



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Report of the
Comptroller and Auditor General of India
for the period ended March 2023**

**Union Government
Department of Revenue
(Indirect Taxes – Goods and Services Tax)
Report No. 25 of 2025
(Compliance Audit)**



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Preface

This Report for the year ended March 2023 has been prepared for submission to the President of India under Article 151 of the Constitution of India.

The Report contains significant results of compliance audit of Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. The report deals mainly with the issues involving levy and collection of Goods and Services Tax. A few audit findings with respect to Central Excise collections have been included to present a full picture of indirect taxes.

The instances mentioned in this Report are those, which came to notice in the course of test audit conducted during 2022-23 and 2023-24.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Executive Summary

Goods and Services Tax (GST) is a tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. GST came into effect from 1 July 2017. Central Excise duty (except five Petroleum and tobacco products), Service Tax, Additional Customs Duty, Special Additional Duty of Customs (SAD) and most of the indirect taxes of States have been subsumed into GST. This report deals mainly with the issues involving levy and collection of Goods and Services Tax. A few audit findings with respect to Central Excise collections and legacy Service Tax have been included to present a full picture of indirect taxes.

This report is divided into four chapters. Chapter I provides a brief description of the nature of indirect taxes, organisational structure of Central Board of Indirect Taxes and Customs (CBIC), trends in Indirect Taxes revenue and comparative growth of various components of Indirect Taxes. Chapter II describes the CAG's audit mandate for audit of revenue receipts, audit universe, audit sample, and result of audit efforts. Chapter III brings out the effectiveness of Departmental monitoring mechanism in respect of taxpayers under Composition Levy Scheme and the Department's performance with respect to internal audit. Chapter IV discusses the systemic and compliance issues, observed during the course of the Subject Specific Compliance Audit (SSCA) of Department's oversight on GST payments and return filing. The Department accepted audit observations or initiated examination in respect of 2,942 cases with money value of ₹ 22,165 crore and reported recovery of ₹ 144 crore in 387 cases at the instance of audit. The highlights of the Report are as follows:

Chapter I: Indirect Taxes Administration and Revenue Trend

The Indirect taxes collections increased by ₹ 93,612 crore (seven per cent) during FY23 over FY22. For the FY ended 2022-23 there was a decline in Indirect taxes to GDP ratio when it decreased to 5.15 per cent in FY 23 from 5.47 per cent in FY 22. The decrease in the Indirect taxes as a percentage of GDP during FY23 was mainly due to decrease in Central Excise revenue which decreased to ₹ 3, 19, 000 crore in FY23 from ₹ 3, 90,808 crore in FY22, a decline of 18 per cent.

Central GST revenue increased by 22 per cent (₹ 1, 51,796 crore) during FY 23 over FY 22.

(Paragraph 1.3)

Chapter III: Effectiveness of Compliance Verification Mechanism under GST

During 2023-24, Audit conducted a follow-up compliance audit of Composition Levy Scheme (CLS) taking the sample from a previous data analysis of CLS taxpayer's data, provided by GSTN in September 2022, the audit of which was conducted in 2022-23 for the financial years 2019-20 to 2021-22 and reported in Chapter VII of CAG's Audit Report No. 7 of 2024. Audit observed that the mechanism to oversee compliance of conditions prescribed for composition levy taxpayers as prescribed in Rule 5 of the CGST Rules, 2017 such as mentioning the words "composition taxable person, not eligible to collect tax on supplies" and mentioning the words "Composition taxable person" on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place of business was inadequate. Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

(Paragraph 3.1 and Paragraph 3.1.6)

Audit also observed inadequate coverage of CLS taxpayers in Department's compliance verification mechanism viz., Scrutiny of returns, internal audit, Anti-Evasion etc. It was also observed that despite the non-compliance by the CLS taxpayers, the Department action in such cases was inadequate. Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

(Paragraph 3.1.6.2)

Form GSTR-4A in respect of taxpayers opting for composition levy is auto-drafted with details of inward supplies received by the taxpayers in the CLS from registered persons. It is auto drafted from GSTR-1, GSTR-5 and GSTR-7 and contains inter alia details of inward supplies including the credits received under Reverse Charge Mechanism (RCM) and Tax Deducted at Source (TDS).

Audit observed that access to GSTR 4A returns was not available in any of the selected 10 Commissionerates to Range Officers of the Department in CBIC ACES-GST System. Non-availability of access to GSTR 4A to Range Officers restricts the ability of the Range Officers to detect non-compliances relating to non-payment of tax under RCM, TDS credit mismatch or on account of value of inward supplies which are detectable from GSTR-4A returns. Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

(Paragraph 3.1.6.3)

Accordingly, Audit recommended that there is a need to strengthen the compliance verification mechanism of the Department to ensure that each CLS dealer is complying with the Section 10 (4) of the CGST Act, 2017 and Rule 5 of the CGST Rules, 2017 and are indicating that they are not entitled to collect tax; Department may enhance the coverage of taxpayers in the CLS in the Scrutiny of Returns and Internal Audit and Anti Evasion; and it may be ensured that details of Table 3B of GSTR-4A, i.e. inward supplies attracting reverse charge, are auto-populated in CMP-08.

(Paragraph 3.1.6 and Paragraph 3.1.7)

Internal Audit¹ helps to assess the level of compliance by taxpayers in the light of the provisions of the Goods and Services Tax Act and Rules made thereunder.

The number of units audited under GST during FY 21, FY 22 and FY 23 were 26 per cent, 48 per cent and 70 per cent, respectively, of the total units planned. Although there had been an increasing trend in percent of units audited vis-à-vis units planned from FY 21 to FY 23, however, there is still a gap between the numbers of units planned and audited.

During 2021-22 Ministry intimated shortage of officers in the Audit Commissionerates, especially in the grade of inspectors whose working strength was less than 50 per cent of the sanctioned strength in most of Audit Commissionerates. This was one of the main reasons for short coverage of units during internal audit. During FY23, Audit observed that there was manpower shortage of 33 percent in the Audit Commissionerates². The highest shortage, in terms of percentage, was observed in the ranks of Deputy/Assistant Commissioner and Inspector wherein the shortage was 61 per cent and 49 per cent, respectively. Thus, it is evident that there is a persistent shortage of manpower in Audit Commissionerates due to which there were gaps in units audited vis-à-vis units planned in internal audit.

Ministry stated (January 2025) that given the limited resources available with the Department, steps were taken to ensure optimal utilisation of resources for internal audit. Ministry also stated that CBIC had taken sincere steps to overcome the shortage of staff by filling up vacancies in various cadres.

However, despite the measures taken to overcome the shortage of staff, as on 1 July 2024, 38 per cent positions in the Audit Formations of the CBIC were vacant. As a result, there was only marginal increase of four per cent in the number of units selected for internal audit during FY23 over FY22.

(Paragraph 3.2.1)

¹ Section 65 of the CGST Act, 2017.

² As per the details provided by DG HRD in November 2023.

Chapter IV: Department's Oversight on GST Payments and Returns Filing

This Subject Specific Compliance Audit (SSCA) was taken up as a continuation of the SSCA conducted during the year 2022-23 covering returns for the period 2017-18, considering the significance of the control mechanism envisaged for tax compliance and the Department's oversight mechanism in the new tax regime. The finding of the previous SSCA were featured in CAG's Audit Report No.7 of 2024 as Chapter IV Department's Oversight on GST Payments and Returns Filing (DORF Phase I). This report for DORF II covers returns for the period 2018-19 to 2020-21.

(Paragraph 4.1)

The absence of complete automation coupled with the mechanism of allowing ITC and tax payments based on self-assessed summary returns filed by taxpayers has inherent risk exposures, as reported in earlier CAG Audit Reports. Hence, it becomes imperative to continuously evaluate the compliance risk management adopted by the Department to ensure taxpayers' compliance with the GST Act.

(Paragraph 4.3)

Through data analysis, a set of 18 deviations³ were identified across the domains of ITC, discharge of tax liability, registration and return filing. Such deviations were followed up through a Centralised Audit⁴, whereby these deviations were communicated to the relevant CBIC field formations (Ranges), and action taken by the field formations on the identified deviations was ascertained without involving field visits. The Centralised Audit was supplemented by a Detailed Audit which involved field visits for verification of records available with the field formations. The Detailed Audit also involved accessing relevant granular records from the taxpayers such as invoices, ledgers, etc., through the respective field formations. The audit period for the Centralised and Detailed audit was April 2018 to March 2021.

³(i) ITC Mismatch (GSTR-3B and GSTR-2A), (ii) ITC Availed without supplier remitting tax, (iii) ITC Availed on GSTR-3B filed after limitation period, (iv) Excess ISD credit, (v) Short payment of tax on RCM, (vi) Unreconciled ITC with reference to Financial Statements (Table 12F), (vii) Ineligible ITC (Table 14T), (viii) Excess/Irregular availing of ITC during transition, (ix) Undischarged tax liability (GSTR-1 and GSTR-9), (x) Suppression of tax liability (E-Way Bill), (xi) Short-payment of tax (Table 9R), (xii) Short-payment of tax (TDS/TCS), (xiii) Suppression of taxable value (Unbilled revenue), (xiv) Unreconciled taxable turnover (Table 7G), (xv) Ineligible composition levy due to incorrect turnover, (xvi) E-commerce beneficiaries under composition levy, (xvii) GSTR-3B not filed but GSTR-1 available and (xviii) short/non-payment of interest.

⁴ Centralised Audit did not involve seeking taxpayer's granular records such as financial statements, related ledger accounts, invoices, agreements etc.

This apart, compliance functions such as scrutiny of returns, cancellation of registration, action taken on DGARM Reports, etc., were also reviewed in selected Ranges. The audit of the functions of selected Ranges covered the period 2020 to 2021.

(Paragraph 4.5)

Oversight function on return filing

Audit noted that during the audit period 2020-21, certain functions had not been automated such as issue of ASMT-13 and view non-filers reports for returns other than GSTR-3B. Therefore, the related MIS reports had either not been made or made partially available. These included non-availability of MIS reports related to GSTR-3A, Dispute, Settlement and Resolution (DSR) and REG-17⁵ which have not yet been automated (April 2023) for the period prior to November 2020.

In earlier C&AG's Audit Report No. 7 of 2024, during SSCA on DORF I, Audit recommended that MIS reports on the aspects related to issuance of notices, assessment orders, demand orders etc. may be provided to the tax officers for effective monitoring.

GSTN stated (April 2025) that following the migration of CBIC to the GSTN Back Office (BO) with effect from June 2024, the Automated Return Scrutiny Module (ARSM) designed to implement system-based scrutiny against specified criteria and auto-generate draft discrepancy intimations for taxpayers is in an advanced stage of development and is expected to be rolled out by the end of the first quarter of FY 2025-26. GSTN also added that all processes on the GSTN back-end are fully automated, with documents issued electronically by the proper officer through the common portal in a paperless environment. MIS reports available to States are being made accessible to CBIC in a phased manner, as agreed between GSTN and CBIC. Currently, 126 MIS reports such as GSTR-3B non-filers, mismatch between GSTR-1 and GSTR-3B, mismatch of ITC between GSTR-3B and GSTR-2A, refund pendency, e-way bill non-filers, and suo-moto cancellations are available to States. As on date (April 2025), 43 MIS reports (under Phase I) have been made available to CBIC, while 42 additional reports (under Phase II) are under development.

Audit acknowledges the various MIS reports that are being made available, as the effective use of these, will surely improve tax compliance.

(Paragraph 4.8.1)

⁵ In the event, the Superintendent of Central Tax has reasons to believe that the registration of a person is liable to be cancelled, 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; will be issued.

In 89 Ranges under 54 Commissionerates across 20 Zones, Audit could not verify the overseeing mechanism on return filing as neither the records nor data was provided to Audit. Further, due to non-availability of any related MIS Reports no assurance could be provided on any of the functions related to non-filers under taken by these Ranges.

The monitoring mechanism for recovery of demand from non-filers was deficient in 47 Ranges under 32 Central Tax Commissionerates. In 29 Ranges under 22 Commissionerates where the relevant records/ reports related to issue of ASMT-13, DRC-07, and recovery details were available, Audit noticed that action was not taken in any of the cases of defaulters.

Further, in 25 Ranges under 14 Commissionerates, the process of issuing GSTR-3A (notice for defaulters who have not filed GST returns) and following it with ASMT-13 (Best Judgement Assessment order in cases where the taxpayers have not complied with GSTR-3A notices), were not complied with. In six Ranges incorrect withdrawal of ASMT-13, and non-initiation of recovery of DRC-07 (Summary of Demand order as a follow up of ASMT-13) were observed. This resulted in non-recovery of ₹ 27.97 crore from defaulters.

(Paragraph 4.8.2.2)

Oversight function on tax payments

Audit noticed that there was a delay in issuing ASMT-10, in obtaining response or in issuing demand notices in 46 Ranges under 31 Central Tax Commissionerates. Further, Audit also noticed deficiency in the scrutiny conducted by 27 Ranges across 24 Central Tax Commissionerates involving tax effect and non-collection of interest to a tune of ₹ 4.33 crore.

(Paragraph 4.8.3)

Out of 166 Ranges selected for evaluating the cancellation function, 78 Ranges (47 per cent) across 44 Central Tax Commissionerates did not maintain the required report/ files related to cancellation cases attended by them.

Audit observed that there was no mechanism in the back-end system of CBIC to enable the tax officers to identify taxpayers who had not furnished the requisite bank details and to initiate cancellation proceedings. Audit noticed that in 12 Ranges the registrations liable for cancellation were not cancelled and in two Ranges the registrations were cancelled retrospectively without following the stipulated rules. Delays in cancellation was noticed in 46 Ranges across 25 Central Tax Commissionerates. In addition, Audit observed compliance deficiencies in monitoring filing of GSTR-10 in 68 Ranges across 44 Central Tax Commissionerates.

(Paragraph 4.8.3.3)

Centralised Audit

A sample of 10,124 deviations was taken up for Centralised Audit and responses of the Department were received in 8,106 deviations, out of which Audit noticed compliance deviations from the statutory provisions in 2,519 cases involving an amount of ₹ 21,695.11 crore, constituting 31 per cent of inconsistencies/mismatches in data, for which the Department provided responses. Relatively higher rates of deviations were noticed in risk parameters such as, Short-payment of interest, GSTR-3Bs not filed but GSTR-1 filed, ITC availed on GSTR-3B filed after cut-off period, ITC mismatch, undischarged liability, ITC passed on without supplier remitting tax, short payment of tax under RCM and Excess ISD credit.

In 5,554 cases, which constituted 69 per cent of the responses received, the Department's reply was acceptable to Audit, as the response explained data entry errors by taxpayers which comprised 523 cases, and that Department had already proactively taken action in 1,819 cases and 3,212 cases had other valid explanations.

(Paragraph 4.8.4)

Detailed Audit

Pan India, 1,106 taxpayers' returns were selected based on the pre-determined risk factors that inter-alia included the risks of potential non/short payment of tax, excess/irregular availing of ITC, incorrect exemption claims etc. The samples identified for Detailed Audit spread across 21 CBIC Zones.

In spite of regular follow ups, the jurisdictional Ranges did not produce basic records such as financial statements, GSTR-9C and GSTR-2A in 20 cases out of the sampled 1,106 cases selected for Audit. Hence, the underlying risks of undischarged liability/irregular ITC claims identified in these cases, to the tune of ₹ 914.78 crore could not be addressed.

In another 549 cases the granular taxpayer records sought on a risk-based approach were not forthcoming, which constituted in a significant scope limitation. These cases represent a potential risk exposure of ₹ 31,517.42 crore towards identified mismatches in ITC availing and tax payments.

(Paragraph 4.8.5)

Out of the 1,086 cases that were audited either fully or partially, Audit observed 741 compliance deviations with a revenue implication of ₹ 2,349.62 crore. These deviations translated into non-compliance with the provisions of the Act by 438 out of 1,086 taxpayers audited.

The main causative factors were availing of ineligible and irregular ITC, misclassification of supplies, exclusion of supplies for taxation, undervaluation of supplies, and incorrect discharge of tax under RCM.

The Department may

- Expedite inclusion of Business Intelligence (BI) and MIS reports in the back-end system and till such time automation is complete, Department may ensure proper maintenance of manual records/registers.
- Enforce the procedure of handing over/taking over charge at Superintendent and Inspector levels.
- Extend 'view non-filer' functionality in back-end portal to enable Range Officer to identify and issue notices to the non-filers of returns to all categories of registrants. Presently, the facility is available only for GSTR-3B, GSTR-9, GSTR-10 and CMP-08.
- Make available MIS reports related to GSTR-3A for all relevant returns such as GSTR-3B, GSTR-9, GSTR-4 etc. in the back-end system and extend auto-generation of GSTR-3A for all non-filers of returns in addition to GSTR-3B.
- Make available MIS reports related to issue of assessment order (ASMT-13/14) and demand orders (DRC-07) to tax officers in the back-end system for effective monitoring.
- Ensure that workflow automation of the entire set of follow up activities relating to the DGARM reports may be done as a part of back-end system.
- Ensure furnishing of DGARM reports and records/ files related to verification of DGARM reports to Audit.
- Improve the monitoring of the compliance to the DGARM risks both in terms of statistics to rule out possibility of revenue due not being detected or followed up and also in reviewing test check cases to ensure quality of checks exercised.
- Strengthen the monitoring mechanism in Ranges and ensure that due diligence is done in procedures for cancellation, suspension of registration, issue of Show Cause Notices and recovery.
- Deploy the requisite validation controls and MIS reports/features in the cancellation workflow under Registration Module to facilitate Range Officers to monitor pendency of cancellation applications, suspension of registrations both on taxpayers' request and in suo-moto cancellations from the date of application and date of issue of REG-17 notice respectively and ensure prevention of cancellation before the application dates.

- **Urgently pursue the 2,325 (replies not received and under examination by the Department) inconsistencies and deviations pointed out by Audit before they become time-barred and analyse the reasons for such deviations to take necessary action to strengthen the system so that such deviations do not repeat.**
- **Consider introducing validation controls as pointed out in para 4.8.4.5 in GST returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.**
- **Provide records of taxpayers timely during the conduct of audit otherwise it significantly limits the scope of audit of GST revenue.**
- **Clarify the taxability of works contract supply involved in DBFOT model, in view of the pan India implication of such supplies, considering definition of consideration for the supply under Section 2 (31) of the CGST Act.**
- **Review taxation on supplies in relation to agriculture to include research related activity in the definition of agricultural support services under Notification No. 11/2017.**

(Paragraph 4.10)

Chapter I: Indirect Taxes Administration and Revenue Trend

This chapter gives an overview of the Indirect taxes administration and the revenue trends in indirect tax collection.

1.1 Nature of Indirect Taxes

This Audit Report deals mainly with the issues involving levy and collection of Goods and Services Tax. A few observations with respect to Central Excise have been included to present a full picture of audit of indirect taxes. Audit findings on levy and collection of Customs duty are presented in a separate report. The indirect taxes covered in this report are discussed below:

- a) **Goods and Services Tax:** Goods and Services Tax (GST) is a tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption, and five petroleum products⁶. GST came into effect from 1 July 2017⁷. Central Excise duty, Service Tax, Countervailing duty (CVD), and Special Additional duty (SAD) components of customs and most of the indirect taxes of States have been subsumed into GST. Tobacco products are subject to both Central Excise and GST. GST is a consumption based tax i.e. tax is payable in the State where goods or services or both are finally consumed. In addition to GST, a cess termed as GST Compensation Cess is levied on some goods such as Tobacco products, Coal, Aerated water, Motor cars etc.

There are three components of GST as follows:

- **Central Goods and Services Tax (CGST):** payable to the Central Government on supply of goods and services within the State/Union Territory.
- **State/Union Territory Goods and Services Tax (SGST/UTGST):** payable to the State/Union Territory Government on supply of goods and services within the State/Union Territory.
- **Integrated Goods and Services Tax (IGST):** In case of inter-state supply of goods and services, IGST is levied by Government of India. IGST is also levied on imports into India. IGST shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

⁶ Crude Oil, Natural Gas, High Speed Diesel, Motor Spirit (Petrol) and Aviation Turbine Fuel.

⁷ With effect from 8 July 2017 in Jammu and Kashmir

- b) Central Excise duty:** Central Excise duty is levied on manufacture or production of goods that have not been brought under the GST regime. Parliament has powers to levy excise duties on tobacco and five petroleum products (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

1.2 Organizational Structure

The Department of Revenue (DoR) of the Ministry of Finance (MoF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Indirect Taxes and Customs (CBIC), and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of GST are looked after by the CBIC.

Indirect Tax laws are administered by the CBIC through its field offices. In view of implementation of GST, CBIC restructured its field offices into 21 Zones of GST headed by the Principal Chief Commissioner/Chief Commissioner vide circular dated 19 June 2017. Under these 21 Zones of GST, there are 107 GST Taxpayer Services Commissionerates that deal with GST and Central Excise, headed by the Principal Commissioner/Commissioner. Divisions and Ranges are the subsequent formations, headed by Deputy/Assistant Commissioner and Superintendents, respectively. Apart from these Commissionerates, there are 49 GST Appeal Commissionerates, 48 GST Audit Commissionerates and 22 Directorates dealing with specific functions such as DG (Systems) for management of Information Technology projects and DG, National Academy of Customs, Indirect Taxes & Narcotics (NACIN) for training needs.

1.3 Revenue Trend

1.3.1 Indirect Taxes revenue trend

The overall resources of Government of India and details of tax revenue of the Union Government from 2018-19 to 2022-23 have been given in **Table No.1.1** below:

Table 1.1: Resources of the Government of India

(₹ in crore)

Particulars	2022-23	2021-22	2020-21	2019-20	2018-19
A. Total Revenue Receipts*	36,61,672	33,34,813	24,59,509	25,98,705	25,67,916
<i>i. Direct Tax Receipts</i>	16,63,686	14,12,422	9,47,174	10,50,685	11,37,718
<i>ii. Indirect Tax Receipts including other taxes⁸</i> (As per cent of Total Revenue Receipts)	13,90,505 (37.97 %)	12,96,893 (38.89 %)	10,79,929 (43.91 %)	9,59,374 (36.92 %)	9,42,747 (36.71 %)
<i>iii. Non-Tax Receipts</i>	6,05,594	6,24,192	4,30,654	5,88,273	4,86,388
<i>iv. Grants-in-aid & contributions</i>	1,887	1,306	1,752	373	1,063
B. Miscellaneous Capital Receipts	46,035	14,638	37,897	50,349	94,979
C. Recovery of Loans and Advances	36,273	24,948	29,923	18,647	30,257
D. Public Debt Receipts	88,64,893	82,49,152	81,62,910	73,01,386	67,58,482
Receipts of Government of India (A+B+C+D)	1,26,08,873	1,16,23,551	1,06,90,239	99,69,087	94,51,634

Source: Union Finance Accounts of respective years.

* Total Revenue receipts include share of net proceeds of direct taxes and indirect taxes directly assigned to States.

The indirect taxes collections increased by ₹ 93,612 crore (7.22 per cent) during FY23 over FY22. The growth in indirect taxes was due to increase in the receipts from Goods and Services Tax and Customs Duty, which increased, respectively, by ₹ 1,51,796 crore (22 per cent) and ₹ 13,643 crore (seven per cent) over the previous year (FY22). However, Central Excise decreased by ₹ 71,808 crore (18 per cent) during FY23.

The share of indirect taxes in total revenue receipts had increased from 36.71 per cent in FY19 to 43.91 per cent in FY21. The share of indirect taxes in total receipts, however, decreased to 38.89 per cent in FY22. During FY23, the share of indirect taxes in total revenue receipts further decreased to 37.97.

1.3.1.1 Growth of Indirect Taxes - Trends and Composition

Table 1.2 depicts the relative growth of indirect taxes during FY19 to FY23, with respect to GDP and Gross Tax Revenue.

⁸ Indirect tax Receipts also includes receipts of ₹ 655.70 crore from Land revenue and Stamp & registration which are not indirect taxes and therefore not included in the indirect tax calculation in subsequent paragraphs. Further, receipts of ₹ 3,288.66 crore from other taxes such as State Excise, Taxes on sales trade etc., taxes on vehicles, taxes and duties on electricity etc. were not also included in the subsequent paragraphs.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)					
Year (FY ⁹)	Indirect Taxes*	GDP (At Current prices)	Indirect Taxes as per cent of GDP	Gross Tax revenue	Indirect Taxes as per cent of Gross Tax revenue
FY19	9,40,100	1,90,10,164	4.95	20,80,465	45.19
FY20	9,56,574	2,03,39,849	4.70	20,10,059	47.59
FY21	10,77,597	1,98,00,914	5.44	20,27,103	53.16
FY22	12,93,672	2,36,64,637	5.47	27,09,315	47.75
FY23	13,86,561	2,69,49,646 ¹⁰	5.15	30,54,191	45.40

Source: Tax revenue - Union Finance Accounts, GDP – Press note of CSO.

*Indirect Taxes includes, Revenue from CX, ST, GST, Customs and other taxes on commodity and services (excluding equalization levy).

During FY 21 and FY 22, after declining from 4.95 per cent in FY 19 to 4.70 per cent in FY20, the Indirect taxes to GDP ratio increased to 5.44 per cent and 5.47 per cent in FY 21 and FY 22, respectively,. However, during FY23, the Indirect taxes to GDP ratio showed a declining trend and decreased to 5.15 per cent. The increase in the Indirect taxes as a percentage of GDP during FY21 was attributed mainly to the significant increase, an increase of 62 per cent, in the Central Excise Revenue in FY 21, which increased to ₹ 3,89,667 crore in FY 21 from ₹ 2,39,452 crore in FY 20. During FY 22 the increase in the Indirect taxes as a percentage of GDP was mainly due to significant increase in the Central GST revenue and Customs duty, which increased by 27 per cent to ₹ 7, 02,105 crore from ₹ 5, 51,541 crore in FY 21 and by 48 per cent to ₹ 1, 99,728 crore from ₹ 1, 34,750 crore in FY 21, respectively. During FY 23, the decline in Indirect taxes to GDP ratio may be attributed to decrease in Central Excise revenue which decreased to ₹ 3,19,000 crore in FY23 from ₹ 3,90,808 crore in FY22, a decline of 18 per cent.

Indirect taxes as a percentage of gross tax revenue showed an upward trend from FY 19 to FY 21 where the indirect taxes as a percentage of Gross Tax Revenue increased from 45.19 per cent in FY 19 to 53.16 per cent in FY 21. However, during FY 22 and FY 23, the percentage of indirect taxes to Gross Tax Revenue decreased to 47.75 per cent and 45.40 per cent, respectively.

⁹ Financial Year starting from 1 April to 31 March of next year.

¹⁰ GDP for FY23-Press note released by Ministry of Statistics and Programme Implementation on 7 January 2025.

When Audit pointed this out (July 2024), Ministry stated (November 2024) that indirect taxes are consumption based taxes which depend on macro-economic factors. Ministry further stated that the major contributor for the increase in Indirect taxes are Customs Duty, with y-o-y growth of 6.8 per cent, and GST, with y-o-y growth of 21.6 per cent in FY23. Ministry attributed growth in GST to various reforms in simplification of processes, rationalisation of exemptions, correction of inversion in GST, review of certain distortion in rates in GST, automation of business processes and measures taken for improving compliance in GST. Ministry further stated that Central Excise Duty had shown a declining trend in FY23 due to duty reduction in petroleum fuels. With respect to Customs, Ministry stated that the Government had rationalised various exemptions along with simplification of the Customs tariff structure. Government had also initiated reforms based on leveraging technology such as “Turant Customs” programme for expediting Customs process, extensive application of RMS, etc. to reduce compliance burden, augment revenue and improve the ease of doing business.

1.3.2 Comparative growth of various components of Indirect Taxes

The **Table 1.3** below depicts the relative growth of various components of indirect taxes during FY 20 to FY 23:

Table No.1.3: Comparative growth of various components of Indirect Taxes

Tax component	2019-20	2020-21	2021-22	2022-23
Central GST Taxes¹¹	6,01,784 ¹²	5,51,541 ¹³	7,02,105 ¹⁴	8,53,901 ¹⁵
Customs	1,09,283	1,34,750	1,99,728	2,13,371
Central Excise	2,39,452	3,89,667	3,90,808	3,19,000
Service Tax	6,029	1,615	1,012	431
Other taxes and duties	26	24	19	-142
Total Indirect Taxes	9,56,574	10,77,597	12,93,672	13,86,561

Source: Union Finance Accounts of the respective years.

As evident from the table above, Central GST revenue increased by 22 per cent (₹ 1, 51,796 crore) during FY 23 over FY 22. The other major component

¹¹ GST revenue included Central Goods and Service Tax, Integrated Goods and Service Tax, UT Goods and Service Tax and GST Compensation Cess.

¹² ₹ 9,125 crore was retained by the Centre from IGST account in contravention of IGST Act, which requires apportionment of IGST between Centre and States.

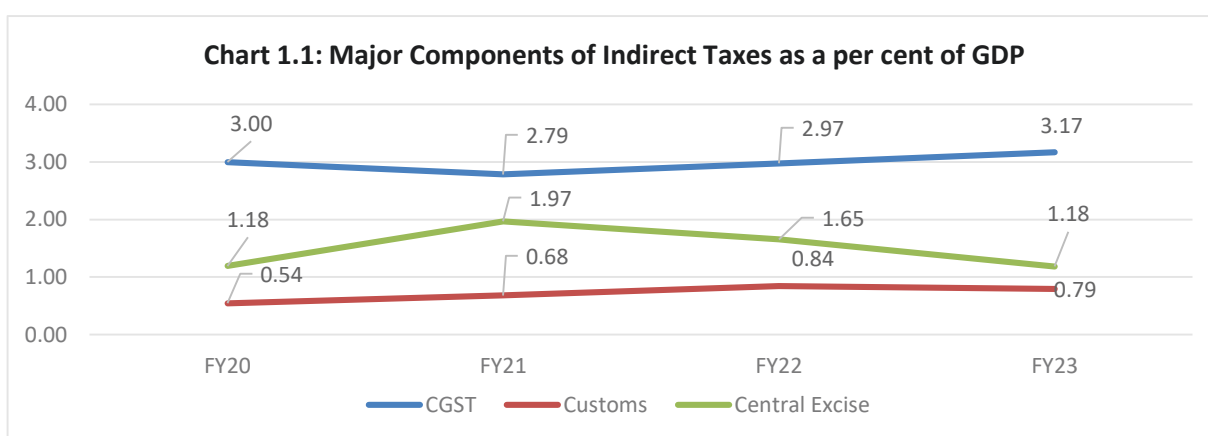
¹³ ₹ 7,251 crore was retained by the Centre from IGST account in contravention of IGST Act, which requires apportionment of IGST between Centre and States.

¹⁴ ₹ 2,119 crore was retained by the Centre from IGST account in contravention of IGST Act, which requires apportionment of IGST between Centre and States.

