in FORM ASMT-13, if the taxpayer fails to file return within fifteen days of notice. A summary of such order should be uploaded in the system in FORM DRC-07. 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.

Audit scrutiny revealed that four taxpayers out of 15 taxpayers, selected for detailed audit, did not file GSTR-9 and GSTR-9C for 2017-18 even though the taxable value of outward supplies ranged from ₹12.02 crore to ₹174.26 crore. List of taxpayers noticed in this category are shown in **Appendix 5.2.10**.

The details of action taken on non-filers of annual returns was sought (July-August 2022) by Audit but not provided by the Proper Officers. This was pointed out to the Department (December 2022). The Department replied (December 2023) that one out of four taxpayers had filed Annual Return in Form GSTR-9 for the period 2017-18 by availing amnesty scheme for late filing of GSTR-9 returns as per GST notification No.25/2023 dated 17/07/2023. The remaining three taxpayers had been directed to file Annual Returns at the earliest.

Recommendation: The Department may initiate remedial action for all the compliance deviations brought out in this report before they get time-barred.

5.2.8 Conclusion

This SSCA was conducted with a view to assessing tax compliance and the adequateness and effectiveness of tax administration. Audit revealed shortcomings in tax administration such as deficiencies in scrutiny of returns, internal audit, lapses in cancellation of registration and lack of action where irregularities were noticed. Audit has recommended corrective actions to address the shortcomings noticed.

5.2.9 Recommendations

The State Government may-

- (i) ensure that SOP for selection of returns for scrutiny based on risk parameters and detailed procedures for scrutiny of returns are followed in a time-bound manner.*
- (ii) ensure that prompt steps are taken to initiate the audits under Section 65 of the Act so that timely action could be initiated against the defaulters before time-barring of cases.*
- (iii) instruct the departmental units for ensuring timely and complete production of records to Audit.*
- (iv) ensure that remedial action is taken for all the compliance deviations brought out in this report before they get time-barred.*