¹⁵ ₹ 4,748 crore was retained by the Centre from IGST account in contravention of IGST Act, which requires apportionment of IGST between Centre and States.

of Indirect taxes viz. Customs duty also grew by seven per cent (₹ 13,643 crore) during the same period. The share of Central GST taxes in the indirect taxes during FY 20 was 63 per cent. However, during FY21, the share of Central GST fell to 51 per cent of the total indirect taxes collections. The share of Central GST taxes to the total indirect taxes collection, however, increased to 54 per cent during FY 22 as compared to 51 per cent during FY21. During FY23, the share of Central GST taxes to the total indirect taxes collection further increased to 62 per cent.

The **chart 1.1** shows the trends in the three major components of indirect taxes viz. Central GST revenue, Customs and Central Excise as a percentage of GDP.



As evident from the chart above, Central GST revenue as a percentage of GDP decreased to 2.97 per cent in FY 22 from 3.00 per cent in FY 20. During FY 23, Central GST revenue as a percentage of GDP, however, showed an upward trend and increased to 3.17 per cent.

When Audit pointed this out (July 2024), Ministry stated (November 2024) that factors such as close monitoring of anti-evasion activities, rate rationalization measures undertaken by the GST Council to correct inverted duty structure, significant improvement in filing of GST returns, and measures taken by GST Council for facilitation of trade over the years had contributed to increase in GST revenue.

1.3.2.1 Retention of IGST in the Consolidated Fund of India

During the FYs 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 the year-end IGST balance has been retained by the Central Government as follows:

Table No.1.4: Year-end IGST balance retained in the Consolidated Fund of India
(₹ in crore)

Financial Years	Central GST Revenue	Year-end IGST balance retained in the Consolidated Fund of India
2018-19	5,84,387	13,944
2019-20	6,01,784	9,125
2020-21	5,51,541	7,251
2021-22	7,02,105	2,119
2022-23	8,53,901	4,748

Source: Union Finance Accounts of the respective years.

As per Section 17 (2A) of the Integrated Goods and Service Tax Act, 2017¹⁶ (IGST Act, 2017), the amount not apportioned under sub-section 17(1) and sub-section 17(2) of the IGST Act, 2017, may for time-being, on the recommendation of the GST Council, be apportioned at the rate of fifty per cent to the Central Government and fifty per cent to the State Governments or the Union territories, as the case may be, on ad-hoc basis and shall be adjusted against the amount apportioned under the said sub-section.

In view of the above, the amount of year-end IGST balance, retained in the Consolidated Fund of India, may be apportioned between the Centre and the States/UTs.

Ministry was requested (July 2024) to indicate whether year-end balances of IGST, as per Table 1.4, retained in the Consolidated Fund of India, were adjusted in the subsequent years. Ministry was also requested to provide the reasons for retention of year-end IGST balances in the Consolidated Fund of India and the details of apportionment of retained year-end IGST balances between the Centre and States in the subsequent years. Reply of the Ministry was awaited (April 2025).

It is pertinent to mention that Audit had raised the similar observation in the paragraph 1.3.2.1 of CAG's Audit Report No.7 of 2024 wherein Audit observed that during the FYs 2018-19, 2019-20, 2020-21, and 2021-22, the year-end IGST balance had been retained by the Central Government. Ministry in its Action Taken Note (January 2025) stated that at present, there is no mechanism to treat the un-apportioned balance of IGST left at the end of a year as it becomes part of Consolidated Fund of India. However, the proposal for the creation of an accounting procedure for accounting adjustment of un-apportioned amount of IGST at the end of the Financial Year and its apportionment from FY 2024-25 and in the subsequent years was under consideration. In this context, in March 2025 Audit had conveyed its advice for issuance of correction slip for opening of minor heads, in response

¹⁶ Inserted by the Integrated Goods and Service Tax (Amendment) Act, 2018 w.e.f. 01 February, 2019

to draft correction slips and draft accounting procedure received from the Office of the Controller General of Accounts in January 2025.

However, Audit is of the view that retained IGST balance during FYs 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 should also be apportioned to CGST and SGST, as provided in section 17(2A) of the IGST Act, 2017.

1.4 Conclusion

The Indirect taxes collections increased by ₹ 93,612 crore (seven per cent) during FY23 over FY22. For the FY ended 2022-23 there was a decline in Indirect taxes to GDP ratio when it decreased to 5.15 per cent in FY 23 from 5.47 per cent in FY 22. The decrease in the Indirect taxes as a percentage of GDP during FY23 was mainly due to decrease in Central Excise revenue which decreased to ₹ 3, 19, 000 crore in FY23 from ₹ 3, 90,808 crore in FY22, decline of 18 per cent.

Central GST revenue increased by 22 per cent (₹ 1, 51,796 crore) during FY 23 over FY 22. During FY23, Central GST revenue as a percentage of GDP increased to 3.17 per cent from 2.97 per cent in FY22.

Chapter II: Audit Mandate, Audit Universe and Response to Audit

2.1 Audit Mandate

Article 149 of the Constitution of India provides that the Comptroller and Auditor General of India (CAG) shall exercise such powers and perform such duties in relation to the accounts of the Union and of the states and of any other authority or body as may be prescribed by or under any law made by Parliament. Parliament passed the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act (CAG's DPC Act) in 1971. Section 16 of the CAG's DPC Act authorizes CAG to audit all receipts of the Government of India and of Government of each State and of each Union territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. Regulations on Audit & Accounts (Amendments), 2020 lay down the principles for Receipt Audit.

2.1.1 Examination of systems and procedures and their efficacy

Audit of receipts includes an examination of the systems and procedures and their efficacy mainly in respect of:

- a. identification of potential tax assessees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- b. exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
- c. appropriate action to safeguard the interest of the Government on the orders passed by appellate authorities;
- d. measures introduced to strengthen or improve revenue administration;
- e. amounts that may have fallen into arrears, maintenance of records of arrears and action taken for recovery of the amounts in arrears;
- f. pursuit of claims with due diligence and to ensure that these are not abandoned or reduced except with adequate justification and proper authority.

2.1.2 Audit of Indirect Taxes

Indirect Tax System is a self-assessment system in which the tax payers prepare their own tax returns and submit it to the Department. This system is guided by the fiscal laws including the Goods and Service Tax Act, 2017,

Integrated Goods and Service Tax Act, 2017, Goods and Service Tax (Compensation to States) Act, 2017 and legacy tax acts viz. Central Excise Act, 1944 and Finance Act, 1994. Indirect Tax administration assesses and scrutinizes the returns by way of scrutiny of returns, internal audit etc. and ensures the correctness of the tax so deposited by the tax payer.

To examine the efficacy of the systems and procedures of the Indirect Tax administration, Audit examines the records related to the returns submitted by the assesseees along with the records of the various field formations and functional wings of the Board.

2.2 Audit Universe

The audit universe includes the Department of Revenue, CBIC, its subordinate organisations and field formations. The organisational structure of CBIC and the number of departmental units are discussed in Para 1.2 of this Report. Roles and duties of the CBIC and its field formations are discussed in the subsequent paragraphs.

2.2.1 CBIC

The Central Board of Indirect Taxes and Customs, in the Ministry of Finance, is the apex body for administering the levy and collection of indirect taxes of the Union of India. It deals with the tasks of formulation of policy concerning levy and collection of indirect taxes, prevention of smuggling and administration of matters relating to indirect taxes and narcotics to the extent under CBIC's purview. CBIC is headed by a Chairman and consists of six members.

2.2.2 Zones

Zones are the highest auditable field entities headed by Principal Chief Commissioner/Chief Commissioner. Principal Chief Commissioner/Chief Commissioner of Zone exercises supervision and control over the technical and administrative work of all the Commissionerates in the Zone. They monitor the revenue collection by each Commissionerate in the Zone and the proper implementation of Acts/Rules and Board's instructions/guidelines issued from time to time.

2.2.3 Commissionerates

Commissionerates are divided into three categories viz. Executive Commissionerates, Commissionerates (Audit) and Commissionerates (Appeal).

The primary function of an Executive Commissionerate is to implement the provisions of the Central Goods and Service Tax Act, 2017, the Central Excise Act, 1944, rules framed under these Acts and other allied Acts of Parliament under which duty of GST/Central Excise is levied and collected. Administratively, each Commissionerate is a 3-tier set-up with its Headquarters at the helm, four to six Divisions at the second level and on an average four to seven Ranges under each Division at the third and final level.

In each zone, there may be one or more Audit Commissionerates headed by a Commissioner (Audit). The main function of the Audit Commissionerate is to conduct internal audit of the taxpayers falling under its jurisdiction, convening of monitoring committee meetings, helping Executive Commissionerates in pursuing the cases against the assessee etc.

Commissioner (Appeal) acts as an appellate authority and passes orders on appeals in relation to adjudication orders passed by an authority subordinate to the rank of a Commissioner.

2.2.4 Divisions

Each Executive Commissionerate has four to six Divisions headed by a Deputy/Assistant Commissioner. The Divisional heads are responsible for proper compliance of laws and procedures within their jurisdiction. They are also responsible for provisional assessments, sanctioning of refund claims and performing quasi-judicial functions viz. adjudication of cases falling within their competence.

2.2.5 Ranges

Each Division consists of, on an average, four to seven Ranges. The Range, headed by a Superintendent, is the first office of contact between the trade and industry, and the Department. Scrutiny of the assessment is done by the Range on the basis of prescribed returns filed by the assessee. Apart from the assessment work, the Range officials also check the correctness of statutory declarations filed by the taxpayers.

2.3 Audit Sample, Audit Efforts and Audit Products

During 2020-21, Audit was provided access to pan-India data and back-end systems of the CBIC. This facilitated Audit in transitioning from generic risk assessment at unit level (Ranges/Divisions) to a more comprehensive subject matter risk assessment with respect to GST. Accordingly, during 2022-23 and 2023-24 nine field audit offices headed by Directors General (DsG)/Principal Directors (PDs) of Audit carried out subject specific compliance audit of the Department's oversight on GST payments and return filing to obtain

assurance that taxpayers file their returns regularly and comply with the GST law by properly discharging their tax liability and other mandated obligations. Audit observed 3,260 compliance deviations with monetary impact of ₹ 24,044.73 crore. Audit findings on the Department's oversight on GST payments and return filing are included in Chapter IV of this Report.

Audit also examined the effectiveness of departmental monitoring mechanism in respect of taxpayers under Composition Levy Scheme during 2023-24. The findings are reported in Chapter III.

Audit findings with respect to Indirect taxes administration and indirect taxes revenue trends are included in Chapter I of this Report.

In addition to this, Audit had also issued one draft paragraph with two observations on Central Excise receipts, pertaining to four Commissionerates of money value of ₹ 17.5 crore. These audit findings were noticed during the period 2022-23 to 2023-24. The details of this audit paragraph is given in **Appendix-I**.

2.4 Response of the Department on Audit observations on Central Excise and Service Tax

Article 149 of the Constitution of India read with Section 16 of the Comptroller and Auditor General of India's (CAG) (Duties, Powers and Conditions of Service) Act, 1971 authorizes CAG to audit all receipts of the Government of India and of Government of each State and of each Union Territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed.

CAG's Regulations on Audit & Accounts (Amendments), 2020 lay down the principles for Receipt Audit. As per provisions of the Regulation 136, on completion of field audit, Audit issues the Local Audit report (LAR) to the Department for comments.

Audit elicits response to the observations from the audited entities at different stages of audit. As per provisions of regulations 137 to 152, Audit takes measures like sending of important audit observations to head of the Commissionerates for follow-up, communicating the significant audit observations to Zonal Heads, convening of Audit Committee Meetings (ACMs) etc. for the purpose of monitoring and ensuring compliance and settlement of pending audit observations.

Board's Circular No. 1023/11/2016-CX dated 8 April 2016 prescribes the procedure for dealing with audit observations raised by CAG Audit and instructed its field formations to reply to the Local Audit paragraphs within

thirty days. The circular also provided for the Zones to hold quarterly coordination meetings with Audit to discuss and settle the pending LAR paragraphs.

Prior to 1 July 2017, Audit of Central Excise and Service Tax was undertaken by Field audit offices of CAG of India. The audit observations were issued to the CBIC field formations in the form of local audit Reports (LAR) so that necessary action is taken to safeguard the government revenue. A number of LARs and audit observations therein were kept pending for want of replies from the Department. After implementation of GST, older audit observations have lost topicality and many might have become time barred for taking remedial action for the recovery of revenue.

During 2024-25 Audit conducted an exercise to reconcile the pending audit observations at field audit offices and issued them in the form of Statement of Facts (SOFs). Thereafter, Audit Committee Meetings (ACMs) were conducted to discuss the pending observations. Based on reply/discussion, observations, where action had been taken/replies acceptable, have been settled/closed.

Despite this exercise conducted by Audit, 3,046 audit observation involving amount of ₹ 3,661.53 crore remained pending due to non-submission of response/ evidence of remedial actions.

Ministry may get these cases examined and ascertain the reasons of non-response by the Department.

2.5 Follow-up of previous CAG's Audit Reports

In the last four years (excluding FY23), we had included 577 audit paragraphs/SSCAs pertaining to Central Excise, Service Tax and Goods and Services Tax involving money value of ₹ 5,764.10 crore. The details of follow-up on audit observations are included in **Table 2.1**.

Table 2.1: Follow-up of Audit Reports

(Amount in ₹ crore)

Year			FY18	FY19 & FY20	FY21	FY22	Total
Paragraphs/SSCA Included	No.		239	297	30	11	577
	Amt.		401.26	1,236.26	1,251.18	2,875.40	5,764.10
Paragraphs accepted/Partially Accepted	As on 31.05.2025	No.	216	205	28	11	460
		Amt.	200.39	1,101.12	1,209.86	2,252.75	4,764.12
Recoveries effected	As on 31.05.2025	No.	116	107	14	10	247
		Amt.	58.37	43.24	195.52	84.97	382.10

The Ministry had accepted audit observations in 460 audit paragraphs/SSCAs involving money value of ₹ 4,764.12 crore, and had recovered ₹ 382.10 crore in respect of 247 audit paragraphs/SSCAs.

2.6 Response by Ministry to audit observations included in this report

We gave six weeks to the Ministry to offer their comments on the audit observations issued to them before inclusion in the Audit Report. We have included a subject specific compliance audit (SSCA) report on Department's oversight on GST payments and return filing with money value of ₹ 24,044.73 crore in this Audit Report. The Ministry accepted audit observations or initiated examination in 2,942 cases with money value of ₹ 22,165.05 crore and reported recovery of ₹ 144.15 crore in 387 cases at the instance of audit.

We have also included one draft paragraph on Central Excise (with money value of ₹ 17.5 crore). In addition to the above, we issued five draft paragraphs related to effectiveness of departmental monitoring mechanism in respect of taxpayers under Composition Levy Scheme, internal audit under GST, Indirect taxes administration and Revenue Trends under GST. Ministry's reply was awaited in respect of one draft paragraph (May 2025).

Chapter III: Effectiveness of Compliance Verification Mechanism under GST

As per Section 59 of the CGST Act, 2017, every registered person shall self-assess the tax payable on supplies made during the tax period and file the return for each tax period. GST, therefore, continues to promote self-assessment just like Central Excise, VAT and Service Tax.

Self-assessment has a pivot of effective tax compliance verification mechanism comprising returns' scrutiny, internal audit and anti-evasion functions. This chapter brings out the effectiveness of compliance verification mechanism of the Department in respect of taxpayers under Composition Levy Scheme, in addition to the Department's overall performance with respect to internal audit during FY23.

3.1. Effectiveness of Departmental monitoring mechanism in respect of taxpayers under Composition Levy Scheme (CLS)

As per Section 10 of the Central Goods and Services Act 2017 (CGST Act), the Composition Levy Scheme is applicable to small taxpayers with an intention of simplifying procedures and reducing compliance costs. The Composition Levy Scheme (CLS) is applicable to all taxpayers whose aggregate turnover, in the preceding financial year, does not exceed ₹1.5 crore, while for taxpayers in special category states¹⁷ the corresponding turnover threshold is prescribed as ₹75 lakh¹⁸ effective from 1 April 2019. Initially, this scheme was applicable only for goods (and not for services except for Restaurant services). However, with the introduction of a Section 10 (2A) in the CGST Act, the CLS was also extended to suppliers of services with effect from 1 April 2019, provided the aggregate turnover in the preceding financial year does not exceed ₹50 lakh. The taxpayers opting for the CLS are required to pay tax at a fixed rate¹⁹ on their turnover, subject to specific conditions and restrictions given in Section 10 of CGST Act, 2017 and Rule 5 of CGST Rules, 2017.

¹⁷ Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura

¹⁸ At the inception of GST (with effect from 01 July 2017), the turnover threshold for taxpayers was prescribed as ₹75 lakh (₹ 50 lakh in special category states). The limits were revised to ₹ 1 crore (₹ 75 lakh in special category states) on 14 October 2017 and continued up to 31 March 2019.

¹⁹ For manufacturers and Traders- one per cent of the turnover of the turnover in State or UT; Suppliers making supplies referred to in clause (b) of paragraph 6 of Schedule II-five per cent of the turnover in State or UT; Suppliers of services or mixed supply of goods and services-six per cent of the turnover in State or UT.

Audit conducted data analysis in October 2022 on the GSTN data pertaining to 8.66 lakh composition levy taxpayers²⁰ under the central jurisdiction for the financial years 2019-20, 2020-21 and 2021-22.

The data analysis revealed significant number of taxpayers with high risk of crossing the turnover threshold for CLS. These high-risk taxpayers were identified by Audit from the data contained in GST returns viz. GSTR-4A, GSTR-7 along with third party data sources such as IT returns, 'Vahan'²¹ database etc. and were flagged to the Ministry to ascertain whether any compliance verification had been carried out by the CBIC field formations in respect of these taxpayers. Audit also observed that there were certain CLS taxpayers who were continuing in the Scheme despite not fulfilling the eligibility criteria prescribed in the Act and the Rules, and a substantial number of CLS taxpayers were not discharging their obligatory responsibilities of filing returns and payment of tax under reverse charge.

During 2023-24, Audit conducted a compliance audit which is a follow up of the data analysis exercise, carried out in October 2022, to evaluate the extent to which the departmental field formations initiated remedial action on the data level inconsistencies identified by Audit earlier as well as to evaluate the existing monitoring mechanism prevailing in departmental field formations relating to taxpayers in the CLS. Thus, the nature and extent of discrepancies in data analysis formed the basis for this compliance audit.

3.1.2 Audit objective

This compliance audit on CLS was conducted as a continuation of the pan-India data analysis carried out during 2022-23 which was reported in Chapter VII of CAG's Audit Report No. 7 of 2024, with the objective of evaluating the following

- a) effectiveness of the existing departmental monitoring mechanism with reference to taxpayers in the CLS, and
- b) adequacy of remedial action taken by the departmental formations on the deviations identified by Audit in data analysis.

3.1.3 Audit scope

The scope of this audit involved verification of returns and reports of selected taxpayers as available in the CBIC ACES-GST System and verification of

²⁰ As per the updated data provided by GSTN in September 2022, there were 23.69 lakh taxpayers under CLS throughout the country. Out of this, 8.66 lakh taxpayers were under central jurisdiction (i.e. pertaining to CBIC).

²¹ Motor vehicle registration database of Ministry of Road Transport & Highways (MoRTH), Government of India.

records in CBIC field formations with a view to assess the effectiveness of the Department in monitoring compliance by the CLS taxpayers for the years 2021-22 and 2022-23.

3.1.4 Audit sample

The data analysis conducted in 2022-23 led to identification of deviations categorized under (a) high-risk taxpayers who had high probability of crossing the turnover threshold; (b) taxpayers who were ineligible but continued under the scheme; (c) taxpayers who did not discharge their tax liability as per rules. Out of the total population of 8.66 lakh taxpayers in CLS under the central jurisdiction²², the numbers identified in the respective three categories were 3,278 as high-risk taxpayers; 4,333 who were ineligible to continue in the Scheme; and 99,891 who did not discharge their tax obligations.

The sample for the audit now being reported arose from random sampling from these three categories in the ratio of 2:1:2, i.e. 300 high-risk taxpayers, 150 taxpayers who were ineligible to continue in the Scheme and 300 taxpayers who did not discharge the tax obligations.

Audit selected the sample of 750 taxpayers²³ falling under 10 CGST Commissionerates²⁴ on the basis of numbers of deviations found during data analysis earlier for verification of departmental action and monitoring mechanism.

3.1.5. Audit findings

Audit observed systemic issues such as inadequate mechanism to oversee compliance of conditions prescribed for composition levy taxpayers including the non-availability of GSTR-4A returns to Range Officers and inadequate coverage of CLS taxpayers in Department's compliance verification mechanism viz., Scrutiny of returns, internal audit, Anti-Evasion etc. There were also observations in the categories of non/short payment of taxes, CLS taxpayers rendering inter-state outward supplies and non-filing of annual returns. Further, it was also observed that despite non-compliance by the CLS taxpayers, the Department's action in these cases was inadequate.

²² As per data provided by the GSTN in September 2022.

²³ The sample was selected on a random basis from the three categories, viz. High Risk taxpayers; Taxpayers who were ineligible to continue in the scheme; and Taxpayers who did not discharge the tax obligations, in the ratio of 2:1:2.

²⁴ CGST & CX – Kolkata North, Kolkata South, Visakhapatnam, Guntur, Pune-II, Nashik, Jaipur, Jodhpur, Lucknow and Varanasi

3.1.6 Inadequate monitoring mechanism

Rule 5 of the CGST Rules, 2017 prescribes conditions and restrictions to be followed by the taxpayers under CLS.

The Department's compliance monitoring mechanism consists of Scrutiny of returns, Internal Audit, and Anti-Evasion functions. Section 61 of the CGST Act, 2017 stipulates that the proper officer may scrutinize the return and related particulars furnished by the taxpayers to verify the correctness of the returns and information.

Section 65 empowers tax authorities to conduct an audit of taxpayers' records to assess the extent of compliance of GST provisions and to detect non-compliances by taxpayers. Further, Section 67 empowers the proper officer to inspect any place of business of the taxable person where he has reason to believe that the taxable person has suppressed any transaction relating to supply of goods or services or both or has acted in contravention of any of the provisions of the Act and rules made thereunder to evade tax.

Audit of the departmental monitoring function disclosed that the monitoring mechanism to verify compliance of Rule 5 of the CGST Rules, 2017 was inadequate. Audit also observed inadequate coverage of composition levy taxpayers in the departmental compliance verification mechanism viz. scrutiny of returns, internal audit, and anti-evasion. It was also observed that access to GSTR 4A returns to Range Officers was not available which hampered the monitoring mechanism.

3.1.6.1 Inadequate mechanism to oversee compliance of conditions prescribed for composition levy taxpayers

Rule 5 of the of the CGST Rules, 2017 prescribes conditions and restrictions to be followed by the taxpayers under Composition Levy Scheme (CLS), which includes that every taxpayer under the composition scheme shall mention the words "composition taxable person, not eligible to collect tax on supplies" at the top of the Bill of Supply issued by him [Rule 5(f)]; and shall mention the words " Composition taxable person" on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place of business [Rule 5(g)].

Section 10 (4) of the CGST Act, 2017 provides that CLS taxpayer shall neither collect any tax from the recipient on supplies made by him nor shall he be entitled to any credit of input tax.

Audit requisitioned 'Bills of supplies' on a test check basis in respect of 297 CLS taxpayers out of the sample of 750 taxpayers in all the selected 10 Commissionerates to verify the compliance of provisions of Section 10(4) and

Rule 5(f). The Department provided Bills of Supplies in respect of only 44 taxpayers. However, in the limited number of cases where Bills of Supply were provided, Audit observed that 17 taxpayers out of the 44 taxpayers in six Commissionerates²⁵, comprising 38.6 per cent, had not complied with the provisions of Rule 5(f) as they were not mentioning the words “*composition taxable person, not eligible to collect tax on supplies*” at the top of the bills of supply issued by them. Audit also observed that no action was taken by the Department in this regard. Further, in view of non-compliance of this rule, charging of tax by the taxpayers from the recipients cannot be ruled out. Further, a robust mechanism to ensure compliance of Rule 5(f) of the CGST Rules, 2017 and Section 10 (4) of the CGST Act, 2017 will also help in preventing unjust enrichment of such taxpayers and ensure transfer of the benefits of the scheme to the consumers.

Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

3.1.6.2 Inadequate coverage of composition levy taxpayers in Department’s monitoring mechanism

1 Scrutiny of returns of taxpayers under Composition Levy Scheme

Department carried out scrutiny of GST returns for the period 2017-18 and 2018-19 during 2022-23²⁶. Audit observed that out of 5,969 taxpayers selected for scrutiny of returns in six Commissionerates²⁷, pertaining to the years 2017-18 and 2018-19, only one taxpayer under the CLS in Jodhpur Commissionerate was selected for scrutiny. Further, information related to total number of taxpayers selected for scrutiny was not furnished by four Commissionerates²⁸.

However, the coverage improved in 2023-24 as out of 2,672 taxpayers selected for scrutiny of returns in five²⁹ out of ten selected Commissionerates, 1,397 taxpayers under CLS (comprising 52 per cent) were covered for scrutiny of returns for the FY 2019-20. Information related to total number of taxpayers selected for scrutiny during FY 2023-24 was not furnished by the remaining five Commissionerates³⁰.

Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

²⁵ Kolkata South, Jodhpur, Guntur, Visakhapatnam, Lucknow and Varanasi

²⁶ CBIC Instruction No. 02/2022-GST dated 22 March 2022

²⁷ Guntur, Jodhpur, Kolkata North, Kolkata South, Lucknow, and Vishakhapatnam.

²⁸ Pune-II, Nashik, Jaipur and Varanasi.

²⁹ Guntur, Jodhpur, Lucknow, Kolkata North and Kolkata South.

³⁰ Pune-II, Nashik, Jaipur, Varanasi and Visakhapatnam

2 Internal Audit of taxpayers under Composition Levy Scheme

Section 65 empowers tax authorities to conduct an audit of taxpayers' records to assess the extent of compliance of GST provisions and to detect non-compliances by taxpayers.

In order to examine the efficacy of the internal audit mechanism with respect to CLS taxpayers, details regarding taxpayers selected for internal audit vis-à-vis CLS taxpayers selected for internal audit from the 10 selected Commissionerates were sought from the Department. However, no information was provided by the Jaipur and Nashik Commissionerates.

On examination of replies provided with respect to eight Commissionerates³¹, Audit observed that out of the 3,362 taxpayers were selected for internal audit in these Commissionerates, in five commissionerates³² (62.5 per cent) no CLS taxpayer was selected for internal audit from FY22 to FY23.

Further, in the remaining three Commissionerates³³, out of 698 taxpayers selected for internal audit, only 39 taxpayers (six per cent) belonged to the CLS. Additionally, none of the sample of 750 deviation cases identified by Audit featured in the internal audit selection of the Department for the years 2021-22 and 2022-23.

Audit pointed this out (March 2024) and the reply of the Ministry was awaited (April 2025).

3 Anti Evasion measures on taxpayers under Composition Levy Scheme

In order to examine the efficacy of the anti-evasion measures with respect to CLS taxpayers, details regarding taxpayers, including CLS taxpayers, selected for anti-evasion related to selected 10 Commissionerates were sought from the Department. However, no information was provided by Pune-II and Nashik Commissionerates.

On examination of replies provided with respect to the remaining eight Commissionerates³⁴, Audit observed that in six Commissionerates³⁵ out of 1,471 taxpayers that were selected for anti-evasion measures, no CLS taxpayer was selected for anti-evasion measures from FY22 to FY23.

³¹ Guntur, Visakhapatnam, Jodhpur, Lucknow, Varanasi, Pune-II, Kolkata North and Kolkata South

³² Guntur, Visakhapatnam, Jodhpur, Lucknow and Varanasi

³³ Pune-II, Kolkata North and Kolkata South

³⁴ Guntur, Visakhapatnam, Jodhpur, Jaipur, Lucknow, Varanasi, Kolkata North and Kolkata South

³⁵ Guntur, Visakhapatnam, Jodhpur, Jaipur, Lucknow and Kolkata North

Further, in the remaining two Commissionerates, out of 414 taxpayers only three CLS taxpayers (accounting for less than one per cent) were selected for anti-evasion measures from FY22 to FY23.

Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

3.1.6.3 Non availability of access to GSTR-4A returns to Range Officers

Rule 60(1) of the Central Goods and Services Tax Rules, 2017 provides that the details of outward supplies furnished by the supplier in form GSTR-1 or using IFF (Invoice Furnishing Facility) shall be made available electronically to the concerned registered persons (recipients) in form GSTR-4A in respect of taxpayers opting for composition levy. Form GSTR-4A is auto-drafted with details of inward supplies received by the taxpayers in the CLS from registered persons. It is auto drafted from GSTR-1, GSTR-5 and GSTR-7 and contains inter alia details of inward supplies including the credits received under Reverse Charge Mechanism (RCM) and Tax Deducted at Source (TDS).

Audit observed that access to GSTR 4A returns was not available in any of the selected 10 Commissionerates to Range Officers of the Department in CBIC ACES-GST System. Non-availability of access to GSTR 4A to Range Officers restricts the ability of the Range Officers to detect non-compliances relating to non-payment of tax under RCM, TDS credit mismatch or on account of value of inward supplies which are detectable from GSTR-4A returns. Due to non-availability of access to GSTR 4A, the 300 high-risk cases³⁶ in the sample could not be verified to ascertain the extent to which they were breaching the turnover threshold or not following other conditions and restrictions.

Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

Recommendations:

1. The Department needs to strengthen the mechanism to verify that each CLS dealer is complying with Section 10 (4) of CGST Act, 2017 and Rule 5 of the CGST Rules, 2017 and are indicating that it is not entitled to collect tax. An application may also be developed, on the lines of 'm-Parivahan'³⁷ Application, by which status of a dealer can be known by scanning its GSTIN.

³⁶ As given in paragraph 3.1.4 of this report.

³⁷ Developed by Ministry of Road Transport & Highways (MoRTH), this Application automate all Vehicle Registration and Driving License related activities in transport authorities of country with introduction of smart card technology to handle issues like interstate transport vehicle movement and to create state and national level registers of vehicles/DL information. It also facilitates instant access of Vehicle/DL information to other government departments.

2. The Department needs to devise a mechanism for conducting periodic verification of a sample of composition taxpayers to ensure that they are adhering to the conditions such as display of their status as composition taxable persons in their places of businesses and Bills of Supplies.

3. The Department may enhance the coverage of taxpayers in the Composition Levy Scheme in the Scrutiny of Returns and Internal Audit and Anti Evasion considering the substantial risk exposure of non-compliance that exists with composition levy taxpayers.

4. Ministry may ascertain the reasons as to why GSTR-4A is not accessible to the Range officers and may provide access of the same to enhance their ability to detect non-compliance and initiate remedial measures.

Audit pointed this out (March 2024) and reply of the Ministry was awaited (April 2025).

3.1.7 Inadequate remedial measures on deviations identified by Audit

Section 10 of the CGST Act, 2017, prescribes the eligibility criteria for taxpayers to avail CLS and the conditions that such taxpayers should comply with to continue in the Scheme. Taxpayers availing the CLS are required to discharge tax payments at prescribed rates including tax payment on reverse charge basis where supplies attracting reverse charge are received by such taxpayers. They are also required to file the prescribed quarterly returns (CMP-08) and the annual return (GSTR 4) within the stipulated time.

Audit examined the measures taken by the departmental field formations in respect of the sampled cases of taxpayers. It was seen that no action had been taken against 467 out of 750 taxpayers who did not file annual returns. Further, departmental action was found to be inadequate by Audit in respect of various deviations in the sample of 450 taxpayers who were ineligible to remain under CLS and those who were defaulters in payment of tax. Audit observed that the Department did not take any action against 53 out of 75 taxpayers who had exceeded prescribed turnover threshold of ₹1.5 crore. Similarly, no action was taken against 62 out of 75 taxpayers who had made inter-state supplies against the provisions of the Act; and in respect of 288 taxpayers out of 300 taxpayers who defaulted in payment of tax;

3.1.7.1 Non-filing of annual return GSTR-4 by taxpayers under Composition Levy Scheme

As per Rule 62 of Central Goods and Services Tax Rules, 2017, taxpayers under CLS are required to furnish the yearly return in Form GSTR-4 by 30th April, following the end of the financial year. The due date was extended through notifications from time to time and the extended due dates for the

return period 2019-20, 2020-21 & 2021-22 was 30 June 2023. The due date for return period 2022-23 was 30 April 2023.

Audit verified the return filing status of a sample of total 750 taxpayers for the financial years 2019-20 to 2022-23 wherein it was observed that 150 taxpayers did not file GSTR-4 returns for all the four years from 2019-20 to 2022-23; 61 taxpayers did not file GSTR-4 returns for three years from 2019-20 to 2021-22; and 11 taxpayers did not file GSTR-4 returns for two years from 2019-20 and 2020-21.

Audit pointed this out (July 2024). Reply of the Ministry was awaited (April 2025).

3.1.7.2 Inadequate action on taxpayers breaching the turnover threshold

As per Section 10(3) of the CGST Act, 2017 the option to pay tax, under the CLS lapses from the day on which taxpayers' aggregate turnover, during a financial year, exceeds the prescribed limit of ₹1.5 crore.

As per Section 10(2)(c) of CGST Act, 2017 a taxpayer making interstate outward supply is also not eligible to opt for CLS.

Further, as per provisions of Section 51 of the CGST Act, 2017, Government Departments, Local Authorities, Governmental agencies etc. are required to deduct GST TDS from the suppliers of goods and services where the total value of supply, under a contract, exceeds ₹ 2.5 lakh. Such deductors are required to file monthly return GSTR-7 giving the details of suppliers from whom tax was deducted during the month.

In the case of 150 taxpayers, identified as ineligible taxpayers to continue in the scheme, out of sample of 750 taxpayers, Audit observed inadequate departmental action on taxpayers (75 out of 150 taxpayers) whose outward supplies exceeded the prescribed turnover threshold in a financial year and on taxpayers (75 out of 150 taxpayers) rendering interstate outward supply of goods while being in the CLS, which are brought out in the succeeding paragraphs.

1 Aggregate turnover exceeding the threshold

Audit verified the status of action taken by the Department in respect of a sample of 71 CLS taxpayers, out of 75 taxpayers whose turnover exceeded the threshold limit, in all the selected Commissionerates, identified during data analysis, whose declared outward supplies in the quarterly statements (CMP-08) exceeded the turnover threshold limit of ₹1.5 crore in a financial year, but had continued under the Scheme in the subsequent year.

Audit observed that out of 71 taxpayers, 50 taxpayers (70 per cent) were continued in the scheme despite declaration of aggregated turnover more than threshold limit of ₹1.5 crore in previous year CMP-08. However, the Department did not initiate any action against these taxpayers.

On this being pointed out (March 2024), the Department had initiated action (April 2024) only against 10 taxpayers in six Commissionerates³⁸. Replies in respect of 29 taxpayers under eight Commissionerates³⁹ was not provided by the Department (May 2024). An illustrative case is given below:

A taxpayer under Kolkata North Commissionerate declared total turnover of ₹ 1.57 crore in CMP-08 during FY 2019-20. However, the taxpayer had continued under the Scheme in FY 2020-21 which was not in order. On this being pointed out (February 2024) the Department informed (February 2024) that action against the taxpayer was being initiated.

Recommendation 5: Department may develop a mechanism for verification of declared turnover.

Reply of the Ministry was awaited (April 2025).

2 Outward supply to TDS deductors exceeding the turnover threshold

As per provisions of Section 51 of the CGST Act, 2017, Government Departments, Local Authorities, Governmental agencies etc. are required to deduct TDS from the suppliers of goods and services where the total value of supply, under a contract, exceeds ₹2.5 lakh. Such deductors are required to file GSTR-7, the monthly return giving the details of suppliers from whom tax was deducted during a month.

Audit verified the status of action taken by the Department in respect of a sample of four CLS taxpayers, out of 75 taxpayers whose turnover exceeded the threshold, falling under four Commissionerates⁴⁰ and observed that though TDS was correctly deducted, the value of supplies of goods and services to TDS deductors exceeded the turnover threshold of ₹1.5 crore during a financial year rendering them ineligible to continue in the Scheme but had continued in the Scheme.

Audit observed that no action was taken by the Department against three out of the four taxpayers (March 2024). In respect of only one taxpayer anti-evasion measure had already been initiated.

³⁸ Kolkata North, Kolkata South, Guntur, Pune-II, Lucknow and Varanasi

³⁹ Nashik, Pune-II, Visakhapatnam, Jodhpur, Jaipur, Lucknow, Varanasi and Kolkata North

⁴⁰ Pune-II, Jodhpur, Varanasi and Kolkata South

When Audit pointed this out (January 2024), the Department accepted the audit observation in one case (April 2024). Reply in respect of two cases was awaited (April 2025). An illustrative case is given below:

In the case of a taxpayer under Pune-II Commissionerate, total value of supply on which TDS on GST was done was ₹ 2.83 crore, ₹ 2.48 crore and ₹ 3.05 crore for FY 2019-20, FY 2020-21 and 2021-22, respectively. The taxpayer was claiming composition scheme for these financial years. Since the turnover of the taxpayer was more than threshold limit of ₹1.5 crore, the taxpayer was not eligible for the CLS and was liable to pay tax at normal rates. On this being pointed out (January 2024), the Department informed (April-May 2024) that an amount of ₹ 51.18 lakh (including interest) for FY 2019-20 and ₹ 21.58 lakh (including interest) for FY 2020-21 had been recovered.

The reply of the Ministry was awaited (April 2025).

3.1.7.3 Taxpayers rendering interstate outward supply of goods

Section 10(2) of the CGST Act, 2017 provides that the registered person shall be eligible to opt for the CLS if he is not engaged in making any inter-state outward supplies of goods or services⁴¹.

Audit verified the status of action taken by the Department in respect of a sample of 75 CLS taxpayers, out of 150 ineligible taxpayers, in selected Commissionerates, identified during data analysis, who had generated e-way bills for interstate outward supply of goods rendering them ineligible to continue in the CLS.

Out of the sampled 75 cases who had generated e-way bills for outward supply, Audit observed that 62 taxpayers had generated e-way bills for making inter-state outward supplies which was against the provisions of the Act. Audit further observed that, the Department had not initiated any action against these taxpayers (March 2024).

Audit pointed this out (March 2024). Reply of the Ministry was awaited (April 2025).

3.1.7.4 Inadequate action on CLS Taxpayers who did not discharge their tax obligations

As per provisions of Section 10(1) of CGST Act, 2017 read with Rule 5(1)(d) of Central Goods and Services Tax Rules, 2017, taxpayers under CLS are required to pay tax under Reverse Charge Mechanism (RCM) at applicable rates when supplies attracting reverse charge is received. The four main slabs of GST rate

⁴¹ Inserted by the Finance Act, 2020, with effect from 1 January 2021.

are 5 per cent, 12 per cent, 18 per cent and 28 per cent. Thus, the minimum tax payable, should be 5 per cent, on any inward supply received by the composition levy taxpayers attracting reverse charge.

Further, a registered person who opts for CLS and makes supplies as referred to in Clause (b) of Paragraph 6 of Schedule II (i.e. Restaurant services) is required to pay tax at the rate of 5 per cent of the turnover in the State or Union Territory.

In the case of 300 taxpayers, identified as defaulters of tax payments, out of the sample of 750 taxpayers, Audit observed inadequate departmental action on taxpayers for non-discharge/ short discharge of tax under RCM on receiving supplies that attracted reverse charge as well as on taxpayers who had not discharged tax at prescribed rates on outward supply of services, which are brought out below.

1 Non-payment of tax on RCM basis

Audit identified 248 taxpayers, out of 300 taxpayers constituted as defaulters of tax payments, who had inward supplies attracting reverse charge (as per GSTR-4A), without payment of tax under reverse charge (as per CMP-08-the quarterly statement). S No.2 of Table 3 of CMP-08 captures the details of inward supplies attracting reverse charge.

Audit observed that 242 taxpayers (97 per cent), out of sampled 248 taxpayers, had inward supplies of ₹11.54 crore which attracted tax liability under reverse charge. However, no tax was paid by the taxpayers. Further, Audit observed that the Department did not take any action for recovery of tax from these taxpayers.

On being pointed out (February 2024), the Department informed that since the access to GSTR-4A is not accessible to the Range Officers, they were unable to take any action in this regard. Since S No.2 of Table 3 of CMP-08 captures the details of inward supplies attracting reverse charge, it may, therefore, be ensured that details of GSTR-4A relating to inward supplies attracting reverse charge auto-populate in CMP-08.

Department further informed that in 27 cases under seven Commissionerates⁴², the taxpayers had admitted the non-payment of tax under RCM for the period 2019-20 to 2021-22 and paid ₹ 5.00 lakh including interest and penalty. Reply in 215 cases was awaited (April 2025).

An illustrative case is given below:

⁴² Kolkata North, Kolkata South, Jodhpur, Guntur, Lucknow, Varanasi and Pune-II

A taxpayer under Guntur Commissionerate had received inward supplies of value ₹ 3.55 lakh during 2021-22 attracting tax under reverse charge but the tax was not paid. On this being pointed out (January 2024), the Department informed (March 2024) that the taxpayer has paid the tax of ₹17,860 along with interest of ₹ 6,100.

Recommendation 6: Ministry may ensure that details of Table 3B of GSTR-4A, i.e. inward supplies attracting reverse charge, are auto-populated in CMP-08 so that tax evasion on account of non-declaration of inward supplies attracting reverse charge by the CLS taxpayers, if any, can be ruled out.

Recommendation 7: The Department may initiate remedial measures for the compliance deviations pointed out by Audit.

Reply of the Ministry was awaited (April 2025).

2 Short payment of tax on RCM basis

Audit identified 23 taxpayers who had paid tax on RCM basis at one per cent on the total value of inward supply (CMP-08), suggesting short payment of tax. In four cases, the Department intimated that the deviation was on account of data entry errors.

Audit observed that the remaining 19 taxpayers had declared inward supplies attracting reverse charge of ₹1.56 crore on which tax was required to be paid at normal rates of 5, 12 and 18 per cent, as applicable. However, they had paid tax at the rate less than the minimum normal rate of 5 per cent. Further, it was observed that the Department had not taken any action against these taxpayers.

When pointed out to the Department (March 2024), action was initiated in respect of five taxpayers in four Commissionerates⁴³. Reply of the Department was awaited (April 2025) in respect of 12 taxpayers. An illustrative case is given below:

A taxpayer under Kolkata North Commissionerate had shown inward supply of value ₹ 10.08 lakh attracting tax under reverse charge in its CMP-08 of the third quarter of FY 2019-20. However, tax was paid at one per cent in place of normal applicable rate which was not in order. On this being pointed out (February 2024) the Department informed (February 2024) that action had been initiated against the taxpayer.

Reply of the Ministry was awaited (April 2025).

⁴³ Kolkata North, Kolkata South, Lucknow and Varanasi

3 Non-payment of tax at prescribed rates on supply of services

Audit verified the status of action taken by the department in respect of a sample of 29 taxpayers, out of 300 taxpayers considered as defaulters of tax payments, identified during data analysis, who provided restaurant services (SAC 996331) but had paid tax at a rate less than the applicable rate of five per cent.

Audit observed that in case of 27 taxpayers, no action was taken by the department (March 2024). The short payment of tax in these cases was ₹ 26.73 lakh.

The issue was pointed out to the Department in February 2024. In reply, the Department informed (February-April 2024) that action had been initiated only against eight taxpayers and amount of ₹ 2.45 lakh had been recovered from four out of these eight taxpayers. Reply of the Department was awaited in respect of 18 taxpayers (April 2025). An illustrative case is given below:

A taxpayer under Pune-II Commissionerate had provided restaurant services (SAC 996331) while being under the Scheme and had paid tax at one per cent in place of five per cent. On this being pointed out (January 2024), the Department informed that taxpayer has accepted the liability and paid an amount of ₹57,980 for FY 2020-21 to 2022-23.

Reply of the Ministry was awaited (April 2025).

3.2 Internal Audit under GST

3.2.1 Internal audit of GST Units

Internal Audit⁴⁴ helps to assess the level of compliance by taxpayers in the light of the provisions of the Goods and Services Tax Act and Rules made thereunder. The Board had issued Goods and Services Tax Audit Manual (GSTAM) in July 2019 envisaging the audit process to be followed for conduct of GST audits. The internal audit provisions of the Department envisaged selection of taxpayers based on risk assessment using GST data by the Director General of Analytics and Risk Management (DGARM). The financial year for the purpose of internal audit covers the period from July to June in respect of Central Excise and Service Tax, and from April to March in respect of GST.

Section 2 (13) of the CGST Act, 2017, 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 in force to verify the correctness

⁴⁴ Section 65 of the CGST Act, 2017.

of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess compliance with the provisions of this Act or the rules made thereunder”.

The details of internal audit undertaken by the Department during 2020-21, 2021-22 and 2022-23 for GST are as under: -

Table 3.1: Total detection made vis-à-vis units audited in Internal Audit (GST)

(Amount in ₹ crore)

Year	Unit Category ⁴⁵	Total units planned	Total units audited	Short levy detected	Total recovery	Recovery as a percentage of total detection
FY 21	Large	16,294	2,816	1,623.95	291.94	18
	Medium	14,904	4,405	510.44	138.03	27
	Small	15,464	4,781	346.84	83.57	24
	Total	46,662	12,002	2,481.23	513.54	21
FY 22	Large	12,442	5,673	7,639.68	946.40	12
	Medium	13,745	7,118	1,528.05	404.35	26
	Small	14,839	6,837	1,078.77	389.61	36
	Total	41,026	19,628	10,246.50	1,740.36	17
FY 23	Large	9,943	7,794	12,643.28	1,598.73	13
	Medium	12,357	9,950	2,569.85	750.80	29
	Small	20,493	12,419	1,973.90	662.48	34
	Total	42,793	30,163	17,187.03	3,012.01	18

Source: Monthly Progress Report of the Department- DGA-GST-1 for the month of March 2023.

As is evident from the above table, the number of units audited during FY 21, FY 22 and FY 23 were 26 per cent, 48 per cent and 70 per cent, respectively, of the total units planned. Although there had been an increasing trend in percent of units audited vis-à-vis units planned from FY 21 to FY 23, however, there is still a gap between the numbers of units planned and audited.

The percentage of total recovery marginally increases to 18 per cent in FY 23 from 17 per cent in FY 22. However, it remained below as compared to FY 21 (21 per cent) of the total short levy detected.

During 2021-22 Ministry intimated shortage of officers in the Audit Commissionerates, especially in the grade of inspectors whose working strength was less than 50 per cent of the sanctioned strength in most of Audit Commissionerates. This was one of the main reason for short coverage of

⁴⁵ The taxpayers' pool is divided by the Department into three segments namely Large, Medium & Small based on turnover, or on some other logical criterion.

units during internal audit. During FY23, Audit observed that there was manpower shortage of 33 percent in the Audit Commissionerates⁴⁶. The highest shortage, in terms of percentage, was observed in the ranks of Deputy/Assistant Commissioner and Inspector wherein the shortage was 61 per cent and 49 per cent, respectively. Thus, it is evident that there is a persistent shortage of manpower in Audit Commissionerates due to which there were gaps in units audited vis-à-vis units planned in internal audit.

In CAG's previous Audit Report on GST⁴⁷, Audit had recommended that in view of persistent short coverage of internal audit units due to shortage of officers in the Audit Commissionerates, Ministry may enhance the availability of human resources in the Audit Commissionerates and ensure optimal utilisation of resources for internal audit.

When Audit pointed this out (July 2024), Ministry stated (January 2025) that given the limited resources available with the Department, steps were taken to ensure optimal utilisation of resources for internal audit. Ministry also stated that CBIC had taken sincere steps to overcome the shortage of staff by filling up vacancies in various cadres.

However, despite the measures taken to overcome the shortage of staff, as on 1 July 2024, 38 per cent positions in the Audit Formations of the CBIC were vacant. As a result, there is no significant increase (marginal increase of four per cent) in the number of units selected for internal audit during FY23 over FY22.

Audit is of the view that in the era of self-assessed tax regime, internal audit is one of the main tools for ensuring compliance by the taxpayers. Further, departmental action against non-compliant taxpayers is a time bound activity under section 73 of the CGST Act, 2017. In view of this, Ministry may take further action to increase the manpower in the CBIC audit formations to the optimum level.

3.2.2 Internal audit of Central Excise and Service Tax Units

The details of internal audit undertaken by the Department during 2020-21, 2021-22 and 2022-23 for the Central Excise and Service Tax units are as under:

⁴⁶ As per the details provided by DG HRD in November 2023.

⁴⁷ Audit Report No. 7 of 2024.

Table 3.2: Total detection made vis-à-vis units audited in Internal Audit (Central Excise and Service Tax)*(Amount in ₹ crore)*

Year	Unit Category	Total units planned	Total units audited	Short levy detected	Total recovery	Recovery as per cent of total detection
FY 21	Large	4,075	1,421	5,532.22	185.10	3
	Medium	7,758	2,106	1,016.94	118.38	12
	Small	27,630	8,860	467.91	124.38	27
	Total	39,463	12,387	7,017.07	427.86	6
FY 22	Large	3,269	1,793	2,283.55	115.71	5
	Mediums	5,171	2,268	598.49	83.27	14
	Smalls	18,327	6,047	219.42	58.85	27
	Total	26,767	10,108	3,101.46	257.83	8
FY 23	Large	903	258	335.43	14.31	4
	Medium s	940	284	97.05	7.99	8
	Small	1,982	663	17.06	5.28	31
	Total	3,825	1,205	449.54	27.58	6

Source: Monthly Progress Report of the Department-DGA-CE-1 and DGA-ST-1 for the month of March 2023.

It is observed that coverage of internal audit of units increased to 38 per cent of planned units in FY22 from 31 per cent of planned units during FY21. However, during FY23 the coverage of internal audits decreased to 32 per cent of planned units in FY23.

Further, it is observed that the recovery effected at the instance of internal audit as percentage of the amount detected increased to eight per cent in FY22 from six per cent in FY23. During FY23, the recovery effected at the instance of internal audit as percentage of the amount detected, however, decreased to six per cent.

When Audit pointed this out (July 2024), Ministry stated (January 2025) that from 2022-23 onwards, greater focus was sought to be given for audit under GST regime vis-à-vis Central excise and Service Tax.

3.3 Conclusion

During 2023-24, Audit conducted a follow-up compliance audit of the Composition Levy Scheme. The sample was taken from a previous data analysis of CLS taxpayer's data, provided by GSTN in September 2022, the audit of which was conducted in 2022-23 for the financial years 2019-20 to 2021-22 and reported in Chapter VII of CAG's Audit Report No. 7 of 2024. Audit observed that the mechanism to oversee compliance of conditions prescribed for composition levy taxpayers as prescribed in Rule 5 of the CGST

Rules, 2017 such as mentioning the words “composition taxable person, not eligible to collect tax on supplies” and mentioning the words “Composition taxable person” on every notice or signboard displayed at a prominent place at his principal place of business and at every additional place of business was inadequate.

Audit also observed inadequate coverage of CLS taxpayers in Department’s compliance verification mechanism viz., Scrutiny of returns, internal audit, Anti-Evasion etc. It was also observed that despite the non-compliance by the CLS taxpayers, the Department action in such cases was inadequate.

Accordingly, Audit recommended that there is a need to strengthen the compliance verification mechanism of the Department to ensure that each CLS dealer is complying with Section 10(4) of CGST Act, 2017 and Rule 5 of the CGST Rules, 2017 and are indicating that they are not entitled to collect tax; Department may enhance the coverage of taxpayers in the CLS in the Scrutiny of Returns and Internal Audit and Anti Evasion; and it may be ensured that details of Table 3B of GSTR-4A, i.e. inward supplies attracting reverse charge, are auto-populated in CMP-08.

In addition, Audit examined the Department’s overall performance with respect to internal audit. Audit observed that although there had been an increasing trend in percent of units audited vis-à-vis units planned from FY 21 to FY 23, however, there is still a gap between the numbers of units planned and audited.

Chapter IV: Department's Oversight on GST Payments and Returns Filing

4.1 Introduction

The introduction of Goods and Services Tax (GST) from July 2017 was a turning point in the history of indirect tax reforms in the country. It marked the beginning of new era of cooperative federalism in the area of taxation taking the country towards one common market, wherein the Centre and States simultaneously levy tax based at a common tax rate. The reform made a far-reaching impact in terms of reducing the cascading effect of taxation by unifying diverse tax structures that existed and allowed cross-border input tax credit (ITC). With simplified tax structures, robust IT (Information Technology) system, and less intrusive administration, the reform was expected to usher in higher transparency and improved compliance in the field of indirect taxation. After seven years of GST, the tax eco-system is evolving to cater to the emerging requirements of administration as well as the taxpayers.

GST revenue is a significant component of the tax revenue of the Government and the tax collection has been steadily increasing in line with the registrations. This Subject Specific Compliance Audit (SSCA) was taken up as a continuation of the SSCA conducted during the year 2022-23 covering returns for the period 2017-18, considering the significance of the control mechanism envisaged for tax compliance and the Department's oversight mechanism in the new tax regime. The finding of the previous SSCA were featured in CAG's Audit Report No.7 of 2024 as Chapter IV Department's Oversight on GST Payments and Returns Filing (DORF Phase I). This report for DORF Phase II covers returns for the period 2018-19 to 2020-21.

4.2 Legal framework

Section 59 of the Central Goods and Services Tax Act, 2017 (CGST Act) 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 with the taxpayer. The Act defines the term 'supply', on which GST is payable. Tax liability on a supply is determined in accordance with the time, place, and nature of supply at prescribed rates. Generally, the liability to pay tax is vested with the suppliers, while the burden of tax is borne by the customer. However, on certain supplies, the registered persons shall be liable to pay tax as recipients under Reverse Charge Mechanism (RCM). GST envisages taxing only the value addition by allowing ITC at each

stage of value addition. Detailed provisions are available for availing and utilising ITC on inputs, input services and capital goods, ensuring seamless flow of input credit across the chain in the country.

Section 61 of the CGST Act read with Rule 99 of Central Goods and Services Tax Rules, 2017 (CGST Rules) stipulates that the proper officer may scrutinise the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation. Section 46 of the Act stipulates issue of notice if the taxpayer had failed to file the return within the due date. Failure of the taxpayer to file returns despite the notice empowers the proper officer to assess the tax liability of the said person on best judgment basis. Sections 65 and 66 of the CGST Act empower the Department to carry out an audit or special audit of registered persons. Further, Central Board of Indirect Taxes and Customs (CBIC) has issued Instruction No. 02/2022-GST dated 22 March 2022 prescribing Standard Operating Procedure (SOP) for scrutiny of GST returns for financial years (FYs) 2017-18 and 2018-19 in order to ensure uniformity in selection/ identification of returns for scrutiny, methodology of scrutiny of such returns and other related procedures. The Scrutiny Module for online scrutiny of returns for the year 2019-20 was made available on the CBIC-GST application since May 2023.

This apart, the Directorate General of Analytics and Risk Management (DGARM) periodically identifies cases of risky taxpayers based on data analytics and intelligence gathering which indicate potential tax evasion or non-compliance. The field formations are required to initiate verification proceedings to scrutinise the returns filed by taxpayers and examine the books of accounts, documents, and other relevant records on the cases identified by the DGARM. CBIC has issued an SOP on 30 April 2019, (which was updated by another SOP dated 12 July 2021) providing a broad guideline to the field formations on the modalities for taking action in respect of Goods and Services Tax Identification Numbers (GSTINs) identified by DGARM.

4.3 Context and significance

Automation is a key enabler for achieving effective tax administration in GST. Goods and Services Tax Network (GSTN) and the CBIC back-end portal play integral roles in facilitating the seamless process of return filing and return matching under the GST regime in India. Self-assessment is a crucial aspect of the GST regime which places the responsibility to assess and report their tax liabilities accurately on the registered taxpayers. Payment of self-assessed tax and timely filing of periodical returns as prescribed by the extant provisions is key to an effective tax administration under GST.

The absence of invoice matching system in GST framework has been a notable omission with implications for the efficiency and accuracy of the tax regime. One significant risk is the increased likelihood of errors and mismatches in ITC claims. Without a robust mechanism to reconcile invoices uploaded by suppliers with those declared by recipients, there is a possibility of incorrect availing of credit sometimes through unscrupulous practices that could adversely impact the revenue collection under GST.

However on the positive side, Department had regulated the availing of ITC by periodically amending Rule 36(4) of CGST Rules restricting provisional ITC credits to the recipient up to 20 per cent (from October 2019 to December 2019), 10 per cent (from January 2020 to December 2020) and five per cent (from January 2021 to December 2021) of eligible credit if the supplier fails to comply with filing returns, casting an obligation on the recipient to ensure compliance by the supplier.

Nonetheless, the absence of complete automation coupled with the mechanism of allowing ITC and tax payments based on self-assessed summary returns filed by taxpayers has inherent risk exposures, as reported in earlier CAG Audit Reports⁴⁸. Hence, it becomes imperative to continuously evaluate the compliance risk management adopted by the Department to ensure taxpayers' compliance with the GST Act.

4.4 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. The audit of 'Department's oversight on GST Payments and Returns filing' - Phase II (DORF II) was taken up with the following audit objectives to seek an assurance on:

- a) Whether the rules and procedures are designed to secure an effective check on tax compliance and are being duly observed by taxpayers; and
- b) Whether the scrutiny procedures and other compliance functions of the Departmental field formations are adequate and effective.

⁴⁸ Paragraph 1.6.2 of CAG Audit Report No. 11 of 2019, Paragraph 1.4.1 of CAG Audit Report No. 1 of 2021, Paragraph 3.1 of CAG Audit Report No. 5 of 2022 and Paragraph 3.1 of CAG Audit Report No. 7 of 2024.

4.5 Audit methodology and scope

Through data analysis, a set of 18 deviations⁴⁹ were identified across the domains of ITC, discharge of tax liability, registration and return filing. Such deviations were followed up through a Centralised Audit⁵⁰, whereby these deviations were communicated to the relevant CBIC field formations (Ranges), and action taken by the field formations on the identified deviations was ascertained without involving field visits. Returns and related attachments and information were accessed through the CBIC-ACES⁵¹-GST application, the back-end system of the Department for examination. The Centralised Audit was supplemented by a Detailed Audit which involved field visits for verification of records available with the field formations. The Detailed Audit involved accessing relevant granular records from the taxpayers such as invoices, ledgers, etc., through the respective field formations. The audit period for the Centralised and Detailed audit was April 2018 to March 2021.

This apart, compliance functions such as scrutiny of returns, cancellation of registration, action taken on DGARM Reports, etc., were also reviewed in selected Ranges. The audit of the functions of selected Ranges covered the period 2020 and 2021.

The SSCA covered only the Centrally (CBIC) administered taxpayers. The field audit was conducted from April 2023 to January 2024. The replies received from the Commissionerates and lower formations as at the end of April 2024 have been duly incorporated.

The draft SSCA report was issued to the Ministry of Finance on 25 October 2024 for examination of facts appearing in the report and to provide comments within four weeks. An Exit Conference to discuss the audit findings and recommendations was conducted on 9 April 2025 and the replies of the Ministry on the audit findings and recommendations, received on 8 April 2025 and 9 April 2025 have been appropriately incorporated in the Report.

⁴⁹(i) ITC Mismatch (GSTR-3B and GSTR-2A), (ii) ITC Availed without supplier remitting tax, (iii) ITC Availed on GSTR-3B filed after limitation period, (iv) Excess ISD credit, (v) Short payment of tax on RCM, (vi) Unreconciled ITC with reference to Financial Statements (Table 12F), (vii) Ineligible ITC (Table 14T), (viii) Excess/Irregular availing of ITC during transition, (ix) Undischarged tax liability (GSTR-1 and GSTR-9), (x) Suppression of tax liability (E-Way Bill), (xi) Short-payment of tax (Table 9R), (xii) Short-payment of tax (TDS/TCS), (xiii) Suppression of taxable value (Unbilled revenue), (xiv) Unreconciled taxable turnover (Table 7G), (xv) Ineligible composition levy due to incorrect turnover, (xvi) E-commerce beneficiaries under composition levy, (xvii) GSTR-3B not filed but GSTR-1 available and (xviii) short/non-payment of interest.

⁵⁰ Centralised Audit did not involve seeking taxpayer's granular records such as financial statements, related ledger accounts, invoices, agreements etc.

⁵¹ Automation of Central Excise and Service Tax

4.6 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:

- (i) A set of deviations identified through data analysis for Centralised Audit that did not involve field visits.
- (ii) A sample of taxpayers for Detailed Audit that involved field visits and scrutiny of taxpayer's records at departmental premises.
- (iii) A sample of Ranges for evaluating the compliance functions of the Ranges.

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

4.6.1 Part I: Audit of Ranges

These were 166 Ranges out of 3,912 Ranges having the jurisdiction of at least one case from the selected sample for Detailed Audit which were considered as the sample of Ranges for evaluation of their oversight functions. These Ranges fall under 87 Commissionerates (Out of 107 Commissionerates) across 20 CBIC zones (Out of 21 CBIC zones) all over India.

4.6.2 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, 10,124 deviations (involving 8,809 taxpayers) were selected for Centralised Audit under this SSCA covering 18 broad dimensions.

4.6.3 Part III: Detailed Audit

The Detailed Audit 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 primarily selected on the basis of risk parameters. While the audit in DORF I focused on four specific risks⁵², in this report (DORF II) expanded the scope by incorporating nine risk parameters⁵³ which accounted for 54 per cent of the sample drawn based on

⁵² (i) ITC Mismatch between GSTR-2A and GSTR-3B, (ii) Liability Mismatch between GSTR-1 and GSTR-3B/GSTR-9, (iii) Ratio of Exempted/Nil rated turnover to total turnover and (iv) reversal of ITC – Findings printed in Audit Report No.7 of 2024 in Chapter IV.

⁵³ (i) ITC mismatch (ii) Unsettled liability, (iii) four ratio-based trend – ITC availed/ tax paid,

(iv) IGST/CGST+SGST, (v) Exempted/Taxable turnover, (vi) Credit Notes/Tax paid, (vii) Risk prone HSN (Harmonised System of Nomenclature)/SAC (Service Accounting Codes) added,(viii) ITC availed after limitation period and (ix) ITC availed without supplier paying tax.

composite risk score and another 36 per cent was drawn from among the four major deviations⁵⁴ to evaluate the impact of deviations within these dimensions on other taxation aspects. In addition, 10 per cent of the sample was also selected on a random basis. This approach aimed to ensure a thorough examination of potential risks and deviations across various dimensions of taxation. We categorised the 1,106 taxpayers selected for Detailed Audit as Large⁵⁵, Medium⁵⁶ and Small⁵⁷ strata taxpayers as well as taxpayers selected randomly.

4.7 Audit criteria

The sources of audit criteria comprised the provisions contained in the CGST Act, IGST Act, and Rules made thereunder. The significant provisions are given in **Table 4.1**:

Table 4.1: Sources of audit criteria

Sl. No.	Subject	Act and Rules
1	Levy and collection	Section 9 of CGST Act
2	Reverse Charge Mechanism	Section 9(3) of CGST Act and Section 5(3) of IGST Act
3	Availing and utilizing ITC	Sections 16 to 21 under Chapter V of CGST Act; Rules 36 to 45 under Chapter V of CGST Rules
4	Registrations	Section 22 to 25 under Chapter VI of CGST Act; Rules 8 to 26 under Chapter III of CGST Rules
5	Supplies	Section 7 and 8 under Chapter III, Schedule I, II and III of CGST Act
6	Place of supply	Section 10 to 13 under Chapter V of IGST Act
7	Time of Supply	Section 12 to 14 under Chapter IV of CGST Act
8	Valuation of supplies	Section 15 of CGST Act; Rules 27 to 34 under Chapter IV of CGST Rules
9	Payment of Tax	Sections 49 to 53 under Chapter X of CGST Act; Rules 85 to 88A under Chapter IX of CGST Rules
10	Filing of GST Returns	Sections 37 to 47 under Chapter IX of CGST Act; Rules 59 to 68 and 80 to 81 under Chapter VIII of CGST Rules
11	Zero-rated supplies	Section 16 of IGST Act
12	Assessment and Audit functions	Sections 61, 62, 65 and 66 under Chapters XII and XIII of CGST Act; Rules 99 to 102 under Chapter XI of CGST Rules

⁵⁴ ITC mismatch, unsettled liability, ITC in GSTR-9 Table 8A and GSTR-2A difference, ITC availed to tax paid ratio and taxable turnover.

⁵⁵ Within the Large Taxpayers Sample, the first category comprised top 0.25 per cent of taxpayers based on turnover and the second category comprised next 0.25 per cent of taxpayers based on turnover.

⁵⁶ Third category comprising medium taxpayers were those with a minimum turnover of ₹ 7.5 crore/₹ 10 crore/₹ 20 crore depending on the jurisdiction they pertained to.

⁵⁷ Fourth category comprising small taxpayers were those with a minimum turnover of ₹ 2.5 crore/₹ 5 crore depending on the jurisdiction they pertained to.

In addition, the notifications and circulars issued by CBIC relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing 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.

4.8 Audit findings

The audit carried out in all CBIC Central tax zones has brought out both systemic and compliance issues which are discussed in the ensuing paragraphs. While systemic issues address the adequacy and effectiveness of the envisaged verification mechanism, compliance issues pertain to deviations from the provisions of the Act/Rules in individual instances. Considering that this SSCA was oriented towards evaluating the oversight mechanism of the Department, the audit findings have been broadly categorised as under:

1. Lack of proper documentation to monitor compliance
2. Oversight on return filing
3. Oversight on tax payments
4. Inconsistencies in GST returns-Centralised Audit
5. Detailed audit of GST returns

Oversight on tax payments was further categorised into audit findings from Centralised Audit and Detailed Audit.

4.8.1 Lack of proper documentation to monitor compliance

Ranges are required to continuously review and take appropriate action to ensure that taxpayers file their GST returns and fulfil their tax obligations in the era of self-assessment. Audit acknowledges that several functions of the Ranges in this regard have since been automated and important MIS reports had started to be made available to the Range Officers particularly with effect from October 2020. These included functions/MIS Reports relating to issuance of GSTR-3A notice to non-filers for GSTR-3B, issuance of assessment order ASMT-13 when GST returns are not filed.

However, Audit noted that during the audit period 2020-21, certain functions had not been automated such as issue of ASMT-13 and view non-filers reports for returns other than GSTR-3B. The related MIS reports had either not been made or made partially available. These included non-availability of MIS reports related to GSTR-3A, Dispute, Settlement and Resolution (DSR)

and REG-17⁵⁸ which have not yet been automated (April 2023) for the period prior to November 2020.

This necessitated the Ranges to maintain manual records/registers of the work carried out by them. CBIC had issued Instruction No. 02/2022-GST dated 22 March 2022, insisting on maintenance of Scrutiny Register. However, the selected ranges had not maintained such Register during the audit period.

Audit did not come across record keeping instruction issued to the Ranges and neither had the selected Ranges maintained manual records for recording details of 'non-filers'.

Moreover, as already pointed out in the DORF Phase I Report, there was no procedure of handing/taking over of charges in the Ranges at both Superintendent and Inspector level. This, coupled with Range Officers continuing to use third-party e-mail services for exchanging communication with taxpayers and other departments resulted in the new incumbents possibly being completely unaware of past actions and historical information about the cases pending action in the Ranges.

Recommendations: The Department may,

1) As already indicated in DORF Phase I Report, expedite inclusion of Business Intelligence (BI) and MIS reports in the back-end system and till such time automation is complete, Department may ensure proper maintenance of manual records/registers.

GSTN stated (April 2025) that following the migration of CBIC to the GSTN Back Office (BO) with effect from June 2024, the Automated Return Scrutiny Module (ARSM) designed to implement system-based scrutiny against specified criteria and auto-generate draft discrepancy intimations for taxpayers is in an advanced stage of development and is expected to be rolled out by the end of the first quarter of FY 2025-26. Currently, real-time risk profiling and categorisation of taxpayers are undertaken based on data analysis of pre-defined factors, including 360 degree profiling. Based on this targeted information, non-compliant taxpayers are identified, and the details are shared with CBIC officers through the BO.

GSTN also added (April 2025) that the audit observations pertain to the CBIC ACES-GST system, which has now migrated to the GSTN BO. All processes on the GSTN back-end are fully automated, with documents issued electronically

⁵⁸ In the event, the Superintendent of Central Tax has reasons to believe that the registration of a person is liable to be cancelled, 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; will be issued.

by the proper officer through the common portal in a paperless environment. MIS reports available to States are being made accessible to CBIC in a phased manner, as agreed between GSTN and CBIC. Currently, 126 MIS reports such as GSTR-3B non-filers, mismatch between GSTR-1 and GSTR-3B, mismatch of ITC between GSTR-3B and GSTR-2A, refund pendency, e-way bill non-filers, and suo-moto cancellations are available to States. As on date (April 2025), 43 MIS reports (under Phase I) have been made available to CBIC, while 42 additional reports (under Phase II) are under development.

In earlier C&AG's Audit Report No. 7 of 2024, during SSCA on DORF I, Audit recommended that MIS reports on the aspects related to issuance of notices, assessment orders, demand orders etc. may be provided to the tax officers for effective monitoring.

Audit acknowledges the various MIS reports that are now being made available, as the effective use of these, will surely improve tax compliance.

2) Enforce the procedure of handing over/taking over charge at Superintendent and Inspector levels.

The Ministry stated (April 2025) that directions have been issued to the field formations on 11 April 2023 to ensure handing-over/taking-over in appropriate manner. However, Audit still observed lapses in the field during the audit which was conducted April 2023 to January 2024.

The handing-over/taking-over would be meaningful only if the incumbent officer keeps a proper record of work done and passed it on to the successive officer and it could also be considered to have a standard format of the handing over note.

4.8.2 Oversight on returns filing

Returns serve as a mechanism for taxpayers to report their income, expenses, and tax liabilities accurately and transparently to tax authorities. It also enables taxpayers to calculate their tax liabilities based on their own assessments of their financial activities. Returns play a pivotal role in a self-assessment regime as they facilitate tax compliance, promote accuracy and transparency, support revenue collection, and enable effective tax enforcement efforts.

4.8.2.1 Trends in return filing

The overall trend of return filing of monthly GSTR-3B and GSTR-1 returns is given in **Table 4.2** as under:

Table 4.2: Trend of return filing of GSTR-1 and GSTR-3B

FY	Number of returns to be filed		Number of returns filed by due date		Number of returns filed after due date ⁵⁹		Filing Percentage		Filers by due date based on returns filed (per cent)	
	2		3		4		5=(4+3/2) X 100		6=3/(4+3) X 100	
1	GSTR-3B	GSTR-1	GSTR-3B	GSTR-1	GSTR-3B	GSTR-1	3B	1	3B	1
17-18	7,04,69,376	4,72,01,778	4,11,21,997	3,54,17,939	2,59,67,340	70,25,663	95	90	61	83
18-19	11,57,07,817	7,56,97,667	6,96,28,789	2,77,20,033	3,35,31,033	3,14,22,927	89	78	67	47
19-20	12,47,36,213	8,14,57,191	7,53,54,782	3,05,76,460	3,66,43,139	3,41,08,313	90	79	67	47
20-21	11,94,16,108	9,80,45,251	6,16,88,778	3,83,83,812	4,84,24,319	3,50,42,307	92	75	56	52
21-22	10,20,16,148	10,20,16,148	6,65,69,982	4,86,94,636	3,07,61,172	4,62,64,481	95	93	68	51

Source: GST website <https://www.gst.gov.in/download/gststatistics> as of November 2023.

From the above table it can be observed that the increase in GSTR-3B returns filed is substantially higher compared to GSTR-1 returns filed from the period 2018-19 onwards which was potentially due to introduction of stringent rules pertaining to availing of provisional ITC and the blocking⁶⁰ of E-Way Bill generation facility for non-filing of two or more consecutive GSTR-3B returns.

4.8.2.2 Follow up on non-filers- Lack of action on late-filers and non-filers

A review of the monitoring mechanism regarding non-filers in a sample of 166 Ranges, revealed the following:

In 89 Ranges under 54 Commissionerates across 20 Zones, Audit could not verify the overseeing mechanism on return filing as neither the records nor data was provided to Audit. Further, due to non-availability of any related MIS reports, no assurance could be provided on any of the functions related to non-filers undertaken by these Ranges.

The monitoring mechanism for recovery of demand from non-filers was deficient in 47 Ranges⁶¹ under 32 Central Tax Commissionerates. In 29 Ranges under 22 Commissionerates where the relevant records/ reports related to issue of ASMT-13, DRC-07, and recovery details were available, Audit noticed that action was not taken in any of the cases on defaulters.

Further, in 25 Ranges under 14 Commissionerates, the process of issuing GSTR-3A (notice for defaulters who have not filed GST returns) and following it with ASMT-13 (Best Judgement Assessment order in cases where the taxpayers have not complied with GSTR-3A notices) was not done. In six Ranges incorrect withdrawal of ASMT-13 and non-initiation of recovery of

⁵⁹ As of November 2023

⁶⁰ From August 2021.

⁶¹ Paras 4.8.2.2-2. (Ranges-29), 4.8.2.2-3(Ranges-25), 4.8.2.2-4(Ranges-3) and 4.8.2.2-5 (Ranges-3) and the unique number of Ranges among these paras comes out to 47 Ranges.

DRC-07 (Summary of Demand order as a follow up of ASMT-13) were observed. This resulted in non-recovery of ₹ 27.97 crore from defaulters.

Out of 60 Ranges where issues related to action taken on non-filers were noticed, the Ministry/Department accepted issues relating to 36 Ranges involving money value of ₹ 27.73 crore. The reply in the remaining 24 ranges were awaited/rebutted.

1. Information on action taken on late filers/non-filers not made available

Section 46 of the CGST Act read with Rule 68 of CGST Rules stipulates issue of a notice in Form GSTR-3A requiring the filing of return within fifteen days if the taxpayer had failed to file the return within the due date. As per Section 62 of CGST Act read with Rule 100 of CGST Rules, 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 judgement, considering 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 actions is the same, which implies the risk of non-payment of tax/penalty in the case of non-filers. 89 Ranges under 54 Central Tax Commissionerates across India out of a sample of 166 Ranges could not provide details of late filers/non-filers identified by them and the related actions. Consequently, Audit could not ascertain if timely measures were undertaken to notify taxpayers of non-filing or if appropriate action, such as conducting best judgment assessments or issuing demand notices were taken to safeguard revenue.

2. Action not initiated against non-filers

A review of the taxpayers' profile of the Ranges and the returns filed by them vis-à-vis the late-filers/non-filers identified by the Ranges, disclosed that the Ranges had not taken cognizance of all default cases. From the 'Due Filer reports' available in CBIC back-end system, Audit observed that action was not initiated in 28,877 cases under 29 Ranges across 22 Central Tax Commissionerates which resulted in possible revenue loss of ₹ 1.96 crore. In 137 Ranges due to the non-availability of the due filer report and other MIS reports related to non-filers of GSTR-3B and GSTR-1, the number of cases could not be quantified. A few illustrative cases are brought out below:

i. In Range 47 under Delhi South Central Tax Commissionerate, out of 122 taxpayers only 22 taxpayers had filed GSTR-9. Thirteen taxpayers had filed their GSTR-9 belatedly but no late fees was demanded. Furthermore, against 1,289 GSTR-1 returns, only 419 returns pertaining to 60 taxpayers

(out of 181 taxpayers) were filed for the period 2020-21. When this was reported in July 2023, the Ministry stated (April 2025) that the registration of 122 taxpayers pointed out relating to GSTR-9 and 121 GSTINs related to GSTR-1 have since been cancelled by the Range.

ii. In DSD-8 Range under Bengaluru South Central Tax Commissionerate, it was noticed that a taxpayer had filed their GSTR-3B for the period 2020-21, belatedly after the limitation period but had availed ITC amounting to ₹ 0.59 crore through this return. This irregular ITC availed is required to be reversed along with interest. When pointed out in July 2023, the Department in July 2023 forwarded the taxpayer's response wherein it was stated that since the system did not allow for the filing of new returns without remitting the earlier tax dues pertaining to COVID-19 pandemic period, there was a delay. The Department should take necessary action as per the applicable rules and recover the tax. Reply of the Ministry was awaited (April 2025).

However, as indicated in DORF Phase I Report, in Bengaluru Central Tax Zone, the Department informed that the action taken on non-filers and stop filers was primarily based on the data provided by Principal Commissioners of Central Taxes and no independent identification was carried out by the Ranges. Audit noticed lack of adequate systems for the identification of non-filers and subsequent follow-up action in the Ranges. The 'View Non-filer' functionality in the CBIC back-end system to enable the tax officer to identify and issue notices to non-filers of returns was introduced only in November 2019. The automatic issue of GSTR-3A notices for defaulters of filing of GSTR-3B was introduced in January 2021. However, the related MIS report was not made available on the dashboard for Range Officers, hindering them from acting on cases where taxpayers failed to file their returns despite receiving notices. Prior to this period, there was no system for the tax officer to identify the cases. Moreover, even as at the end of 2023-24, this feature did not include GSTR-4 returns, filed by the composition taxpayers or other returns like GSTR-1, GSTR-9 or GSTR-9C.

3. Action initiated on non-filers but not completed

The due process of issue of notice GSTR-3A to a taxpayer who had not filed a return followed by ASMT-13 was not observed in all cases. Audit observed in 3,618 cases under 25 Ranges across 14 Central Tax Commissionerates during 2018-19 to 2020-21 where GSTR-3As notices were issued, the corresponding assessment orders under ASMT-13 were not issued or were deficient, despite taxpayers not filing their returns within the stipulated time which resulted in revenue loss of ₹ 6.51 crore as detailed below:

(a) In 13 Ranges under six Commissionerates where records were available Audit observed that in 448 cases, the taxpayers filed their returns in pursuance of GSTR-3A, but the interest and late fee for the delayed payment of tax amounting to ₹ 0.54 crore was not recovered. An illustrative cases is detailed below:

i. In seven cases in AED-7 Range under Bengaluru East Central Tax Commissionerate, nine cases under DSD-8 Range and two cases under ASD-5 under Bengaluru South Central Tax Commissionerate, though the returns were filed based on the ASMT-13 issued, it was noticed that the interest payable in all these cases was not demanded. The non-payment of interest in these three ranges worked out to ₹ 0.39 crore. DRC-07, summary order for the demand of amounts payable under the Act, was not issued. When this was reported between July and October 2023, the Ministry replied (April 2025) that in respect of cases identified under AED-7, recovery proceedings have been initiated. Reply was awaited with respect to DSD-8 and ASD-5 Ranges.

(b) In 52 cases in seven Ranges under four Central Tax Commissionerates, Audit observed that the taxpayer had filed their GSTR-1s but GSTR-3Bs for the same periods were not filed or filed belatedly after limitation period. No action was taken by the Department to issue ASMT-13 or the ASMT-13 issued was deficient. The non-payment of tax in these cases amounted to ₹ 5.97 crore. An illustrative case is detailed below:

i. In Jharsuguda-I Range under Rourkela Central Tax Commissionerate, Audit noticed in 11 cases, the taxpayers did not file their GSTR-3B, however, GSTR-1 for the corresponding months were available. Based on the tax liability declared in GSTR-1, the risk of non-payment of tax in these cases amounted to ₹ 2.12 crore. When this was reported in December 2023, the Department stated (December 2023) that recovery process has been initiated by Arrear Recovery Cell for the entire objected amount. The Ministry further informed (April 2025), that Order-in-Original (OIO) was issued in all the eleven cases.

(c) Further, in 3,118 cases in five Ranges across five Central Tax Commissionerates, Audit observed that assessments were not carried out despite taxpayers not complying with GSTR-3A notices.

4. Action initiated but not followed up

In 24 cases in three Ranges under two Central Tax Commissionerates, where the records related to ASMT were provided, it was observed that DRC-07, the summary order for the demand of amounts payable under the Act were not

issued despite non-compliance by the taxpayer on ASMT-13. The underlying tax effect works out to ₹ 19.87 crore. An illustrative case is highlighted below:

i. In Range VIII under Udaipur Central Tax Commissionerate, in 21 cases where ASMT-13 were issued for non-filing of GSTR-3B during 2020-21, further follow-up on these cases was not forthcoming. No action was taken to ascertain whether the returns were filed, or any demand order was issued. The amount covered in the ASMT-13 in these cases was ₹ 19.85 crore. When this was reported in August 2023, the Ministry stated (April 2025) that the Range had dropped the proceedings initiated through ASMT-13, as the taxpayers subsequently discharged their tax liabilities by filing GSTR-3B returns for the relevant periods. It is pertinent to highlight that the issue was addressed only after being pointed out by Audit. Furthermore, the Range is required to scrutinise the filed returns to ensure that there is no short payment of tax.

It may be noted that the observations were drawn solely from the files provided to Audit. Other 163 Ranges did not provide any details on the cases where ASMT-13 were issued or cases where DRC-07s were issued.

5. Inadequate efforts to recover dues

According to Rule 100 of CGST Rules, the proper officer may issue an order in Form ASMT-13 and upload the summary thereof in form DRC-07 (Summary of order), which will include the demand details such as tax/cess, interest, penalty and any other amounts payable by the taxpayer. The taxpayers can view the order on their dashboard and discharge the liability accordingly.

Due to the absence of records or reports on taxpayers' discharged liabilities in the selected Ranges, it was not feasible in audit to verify whether the discharged liability corresponded with the issued DRC-07. This lack of a report also signifies an inadequate control mechanism for the Range Officers to monitor the discharged liability compared to the issued demand notices.

Section 78 of CGST Act stipulates that any amount payable by a taxable person in pursuance of an order passed under this Act, shall be paid by such person within a period of three months from the date of service of such order failing which recovery proceedings shall be initiated. The time period can be less than three months in some special circumstances, if it is expedient in the interest of Government.

Audit observed that in 16 cases under three Ranges across three Central Tax Commissionerates, the Ranges did not take action after issuing ASMT-13 and DRC-07 to pursue recovery of the dues amounting to ₹ 1.59 crore. An illustrative case of one Range is highlighted below:

i. In Range-XXVII, under Alwar Central Tax Commissionerate, in four cases, though DRC-07 were served in April and October 2021, no recovery proceedings were initiated in spite of lapse of more than 30 months. The amount demanded in these cases was ₹ 1.53 crore. When this was reported in August 2023, the Ministry stated (April 2025) that action had been initiated for recovery of dues in all the cases.

Recommendations: The Department may,

3) Extend 'view non-filer' functionality in back-end portal to enable Range Officer to identify and issue notices to the non-filers of returns to all categories of registrants. Presently, the facility is available only for GSTR-3B, GSTR-9, GSTR-10 and CMP-08.

GSTN stated (April 2025) that, in GSTN BO, MIS reports on non-filers are available for all categories of taxpayers. Access to Range Officer to view non-filers is available in Back-end portal. MIS reports on non-filers of returns are available in GSTN BO for all categories of taxpayers i.e. MIS for non-filers in respect of returns GSTR-1, GSTR-3B, GSTR-4, GSTR-5, GSTR-6, GSTR-8, GSTR-9, GSTR-9C and CMP-08. Automated GSTR-3A notices are currently issued for GSTR-3B, GSTR-4, GSTR-9, and GSTR-10.

4) Make available MIS reports related to GSTR-3A for all relevant returns such as GSTR-3B, GSTR-9, GSTR-4 etc. in the back-end system and extend auto-generation of GSTR-3A for all non-filers of returns in addition to GSTR-3B.

GSTN stated (April 2025) that proposals for issuing automated GSTR-3A notices for CMP-08, GSTR-5, and GSTR-6 are under consideration by the Law Committee.

5) As already pointed out in DORF Phase I Report, make available MIS reports related to issue of assessment order (ASMT-13/14) and demand orders (DRC-07) to tax officers in the back-end system for effective monitoring.

GSTN stated (April 2025) that MIS reports related to ASMT-13 and DRC-07 have been developed for CBIC and are expected to be operational shortly. Development of MIS for ASMT-14 is under consideration.

4.8.3 Oversight on tax payments

The Department has created a DGARM and has been leveraging data analytics for tax administration. Effective oversight of tax payments also involves an effective and sustainable mechanism for scrutiny of returns and monitoring the discharge of tax liability by taxpayers. Audit sought to examine the oversight of tax payments by reviewing the process of scrutiny

of returns and follow up on DGARM reports in the Ranges. This was done by centrally identifying a sample of inconsistencies between various GST returns to review action taken by the Department in such cases, and by conducting a Detailed Audit of a sample of cases, involving scrutiny of granular records such as invoices, to verify compliance to the provisions of the GST Act/Rules by the taxpayers.

Audit observed that the process for scrutiny of returns was institutionalised with an SOP only in March 2022, more than four years after implementation of GST. The maintenance of records relating to verification and follow up of Scrutiny and DGARM reports in the Ranges was lacking and hence Audit could not derive an assurance on the quality and extent of verification carried out by the Ranges under Scrutiny and on DGARM reports. Based on the files that were made available to Audit, it was observed that the prescribed reports and procedures for Scrutiny, as outlined in the SOP, were not followed. Audit observed that the issues in the DGARM reports were also not effectively followed up by field formations in many cases.

Audit noticed that there was a delay in issuing ASMT-10, in obtaining the responses or in issuing of demand notices in 46 Ranges under 31 Central Tax Commissionerates. Further, Audit also noticed deficiency in the scrutiny conducted by 27 Ranges across 24 Central Tax Commissionerates involving tax effect and non-collection of interest to the tune of ₹ 4.33 crore. Additionally, inadequate follow-up of scrutiny was observed in four Ranges across four Central Tax Commissionerates with a money value of ₹ 3.46 crore.

Out of 77 Ranges where issues related to under scrutiny process were noticed, the Ministry/Department accepted issues relating to 50 Ranges involving money value of ₹ 7.47 crore, out of which three Ranges also recovered underlying tax amounting to ₹ 0.35 crore. The reply in the remaining 27 Ranges were awaited/rebutted.

The detailed findings on the scrutiny process, follow up of DGARM reports, data inconsistencies and compliance to GST provisions by taxpayers are discussed in the ensuing paragraphs.

4.8.3.1 Scrutiny of returns

Section 61 of the CGST Act provides for scrutiny of returns by the proper officer. Rule 99 of CGST Rules lays down the procedure for taking action on the discrepancies noticed. An effective system of scrutiny of returns being an important compliance function of the Department was not institutionalized

for over four years of GST implementation. This was commented upon in the earlier CAG Report⁶² as well.

The SOP for scrutiny of returns for the years 2017-18 and 2018-19 was issued by CBIC on 22 March 2022 vide Instruction No. 02/2022-GST. Selection of returns for scrutiny would be done by the DGARM and communicated to the field formations from time to time through the Directorate of Data Management (DDM) portal (to the nodal officer of the Commissionerate concerned) for further action. DGARM would also provide some relevant data (along with likely revenue implications) pertaining to the returns to be scrutinized through the DDM portal.

The Range Officer is required to intimate the discrepancies noticed in the scrutiny to the taxpayer in the Form ASMT-10. The taxpayer's response is received in Form ASMT-11. Where the explanation furnished by the taxpayer or the information submitted in respect of acceptance of discrepancy and payment of dues is found to be acceptable by the Range Officer, the proceedings shall be concluded by informing the registered person in Form GST ASMT-12. In case no satisfactory explanation is furnished by the registered person in Form GST ASMT-11 or where the registered person, after accepting the discrepancies, fails to pay the tax, interest, and any other amount arising from such discrepancies, the Range Officer may proceed to determine the tax and other dues under Section 73 or Section 74 of CGST Act. If the Range Officer is of the opinion that the matter needs to be pursued further through audit or investigation to determine the correct liability of the said registered person, then the matter can be referred to Audit Commissionerate or Anti-evasion wing of the Commissionerate. For the purpose of reporting and monitoring, a scrutiny register is required to be maintained by the Range Officer to capture the details and outcome of the scrutiny conducted.

The scrutiny extended to cover the year 2019-20 vide Instruction No. 02/2023-GST, dated 26 May 2023, requires the Range Officer to communicate discrepancies noticed in the returns to the registered person, receive replies, issue orders, or take further actions such as issuing SCNs, conducting audits, or investigations. The findings on scrutiny of returns are discussed in the ensuing paragraphs:

1. Maintenance of records

Though the SOP insisted on the maintenance of the Scrutiny Register, it was noticed that no such Register was maintained by any of the selected Ranges other than in Thiruvananthapuram, Kolkata and Patna Zone. The absence of

⁶² CAG Audit Report No. 5 of 2022

any monitoring mechanism coupled with no proper handing over/taking over between the Range Officers at the time of transfers and proper MIS reports for Scrutiny in the CBIC back-end system, the details of scrutiny conducted have to be extracted by the incumbent Range Officer from respective e-mails. The future incumbent Range Officers may not be aware of the cases handled by their predecessors.

Scrutiny related files were not made available to Audit in 53 Ranges across 33 Commissionerates. Therefore, Audit was not able to draw any conclusion on adherence to timelines or adequacy of discrepancies identified or checks exercised and timely disposal of cases in these Ranges.

2. Delays in communicating the discrepancies to taxpayers and related follow up

As per the timelines prescribed in the SOP, the ASMT-10 has to be issued within the designated month, as mentioned in scrutiny schedule for scrutiny of the returns of the said GSTIN and ASMT-12 as the case may be, has to be issued within 30 days from receipt of the reply of the taxpayer, and in cases of no response from the taxpayer or in case the reply is not satisfactory, action needs to be taken under Section 73 or 74 of CGST Act within 45 days of the issue of ASMT-10.

In 113 Ranges where the files were made available, it was noticed that the stipulated timelines were not adhered to. In none of the selected Ranges, the approved scrutiny schedule was made available to Audit.

In 184 cases in 19 Ranges across 11 Central Tax Commissionerates, the ASMT-10 was issued belatedly with delay ranging from 1 to 473 days. An illustrative case of one Range is brought out below:

i. In two cases under Range V Park Street Division, Kolkata South Central Tax Commissionerate, though the intimation was received through DGARM report in March and November 2022 under 200 and 201 series respectively, the intimation was sent to the concerned taxpayers only in July 2023. When this was reported in November 2023, the Ministry while admitting to the delay in adhering to scrutiny timelines, stated (April 2025) that the SCN was issued within time limit. However, the delay in completing the scrutiny process as per the stipulated timelines is a matter of concern. Scrutiny timelines are critical for ensuring timely detection and correction of discrepancies, safeguarding revenue interests, and maintaining the effectiveness of compliance enforcement mechanisms. Therefore, the delay in scrutiny cannot be overlooked merely on the ground that the SCN was issued within the limitation period. Audit reiterates the importance of

adhering to prescribed timelines to ensure timely intervention and better compliance outcomes.

As per Rule 99 of CGST Rules, an extension of not more than 15 days (in addition to 30 days' time limit) should be provided for submission of response. Audit observed in 210 cases, in 26 Ranges across 20 Central Tax Commissionerates, the Ranges did not duly follow-up on the response of ASMT-10. In 23 Ranges, it was noticed that the taxpayers had taken more than two months to provide their response in ASMT-11. An illustrative case of one Range is brought out below:

i. In Danapur Range under Patna I Central Tax Commissionerate, in two cases where ASMT-10 intimation was communicated in August 2022, the first response of the taxpayer was received only in March and July 2023. Therefore, the stipulated period for issue of demand notices for the period 2017-18 being September 2023, this undue delay provided only two to six months' time period for the Range Officer to examine the case. When this was reported in October 2023, the Ministry replied (April 2025) that there is no revenue implication since delay in receipt of ASMT-11 did not hamper issuance of notices in time wherever required. However, they have noted the observation of Audit for future compliance.

Audit also noticed that in 189 cases of 32 Ranges under 20 Central Tax Commissionerates, there was delay in issue of demand notices under Section 73 or 74 of CGST Act. An illustrative case of one Range is brought out below:

Audit observed from the Scrutiny Register of Range VIII of Udaipur Central Tax Commissionerate that in 11 cases where no reply was furnished by the registered person within 30 days of being informed by proper officer, the Range had taken action under Section 73 or 74 of CGST Act after a delay of 25 days to 65 days. When this was reported in August 2023, the Ministry acknowledged the delay and stated (April 2025) that the Range office initially sought to persuade taxpayers to submit replies or pay dues without resorting to SCNs, while keeping the SCN issuance deadlines in view. It was assured that all SCNs were issued within the prescribed timelines and no revenue loss occurred and the audit observation was noted for future compliance.

In 53 Ranges as already indicated before, in the absence of DGARM intimation letters informing scrutiny cases, ASMT-11 and ASMT-12, the delays could not be quantified.

Given that cases related to 2017-18 and 2018-19 were time-barred by September 2023 and January 2024, respectively, for issuing demand notices, there was a likelihood that the delays in scrutiny stages may have resulted in rushed scrutiny processes, potentially overlooking certain issues, as is

evidenced in a few test checked cases brought out in the succeeding paragraphs.

3. Incomplete Scrutiny

In 131 cases in 27 Ranges across 24 Central Tax Commissionerates, where returns were scrutinised, the Ranges had missed certain checks of the 13 prescribed parameters. Resultantly, discrepancies such as ITC mismatch between GSTR-3B and GSTR-2A amounting to ₹ 0.39 crore in three cases, non-reversal of ITC/Irregular ITC amounting to ₹ 2.74 crore in 25 cases, short-levy of tax liability amounting to ₹ 0.22 crore in four cases, short/non-payment of interest amounting to ₹ 0.64 crore in 45 cases and late fees amounting to ₹ 0.34 crore in 54 cases, aggregating to ₹ 4.33 crore in 131 cases of 27 Ranges across 24 Commissionerates could not be detected. A few illustrative cases are discussed below:

i. In Range V of Chandigarh IV Division under Chandigarh Central Tax Commissionerate, Audit observed five cases where the scrutiny conducted was found inadequate. Audit identified two cases of under-assessment of tax liability and three cases of ineligible ITC having tax effect of ₹ 0.40 crore which were missed out in the assessment. This was pointed out in December 2023, and Department in pursuance of the audit observations issued SCN in all the cases in July 2024. Reply from the Ministry was awaited (April 2025).

ii. Audit observed in one case in Shamshabad Range under Rangareddy Central Tax Commissionerate at the behest of ASMT-10, the taxpayer remitted the undischarged liability amounting to ₹ 0.20 crore. However, interest on this liability was not discharged. When this was pointed out in August 2023, the Ministry stated (April 2025) that DRC-13 was issued to the taxpayer for recovery of ₹ 0.17 crore which was then remitted by the taxpayer.

4. Due follow up of scrutiny

In 10 cases in four Ranges under four Central Tax Commissionerates, Audit noticed that timely action was not taken by the Range to recover the dues. The underlying tax effect in these cases amounted to ₹ 3.46 crore. A few illustrative cases are brought out below:

i. In Range I of Andaman and Nicobar Division under Haldia Central Tax Commissionerate, in five cases, though assessment order was issued in October 2022, November 2022 and January 2023, no further action was taken by the Range to recover the dues. The underlying tax effect in these cases amounted to ₹ 2.98 crore. When this was reported in October 2023, the Ministry stated (April 2025) that in two cases ASMT-12 were issued following taxpayer compliance, while in the remaining three cases, OIOs were

issued. It is pertinent to note that in all five cases, the actions were initiated only after audit intervention.

ii. In Honnavara Range under Mangalore Central Tax Commissionerate, in three cases where DRC-01A⁶³ pertaining to ITC mismatch and liability mismatch was issued, no subsequent action was taken even six months after the issuance (September 2023). The total tax amount involved in these cases amounted to ₹ 0.39 crore. The matter was reported to Range in September 2023. In reply the Range stated that subsequent to the audit observation, the responses were perused and in two cases the reply was found tenable and ASMT-12 was issued and in one case SCN has been issued (October 2023) for ₹ 0.19 crore and the Ministry stated (April 2025) that the same has been confirmed.

4.8.3.2 Follow-up of DGARM reports

Initially, in the months of November 2018 to February 2019, there were 10⁶⁴ DGARM reports pertaining to deviations for the year 2017-18, which were subsequently increased to 37⁶⁵ reports based on different dimensions for subsequent years by the end of March 2021. Audit analysis of follow up of DGARM reports in the audit sample of 166 Ranges disclosed the following:

1. Maintenance of records

The DORF Phase I report had highlighted the issue of non-production of records relating to verification of DGARM reports to Audit and it was recommended that in the absence of an effective risk-based system of scrutiny of returns, the DGARM inputs being the only source of verification, access to such records were necessary to provide assurance on the Department's performance. The issue of quality of records maintained was also highlighted in the DORF Phase I Report.

In this audit, it was observed that in 85 out of 166 Ranges selected, maintenance of files pertaining to verification of DGARM reports was deficient, wherein either the relevant files were not available or the underlying records indicating the checks exercised and the basis on which the Range Officers had arrived at their conclusions were not forthcoming.

In view of the poor record maintenance coupled with non-production of records by some Ranges, Audit could not derive assurance on the quality and extent of verification undertaken by the Ranges on the DGARM reports. It

⁶³ Intimation of tax ascertained as being payable under section 73(5)/74(5).

⁶⁴ 1,2,3,4,5,6,6A,7 Series,9,10 Series

⁶⁵ 1,2,3,4,5,6,6A,7 Series,9,10 Series,11,12,13,14,15,15A,15B,15C,15D,15E,15F,15G,15H,15I,15J,16 Series, 17A, 17B, 17C, 17D, 18A-N,18O,18P,18Q,18R,18S,19 Series,20 Series,21 Series,22A,22B,23,25,26 Series, 27, 29, 29B,29C,31,32,33,34 Series,35,36,37

was noted that none of the 166 sampled Ranges had systematically maintained files to corroborate their checks and their resultant outcomes as reported by these Ranges to Principal Chief Commissioner (Pr. CC). The details were culled out from the e-mail communications sent to the taxpayers.

As a follow up on the DORF Phase I Report, Audit tried to corroborate the figures provided by the Pr. CC on DGARM cases forwarded to the Range. This was carried out in two zones; Bengaluru and Thiruvananthapuram. In nine Ranges across six Central Tax Commissionerates in these two zones, Audit noticed wide discrepancies in the figures provided by the respective Ranges and that reported to Pr. CC. The discrepancies extended from number of cases allocated, completed and pending to discrepancies related to liability and recovery amount.

i. In Bengaluru zone, it was noticed that the figures did not match in 8 Ranges out of 10 Ranges audited. AED-5 and AED-7 Ranges under Bengaluru East Central Tax Commissionerate exhibited huge variation, in number of cases pending, completed and recovery. The discrepancy in the recovery amount stood at ₹ 117.66 crore and tax effect on the pending cases was ₹ 0.12 crore. In CED 7 Range under the same Commissionerate, the discrepancy in the recovered amount was about ₹ 12.26 crore and that of pending cases was ₹ 10.49 crore. When this was reported in August 2023 and January 2024, the Ministry stated (April 2025) that there was no tax impact in the admitted cases. However, the fact remains that the Ranges did not maintain their records diligently.

In remaining 81 Ranges as well, only a limited number of files were provided to the Audit team, and these files lacked comprehensive details regarding the checks conducted with only the outcome report being available. Hence, the observations made by Audit in this section are solely based on the limited deficient files provided for review.

2. Inadequate verification of cases

Since complete files were not made available to Audit, based on the data provided by Pr. CC and the compliance submitted thereon by the Ranges, certain discrepancies were noticed in the checks exercised by 13 Ranges of nine Central Tax Commissionerates in 68 cases. An illustrative case of one Range is brought out below:

i. In case of one taxpayer under Range I Division V of Goa Central Tax Commissionerate, which was reported under DGARM Report No.33/2020⁶⁶

⁶⁶ First stage (L1) or second stage (L2) suppliers of identified risky exporters.

dated 27 November 2020, Audit observed that the Range Officer had reported to DGARM 'No action required'⁶⁷. However, on examination of GSTR-1 and GSTR-9 liability with the tax payments, it was noticed that there was an undischarged liability of ₹ 0.25 crore for the period 2017-18 and ₹ 0.02 crore for the period 2018-19 and interest liability of ₹ 0.22 crore. Further, Audit also observed irregular availing of ITC for the period November 2018 to March 2019 as the relevant GSTR-3Bs were filed after the cut-off period of September 2019. The irregular availing of ITC through these GSTR-3Bs amounted to ₹ 0.32 crore. When this was reported in September 2023, the Ministry stated (April 2025) that regarding short payment of tax and interest, demand notice was issued in September 2023 and adjudicated in December 2023. Regarding inadmissible availing of ITC, SCN was issued in December 2023 and adjudicated in March 2024.

3. Adequacy of verification of red-flagged cases

Six DGARM reports as at the end of 2020-21, namely reports under 10 series (Comparison of tax liability declared in E-way bills with GSTR-3B), 15 series (Stop filers), 18 series (Non-filers of GSTR-3B), 19 series (Difference in GSTR-3B and GSTR-1 tax liability), 20 series (ITC mismatch between GSTR-3B and GSTR-2A) and 21 series (Claiming IGST refunds and not filing GSTR-3B) were red-flagged reports requiring an elaborate verification of taxpayer records, without limiting the checks to only the back-end system. In such red-flagged cases, the Range Officers were required to complete all procedures including recovery of the differential tax/credit with interest. In case of non-compliance, action was to be immediately taken by calling for necessary information. In case of non-production of the records/documents, summons had to be issued under Section 70 of the CGST Act and SCN was to be issued wherever required for the protection of revenue.

Due to the non-production of related files, the compliance regarding red-flagged cases could not be verified in 161 Ranges selected for audit. Therefore, assurance regarding whether the verification of red-flagged cases in these Ranges was adequate and in accordance with the stipulated instructions, could not be obtained. Only in five Ranges under four Central Tax Commissionerates, the related files were made available. Discrepancies were observed in 18 cases. One illustrative case is detailed below:

i. In Joda I Range under Rourkela Central Tax Commissionerate, out of six red flagged reports issued, in one case pertaining to Report number 18P⁶⁸, the Range Officer acting upon the information received from the DGARM,

⁶⁷ 'No action required' option is chosen if the issue does not require scrutiny or if the case pertains to other CGST Jurisdiction or is transferred to State jurisdiction. 'Action completed without any detection/recovery' is chosen if the issue does not require scrutiny after submission of clarification from the taxpayer.

⁶⁸ Non-filers of GSTR-3B returns among big taxpayers.

closed the report by mentioning 'Action completed without detection/recovery'. However, Audit observed deviations like GSTR-3B not filed for months where GSTR-1 were available, ITC availed on GSTR-3Bs filed after the cut-off period, non-payment of interest on delayed filing of GSTR-3B, non-filing of annual returns GSTR-9 and reconciliation statement GSTR-9C. The total risk of non-payment of tax, interest and irregular availing of ITC amounted to ₹ 1.00 crore. When this was reported in January 2024, the Ministry stated (April 2025) that demand notice has been issued for ₹ 1.00 crore in November 2024.

Thus, with respect to various issues as detailed in preceding paras out of 27 Ranges where issues related to follow-up on DGARM reports were noticed, the Ministry/Department accepted issues relating to 18 Ranges involving money value of ₹ 3.33 crore, out of which one Range also recovered underlying tax amounting to ₹ 0.11 crore. The replies from the remaining nine Ranges were awaited/rebutted.

In this regard, Audit had earlier, in paragraph 3.3 of C&AG's Audit Report No. 5 of 2022, observed that the action taken by the field formations on DGARM reports were being uploaded on the Directorate of Data Management (DDM) Portal and detailed action taken by the field formations on these reports was being done manually/offline. Accordingly, Audit recommended that the end-to-end automation of these actions to facilitate transparency and effective real-time monitoring.

Recommendations:

6) The aforementioned recommendations contained in the earlier CAG Audit Report (No. 5 of 2022) are reiterated:

a. Workflow automation of the entire set of follow up activities relating to the DGARM reports may be done as a part of back-end system.

The Ministry stated (April 2025) that CBIC migrated to the GSTN BO in June 2024. GSTN clarified (April 2025) that automation of the entire set of follow-up activities related to DGARM reports is neither planned nor under consideration. The GSTN back-end system is automated only to the extent that all actions and communications with taxpayers occur through the common portal. MIS reports are available to assist tax administrations, including CBIC, in monitoring compliance. However, Audit is of the opinion that, in order to make DGARM reports more effective and reach their logical conclusions automation of workflow may be reconsidered.

b. Department may ensure furnishing of DGARM reports and records/files related to verification of DGARM reports to Audit.

The Ministry stated (April 2025) that the recommendation of Audit was noted for future compliance. Directions have been issued to the field formations to

ensure furnishing of reports and records/files called for by Audit in April 2025.

7) Department may improve the monitoring of the compliance to the DGARM risks both in terms of statistics to rule out possibility of revenue due not being detected or followed up and also in reviewing test check cases to ensure quality of checks exercised.

The Ministry stated (April 2025) that an SOP for handling DGARM reports has already been issued by GST Investigation Wing in October 2023 which outlines clear timelines and responsibilities for officers to complete actions on DGARM reports, thereby improving monitoring and follow-up activities.

However, Audit is of the opinion that, in order to make DGARM reports more effective and reach their logical conclusions automation of workflow may be reconsidered.

4.8.3.3 Other oversight functions-cancellation of registrations

Section 29 of the CGST Act read with Rule 20 of the CGST Rules 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, 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-16⁶⁹ 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 CGST Act 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 returns for three consecutive tax periods⁷⁰, 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 10A of CGST Rules, the registered person, shall as soon as may be, but not later than forty five days from the date of grant of registration or the date on which the return required under Section 39 is due to be furnished, whichever is earlier, furnish information with respect to details of bank account. Failure to provide bank details within 45 days can lead to cancellation of registration.

Section 45 of the CGST Act requires every registered person other than (a) Input Service Distributor (ISD) or a non-resident taxable person or (b)

⁶⁹ Application for Cancellation of Registration (Rule 20 of the CGST Rules)

⁷⁰ With effect from 1 October 2022, the return for a financial year beyond three months from the due date of furnishing the said return.

Composition taxable person (Section 10) or (c) persons paying tax under section 52 - TCS or persons paying tax under Section 51 - TDS, whose registration has been cancelled, to file a final return in GSTR-10, within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The purpose of the final return is to ensure that the taxpayer discharges the outstanding liability. In case of non-filing of GSTR-10, the same procedure as adopted for non-filing of any return must be followed by the tax officer.

Out of 166 Ranges selected for evaluating the cancellation function, 78 Ranges (47 per cent) across 44 Central Tax Commissionerates did not maintain the required report/ files related to cancellation cases attended by them. In these 78 Ranges across 44 Central Tax Commissionerates, Audit could not derive any assurance on the appropriate action taken by the Range with respect to cancellation cases due to non-maintenance/non-availability of related reports in the back-end portal also. Hence, the observations are restricted to only 88 Ranges which had produced the required reports to the Audit.

Audit observed that there was no mechanism in the back-end system of CBIC to enable the tax officers to identify taxpayers who had not furnished the requisite bank details and to initiate cancellation proceedings. Audit noticed that in 12 Ranges, the registrations liable to the cancellations were not cancelled and in two Ranges the registrations were cancelled retrospectively without following the stipulated rules. Delays in cancellation was noticed in 46 Ranges across 25 Central Tax Commissionerates. In addition, Audit observed compliance deficiencies in monitoring filing of GSTR-10 in 68 Ranges across 44 Central Tax Commissionerates.

When the issues related to cancellation of registration were pointed out (October 2024), the Ministry/Department accepted issues in 81 cases.

1. Action not initiated in all cases

Audit observed that in 132 cases of 12 Ranges under seven Central Tax Commissionerates registrations of taxpayers were liable to be cancelled but not cancelled. A few illustrative cases are detailed below:

i. In Kakkanad I Range under Kochi Central Tax Commissionerate, Audit observed in 14 cases that the taxpayers had defaulted in filing of returns ranging from seven to 32 months. However, in none of these cases GSTR-3As were issued nor any steps were taken to cancel their registrations. When this was reported in December 2023, the Ministry stated (April 2025) that the Range had initiated suo-moto cancellation proceedings in form of REG-17 against all the 14 taxpayers in November 2024, and subsequently, the registrations were cancelled for all taxpayers.

ii. Audit examined the data on suo-moto cancellation of registration of taxpayers extracted from 'Reason wise cancellation' report available in the back-end system and on the Advanced Analytics in Indirect Taxation (ADVAIT) report. Accordingly, Audit extracted the report under the reason- non-furnishing of Bank account details and noticed in 63 cases under three Ranges which are END-1 Range under Bengaluru North Central Tax Commissionerate, Honnavara Range under Mangalore Central Tax Commissionerate and AED-5 Range under Bengaluru East Central Tax Commissionerate, that taxpayers had not yet provided their bank account details. Despite this, no action was taken by the Range to collect these details or initiate action to cancel their registrations. When this was reported in September 2023, the Ministry stated (April 2025) that in END-1 Range, out of 15 cases, 12 taxpayers had updated their bank account details and registration of remaining three taxpayers has been cancelled. In Honnavara Range, out of 30 cases, 15 taxpayers have added bank details in their GSTINs. In nine cases, GSTINs were cancelled due to non-addition of bank details in their GSTINs. In remaining six cases, GSTINs were cancelled/suspended on the basis of the cancellation application submitted by the taxpayers. In AED-5 Range, out of 18 cases, 14 taxpayers have validated their bank account by adding in GSTINs. In three cases, GSTINs were cancelled due to non-addition of bank details in their GSTINs. In one case, GSTIN has been suspended.

The above checks could not be carried out in other Ranges due to the non-availability of ADVAIT reports to Audit.

Moreover, due to the non-availability of the necessary reports highlighting cases of irregularities that warrant cancellations, Audit could not ascertain in any of the 166 sample Ranges whether action had been taken on all cases warranting cancellations, such as non-filing of returns, non-commencement of business, incorrect registrations, or instances of contravening provisions of the Act or Rules, including ITC mismatches between GSTR-3B and GSTR-2B.

2. Monitoring mechanism

Rule 22(3) of the CGST Rules provides that where a person who has submitted an application for cancellation (REG-16) of his registration is no longer liable to be registered, the proper officer shall cancel the registration with effect from a date to be determined by him 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. The Department vide an SOP issued by CBIC vide Circular No. 69/43/2018-GST dated 26 October 2018 laid down that in any case the effective date should not be a date earlier than the date of application for the same.

With respect to suo-moto cancellations, in terms of Section 29 (2) of the CGST Act, the proper officer may cancel the GST registration of a person from such date including any retrospective date, as he may deem fit if the circumstances set out in the said sub-section are satisfied.

Normally the application for cancellation of registration should be immediately accepted by the proper officer and the order for cancellation should be issued in Form GST REG-19⁷¹ with the effective date of cancellation being the same as the date from which the applicant had sought cancellation in Form GST REG-16.

In most of the audited Ranges, the verification of these safeguards were not possible due to the absence of related files or MIS reports. Only in two Ranges under Kolkata South and Mumbai Central Central Tax Commissionerate, this check was feasible due to the connected reports made available to Audit and it was observed that the registrations were cancelled, retrospectively. An illustrative case of one Range is detailed below:

i. In seven cases in Range V under Kolkata-South Central Tax Commissionerate, it was noticed that in five cases of suo-moto cancellations, the taxpayers' registrations were cancelled from a prior period arbitrarily overlooking the fact that the taxpayers had filed their returns for the subsequent periods. In the remaining two cases also where registration was cancelled on taxpayers' request it was noticed that the registrations were cancelled retrospectively though the taxpayer had filed the returns for later periods. Though Section 29 (2) of the CGST Act provides discretion for the proper officer to cancel the registration from any date, including with retrospective effect; the discretion cannot be exercised in an arbitrary manner, as this has an effect on availing of the ITC by the recipients. When this was reported in November 2023, the Ministry stated (April 2025) that due to a technical glitch in the system, taxpayers were able to file returns even after the cancellation of their registration. In view of such technical glitches, it is imperative to bring in safeguards so that there is no misuse of ITC passed on by the cancelled taxpayers.

3. Adherence to prescribed procedure for suo-moto cancellation

As per Section 29(2) of the CGST Act, GST registration cannot be cancelled suo-moto without an SCN being issued to the taxpayer and the taxpayer is provided with a reasonable opportunity of being heard by the Tax Officer. As pointed out earlier, due to non-availability of the requisite MIS reports on

⁷¹ The proper officer can issue GST REG-19 to cancel GST registration if he thinks that the registered taxpayer is no longer eligible to be registered under GST. (Rule 22(3) of the CGST Rules).

REG-17, detailing case wise date of issue of REG-17, further action taken like issue of REG-19/20 etc. in the dashboard of the Range Officer in the back-end portal, Audit was not able to vouchsafe whether in all the suo-moto cases, the due procedure was followed and also verify the issue and appropriate disposal of REG-17 in any of the selected Ranges.

4. Delays in cancellation

The cancellation order in REG-19 has to be issued within 30 days from the date of application (taxpayer request) or the date of reply to REG-17 in case of suo-moto cancellation. CBIC vide its Circular No. 20/16/34/2019 GST/802/ dated 24 May 2021, inter alia quoting the CAG observations on cases of delays in processing cancellation of registration, has reiterated the departmental officers to scrupulously follow the provisions in time bound manner. The Circular considering the legal provision which stipulated passing of order in respect of the application of cancellation of registration within 30 days of the date of the application, and the clarification issued vide Circular No. 69/43/2018-GST dated 26 October 2018 reiterated that since cancellation of registration has no effect on the liability of the taxpayer for any Acts of commission/omission committed before or after the date of cancellation, the proper officer should act as per prescribed legal process within the stipulated time in order to avoid any delay.

Audit observed in 3,022 cases in 46 Ranges across 25 Commissionerates, out of 88 Ranges, the cancellation of registration was delayed. An illustrative case of one Range is highlighted below:

- i. Range-V under Dehradun Central Tax Commissionerate had cancelled 1,245 registrations. Audit noticed that out of 622 cases of cancellation (on taxpayers' request), the cancellation of registrations of 378 taxpayers were approved with delays ranging from one to 227 days after the date of application for cancellation of registration. Similarly in the remaining 623 cases, which pertains to suo-moto cancellation, the cancellation of 511 taxpayers were approved with delays ranging from one to 67 days after date of reply to SCN or in case of no response within seven days after date of issue of SCN. The issue was pointed in October 2023 and while the reply of the Ministry (April 2025) was awaited in this case but in a few other cases of delay in cancellation, Ministry replied that the delay was due to COVID-19 pandemic and technical glitch in the system.

5. Inadequate follow up on non-filing of GSTR-10

As per Section 45 of the CGST Act, GSTR-10, the final return, must be filed 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 September 2018 was extended till 31 December 2018 vide Notification No. 58/2018–Central Tax dated the 26 October 2018.

As per Rule 68 of CGST Rules and as prescribed in Circular No. 129/48/2019-GST dated 24 December 2019, 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, then an assessment order in Form ASMT-13 under Section 62 of the CGST Act read with Rule 100 of the CGST Rules shall have to be issued to determine the liability of the taxpayer under Sub-Section (5) of Section 29. 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 fees shall continue. If the said return remains unfurnished within the statutory period of 30 days from the issue of order ASMT-13, then the proper officer may initiate proceedings under Section 78 and recovery under Section 79 of the CGST Act.

Audit observed compliance deficiencies in filing of GSTR-10 in 10,149 cases in 68 Ranges, out of 88 Ranges, across 44 Central Tax Commissionerates. A few illustrative cases are provided below:

i. In Gaya Range under Patna I Central Tax Commissionerate, out of 1,135 cases (suo-moto-728, on request of taxpayer-407) cancelled during 2020-21, in none of the cases GSTR-10 was filed. No subsequent action was taken regarding the filing of GSTR-10. When this was reported in August 2023, the Ministry stated (April 2025) that due to the large number of cases and limited manpower, it was not feasible to issue individual notices to all GSTINs. Although all GSTINs have since been cancelled, many taxpayers were found to be non-traceable or unresponsive. Efforts were made to contact them via registered mobile numbers, but many numbers were invalid or unreachable. Given the vast geographical jurisdiction and existing workload, physical verification of all cases was not feasible. While the Ministry has cited manpower constraints and logistical challenges in managing the large number of GSTINs under Gaya Range, the situation underscores the critical need for automation in taxpayer communication, monitoring, and compliance verification processes.

ii. In Purnea Range under Patna II Central Tax Commissionerate, in none of the 826 cancellation cases (Suo-moto-236, Cancellation by taxpayer-590) during 2020-21, GSTR-10 was filed by the taxpayers. When this was reported in September 2023, the Ministry stated (April 2025) that letters have been issued to 105 taxpayers and for rest 721 letters are under process of issuance.

iii. Similarly, in Danapur Range under Patna I Central Tax Commissionerate in none of the 555 cancellation cases during 2020-21, (suo-moto-327, Cancellation by taxpayer-228), GSTR-10 was filed. When this was reported in October 2023, the Ministry replied (April 2025) that the list of non-filers was scrutinized by the Range and it was found that most cases involved taxpayers whose registrations were either cancelled suo-moto or voluntarily surrendered without filing the mandatory GSTR-10. Some taxpayers may have ceased operations without completing formal closure procedures. Challenges identified included non-traceability of taxpayers, lack of response to notices, and claims of unawareness regarding the obligation to file GSTR-10. Efforts were made by the Divisional office to contact the taxpayers through registered mobile numbers and e-mails, requesting them to comply. As stated earlier, this also shows the need to automate issue of GSTR-3A for GSTR-10.

iv. In ASD-5 Range under Bengaluru East Central Tax Commissionerate, in none of the 235 cancellation cases from 2018-19 to 2020-21, GSTR-10 was filed as of July 2023. No follow-up action was initiated with respect to filing of GSTR-10. When this was pointed out in July 2023, the Range Superintendent replied (July 2023 and October 2023) that the entire process was system-based and the details of GSTR-10 filed are not captured in the dashboard of tax officers in the back-end system. However, it was noted in Audit that issue of GSTR-3A for non-filing of GSTR-10 had still not been automated. When this was reported in October 2023, the Ministry stated (April 2025) that on verification of the status of GSTR-10 non-filers, for the period from 2018-19 to 2020-21, Range ascertained that 35 taxpayers have filed the GSTR-10 returns. In respect of the remaining cases, notices have been issued to the non-filers of GSTR-10.

v. After the receipt of audit observation on non-cancellation of registrations despite GSTR-10 not having been filed in November 2023 by END-1 Range under Bengaluru North Central Tax Commissionerate, they issued GSTR-3A notices to all the 63 cases identified where GSTR-10 were yet to be filed (April 2025).

In all the selected Ranges, the Range Officer stated that there were no information/reports available with them to track the filing of GSTR-10 during the audit period. In the absence of such a mechanism, no recovery proceedings were initiated by the Range.

Recommendations: The recommendations made in DORF Phase I Report are reiterated below:

8) Department may strengthen the monitoring mechanism in Ranges and ensure that due diligence is done in procedures for cancellation, suspension of registration, issue of SCNs and recovery.

The Ministry stated (April 2025) that as per Rule 68 of CGST Rules, notice in Form GSTR-3A is issued electronically to the registered taxpayers who have failed to file return in Form GSTR-3B or any other returns within the due date. The Department requested (April 2023) field formations to inter alia ensure compliance with the recommendations of CAG in its draft report on subject specific compliance audit on Department's Oversight on GST Payments and Returns filing regarding due diligence to be followed in procedures for cancellation, suspension of registration, issue of SCNs and recovery.

They also instructed (November 2024) field formations again to ensure adherence to prescribed procedures as provided under CGST Act and the CGST Rules for cancellation of registration so as to ensure that principles of natural justice are followed in letter and spirit.

Audit acknowledges the steps being taken but reiterates the need to strengthen monitoring framework to ensure that the prescribed procedures are consistently and effectively carried out.

9) Department may deploy the requisite validation controls and MIS reports/features in the cancellation workflow under Registration Module to facilitate Range Officers to monitor pendency of cancellation applications, suspension of registrations both on taxpayers' request and in suo-moto cancellations from the date of application and date of issue of REG-17 notice respectively and ensure prevention of cancellation before the application dates.

The Ministry stated (April 2025) that the back-end operations of CBIC-ACES-GST application were ported to GSTN BO since June 2024. GSTN stated (April 2025) that MIS reports are already available in GSTN BO for monitoring the pendency of cancellation of registration (both suo-moto and on application) as well as suspension of the taxpayers. MIS reports REG 1.07, REG 1.08, REG 1.09, REG 1.18, REG 1.19 are available in this regard.

4.8.4 Inconsistencies in GST Returns-Centralised Audit

Audit analysed GST returns data pertaining to 2018-19 to 2020-21 as made available by GSTN. Rule-based deviations, and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 18

parameters, which can be broadly categorised into two domains - ITC and Tax payments.

A sample of 10,124 deviations was taken up for Centralised Audit and responses of the Department were received in 8,106 deviations, out of which Audit noticed compliance deviations from the statutory provisions in 2,519 cases involving an amount of ₹ 21,695.11⁷² crore, constituting 31 per cent of inconsistencies/mismatches in data, for which the Department provided responses. Relatively higher rates of deviations were noticed in risk parameters such as short-payment of interest, GSTR-3Bs not filed but GSTR-1 filed, ITC availed on GSTR-3B filed after cut-off period, ITC mismatch, undischarged liability, ITC passed on without supplier remitting tax, short payment of tax under RCM and Excess ISD credit.

In 5,554 cases, which constituted 69 per cent of the responses received, the Department's reply was acceptable to Audit, as the response explained data entry errors by taxpayers which comprised 523 cases, and that Department had already proactively taken action in 1,819 cases and 3,212 cases had other valid explanations.

Out of the 15 prescribed GST returns,⁷³ 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 ITC 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 ISDs providing the details of their distributed ITC and inward supplies.

⁷² Deviations pertaining to turnover; D12, D13 and D14 taken only to the extent where the tax was quantified by Department.

⁷³ (i) GSTR-1, (ii) GSTR-2A, (iii) GSTR-2B, (iv) GSTR-3B, (v) GSTR-4 (taxpayers under the Composition scheme), (vi) GSTR-5 (non-resident taxable person), (vii) GSTR-5A (Non-resident online information and database access or retrieval (OIDAR) service providers), (viii) GSTR-6 (ISD), (ix) GSTR-7 (taxpayers deducting TDS), (x) GSTR-8 (E-commerce operator), (xi) GSTR-9 (Annual Return), (xii) GSTR-10 (Final return), (xiii) GSTR-11 (person having Unique Identification Number (UIN) and claiming a refund), (xiv) CMP-08, and (xv) ITC-04 (Statement to be filed by a principal/job-worker about details of goods sent to/received from a job-worker).

- GSTR-8: monthly return to be filed by the e-commerce operators who are required to deduct TCS under GST, introduced in October 2018.
- GSTR-9: annual return to be filed by all registered persons other than an ISD, TDS/TCS deductors, Casual Taxable Person and Non-Resident taxpayer (NRTP). 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 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 business to business (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 Indian Customs Electronic Gateway (ICEGATE) Portal of Indian Customs.
- GSTR-2B: It is a month-wise auto-drafted statement for regular taxpayers (whether or not opted they have obtained into the quarterly return and monthly payment (QRMP) scheme) introduced on the GST portal providing eligible and ineligible ITC for each month, similar to GSTR-2A but remains constant or unchanged for a period. The statement was launched from the August 2020 tax period onwards.

The details of data analysis undertaken on the 18 identified parameters and impact thereon is given in **Table 4.3**.

Table 4.3: Details of data Analysis undertaken

Audit Dimensions ⁷⁴	Algorithm used	Risk parameter
Domain: ITC		
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) excluding the reversals in Table 4B (2) but including the ITC availed in the subsequent year from Table 8C of GSTR-9 and blocked credits.	ITC mismatch between GSTR-2A and GSTR-3B
D2	ITC available from GSTR-2A was compared with Table 8A of GSTR-9 which captures ITC available from GSTR-2A (as an auto-populated non-editable field) but excludes those entries in	ITC passed on without supplier remitting tax

⁷⁴ D15 (NRTP not paying taxes), D18 (Re-registrations still operating business) and D19 (Composition not migrating to normal levy) dimensions not issued as no material deficiencies emerged.

Audit Dimensions ⁷⁴	Algorithm used	Risk parameter
	GSTR-2A where the supplier has not filed GSTR-1 by due date of its filing and also excludes the ITC for the period during which the recipient taxpayer was under composition scheme.	
D3 ⁷⁵	ITC availed through Table 4 of GSTR-3Bs pertaining to period 2018-19 to 2020-21 filed after October of the following year.	ITC availed in GSTR-3B filed after the cut-off period.
D4	ISD ITC availed in GSTR-9 Table 6G or GSTR-3B Table 4(A)(4) of recipient was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR-6 of distributor GSTINs	Incorrect availing of ISD credit
D5	RCM payments in GSTR-9 Table 4G (tax payable) were 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.	Short payment of tax under RCM versus ITC availed in GSTR-3B/ GSTR-9
D6	Positive figure in GSTR-9C Table 12F and examination of reasons provided in Table 13 for mismatch	Mismatch of ITC availed between Annual returns and Books of accounts
D7	Positive figure in GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch	Reconciliation between ITC availed in Annual returns of taxpayers with expenses in financial statements
D8	The closing balance of the legacy returns (ST-3 and ER-1) returns was compared with the 5(a) figure of the TRAN-1 return. The cases where TRAN-1 table 5(a) was more than closing balance of CENVAT credit in ST-3 and ER-1 were identified.	Excess ITC availed during transition from the old regime.
Domain: Tax payments		
D9	The greater of tax liability between GSTR-1 (Tables 4 to 11), considering advances and amendments, and GSTR-9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR-3B Tables 3.1(a) and 3.1(b). In cases where GSTR-9 was not available, GSTR-3B tax paid was compared with GSTR-1 liability.	Unsettled liabilities of taxes.
D10	GSTR-3B Table 3.1(a)+(b) was compared with tax liability declared in the e-way bills and cases where GSTR-3B are less than e-way bills are identified.	Suppression of tax liability based on E-way bill verification

⁷⁵ Amendment was made in the CGST Act to give effect to this recommendation of GST council sub-section (5) of section 16 of the CGST Act was inserted vide Section 118 of Finance (No.2) Act, 2024 with effect from 1 July 2017 which stipulates that notwithstanding anything contained in sub-section (4), in respect of an invoice or debit note for supply of goods or services or both pertaining to the Financial Years 2017-18, 2018-19, 2019-20 and 2020-21, the registered person shall be entitled to take input tax credit in any return under section 39 which is filed upto the 30 November 2021. This impacts deviations in Dimension 3 for FYs 2018-19 and 2019-20.

Audit Dimensions ⁷⁴	Algorithm used	Risk parameter
D11	Negative figure in GSTR-9C Table 9R and examination of reasons provided in Table 10 for mismatch	Mismatch in tax paid between books of accounts and returns
D12	Table 3.1(a) of GSTR-3B was compared with Column 6 of Table 9 of GSTR-2A. Cases where GSTR-3B values are less than that of GSTR-2A are identified.	Under-declaration of taxable supplies by comparing TDS returns
D13	Unbilled revenue at the beginning of the year in GSTR-9C Table 5B should tally with the unbilled revenue of the previous GSTR-9C shown in Table 5H. Any mismatch indicates suppression of taxable turnover.	Suppression of taxable value based on unbilled revenue declared in GSTR-9C.
D14	Negative figure in GSTR-9C Table 7G and examination of reasons provided in Table 8 for mismatch	Mismatch in taxable turnover declared in GSTR-9C Table 7G
D16	The composition taxpayers whose turnover on all India basis (Central and State jurisdiction) under all GSTINs of the same PAN have crossed the turnover limit of ₹ 1 crore in 2018-19 and ₹ 1.5 crore in 2019-20 were identified.	Taxpayer Ineligible to remain under Composition Levy Scheme (CLS)
D17	E-commerce GSTR-8 became effective from 1 October 2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are also filing GSTR-4/CMP-08 under composition scheme.	Composition taxpayers also availing e-commerce facility thereby being ineligible to continue in Composition Scheme
D20	Taxpayers who have not filed GSTR-3B but have filed GSTR-1 or where GSTR-2A available, indicating taxpayers carrying on the business without discharging tax.	GSTR-3B was not filed but GSTR-1 is available
D21	Interest calculated at the rate of 18 per cent on cash portion of tax payment on delayed filing of GSTR-3B vis-à-vis interest declared in GSTR-3B	Short payment of interest

The Pan-India data analysis also depicted large number of deviations with extreme money values which point out lack of basic validation control that should have been built into the application software. For example, for suppression of tax liability based on E-Way bill, the number of deviations were 3,24,048 with money value of ₹ 71,91,811 crore, and under the tax liability mismatch across the returns GSTR-1, 3B and 9 the number of deviations were 11,30,143 and money value of ₹ 10,88,229 crore. These unrealistic money value figures indicated that controls to input and validate data in GST system and EWB system are either not working properly or are entirely absent.

As part of this SSCA, Audit selected a sample of 10,124 cases from amongst the top deviations /inconsistencies in the returns in each of the 18 parameters for the year 2018-19 to 2020-21. The audit queries were issued to the respective Ranges between May 2023 and July 2023 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 the 10,124 deviations/inconsistencies issued to the Department, responses were received for 8,106 cases.

In 307 cases, constituting four per cent, the Department stated that it was examining the underlying deviation of ₹ 33,017 crore. In 714 cases though the Department did not accept the deviations pointed out by Audit, its contention was not borne out by evidence, and was thus not amenable to verification by Audit.

4.8.4.1 Compliance deviations in GST Returns- Centralised Audit

Based on responses received from the Department to the Audit Queries, the extent to which each of the 18 parameters translated into compliance deviations is summarized in **Table 4.4**.

Table 4.4: Summary of deficiencies

(₹ in crore)

Audit Dimension	Sample		Cases where reply received ⁷⁶		Department reply accepted by Audit including data entry errors, Action taken before query		Compliance deviations				Total	
							Accepted by Department including cases where action is yet to be initiated		Department's reply not acceptable to Audit (Rebuttal)			
	No.	Amt.	No.	Amt.	No.	Amount	No.	Amt.	No.	Amt.	No.	Amt.
1	2	3	4	5	6	7	8	9	10	11	12=8+10	13=9+11
D1- ITC Mismatch (R3B & R2A)	1,074	32,809.07	849	27,349.27	549	17,918.28	281	5,719.78	12	282.57	293	6,002.35
D2- ITC passed on without supplier remitting tax	534	9,311.16	395	7,251.79	265	4,199.00	112	1,509.63	13	172.64	125	1,682.27
D3- ITC Availed on 3B filed after limitation period	804	3,019.29	650	2,331.68	298	1,093.51	342	1,069.90	9	21.79	351	1,091.69
D4- Excess ISD credit	569	519.65	458	421.86	307	266.00	101	76.04	3	1.66	104	77.70
D5- Short payment of tax on RCM	670	3,972.23	554	3,249.13	463	2,561.91	116	346.79	2	4.04	118	350.83
D6- Table 12F	269	3,463.40	227	3,212.68	168	2,718.00	45	170.55	2	5.08	47	175.63
D7- Table 14T	263	3,086.19	214	2,513.61	170	2,085.91	33	83.32	2	10.02	35	93.34
D8- TRAN in excess of C/B	779	1,302.57	693	1,156.91	526	885.00	90	110.46	11	31.47	101	141.93
D9- Undischarged tax	1,079	32,670.84	865	24,271.70	716	17,232.25	243	3,307.00	11	156.24	254	3,463.24

⁷⁶ Each GSTIN per dimension is considered as a single case. Hence it can so happen that the same combination of GSTIN + Dimension, can fit into different categories based on the response received from the Department (8,106) for different years viz. 2018-19, 2019-20 and 2020-21.

Audit Dimension	Sample		Cases where reply received ⁷⁶		Department reply accepted by Audit including data entry errors, Action taken before query		Compliance deviations					
							Accepted by Department including cases where action is yet to be initiated		Department's reply not acceptable to Audit (Rebuttal)		Total	
	No.	Amt.	No.	Amt.	No.	Amount	No.	Amt.	No.	Amt.	No.	Amt.
1	2	3	4	5	6	7	8	9	10	11	12=8+10	13=9+11
liability (R1 & R9)												
D10- Suppression of tax payable (E-Way Bill)	808	7,99,582.36	638	7,73,830.48	493	7,60,077.70	100	3,648.79	2	64.32	102	3,713.11
D11- Short-payment of tax (Table 9R)	265	2,558.60	203	2,094.04	189	1,913.10	24	155.93	3	2.65	27	158.58
D12- Short-payment of tax (TDS/TCS)	401	7,935.52	307	7,139.11	203	6,576.54	72	47.82	2	NQ	74	47.82
D13- Unbilled revenue	269	13,904.88	215	10,024.19	162	6,122.63	32	28.86	4	NQ	36	28.86
D14- Table 7G	269	3,31,997.80	217	2,90,112.14	174	2,12,856.98	25	2,667.38			25	2,667.38
D16- Ineligible composition levy ⁷⁷	62	NQ	50	NQ	17	NQ	20	4.77			20	4.77
D17- E-commerce composition levy ⁷⁸	126	NQ	107	NQ	70	NQ	31	0.30	1	NQ	32	0.30
D20- GSTR-3B not filed but GSTR-1 available	806	4,678.91	662	3,651.28	293	1,661.02	347	1,747.02	5	40.55	352	1,787.57
D21- Non-payment of interest	1,077	985.27	802	723.51	491	418.31	407	194.34	16	13.40	423	207.74
Total	10,124	12,51,797.74	8,106	11,59,333.38	5,554	10,38,585.84	2,421	20,888.68	98	806.43	2,519	21,695.11

NQ - Not quantified.

Out of 8,106 cases where the Department replied, 2,519 cases translated into compliance deviations with a revenue implication of ₹ 21,695.11 crore. Further, 3,131 cases involving a mismatch of ₹ 8, 32,453.41 crore had valid reasons for the mismatch and data entry errors caused a mismatches of ₹ 61,715.87 crore in 523 cases. The Department has accepted the audit observations or initiated action in 2,421 cases with tax effect of ₹ 20,888.68⁷⁹ crore. Out of these cases, the Department has recovered ₹ 124.13 crore in 257 cases, issued SCN or issued DRC-01B⁸⁰, DRC-01D⁸¹, DRC-13⁸² in 1276

⁷⁷ Money value of not quantified for this dimension.

⁷⁸ Money value of not quantified for this dimension.

⁷⁹ Deviations pertaining to turnover; D12, D13 and D14 were not taken into account, except in cases where the tax was quantified by the Department through recovery or SCN.

⁸⁰ Intimation of difference in liability reported in statement of outward supplies and that reported in return.

⁸¹ Intimation for amount recoverable under Section 79.

⁸² Notice to a third person under section 79(1)(c) of CGST Act.

cases for ₹ 12,453.90 crore⁸³, issued notice conveying discrepancies to the taxpayer in Form ASMT-10/DRC-01A in 116 cases for ₹ 811.55 crore⁸⁴. In 772 cases involving tax effect of ₹ 7,499.10⁸⁵ crore, the Department accepted the audit contention and was in correspondence with the respective taxpayers.

A few illustrative cases⁸⁶ from the 2,421 cases where the Department accepted or initiated action are given below:

i. Excess/Irregular availing of ITC during transition

It was noticed that transitional ITC claimed in TRAN-1 Table 5(a) was more than the closing balance of CENVAT credit as on June 2017 by ₹ 8.90 crore in case of a taxpayer under Range II Division II - Vatva I of Ahmedabad South Central Tax Commissionerate. On this being pointed out in October 2023, the Range Officer stated (October 2023) that the taxpayer had an accumulated balance of ₹ 8.90 crore before June 2017 return which remained unused and was therefore availed by the taxpayer. When the related ER-1 and ST-3 returns were called for, the Range Officer stated that the physical documents were not available due to a fire accident that happened at their premises during March 2021. In the absence of any document to support the authenticity of the claims, based on Audit's rebuttal, the Department finally recovered ₹ 8.91 crore in November 2023. The Ministry in their response in April 2025 stated that DRC-01 has also been issued in February 2024 for payment of penalty.

ii. Non/Short payment of interest on delayed filing of GSTR-3Bs

Non-payment of interest liability of ₹ 1.26 crore arising from the delayed filing of GSTR-3B returns for the period 2018-19 and 2019-20 was noticed in case of a taxpayer in Range I of Division VI under Mumbai-Central Central Tax Commissionerate and communicated to the Department in June 2023. At the instance of Audit, Department issued DRC-01A in September 2023. As there was no response, a DRC-01 was issued for the period 2018-19 and 2019-20 in October 2023, demanding the contested interest. The Ministry stated (April 2025) that the DRC-01 has also been confirmed.

iii. ITC availed on GSTR-3B filed after limitation period

In one case pertaining to Range II of Asansole I Division under Bolpur Central Tax Commissionerate, irregular availing of ITC for the period 2018-19 and 2020-21 on GSTR-3Bs filed after the cut-off period amounting to ₹ 3.53 crore

⁸³ Deviations pertaining to turnover; D12, D13 and D14 wherever the tax amount has been quantified by Department.

⁸⁴ Deviations pertaining to turnover; D12, D13 and D14 were not taken into account.

⁸⁵ Deviations pertaining to turnover; D12, D13 and D14 were not taken into account.

⁸⁶ Taken from each of the 18 dimensions to further explain them in a narrative form.

was highlighted in July 2023. The Ministry in April 2025 stated that the Department has recovered ₹ 1.88 crore for the year 2018-19 and has issued demand notice for ₹ 0.85 crore for the year 2020-21, to the taxpayer. The demand has been confirmed vide OIO dated 24 April 2024. However, action is yet to be initiated for the remaining amount of ₹ 0.79 crore pertaining to 2018-19.

iv. ITC availed without the supplier remitting tax

Under this dimension, the Department was required to examine the difference in the ITC availed by the recipient in Range IV under Vadodara I Central Tax Commissionerate and the tax paid by the suppliers amounting to ₹ 14.14 crore for the years 2018-19 to 2020-21. The difference was noticed by comparing Table 8A of GSTR-9 with ITC available in GSTR-2A. The difference could be on account of difference in the place of supply and recipient or availing ITC on invoices issued after cancellation of registration of the supplier, in which case the recipient is liable to reverse the ITC. The difference could also be on account of supplier not filing his return and thereby not discharging the tax liability. On this being pointed out (October 2023), the Ministry stated (April 2025) that the SCN was issued for the objected amount covering three years and the same was confirmed in April 2024.

v. GSTR-3B not filed but GSTR-1 available

A taxpayer registered under Azamgarh Range, Division-Azamgarh, under Varanasi Central Tax Commissionerate had not filed GSTR-3B and hence had not offset their tax liability though it had regularly filed GSTR-1s for the months from November 2018 to February 2019. The tax liability as declared in the GSTR-1s for these months amounted to ₹ 1.97 crore for the period 2018-19 and therefore the risk of the equivalent amount not having been discharged as tax was highlighted in July 2023. In response, the Ministry stated (April 2025) that demand notice was issued to taxpayer in January 2025 demanding ₹ 1.97 crore along with interest and penalty.

vi. Undischarged tax liability (GSTR-1 and GSTR-9)

On comparison between GSTR-1 and GSTR-9 on undischarged liability amounting to ₹ 28.64 crore for 2018-19 and ₹ 15.76 crore in 2019-20 was raised in September 2023 in respect of a taxpayer under Range 123 of Rajouri Garden Division under Delhi West Central Tax Commissionerate. Following the audit query, the Department issued DRC-01 (November 2023) for ₹ 58.52 crore including 2017-18 period. Additionally, the Department informed that the taxpayer's registration had been suo-moto cancelled with effect from 4 December 2019. Reply of the Ministry was awaited (April 2025).

vii. ITC mismatch (GSTR-2A and GSTR-3B)

- In the case of a taxpayer in Shamli I Range under Meerut Central Tax Commissionerate, ITC mismatch between ITC availed in GSTR-3B and ITC available in GSTR-2A for the year 2020-21 amounting to ₹ 22.18 crore was highlighted in July 2023. In reply (October 2023), the Department stated that out of excess ITC of ₹ 22.17 crore (reworked value) availed in GSTR-3B during March 2021, the taxpayer has reversed an ITC of ₹ 22.14 crore through GSTR-3B of August 2021 which was filed belatedly on 17 August 2023. The Ministry stated (April 2025) that DRC-1A was issued for the remaining amount of ₹ 0.02 crore.

- In the case of a taxpayer in Range III of Pithampur-I Division under Ujjain Central Tax Commissionerate, ITC mismatch between ITC availed in GSTR-3B and ITC available in GSTR-2A for the year 2018-19 was highlighted in August 2023. The Ministry stated (April 2025) that demand notice has been issued in December 2023 for recovery of ₹ 11.47 crore.

- ITC mismatch between ITC availed in GSTR-3B and ITC available in GSTR-2A during 2019-20 and 2020-21 was pointed out (August 2023) in the case of a taxpayer in Kozhikode Range V under Kozhikode Central Tax Commissionerate. In reply (April 2025), the Ministry stated that ITC availed by the taxpayer without the strength of invoices in possession of the taxpayer amounts to ₹ 8.19 crore for the year 2019-20 and ₹ 0.15 crore for the year 2020-21. The taxpayer has agreed and paid the amount of ₹ 8.19 crore and ₹ 0.15 crore for the year 2019-20 and 2020-21 vide DRC-03 dated 31 January 2024 and 27 February 2024.

viii. Short payment of tax under RCM

- A case of short payment of tax for supplies under RCM in comparison with ITC availed on this account pertaining to a taxpayer in Ernakulam Range 3 under Kochi Central Tax Commissionerate amounting to ₹ 1.39 crore was identified for the year 2018-19 and communicated to Range in June 2023. The Ministry stated (April 2025) that demand notice was issued in December 2023 and confirmed in February 2024.

- Similarly, in the matter of a taxpayer within Range VI of the Shyambazar Division under Kolkata North Commissionerate, after the issue of an Audit observation in August 2023, the Department issued a DRC-01 in January 2024, demanding a tax payment of ₹ 1.96 crore for 2018-19 and 2019-20 under RCM, along with relevant interest and penalties. The Ministry stated (April 2025) that demand has been confirmed in April 2024.

ix. Excess ITC availed under Input Service Distributor (ISD) mechanism

- In a case pertaining to a taxpayer, excess ITC availed amounting to ₹ 0.44 crore through ISD mechanism for the year 2018-19 was reported to the Range IV of Ranchi South Division under Ranchi Central Tax Commissionerate in August 2023. As a result, the Department issued DRC-01, demanding the tax amounting to ₹ 1.48 crore covering subsequent two years from 2018-19 to 2020-21 from the taxpayer in December 2023. The Ministry stated (April 2025) that demand notice was adjudicated in April 2024.

x. Suppression of taxable value (Unbilled revenue)

Audit noted that there was a mismatch of unbilled revenue in the closing balance of one year to the opening balance of the subsequent year in case of a taxpayer, under AED-8 Range of Bengaluru East Central Tax Commissionerate. Audit pointed out (September 2023) possible suppression of taxable value of ₹ 68.12 crore for the period 2018-19 and 2019-20. In response, the Department issued ASMT-10 in September, 2023 to the taxpayer seeking explanation for the discrepancy. Reply of the Ministry was awaited (April 2025).

xi. Mismatch in tax paid details as declared in Table 9R of GSTR-9C

- A discrepancy in tax payments between the books of accounts and Annual Returns was identified in the case of a taxpayer within the Raisen Range under Bhopal Central Tax Commissionerate. Audit indicated (July 2023) to the Department an underpayment of tax amounting to ₹ 1.32 crore for the period 2018-19. The Ministry stated (April 2025) that the demand notice was issued in December 2023 and confirmed in March 2024.

- Similarly, in case of a taxpayer within the Belagavi North Range under Belagavi Central Tax Commissionerate, an underpayment of tax amounting to ₹ 3.07 crore for the period 2018-19 was pointed out (August 2023) to the Department. The Ministry stated (April 2025) that Department has issued DRC-01 to the taxpayer in December 2023, demanding tax liability of ₹ 3.07 crore along with applicable interest and penalty.

xii. Suppression of tax liability in comparison with E-way bill

- In October 2023, a case of discrepancy in tax liability between the GSTR-3B returns and E-way bill was brought to the attention of Range IV of Division I under Vadodara I Central Tax Commissionerate. This posed a risk of underpayment of tax amounting to ₹ 147.71 crore during 2018-19 to 2020-21. The Department responded (January 2024), that following a thorough examination of the taxpayer's response, a demand notice (December 2023) for the outstanding amount along with interest and penalties was issued. The

Ministry stated (April 2025) that demand notice has since been confirmed in April 2024.

- A similar case of under-declaring of tax liability in GSTR-3B as compared with E-way bills to a tune of ₹ 1.78 crore for the period 2018-19 pertaining to taxpayer was brought to the attention of Gopalganj Range under Patna II Central Tax Commissionerate in July 2023. In response the Department stated (January 2024) that DRC-01A was issued in December 2023. The Ministry further informed (April 2025) that as a satisfactory response had not been received, the Range suo moto cancelled the registration with effect from 6 March 2020 and an SCN is under process of issuance.

- In the case of a taxpayer within Nagole Range under Rangareddy Central Tax Commissionerate, a risk of underpayment of tax amounting to ₹ 19.66 crore for the year 2020-21 due to the under-declaration of taxable value, as evidenced by a comparison between the tax liabilities reported in GSTR-3B and E-way bills, was identified and reported in July 2023. In response (September 2023), the Range forwarded a reconciliation statement asserting no discrepancies. Audit scrutinised the reconciliation statement and noticed that an amount of ₹ 22.66 crore had been deducted from the tax liability in GSTR-3B, citing reasons related to 'Services invoice, Debit Notes and Credit Notes - EWB not required as there is no movement of Goods'. However, this deduction was originally considered in both the GSTR-3B and E-way Bill tax amounts, which is not correct. Firstly, if the taxpayer provides both 'Services' and 'Goods', the GSTR-3B tax liability should have been more than E-way Bill tax liability. Secondly, if there were transactions involving returns of goods from customers, the corresponding Debit Notes and Credit Notes should be supported by equivalent E-way Bills. Consequently, it was concluded by the Audit that the Department had not thoroughly scrutinized the taxpayer's transactions and solely relied on the information provided by the taxpayer. The Ministry in their response stated (April 2025) that the Department has issued Demand notice in November 2024 for an amount ₹ 26.20 crore.

xiii. Suppression of taxable value (TDS/TCS)

A case where the taxable value declared in the TDS return of the deductor was more than the taxable value declared by the taxpayer in GSTR-3B returns was pointed out (August 2023) to Palyamkottai Range under Madurai Central Tax Commissionerate. This resulted in the short declaration of taxable supply of ₹ 1.02 crore during 2018-19 and 2019-20. In response, the Department/Ministry informed (January 2024 and April 2025 respectively)

that notice demanding tax of ₹ 0.25 crore for the year 2018-19 and ₹ 0.22 crore for 2019-20 has been issued to the taxpayer in December 2023.

xiv. Mismatch in taxable turnover between Annual returns and Financial Statements

- A lesser taxable turnover in the annual return GSTR-9 as compared to the taxable turnover is required to be explained in GSTR-9C (reconciliation statement). The lesser taxable turnover may be on account of non-reporting, under-reporting, omission and error in reporting of taxable supplies which may have an impact on the tax liability. One such case pertained to a taxpayer, under Range V under Indore Central Tax Commissionerate and the Department was requested (August 2023) to examine the reasons provided for such lower declaration of taxable turnover in GSTR-9, amounting to ₹ 89.95 crore during 2018-19. In response, the Ministry stated (April 2025) that a demand notice was served on the taxpayer in December 2023 and confirmed in April 2024.

- Similarly Joda I Range under Rourkela Central Tax Commissionerate was requested to examine the reasons for the difference of ₹ 1,733.60 crore between the taxable turnover in the financial statement and the annual return in the GSTR-9C of a taxpayer during 2018-19 to 2020-21. Since the taxpayer did not provide any clarification or explanation with documentary evidence to substantiate the reasons for the unreconciled difference, the Department issued (December 2023) DRC-01, demanding tax of ₹ 35.59 crore for the reported period. The Ministry further stated (April 2025) that the demand notice was confirmed in April 2024.

xv. Ineligible ITC availed (Table 14T of GSTR-9C)

Department was requested to examine the reasons for the ITC mismatch of ₹ 1.01 crore between the Annual Return and the Financial Statements, as reported in Table 14T⁸⁷ of GSTR-9C of a taxpayer in Baliapur Range under Ranchi Central Tax Commissionerate for the year 2018-19. In this case the difference indicated the possibility of availing of ITC on ineligible items. On this being pointed out (November 2023), the Ministry stated (April 2025) that SCN was issued to the taxpayer amounting to ₹ 1.01 crore and same was adjudicated in April 2024.

xvi. Irregular ITC availed (Table 12F of GSTR-9C)

The Department was requested to examine the reasons for the ITC mismatch of ₹ 10.22 crore for the period 2018-19 and 2020-21 between the Annual

⁸⁷ Un-reconciled ITC (Difference between Total amount of eligible ITC availed and ITC Claimed in Annual return)

Return and the Financial Statements, as reported in the Table 12F⁸⁸ of GSTR-9C of a taxpayer in Range I of Indore VI Division under Indore Central Tax Commissionerate. On this being pointed out (August 2023), the Ministry stated (April 2025) that a demand notice was issued in December 2023 and confirmed in April 2024.

xvii. E-commerce benefactors under composition levy

A case of composition taxpayer irregularly availing the benefits of the e-commerce facility for making their supplies was flagged in Range 144 of Shahdara Division under Delhi East Commissionerate in July 2023. In response the Department stated that a taxpayer has discharged the differential tax of ₹ 0.03 crore for the period 2020-21 in December 2023. However, since the reply was silent as to when the taxpayer converted his registration under CLS to a normal, Audit had requested the Department to examine the matter. Subsequently, the Ministry stated (April 2025) that the taxpayer had paid the differential amount of tax along with applicable interest and 15 per cent penalty vide DRC-03 in December 2023 for the period September 2020 to March 2021. Further, the taxpayer has now shifted from Composition Levy to Normal taxpayer with effect from January 2021.

xviii. Taxpayer ineligible to remain in CLS levy due to incorrect turnover

A taxpayer in Panna Range under Jabalpur Central Tax Commissionerate, crossed the eligible turnover threshold in the years 2018-19 to 2020-21. The taxpayer, however, continued to pay tax in CLS. On this being pointed out (August 2023) the Department upon verification issued a DRC-01 in December 2023, demanding a differential tax payment of ₹ 1.22 crore, for the period from 2018-19 to 2020-21. The Ministry informed (April 2025) that the demand notice was confirmed in March 2024.

4.8.4.2 Non-submission of replies by the Department

There were 2018⁸⁹ inconsistencies communicated to the Department, with mismatches/inconsistencies amounting to ₹ 28,531.02 crore⁹⁰ for which replies were yet to be received.

As the deadline for issuing demand notices for the years 2018-19, 2019-20 and 2020-21 has lapsed, there is a risk that the identified discrepancies, due to inaction by the Department may remain unaddressed resulting in potential

⁸⁸ Un-reconciled ITC (Difference between ITC claimed in Annual Return and ITC availed as per audited Financial Statement)

⁸⁹ Total deviations – Responses received (10,124-8,106 = 2,018)

⁹⁰ This includes tax effect worked out at 18 per cent for the mismatch amount involving difference in turnover under D12, D13 and D14 dimensions of ₹ 46,562.76 crore and excluding D10 dimensions on E-way bill which showed wide discrepancy.

revenue loss of ₹ 23,633.97⁹¹ crore for the exchequer, unless extended period is invoked.

4.8.4.3 Compliance Deviations where the Department's reply is accepted by Audit

Out of 8,106 cases, where Department's response was received, in 2,342 cases, the replies were accepted in audit for the reasons as discussed below:

1. Data entry errors by taxpayers

Data entry errors (523 cases) constituted six per cent of the total responses received and nine per cent of cases where the Department's responses were accepted by Audit, which included action taken before query and closed cases not requiring any action. These data entry errors did not have any revenue implication. Most of the data entry errors relate to RCM, Reconciliation of tax liability (Table 9R of GSTR-9C), Suppression of tax through unbilled revenue declaration, and declaration in 12F and 14T tables of GSTR-9C.

The rate of data entry errors had, however, come down to six per cent as against 17 per cent observed in DORF Phase I.

The CAG Audit Report (No. 5 of 2022) recommended that the Department should contemplate implementing suitable validation controls aimed at preventing unreasonable data entries or alerting taxpayers to such occurrences. Additionally, it suggested augmenting these controls with post-facto data analytics focused on critical data elements to enhance overall data reliability and integrity.

2. Action taken before issue of Audit Queries

As summarised in Table 4.4 above, the Department had already taken action in 1,819 cases, constituting 22 per cent of the 8,106 responses received.

4.8.4.4 Compliance deviations where Audit did not agree with Department's response

Out of the 2,519 compliance deviations, the Department has not accepted 98 cases amounting to ₹ 806.43 crore. In these cases, the Department only forwarded explanations of the taxpayers without explicitly commenting on the audit observations. A few illustrative cases where Audit did not agree with the Department's response are given below:

⁹¹ Excluding turnover-based deviations, D12, D13 and D14 dimensions and D10 dimension on E-way bill which showed wide discrepancy.

i. ITC availed without supplier remitting tax

A discrepancy in ITC amounting to ₹ 7.49 crore for the year 2020-21 was observed between Table 8A of GSTR-9 and GSTR-2A for a taxpayer. This raised concerns that the taxpayer potentially claiming ITC without corresponding tax remittances by the suppliers. This issue was brought to the attention of Agartala II Range under Agartala Central Tax Commissionerate in September 2023. In response, the Range only asserted that the taxpayer was entitled to avail ITC according to the provisions of the Act but provided no response on the remittance of tax of the equivalent amount of ITC. Accordingly, the Range was instructed to take action in accordance with Circular Nos. 183/15/2022-GST dated 27 December 2022, and 193/05/2023-GST dated 17 July 2023, issued by the CBIC, and obtain the necessary certificates from the jurisdictional Range officers of the suppliers. However, such certificates was not received along with their response and response of the Ministry was awaited (April 2025).

ii. Excess ITC through Transitional Credit

A case of excess ITC availed through the transitional provisions amounting to ₹ 23.47 crore of the CGST Act by a taxpayer was highlighted and reported (September 2023) to the Range concerned. In the response forwarded (April 2025) by the Ministry, the Range stated that, as per the provisions of Section 74 of the CGST Act, 2017, action for recovery of such credit should be initiated within five years from the due date of filing the annual return for the relevant financial year, and that the time limit for initiating such action had already expired. Consequently, it was stated that pursuing action under Section 74 was not feasible. However, the response is not acceptable as the time limit for issuing a demand notice under Section 73 for the financial year 2017-18 was extended till 30 September 2024 and under Section 74 till 5 August 2024, taking the pandemic into account. Therefore, the Department still had sufficient time to initiate action even under Section 73.

4.8.4.5 Analysis of Input Controls in Return filing for enhancement of Control mechanism

Previously, Audit had made a few recommendations⁹² on the validation controls required for various GST returns. It is again reiterated that setting validation controls in returns is crucial for ensuring accuracy, compliance and integrity in the tax reporting process. The following additional suggestions are made:

⁹² in the Chapter VI of Audit Report No.7 of 2024

i. The Department should integrate the utilization of Table 8A of GSTR-9 data into the scrutiny process effectively. Through appropriate validation control, Table 8A of GSTR-9 excludes transactions where tax was discharged after the limitation period; where the supplier has amended the GSTIN supplies pertaining to the period when the supplier was under the composition scheme, documents dated after the effective date of cancellation of the supplier; invoices where the place of supply and place of supplier differs from the State of the recipient. The scrutiny process could be further enhanced if the list of invoices covered in the above scenarios are provided to the departmental officers which would enable the proper officer to carry scrutiny of returns more comprehensively by checking both suppliers and recipients.

ii. Preventive measures can be implemented to deter under-declaration of taxable values by establishing links between the entries declared in E-way bills and TDS declarations, such as aligning Table 3.1(a) of GSTR-3B with Column 2 of Table 3 of GSTR-7 and Column 4 of Table 3 of GSTR-8. Additionally, ensuring that the sum of taxable supplies and zero-rated supplies reported in GSTR-3B (Table 3.1(a) + (b)) is not less than the tax liability declared in the E-way bills can serve as a further control mechanism. For this, a soft alert may be introduced for the Range Officer to verify or use it in Scrutiny.

Recommendations:

10) Audit recommends that the Department may urgently pursue the 2,325 (replies not received and under examination by the Department) inconsistencies and deviations pointed out by Audit before they become time-barred and analyse the reasons for such deviations to take necessary action to strengthen the system so that such deviations do not repeat.

The Ministry stated (April 2025) that on sample verification of 49 per cent cases, the Department found no discrepancies in 85 per cent of the deviation value, attributing most issues to clerical or reconciliation errors. The Ministry stated that the deviations were based on raw data analysis and require further filtering to focus on material revenue risks. It also highlighted the burden on field formations, already engaged in scrutiny and audit activities, and stressed the need for prioritization of cases with significant revenue impact.

While the Ministry has stated that a substantial portion of the deviations related to clerical, typographical, and reconciliation errors without immediate revenue implications, Audit emphasizes that the cases where the Department has accepted the lapses, cumulatively amounting to ₹ 20,888.68 crore, are

significant and cannot be disregarded. These deviations highlight systemic issues, including the need for stronger validation controls within the GST system.

It is also important to highlight that the focus of Audit was not restricted to identifying cases of confirmed revenue loss but to bring out deficiencies in the compliance and control framework. The large volume of inconsistencies, even if partly arising from data entry or reconciliation issues, reflects a lack of effective internal controls and points towards the necessity for robust systemic validations to ensure data integrity.

It is further pointed out that the thresholds prescribed for identifying deviations across dimensions were kept on the higher side, specifically to ensure that only material discrepancies were flagged. Despite this, a large number of cases surfaced, indicating serious gaps in internal compliance and data accuracy.

Recommendation:

11) Department may consider introducing validation controls as pointed out in para 4.8.4.5 in GST returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.

GSTN stated (April 2025) that incorporating more validations in returns may have an inverse relationship to the ease of filing returns. Further, building such validations may restrict actual data entry in the corner scenarios and will affect revenue adversely.

It was further stated that, in so far as the issues mentioned in para 4.8.4.5 are concerned, it may be stated that there may be genuine reasons for the mismatch in the values declared in E-way bill/TDS declarations, and therefore, hard validations may not be warranted as acknowledged in the said paragraph itself. In addition, an Automated Return Scrutiny Module (ARSM) in the GSTN Back Office (BO) is under development, based on the parameters approved by the Law Committee. The issues raised in para 4.8.4.5, namely ITC mismatch, and mismatches in E-way bill/TDS/TCS declarations via-a-vis Returns are part of these approved parameters.

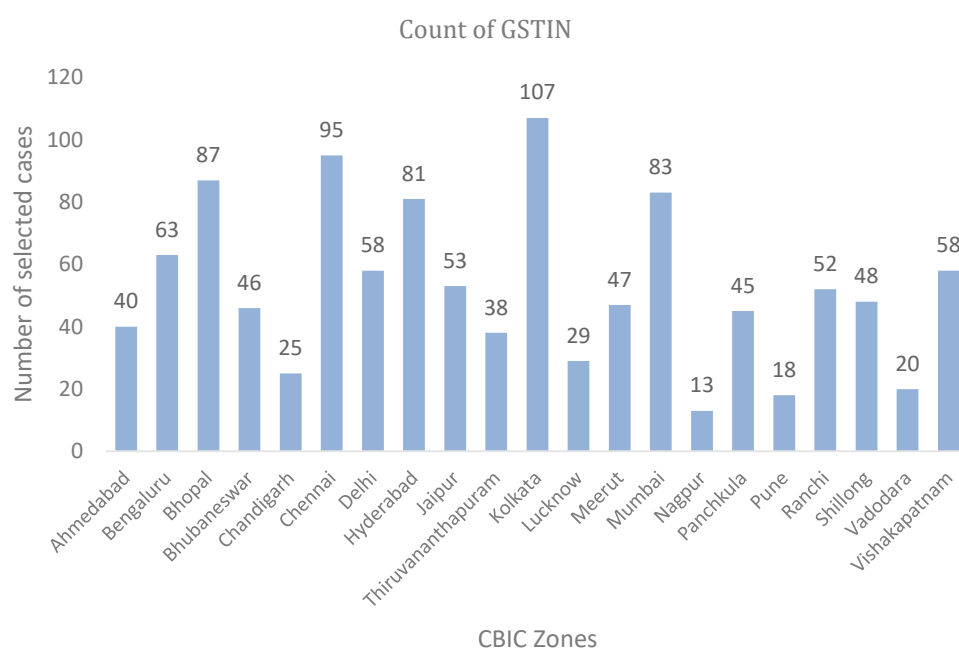
Audit acknowledges positive steps or soft alerts taken in this regard. However it is again reiterated that the validation controls or soft alerts if thoughtfully designed can significantly reduce data entry errors and systemic inconsistencies without compromising genuine cases or ease of compliance.

4.8.5 Detailed audit of GST returns

The Detailed audit part of this SSCA addressed the audit objective of ‘ensuring that the rules and procedures secure effective check on tax compliance and are being duly observed by taxpayers’. In this part, audit verification focussed on the assessment returns of the taxpayers’ that reflected risks of deviations/red flags/inconsistencies identified through data analytics.

Pan India, 1,106 taxpayers’ returns were selected based on the pre-determined risk factors that inter-alia included the risks of potential non/short payment of tax, excess/irregular availing of ITC, incorrect exemption claims etc. The samples identified for Detailed Audit spread across 21 CBIC Zones, and the jurisdiction wise distribution of the samples are featured in the **chart 4.1** given below:

Chart 4.1: Sample for Detailed Audit



In spite of regular follow ups, the jurisdictional Ranges did not produce basic records such as financial statements, GSTR-9C and GSTR-2A in 20 cases out of the sampled 1,106 cases selected for Audit. Hence, the underlying risks of undischarged liability/irregular ITC claims identified in these cases, to the tune of ₹ 914.78 crore could not be addressed.

Audit observed in Detailed Audit, non-compliance to GST provisions by taxpayers in availing and utilization of ITC as well as in tax payments amounting to ₹ 2,349.62 crore.

Further, in respect of the 1,086 cases audited, in 549 cases constituting around 50 per cent of the audited cases, the assessment records were partially produced. The granular records required for assessments such as invoices, debit notes, credit notes etc., were not produced for audit scrutiny resulting in substantial scope limitation. Consequently, in these partially produced cases, Audit was restricted only to the information available in the assessment returns filed by the taxpayers and the underlying risks thereon amounting to ₹ 31,517.42 crore could not be examined fully.

The audit methodology adopted was to initially conduct a desk review⁹³ of the selected GST returns, along with the financial statements filed by the taxpayers as part of the GSTR-9C; and other records available in the back-end system, which were accessed through the Single Sign-On Identity (SSOID) provided to the CAG's field audit officers. Based on the desk review results, the extent of audit checks to be carried out was decided and Detailed Audit was conducted in CBIC field formations to identify causative factors for the risks identified. Audit verification in these cases involved accessing relevant granular records of the taxpayers wherever necessary, through the respective CBIC field formations.

As highlighted in DORF Phase I Report, the Department is yet to establish a mechanism to ensure the completeness of financial statements uploaded along with GSTR-9C. However, in many instances, we observed that the attachments uploaded by taxpayers were either missing or contained only basic Balance Sheets or Profit and Loss accounts. Further, in the case of multi-location units, these statements were often consolidated, offering limited assistance for scrutiny of returns.

4.8.5.1 Scope limitation

The Detailed Audit of selected GST returns envisaged substantive verification of the underlying granular records relied upon for assessments under Section 59 of the CGST Act to address the perceived risks. The granular records in this context are the statutory records specified under Section 35 of the Act. Verification of these records was essential to ensure taxpayers' compliance to the provisions of the Act and to ensure that the rules and procedures secure proper assessments and collection of tax.

⁹³ Desk review was conducted in the field audit offices through SSOID based remote access given to CBIC back-end GST application. The desk review was carried out to determine the focus area of audit and to identify transactions that are potentially error prone for substantive verification.

a) Non-production of records

The zonal jurisdiction-wise non-production of records is summarised in **Table 4.5**.

Table 4.5: Non-production of records reported by Field Audit Offices

Jurisdictional Zones	Total Sample Size	Cases of Non-Production	Underlying risks of ITC/tax liability (₹ in crore)
	Number of Taxpayers	Number of Taxpayers	
Bengaluru	63	3	30.09
Bhopal	87	4	290.59
Bhubaneswar	46	5	378.53
Chennai	95	1	48.45
Thiruvananthapuram	38	7	167.12
Grand Total	329	20	914.78⁹⁴

When this was pointed out (October 2024), the Ministry stated (April 2025) that in two cases, demand notice were issued for the risk involved and in another two cases, records have since been produced for Audit. However, Audit could not verify these cases due to reporting challenges, as the records were produced much later after the completion of audit.

b) Partial production

The Zonal jurisdiction-wise partial production of records is summarised in **Table 4.6**.

Table 4.6: Partial production of records reported by Field Audit Offices

Jurisdictional Zones	Sample Size	Partial-Production	Underlying risks of ITC/tax liability (₹ in crore)
	Number of taxpayers	Number of taxpayers	
Ahmedabad	40	21	549.18
Bengaluru	63	12	1,709.60
Bhopal	87	20	354.13
Bhubaneswar	46	22	2,950.83
Chandigarh	25	15	231.94
Chennai	95	8	1054.64
Delhi	58	34	2835.56
Hyderabad	81	40	2299.22

⁹⁴ On account of mismatch in ITC in GSTR-3B and GSTR-2A and mismatch in tax liability shown in GSTR-1, 3B and 9.

Jaipur	53	38	989.13
Thiruvananthapuram	38	9	615.25
Kolkata	107	38	617.87
Lucknow	29	26	1,399.86
Meerut	47	41	2,560.10
Mumbai	83	65	5,296.79
Nagpur	13	7	15.40
Panchkula	45	18	1553.59
Pune	18	6	728.38
Ranchi	52	52	3,411.60
Shillong	48	38	270.76
Vadodara	20	5	1.21
Visakhapatnam	58	34	2072.38
Grand Total	1106	549	31,517.42⁹⁵

When this was pointed out (October 2024), the Ministry stated (April 2025) that in 145 of these cases, records have since been produced to Audit. However, Audit could not verify these records due to reporting challenges, as the records were produced much later after the completion of audit.

Considering the higher number of partial production cases and potentially higher monetary impact of the risks involved in these 549 Detailed Audit cases, it is recommended that Board may devise a mechanism like that of DGARM cases to verify the cases which are close to being time-barred on priority.

Recommendation:

12) The Department may provide records of taxpayers timely during the conduct of audit assignments otherwise it significantly limits the scope of audit of GST revenue.

The Ministry stated (April 2025) that the documents/details called for by Audit are available with the taxpayers and sometimes taxpayers refuse to furnish records. Calling for the documents from the taxpayer in each case of verification is an intrusive process and increases compliance burden of the taxpayer as well as workload of field officers.

The Ministry's remarks is not acceptable as the documents called for during the audit are the statutory records specified under Section 35 of the CGST Act, which are relied upon for assessment of GST payable to the Government

⁹⁵ On account of mismatch in ITC in GSTR-3B and GSTR-2A and mismatch in tax liability shown in GSTR-1, 3B and 9.

account. Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 read with Article 149 of Constitution of India, mandates CAG to audit the revenue receipts to satisfy himself that the rules and procedures are designed to secure effective check on the assessment, collection and proper allocation of the revenue.

4.8.5.2 Detailed audit of GST returns – Audit findings

Taxpayers' compliance to the provisions of GST Act is primarily ascertained from the self-assessment returns filed under Section 59 of the Act. Audit verified the veracity of returns filed by the taxpayers by evaluating correctness of availing and utilisation of ITC, assessment of tax liability and discharge of taxes due. The audit findings emerging from this part are categorised under a) GST return filing and payment, b) Utilization of ITC and c) Discharge of tax liability are discussed as under:

a) Audit findings on GST return filing and payment

A registered person must file monthly or quarterly GST returns and an annual GST return based on the type of business. GSTR-1 return contains invoice-wise details of outward supplies of goods and services to be filed monthly (quarterly basis for taxpayers having turnover limit up to ₹ 5 crore). GSTR-3B return is a summary return to declare the summary of GST liabilities for a particular tax period. This return captures the summary of outward supplies made by the taxpayer; GST liability thereon; ITC eligible to the taxpayer on inward supplies; ITC adjusted for payment of tax liability, and tax payments made. Thus, GSTR-3B return is the self-assessment of tax liability declared by the taxpayer for the relevant tax period. Further, GSTR-9 return captures annual summary of monthly returns, provides updated information on the transactions for the entire year, giving the summary of GSTR-1, GSTR-2B and GSTR-3B returns. In addition to these returns, a reconciliation statement in the Form GSTR-9C is required to be filed to reconcile the transactions reported in the returns with that of the books of accounts.

Any deviations in the stipulated timelines for filing of these assessment returns will impact the revenue due to the Government and thus attracts the penal provisions envisaged in the Act for delayed filing of returns and payment of tax. Audit findings on return filing and tax payments are detailed below:

1. Non-payment of interest by taxpayers

Section 50 of CGST Act stipulates that 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 eighteen per cent, as may be notified by the Government on the recommendations of the Council. A combined reading of Section 39(7), 49 and 50(1) of the Act, along with Rule 61(2), 87(6) and 87(7) of the CGST Rules shows that mere deposit of an amount in Electronic Cash Ledger does not amount to payment of tax, but only when GSTR-3B is filed, the amount lying in Electronic Cash Ledger is debited towards payment of tax. Thus, the interest liability is inevitable in all such cases where the return was filed after the due date.

Audit observed in 324 cases, constituting 30 per cent of the 1,086 cases audited, that taxpayers had not paid interest for belated payment of tax or had erroneously utilised ITC credits. The total interest due to Government in these cases amounts to ₹ 63.92 crore.

When this was pointed out, the Ministry/Department accepted the audit observations in 190 cases involving money value of ₹ 54.98 crore out of which recovery of ₹ 4.27 crore was made in 121 cases. The reply in remaining 134 cases was awaited/rebutted. Few illustrative cases are featured below:

i. Non-payment of interest on tax liability not declared in the relevant tax period

As per Section 12(2) of the CGST Act, the liability to pay tax on goods shall arise at the time of supply which shall be the earlier of:

- a) The date of issue of invoice by the supplier or last date on which he is required to issue the invoice with respect to the supply; or
- b) The date on which the supplier receives the payment with respect to the supply.

Further, as per proviso under Section 50(1) of the CGST Act, the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date in accordance with the provisions of Section 39, except where such return is furnished after commencement of any proceedings under Section 73 or Section 74 in respect of the said period, shall be payable on that portion of the tax which is paid by debiting the electronic cash ledger. However, the interest for the tax payable during a tax period, the details of which is not declared in the returns for the said tax period, shall be computed for the entire liability.

A taxpayer under the jurisdiction of Chennai South Commissionerate, supplies motor vehicles and parts falling under Chapter heading 87. During audit, it was noticed that though the taxpayer had issued invoices for supply within the time specified under the Act, the same details were not declared

in the returns filed for the relevant tax period for the years 2018-19 to 2020-21. The details of these invoices were declared in the subsequent tax periods and the tax liability was discharged accordingly with the delay ranging from 30 days to 550 days. Thus, the taxpayer is liable to pay interest for delayed payment of tax as per the Section 50(1) of the CGST Act, along with interest leviable on the entire liability as the liability was not declared in the tax period to which it pertains. Interest payable in this case amounts to ₹ 18.64 crore. On this being pointed out (December 2023), the Ministry replied that (April 2025) the demand notice issued in this regard has been adjudicated (April 2024) confirming the demand.

ii. Non-payment of interest on ITC reversal

Proviso 2 under Section 16(2) of the CGST Act, provides that where a recipient fails to pay to the supplier of goods or services or both, other than the supply on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice by the supplier, an amount equal to the ITC availed by the recipient shall be added to his output tax liability along with interest payable under Section 50(3) thereon. As per Rule 88B (3), interest shall be calculated on the amount of ITC wrongly availed and utilised, for the period starting from the date of utilisation of such ITC till the date of reversal of such credit or payment of tax in respect of such amount.

A taxpayer under the jurisdiction of Thiruvananthapuram Commissionerate, had reversed ITC claimed on the supplies for which payment to the suppliers were not made within the stipulated 180 days from the invoice date, as stipulated in second proviso to Section 16(2) of the CGST Act. In this regard, the taxpayer had reversed total ITC amount of ₹ 40.77 crore for the years 2018-19 to 2020-21, as reflected in annual returns. However, as the taxpayer has utilised the ITC completely, the interest liability applicable under the Section 50(3) of the Act amounting to ₹ 2.79 crore was required to be paid. On this being pointed out (January 2024), the Ministry replied (April 2025) that the demand notice issued in January 2024 has confirmed the demand in April 2024.

b) Audit findings on utilisation of ITC

Section 16(1) of the CGST Act provides that every registered person shall, subject to such conditions and restrictions as may be prescribed, 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. ITC⁹⁶ thus credited to Electronic Credit Leger may be used for payment of tax on outward supplies, to avoid cascading effect of taxes.

Sections 16(2) and 17 of the CGST Act prescribe the eligibility and conditions for availing ITC. The credit of CGST cannot be used for payment of SGST/UTGST and credit of SGST/UTGST cannot be utilised for payment of CGST.

Out of 1,086 cases examined by Audit, compliance deviations amounting to ₹ 1,693.72 crore were noticed in 253 cases due to irregular availing of ITC; ITC claimed on ineligible supplies; non or short reversal of ITC and excess availing of ITC.

1. Irregular availing of ITC

Section 16(2) of the CGST Act prescribes the conditions for availing ITC. The pre-requisites for availing ITC are:

- Taxpayer should be in possession of tax invoice, or any such tax paying document as may be prescribed.
- Taxpayer has received the goods or services.
- Tax charged in respect of such supply has been actually paid to the Government, either in cash or through ITC admissible in respect of the said supply.
- Taxpayer has furnished the return to avail the ITC.
- The value of the goods or services along with the tax should have been paid to the supplier within 180 days from the date of issue of invoice.

Rule 36 of CGST Rules prescribe the documentary requirements for claiming ITC. A taxpayer can avail ITC based on (a) Invoice issued by a supplier of goods or services or both, (b) Invoice issued by recipient along with proof of payment of tax, (c) A debit note issued by supplier, (d) Bill of entry or similar document prescribed under Customs Act, (e) Revised invoice and (f) Document issued by ISD. However, ITC shall not be availed beyond September of the following financial year to which invoice pertains or date of filing of annual return, whichever is earlier.

Further, to prevent the wrongful availing of ITC, the CBIC introduced Rule 36(4) of the CGST Rules vide Notification No. 49/2019-Central Tax dated 9

⁹⁶ ITC viz. input tax credit means the GST 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 payment of taxes on outward supplies.

October 2019. This rule stipulates that ITC for invoices or debit notes not uploaded by suppliers under Section 37(1) should not exceed 20 per cent of the eligible credit for invoices or debit notes that have been uploaded by suppliers. CBIC further revised this limit to 10 per cent (from January 2020 to December 2020) and five per cent (from January 2021 to December 2021). This was implemented through Notification Nos. 75/2019–Central Tax dated 26 December 2019 and 94/2020–Central Tax dated 22 December 2020, respectively.

Audit observed compliance deficiencies in 187 cases, out of 1,086 cases, where taxpayers had availed irregular ITC to the tune of ₹ 1,428.80 crore. The deficiencies were mainly on account of credit taken on time barred documents, credit claimed without receipt of goods, credit claimed in returns filed after the limitation period and credit claimed without payment of tax.

When this was pointed out, the Ministry/Department accepted the audit observations in 143 cases involving money value of ₹ 815.52 crore out of which an amount of ₹ 10.11 crore was recovered in 37 cases. The reply in remaining 44 cases was awaited/rebutted.

A few illustrative cases on the findings of utilisation of ITC are featured below:

i. ITC availed without payment of tax on the supply

As per Section 16(1)(c) of the CGST Act, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both unless the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of ITC admissible in respect of the said supply.

During the verification of input tax claimed by a taxpayer coming under the jurisdiction of Surat Commissionerate, for the period 2018-19 to 2020-21, it was observed that the taxpayer had claimed ITC on supplies where the vendors had not filed their GSTR-3B returns. The total ITC claimed during the said period for which supplier had not paid the tax amounted to ₹ 0.62 crore. On this being pointed out (July 2023), the Ministry stated (April 2025) that the amount of ₹ 0.62 crore was recovered along with interest of ₹ 0.28 crore.

ii. Excess ITC availed in Monthly/Annual Returns

Table 8A of GSTR-9 reflects the ITC auto populated from Table 3, 4, 5 and 6 of GSTR2-A returns of the taxpayer aggregating all the ITC that have been declared by the corresponding suppliers in their GSTR-1. This indicates the total credit available other than imports and inward supplies liable for reverse charge, but includes the services received from Special Economic

Zone (SEZ) units, pertaining to the financial year for which return relates to. However, this does not reflect the cases where GSTR-1 was filed after the limitation period, or where invoices of the place of supply differs from the State of the recipient and invoices issued after the effective date of cancellation.

Audit noticed excess ITC claimed by taxpayers in the monthly or annual returns on a return level comparison. Two high value deviations noticed under this category are in respect of a taxpayer coming under the jurisdiction of Surat Commissionerate and another taxpayer coming under the jurisdiction of Bengaluru North Commissionerate involved an amount of ₹ 399.44 crore and ₹ 375.97 crore during the period between 2018-19 to 2020-21 and 2018-19 to 2019-20 respectively.

When this was pointed out (October 2023 and March 2024), the Department had issued SCN (December 2023) in the case of taxpayer coming under the jurisdiction of Surat Commissionerate. In the case of taxpayer coming under the jurisdiction of Bengaluru North Commissionerate, the Ministry did not accept (April 2025) the observation stating that the excess availing of ITC was due to incorrect classification occurred in GSTR-3B, which were rectified in GSTR-9. Further, during 2019-20, customs duty reversal was not reflected in the books of account, leading to differences. The Ministry's response is not tenable as these reasons were already factored in while determining the excess ITC availed by the taxpayer.

2. Availing of ineligible ITC

Section 16 of the CGST Act allows availing of ITC on any supply of goods or services or both which are used or intended to be used in the course or furtherance of his business. Section 17(5) of the CGST Act provides a list of goods and supplies on which the ITC cannot be availed except when the outward taxable supply is of the same category of services.

Section 18 of the CGST Act provides for availing of credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which the taxpayer becomes liable to pay tax in cases where the person has applied for registration within 30 days from the date on which they become liable to registration.

Audit observed non-compliance in 42 cases, out of 1,086 cases, where taxpayers had availed ineligible ITC amounting to ₹ 248.04 crore. The deficiencies were mainly on account of availing ITC on works contract supplies; supplies of goods or services not used for business; or credit availed on blocked/not allowed items.

When this was pointed out, the Ministry/Department accepted the audit observations in 33 cases involving money value of ₹ 213.80 crore out of which recovery of ₹ 2.94 crore was made in 15 cases. The reply in the remaining nine cases was awaited/rebutted. Few illustrative cases of availing of ineligible ITC are featured below:

i. ITC availed on works contract supply

As per Section 17(5)(c) of the CGST Act, ITC shall not be available in respect of works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract services. Sub-section (d) specifies, goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business, as ineligible.

a) As part of setting up a refinery, a taxpayer coming under the jurisdiction of Bhubaneswar Commissionerate had entered into BOOT⁹⁷ agreements with two taxpayers for construction of Tankage (storage) facility for crude oil and finished products as well as for construction of piped water transportation from Mahanadi River to the refinery. The suppliers were entitled to monthly fixed charges towards the return on capital for development of complete tankage facilities and water supply infrastructure, in addition to a monthly charge for operation and maintenance of the facility. It was noticed that the taxpayer was claiming ITC charged on the monthly fixed charges towards return of capital.

Since, the entire infrastructure was constructed on the land allocated by the taxpayer, which was to be handed over to the taxpayer on the expiry of the contract or on early termination, as the case may be, it cannot be construed as input service for further supply of works contract as per the provisions of Section 17(5) of the CGST Act. The ineligible credit claimed by the taxpayer in this case during the period from 2018-19 to 2020-21 amounts to ₹ 121.82 crore. When this was brought to the notice of the Department (January 2024), the Department accepted the observation and issued SCN (January 2024). The Ministry stated (April 2025) that the same was adjudicated in April 2024.

b) A taxpayer under the jurisdiction of Thiruvananthapuram Commissionerate, is engaged in the supply of Banking and Financial services.

⁹⁷ Build, Own, Operate, and Transfer (BOOT) is a type of public-private partnership (PPP) model generally used to facilitate infrastructure projects. In a BOOT arrangement, a private entity takes on the responsibility of designing, financing, constructing, and operating the infrastructure for a specified period.

During the verification of ITC claimed by the taxpayer, it was noticed that the taxpayer had claimed the ITC in respect of works contract services related to construction/interior work related to the premises during the period 2018-19 to 2020-21. As the taxpayer is not engaged in further supply of works contract services, as such services are not eligible supplies for ITC as per Section 17(5) of the CGST Act, the ineligible ITC claimed by the taxpayer in this case amounts to ₹ 2.69 crore. When this was pointed out (December 2023), the Ministry/Department accepted the audit observation (April 2025) and stated that SCN issued in this regard was adjudicated confirming the demand and recovery of ₹ 1.83 core was made.

ii. Excess ITC availed on credit distributed by Input Service Distributor (ISD)

Section 20(1) of the CGST Act stipulates that the ISD shall distribute the credit of Central Tax, or Integrated Tax, by way of issue of document containing the amount of ITC being distributed. Section 20(2) stipulates that the ISD may distribute the credit subject to the conditions, which inter-alia includes the condition that the amount of the credit distributed shall not exceed the amount of credit available for distribution.

A taxpayer under Navi Mumbai Commissionerate claimed ITC on the basis of credit distributed by their ISD. The total ITC claimed by the taxpayer on ISD distribution during 2018-19 to 2020-21 amounts to ₹ 77.95 crore. However, during the verification it was observed that the total input tax distributed by the ISD during the period was only ₹ 2.79 crore, as seen from the GSTR-6⁹⁸ returns filed by the ISD. Hence, the taxpayer had claimed ITC in excess of the credit distributed by the ISD. The excess credit claimed by the taxpayer in this case amounts to ₹ 75.16 crore. When this was pointed out (November 2023), the Ministry replied (April 2025) that the SCN issued in this regard demanding the excess credit claimed was adjudicated in April 2024 confirming the demand.

iii. ITC availed on services used for personal consumption

According to Section 17 (5) (g) of CGST Act, ITC shall not be available in respect of the goods or services, or both used for personal consumption.

A taxpayer under Kochi Commissionerate irregularly availed ITC amounting to ₹ 1.20 crore on providing residential accommodation facilities to its employees for the period 2018-19 to 2020-21. As the supply of residential accommodations was for personal consumption of the employees, it was not eligible for input tax benefits. On this being pointed out (November 2023),

⁹⁸ GSTR-6 is the monthly returns filed by the ISD containing the details of documents issued for distribution of ITC.

the Ministry accepted (April 2025) the observation and stated that SCN issued demanding the excess credit was adjudicated in April 2024 confirming the demand.

3. Non-reversal/Short reversal of ITC

Section 17(2) of the CGST Act, read with Rule 42 and 43 of the CGST Rules, states that where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies and partly for effecting exempt supplies, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

Audit noticed non-compliance in 24, out of 1,086 cases, where taxpayers had either not reversed or short reversed ITC amounting to ₹ 16.88 crore, due to incorrect application of Rule 42 and 43 of CGST Rules, and non-reversal of ITC on trade payable under Rule 37.

When this was pointed out, the Department accepted the audit observations in 20 cases involving money value of ₹ 16.61 crore out of which recovery of ₹ 0.08 crore was made in eight cases. The replies in the remaining four cases was awaited/rebutted. One illustrative case is featured below:

i. Non-reversal of ITC applicable to exempt/nil rated supply

The manner of determination of ITC in respect of inputs or input services and reversal thereof for the purposes mentioned under Section 17(2) of the CGST Act shall be as specified under Rule 42(1) of CGST Rules.

A taxpayer under Chennai North Commissionerate, is engaged in supply of Milk based products under Chapter heading 0401. Some of the products supplied attracts Nil rate of GST; whereas the other products attract GST at five per cent or 12 per cent. During the audit, it was noticed that the taxpayer had declared turnover of Nil rated/exempted goods of ₹ 20.46 crore in their annual returns for the year 2018-19, however reversal of ITC applicable to the exempted supplies as per Rule 42 of the CGST Rules proportionately⁹⁹ calculated at ₹ 1.96 crore was not carried out. On this being pointed out (December 2023), the Ministry accepted the observation and stated (April 2025), that the SCN issued in this regard was adjudicated (April 2024) confirming the demand.

c) Audit findings on discharge of tax liability

The taxable event in GST is supply of goods or services or both. Section 9 of the CGST Act is the charging section authorizing levy and collection of CGST

⁹⁹ Exempted turnover/total turnover X Common ITC

on all intra-State supplies of goods or services or both, except on supply of alcoholic liquor for human consumption. The value of taxable supply is determined under Section 15 of the Act, and at such rates not exceeding 20 per cent, as may be notified by the Government. Section 5 of the IGST Act vests levy and collection of IGST on interstate supply of goods and services with the Central Government with maximum rate of 40 per cent.

Similarly, as per the powers granted under Sections 9(3) and 9(4) of the CGST Act, and Sections 5(3) and 5(4) of the IGST Act, provide for reverse charge levy on certain goods or services, wherein the recipient of the goods or services or both shall be liable for payment of GST instead of the supplier.

Out of 1,086 cases, Audit observed 164 cases of compliance deviations amounting to ₹ 591.98 crore, where taxpayers had either not paid or short paid the tax on the supplies. The deficiencies were mainly noticed in misclassification of supplies, exclusion of taxable supplies, incorrect availing of exemptions, under-valuation of supplies and not adhering to time of supply and place of supply provisions.

1. Misclassification of supplies

The rate of tax of supply of goods is based on its classification, the rules for which are based on Customs Tariff Act (based on HSN¹⁰⁰ Code) and notifications¹⁰¹ issued for its interpretation.

Audit observed compliance deviations in three cases amounting to ₹ 9.39 crore, due to misclassification of goods. When this was pointed out, the Department accepted the audit observation in two cases involving money value of ₹ 8.92 crore, and the reply in the remaining one case is awaited. An illustrative case is featured below:

The rules for interpretation of HSN are given in General Interpretative Rules (GIR). As per Rule 1 of GIR, classification of goods is to be determined according to the terms of the Heading and in terms of Section/Chapter notes. Accordingly, vehicles other than railway or tramway rolling stock and parts and accessories thereof, fall under Chapter 87 needs to be classified under this Chapter. In one case, a taxpayer under Bengaluru West Central Tax Commissionerate engaged in supplying motor vehicles, parts and accessories had incorrectly classified certain goods under other chapters, where the rate of GST was lower, instead of under Chapter 87 of Customs Tariff Act, 1975.

¹⁰⁰ HSN- Harmonized System of Nomenclature, developed by the World Customs Organization and is considered the global standard for classifying goods.

¹⁰¹ Nos. 1/2017-Central Tax (Rate) dated 28 June 2017 and 1/2017-Integrated Tax (Rate), dated 28 June 2017

This was contrary to the GIR¹⁰² and the decision of the Hon'ble Supreme Court¹⁰³ which had held that the parts falling under Chapter 87 would only be covered under Chapter 87 provided they fulfil the following conditions:

- They must be identifiable as being suitable for use solely or principally for vehicles falling under Chapter 87; and
- They must not be excluded by the provisions of Section note XVII.

In this case, both conditions were met. Hence, the classification adopted by the taxpayer was incorrect and thus, the misclassification of the parts¹⁰⁴ and accessories during the years 2018-19 to 2020-21 had resulted in short payment of tax amounting to ₹ 8.58 crore. On this being pointed out (November 2023), the Ministry stated (April 2025) that SCN was issued in December 2023 demanding differential tax of ₹ 8.58 crore.

2. Exclusion of supplies

Section 7 of CGST Act defines supplies to include all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business. It also includes import of services for consideration whether or not in the course or furtherance of business. This is an inclusive definition with main elements being (1) supply should be of goods or services, (2) supply has to be made for a consideration, (3) supply has to be made in the course or furtherance of business, (4) supply should be made by a taxable person, (5) supply should be a taxable supply, and (6) supply should be made within the taxable territory. Schedule I specifies certain activities which even made without a consideration shall be treated as supply. Schedule II specifies treatment of certain activities or transactions as either supply of goods or supply of services.

Audit observed compliance deviations in 68, out of 1,086 cases, involving non-payment of tax amounting to ₹ 70.90 crore, where taxpayers excluded the supplies from the taxable turnover consequently not discharging the tax due.

When this was pointed out, the Department accepted the audit observations in 54 cases involving money value of ₹ 35.20 crore out of which recovery was made in 18 cases involving money value of ₹ 0.34 crore. The reply in the remaining 14 cases was awaited/rebutted. Few illustrative cases are featured below:

¹⁰² Note 2 of Section XVII

¹⁰³ In the case of M/s Intel Design Systems (India) Private Limited. (2008 (223) ELT 135 (SC),

¹⁰⁴ Composition leather: 4115, Safety glass: 7007, Tanks, Casks: 7310 etc.

i. Non-payment of GST on works contract supply

Notification No. 11/2017-Central Tax (Rate) dated 28 June 2017, as amended vide Notification No. 3/2022-Central Tax (Rate) dated 13 July 2022, prescribed GST rate of 12 per cent for the composite supply of works contract related to construction of a road. Further, the consideration in relation to the supply of goods or services or both, as per Section 2(31) of the CGST Act, includes any payment made or to be made, whether in money or otherwise, in respect of, in response to or for inducement of the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or State Government. Hence, the consideration for the supply may not necessarily flow from the recipient itself, but from any other person as well.

A taxpayer under Bengaluru North-West Commissionerate, had supplied works contract services for construction of stretch of National Highway-13 (NH-13) project as per the concession agreement with National Highway Authority of India (NHAI). The contract was executed under DBFOT¹⁰⁵ model, wherein NHAI being the owner of the land had extended the right to finance and construct the NH-13 to the taxpayer with the right to collect the toll charges for the period of concession on completion of the construction. Audit noticed that the taxpayer had not paid GST on the works contract supplied for construction of road, citing the reason that the supply was made to self and was claiming exemption on the toll charges collected as per entry Sl.No. 23 of Notification No. 12/2017-Central Tax (Rate) dated 28 June 2017. However, the toll charges being collected by the taxpayer is in lieu of the expenses incurred towards the works contract supply of construction of road and shall be deemed as consideration for supply of works contract as per the definition of consideration. Thus, the taxpayer cannot claim exemption on the consideration received in the form of toll charges towards composite supply of works contract services. Further, the supply cannot be considered as rendered to self, as the ownership of the land rests with NHAI. Consequently, the taxpayer is liable to pay IGST at 12 per cent on the toll revenue of ₹ 105.66 crore collected for the period from 2019-20 to 2020-21, which works out to ₹ 12.68 crore.

On this being pointed out (February 2024), the Ministry stated (April 2025) that the issue of taxability of services provided under concession agreements, such as Toll Operate Transfer (TOT) and Engineering, Procurement and Construction (EPC) models, is currently under examination. Given its pan-

¹⁰⁵ DBFOT: Design Build Finance Operate Transfer, is Build Operate Transfer model wherein Concessionaire is required to design the project and either partially or completely finance the project.

India implications, comments can be offered only after comprehensive deliberation.

In view of the time sensitivity of the audit findings, the Department may ensure that the matter does not become time-barred under Section 73 or 74 of the CGST Act.

ii. Non-payment of GST on corporate guarantees

As per Section 7(1)(c) of the CGST Act, the activities specified in Schedule I, made or agreed to be made without a consideration shall be treated as supply. Sl.No. 2 of the Schedule I, specifies that the supply of goods or services or both between related persons or between distinct persons as specified in Section 25, when made in the course or furtherance of business shall be a taxable supply. CBIC Circular No. 204/16/2023-GST dated 27 October 2023 had clarified that where the corporate guarantee is provided by a company to the bank/financial institutions for providing credit facilities to the other company, where both the companies are related, the activity is to be treated as a supply of service between related parties as per provisions of Schedule I of CGST Act, even when made without any consideration. Further, Rule 28(2) of the CGST Rules, inserted vide Notification No. 52/2023-Central Tax dated 26 October 2023 provides that the value of supply of services by a supplier to a recipient who is a related person, by way of providing corporate guarantee to any banking company or financial institution on behalf of the said recipient, shall be deemed to be one per cent of the amount of such guarantee offered, or the actual consideration, whichever is higher.

During the verification of GST assessment returns of a taxpayer registered under the jurisdiction of Delhi South Commissionerate for the period from 2018-19 to 2020-21, it was noticed that the taxpayer had offered financial guarantee to the financial institutions against the loan given to their related parties. Overall guarantees offered by the taxpayer against loans for its related parties during the period amounted to ₹ 161.93 crore. As per the provisions of the Act, the consideration for the supply shall be one per cent of the financial guarantee offered, on which tax is liable. However, it was noticed that the taxpayer had not discharged the GST liability on this amount which works out to ₹ 0.42 crore. This was brought to the notice of the Department (November 2023), the reply of the Ministry was awaited (April 2025).

Recommendation:

13) Department may clarify the taxability of works contract supply involved in DBFOT model, in view of the pan India implication of such supplies, considering definition of consideration for the supply under Section 2 (31) of the CGST Act.

The Ministry stated the issue of taxability of services wherever the concessions are provided to the concessionaires under different models like Toll Operate Transfer (TOT), Engineering, Procurement and Construction (EPC) etc. is under examination. In view of the pan-India ramification of the issue, comments in the matter can be offered only after detailed deliberation and discussion on the issue.

3. Incorrect availing of exemptions

As per Section 11 of the CGST Act, where the Government is satisfied that it is necessary in the public interest to do, it may, on the recommendations of the Council, by notification exempt generally, either absolutely or subject to such conditions as may be specified therein, goods or services or both of any specified description from the whole or any part of the tax leviable thereon with effect from such date as may be specified in such notification. Explanation to this Section clarifies that where an exemption in respect of any goods or services or both from the whole or part of the tax leviable thereon has been granted absolutely, the registered person supplying such goods or services, or both shall not collect the tax in excess of the effective rate on such supply of goods or services or both. About 149 items of goods and about 81 items of services were exempted from levy of CGST/IGST by notifications¹⁰⁶.

Audit observed compliance deviations in 11, out of 1,086 cases, amounting to ₹ 64.65 crore, where taxpayers have wrongly availed exemptions resulting in non-payment of tax liability.

When this was pointed out, the Department accepted the audit observations in seven cases involving money value of ₹ 16.34 crore. The reply in the remaining four cases was awaited/rebutted.

¹⁰⁶ Notification Nos. 2/2017–Central Tax (Rate) dated 28 June 2017 and 2/2017– Integrated Tax (Rate) dated 28 June 2017 for goods and 12/2017–Central Tax (Rate) dated 28 June 2017 and 12/2017–Integrated Tax (Rate) dated 28 June 2017 for services.

Few illustrative cases are featured below:

i. Availing concessional rate under notification without satisfying underlying conditions

Notification No. 13/2018-Central Tax (Rate) dated 26 July 2018 introduced a concessional rate of five per cent on supply, by way of or as part of any services, of goods, being food or any other article for human consumption or any drink, provided by a restaurant, eating joint including mess, canteen, whether for consumption on or away from the premises where such food or any articles for human consumption or drink is supplied. This concessional rate is applicable subject to the condition that input tax charged on goods and services used in supplying the service has not been taken.

A taxpayer under Bengaluru West Central Tax Commissionerate, was supplying food and beverages to their employees through a canteen for a consideration. Taxpayer had claimed the benefit of Notification No. 13/2018 stated above and tax was paid at the concessional rate of five per cent on the consideration. Though the taxpayer had not availed any ITC on goods or services used exclusively in supplying canteen facility, it had availed ITC on common services like facility, management, security services, housekeeping, pest control, etc., which also covered the canteen facility. Hence, the taxpayer had not satisfied the underlying conditions of the notifications to claim the concessional rate of tax. Consequently, the taxpayer is liable to pay GST on canteen services at the standard rate of 18 per cent under the relevant SAC¹⁰⁷ code 996339. The resultant short payment of GST for the period 2018-19 to 2020-21 amounted to ₹ 5.91 crore. On being pointed out (November 2023), the Ministry stated that (April 2025) SCN has been issued in December 2023 demanding the tax short paid along with interest.

ii. Incorrect claim of exemption

Sl.No. 24 of Notification No. 11/2017 Central Tax (Rate) dated 28 June 2017, provides exemption to support services to agriculture, forestry, fishing, animal husbandry, including agricultural extension services but does not include research related services. Further, Notification No. 32/2017-Central Tax (Rate) dated 13 October 2017 inserted Sl. No. 9C in Notification No. 12/2017-Central Tax (Rate) dated 28 June 2017 exempting supply of service by a Government Entity to Central Government, State Government, Union territory, local authority or any person specified by Central Government, State Government, Union territory or local authority against consideration

¹⁰⁷ The SAC code means Services Accounting Code. It applies to all the services rendered within India for identifying, classifying, measuring, and determining the applicability of GST on services in India.

received from Central Government, State Government, Union territory or local authority, in the form of grants.

A taxpayer, being a Government Authority registered under Bengaluru North Commissionerate was undertaking various research projects in the field of agriculture sponsored by the private agencies, and the intellectual property rights thereon is either owned by the sponsoring agency or jointly by the university and sponsoring agency which could be transferred to other entrepreneurs on a non-exclusive basis. The supply is classifiable under SAC code 998114 'Research and Experimental Development Services in Agricultural Sciences', as the supply is not covered under any of the exemption notifications, it is taxable at the rate of 18 per cent. However, non-payment of GST on the total grant ₹ 10.52 crore received from private agencies during the years 2018-19 to 2020-21 works out to ₹ 1.89 crore. When this was brought to notice (November 2023), the Ministry stated (April 2025) that SCN has been issued in August 2024.

Recommendation:

14) Department may review taxation on supplies in relation to Agriculture to include research related activity in the definition of Agricultural support services under Notification No. 11/2017.

The Ministry stated (April 2025) that the issue of GST on research and development (R&D) services was deliberated in the 54th and 55th meetings of the GST Council, held on 9 September 2024 and 21 December 2025 respectively. Pursuant to these discussions, the Council recommended exemption for R&D services provided by Government Entities, research associations, universities, colleges, or other institutions notified under Section 35(1)(ii) or (iii) of the Income Tax Act, when such services are rendered against grants. This exemption has been notified with effect from 10 October 2024 vide Notification No. 08/2024-Central Tax (Rate), dated 8 October 2024.

4. Deviations relating to time and value of supply, and place of supply

Chapter IV of CGST Act deals with the provisions of time and value of supply of goods and services. The time of supply will determine the time at which the tax liability in respect of supplies shall be discharged. The value of taxable supply of goods or services or both shall be determined as per the provisions of Section 15 of the Act. Chapter V of IGST Act deals with the provisions determining place of supply of Goods or Services or both. GST being a destination-based tax, determination of place of supply is crucial as the tax will accrue to the state where place of supply is determined. Sections 10 to 14 of the Act specifies the appropriate provisions for determination of place

of supply of goods or services. Further, subject to these provisions, Sections 7 to 9 of the Act, stipulates the provisions for determining nature of supply as Inter-State or Intra-State, based on which levy of SGST or UTGST and CGST, or IGST is determined.

Audit observed compliance deviations in 29, out of 1,086 cases, amounting to ₹ 48.78 crore, where the taxpayers has not discharged tax as per time of supply, incorrectly determined the place of supply, and short paid tax due to under valuation of supplies.

When this was pointed out, the Department accepted the audit observations in 24 cases, involving money value of ₹ 44.35 crore out of which recovery of ₹ 1.24 crore was made in eight cases. The reply in the remaining five cases was awaited/rebutted. Few illustrative cases are as follows:

i. Non-payment of tax on advances

Section 13(2) of CGST Act stipulates that the time of supply of services shall be the earliest of the following dates, namely:

- (a) the date of issue of invoice by the supplier, if the invoice is issued within the period prescribed under Section 31 or the date of receipt of payment, whichever is earlier; or
- (b) the date of provision of service, if the invoice is not issued within the period prescribed under Section 31 or the date of receipt of payment, whichever is earlier; or
- (c) the date on which the recipient shows the receipt of services in his books of account, in a case where the provisions of clause (a) or clause (b) do not apply:

A taxpayer under Lucknow Commissionerate is engaged in taxable supply under the Act. During scrutiny of financial statement filed along with the annual returns of the taxpayer for the years 2018-19 and 2020-21, it was noticed that the taxpayer had received advances towards supplies amounting to ₹ 0.56 core. The time of supply in respect of the consideration received in advance is the date on which the taxpayer shows the receipt in his books of account. However, it was observed that the tax liability of ₹ 0.10 crore was not discharged as per the provisions of the Act. When this was brought to notice (December 2023), the Ministry accepted (April 2025) the observation and SCN was issued for recovery.

ii. Short payment of tax due to undervaluation of supplies

As per Section 15 of the CGST Act, the value of supply of goods or services or both shall be the transaction value, which is the price actually paid or payable

for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and price is the sole consideration for the supply. Rule 27 of the CGST Rules stipulates that where the supply of goods or services is for a consideration is not wholly in money, the value of the supply shall be the open market value, or if the open market value is not available, be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply.

During the audit of a taxpayer under Bengaluru North Central Tax Commissionerate, it was noticed that the taxpayer was extending loyalty programs to their customers. The scheme allows the customers to accumulate reward points based on the purchases made, which can be redeemed subsequently for free flights or discounted air fare. When the customer purchases a flight ticket from the airline under this program, the base fare on ticket prices is lowered in correlation with the accumulated reward points to be redeemed. The taxpayer was discharging tax only on the value received in monetary terms leaving out the monetary component of reward points. This is contrary to the provisions of rule cited above, resulting in under valuation of the supply to the extent of reward points redeemed. As per the provisions of Rule 27, the value of supply in the instant case shall be the open market value of the ticket. However, Audit could not quantify the short payment of tax, in the absence of total amount of redemption of reward points. The short payment of tax due to under valuation of supplies was brought to the notice of the Department (February 2024). The Ministry replied (April 2025) that there is no short payment, as GST is being collected on the full value irrespective of the redemption of reward points.

Reply is not tenable as the sample invoices furnished read with the clarifications provided during the audit indicated undervaluation of taxable supply to the extent of points redeemed.

iii. Non-payment of tax due to incorrect determination of place of supply

Section 13(3) of the IGST Act stipulates that the place of supply of the services supplied in respect of goods which are required to be made physically available by the recipient of services to the supplier of services, or to a person acting on behalf of the supplier in order to provide the services, shall be the location where the services are actually performed. Further, Section 2(6) of the IGST Act defines export of services as the supply of any services when i) the supplier of service is located in India; ii) the recipient of services is located outside India iii) place of supply of service is outside India iv) the payment of such service has been received in convertible foreign

exchange and v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with explanation 1 in Section 8.

A taxpayer under Bengaluru West Commissionerate is engaged in the business of manufacturing and selling of motor cars within and outside India and also manages the sales and services of imported cars, which are manufactured by their group companies, in the domestic market. In respect of warranty services of imported cars, taxpayer undertakes the servicing through their dealerships and the foreign group company will reimburse the corresponding expenses. The arrangement operates as a subcontract, where the taxpayers' dealerships provide warranty services on behalf of the taxpayer to the customers and the amount involved in discharging such warranty obligations are charged back by the dealer through invoice, on which taxpayer claims ITC. The taxpayer on the other hand claims this warranty expenditure from their foreign counterparts, and the consideration is recognised in foreign currency. However, Audit noticed that the taxpayer had classified the supply as export of services and tax was not discharged, which is irregular as the place of supply is in India. The warranty services are supplied in respect of the goods, i.e., motor vehicles, which are made physically available to the supplier to perform the supply in India and thus place of supply is in India. The supply is classifiable under the SAC code '998599 -Support services'. As the supply does not qualify for export services, the taxpayer is liable to discharge IGST on the supply. The IGST payable on the amount received towards warranty services for the period amounted to ₹ 15.90 crore. When pointed out (November 2023), the Ministry admitted (April 2025) the audit observation and SCN was issued demanding the tax not paid.

5. Tax payment under Reverse Charge Mechanism

As per the provisions of Section 9(3) of CGST Act and Section 5(3) of IGST Act, the Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

Audit observed compliance deviations in 53, out of 1,086 cases, amounting to ₹ 398.26 crore. The deviations are in the nature of non-payment or short payment of tax under RCM.

When this was pointed out, the Department accepted the audit observations in 48 cases involving money value of ₹ 70.85 crore, out of which an amount of ₹ 1.04 crore was recovered in 23 cases. The reply in the remaining five cases was awaited/rebutted. A few illustrative cases are featured below:

i. Non-payment of tax under reverse charge basis

Notification No. 13/2017-Central Tax (Rate), dated 28 June 2017 issued under Section 9(3) of CGST Act stipulates services supplied by the Central Government, State Government, Union Territory or Local Authority to a business entity to be taxed under reverse charge basis. Sl. no. 5 of the notification specifies the supplies where the recipient shall be liable for payment of tax. Further, Section 15(1) of the CGST Act specifies that the value of supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the supply where the supplier and the recipient of the supply are not related, and price is the sole consideration for the supply. The value of supply shall include all taxes and charges levied under any law for time being in force other than this Act.

A taxpayer coming under the jurisdiction of Rourkela Commissionerate had received permission from the State Government of Odisha, to use the natural resources (water) for industrial or commercial use on payment of Licence Fee. The supply received by the taxpayer from the State Government is classifiable under the SAC Code 997338 with description 'Licensing services for the right to use other natural resources'. As per the Notification No. 13/2017 -Central Tax (Rate) dated 28 June 2017, the taxpayer is liable to pay GST on the supply under reverse charge basis. The taxpayer, however, was not discharging tax under RCM. Total Licence Fee paid by the taxpayer towards the supply during the period from 2018-19 to 2020-21 amount as to ₹ 79.95 crore. The undischarged tax liability on the licence fee amount works out to ₹ 14.39 crore. When this was brought to the notice (November 2023), the Ministry stated (April 2025) that SCN was issued demanding the tax not paid.

ii. Short payment of tax

As per Sl.No. 5 of Notification No. 13/2017-Central Tax (Rate) dated 28 June 2017, services supplied by the Central Government, State Government, Union territory or local authority to a business entity is taxable under reverse charge basis. Licensing services for right to use telecommunication spectrum is chargeable at 18 per cent as per Notification No. 11/2017 Central Tax (Rate), dated 28 June 2017. Similar provisions are available for IGST under the Notifications Nos. 10/2017-Integrated Tax (Rate) dated 28 June 2017 and 8/2017-Integrated Tax (Rate) dated 28 June 2017.

a) A taxpayer under Secunderabad Commissionerate had paid spectrum charges to Department of Telecom, Government of India. As specified under the notification, the taxpayer had discharged the GST liability under reverse charge basis for the year 2018-19. However, on verification of the invoices, it was seen that the GST paid on the supply for the year was at 12 per cent instead of applicable rate of 18 per cent resulting in short payment of tax. The differential tax payable on the supply for the period amounted to ₹ 2.32 crore. When this was pointed out (December 2023), the Ministry stated that (April 2025) the SCN issued demanding the amount objected has been adjudicated.

b) Audit noticed non-payment of GST amounting to ₹ 325.43 crore by a taxpayer coming under Belagavi Commissionerate during the financial years 2019-20 and 2020-21 on the payment made towards Special Purpose Vehicles (SPV) as part of consideration for grant of mining rights granted by the State Government. This was brought to the notice of the Department (November 2023) and reply was awaited (April 2025).

4.9 Impact on State Goods and Services Tax

GST payments includes various components such as CGST, IGST, SGST, etc. and impact the revenue of both Union and the States/Union Territories. For the audit observations highlighted in this report, the monetary impact of findings on the revenue of the States/Union Territories is given in **Appendix-II**.

4.10 Conclusion and summary of recommendations

The Phase II of the Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST Payments and Returns Filing was undertaken as a continuation of DORF Phase I Audit. This audit covered the period till 2020-21 in the context of trends of return filing and continued data inconsistencies, to assess the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other departmental oversight functions.

This SSCA, similar to the DORF Phase I audit was predominantly driven by data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2018-19 to 2020-21.

The SSCA entailed assessing the oversight functions of CBIC field formations (Ranges) 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 on a risk-based

approach. The audit sample therefore comprised 166 Ranges, 10,124 high value inconsistencies across 18 parameters selected through global queries and 1,106 taxpayers selected on risk assessment for Detailed Audit of GST returns for the years 2018-19 to 2020-21.

The Department, after formulating a Standard Operating Procedure for scrutiny of returns (March 2022), has commenced scrutiny of returns from the year 2022-23. However, none of the selected Ranges had followed the due procedure as stipulated in the Scrutiny SOP and the required records were also not maintained. Audit observed delays in issuing ASMT-10, obtaining responses, and issuing of demand notices. Further, Audit also noticed deficiency in the scrutiny conducted by the Ranges, where some of the prescribed checks were overlooked. A review of the 166 Ranges disclosed that documentation of essential oversight functions of Ranges such as monitoring of returns filing, taxpayer compliance, and following up on DGARM reports was poor and were not amenable to evaluation. The figures provided by Pr. CC office on cases allocated and their compliance and the files maintained and provided by the Ranges showed wide discrepancies. Though the Department had automated its back-end processes, the CBIC back-end system, lacked validation controls and essential features/functionalities to facilitate monitoring of returns filing, pendency and cancellation of registrations etc. by Range Officers, which were highlighted in the earlier CAG Audit Reports and DORF Phase I Report. As such, the functions of the Ranges were neither fully digitised nor carried out in a fully organised manner.

The 10,124 high-value data inconsistencies identified by Audit on a pan-India basis had an implication of ₹ 12,51,797.74 crore (including turnover amount of ₹ 3,53,838.20 crore pertaining to dimensions D12, D13 and D14). These inconsistencies included data entry errors also, suggesting that validation controls needed to be strengthened. The Department responded to 8,106 cases. Of these, 2,519 cases constituting 30 per cent, turned out to be clear compliance deficiencies with a revenue implication of ₹ 21,695.11 crore. A relatively higher rate of deviations was noticed in some risk parameters such as ITC mismatch, undischarged liability, suppression of taxable liability by comparing with E-way bill data, ITC passed on without supplier remitting tax, GSTR-3Bs not filed but GSTR-1 filed, ITC availed on GSTR-3B filed after cut-off period short-payment of interest. While data entry errors caused the inconsistencies in six per cent of the cases, in 22 per cent of the cases the Department had already taken proactive action. The Department has not responded to 2,018 cases of inconsistencies.

Detailed audit of GST returns also suggested significant instances of non-compliance. At the outset, essential records such as financial statements, GSTR-9C and GSTR-2A were not produced in 20 cases out of a sample of 1,106 taxpayers and in another 549 cases the granular taxpayer records sought on a risk-based approach were not forthcoming, which constituted in a significant scope limitation. These cases represent a potential risk exposure of ₹ 32,432.22 crore towards identified mismatches in ITC availing and tax payments. Out of the 1,086 cases that were audited either fully or partially, Audit observed 741 compliance deviations with a revenue implication of ₹ 2,349.62 crore. These deviations translated into non-compliance with the provisions of the Act by 438 out of 1,086 taxpayers audited.

The main causative factors were availing of ineligible and irregular ITC, misclassification of supplies, exclusion of supplies for taxation, undervaluation of supplies, and incorrect discharge of tax under RCM.

Considering the significant rate of compliance deficiencies, the Department should initiate remedial measures before the cases pointed out by Audit get time barred. From a systemic perspective, as recommended in DORF Phase I Report, the Department needs to strengthen the quality of documentation and reinforce the institutional mechanism in the Ranges to establish and maintain effective oversight on returns filing, taxpayer compliance, tax payments, follow-up of DGARM reports, cancellation of registrations and recovery of dues from defaulters. Certain validation controls and MIS features in the CBIC back-end application pointed out by Audit need to be deployed expeditiously. The Department may also consider introducing additional validation controls in GST returns to improve data quality, and taxpayer compliance and facilitate scrutiny of returns.

The summary of audit recommendations, brought out in this Chapter, is as follows:

1. The Department may, as already indicated in DORF Phase I Report, expedite inclusion of Business Intelligence (BI) and MIS reports in the back-end system and till such time automation is complete, Department may ensure proper maintenance of manual records/registers.
2. The Department may enforce the procedure of handing over/taking over charge at Superintendent and Inspector levels.
3. The Department may extend 'view non-filer' functionality in back-end portal to enable Range Officer to identify and issue notices to the non-filers of returns to all categories of registrants. Presently, the facility is available only for GSTR-3B, GSTR-9, GSTR-10 and CMP-08.

4. The Department may make available MIS reports related to GSTR-3A for all relevant returns such as GSTR-3B, GSTR-9, GSTR-4 etc. in the back-end system and extend auto-generation of GSTR-3A for all non-filers of returns in addition to GSTR-3B.
5. The Department may, as already pointed out in DORF Phase I Report, make available MIS reports related to issue of assessment order (ASMT-13/14) and demand orders (DRC-07) to tax officers in the back-end system for effective monitoring.
6. (a) Workflow automation of the entire set of follow up activities relating to the DGARM reports may be done as a part of back-end system.
(b) Department may ensure furnishing of DGARM reports and records/files related to verification of DGARM reports to Audit.
7. Department may improve the monitoring of the compliance to the DGARM risks both in terms of statistics to rule out possibility of revenue due not being detected or followed up and also in reviewing test check cases to ensure quality of checks exercised.
8. Department may strengthen the monitoring mechanism in Ranges and ensure that due diligence is done in procedures for cancellation, suspension of registration, issue of Show Cause Notices and recovery.
9. Department may deploy the requisite validation controls and MIS reports/features in the cancellation workflow under Registration Module to facilitate Range Officers to monitor pendency of cancellation applications, suspension of registrations both on taxpayers' request and in suo-moto cancellations from the date of application and date of issue of REG-17 notice respectively and ensure prevention of cancellation before the application dates.
10. The Department may urgently pursue the 2,325 (replies not received and under examination by the Department) inconsistencies and deviations pointed out by Audit before they become time-barred and analyse the reasons for such deviations to take necessary action to strengthen the system so that such deviations do not repeat.
11. Department may consider introducing validation controls as pointed out in para 4.8.4.5 in GST returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.
12. The Department may provide records of taxpayers timely during the conduct of audit otherwise it significantly limits the scope of audit of GST revenue.


13. Department may clarify the taxability of works contract supply involved in DBFOT model, in view of the pan India implication of such supplies, considering definition of consideration for the supply under Section 2 (31) of the CGST Act.
14. Department may review taxation on supplies in relation to agriculture to include research related activity in the definition of agricultural support services under Notification No. 11/2017.

New Delhi
Dated: 3 December 2025


(SMITA GOPAL)
Principal Director (Indirect Taxes)

Countersigned

New Delhi
Dated: 5 December 2025


(K. SANJAY MURTHY)
Comptroller and Auditor General of India

APPENDICES

**Appendix-I: Audit findings noticed on Central Excise during the period
2022-23 and 2023-24**

(Refer Para No. 2.3)

(Amount in ₹ Crore)

DAP No.	Commission erate	Amount objected	Amount accepted by the Department	Amount recovered	Ministry's reply	Audit Comments
9	Gurugram	8.52	8.52	0.50	Awaited	NIL
	Haldia	4.46	4.46	0.00	Awaited	NIL
	Vadodara-1	2.23	2.23	0.76	Awaited	NIL
	Guntur	2.29	0.00	0.00	Awaited	NIL
Total		17.5	15.21	1.26	---	---

**Appendix II: Impact on State Goods and Services Tax
(Refer Para 4.9)**

(Amount in ₹ crore)

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
Andhra Pradesh	180	419.09	132.90	0.48
4.8.2.2 (2)	1	0.00	0.00	0.00
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.3.1 (3)	1	0.01	0.01	0.00
4.8.3.2 (2)	1	0.00	0.00	0.00
4.8.3.3 (3)	1	0.00	0.00	0.00
4.8.3.3 (5)	2	0.00	0.00	0.00
4.8.4	144	412.13	130.20	0.25
4.8.5.2 (a)(1)	24	2.55	2.11	0.23
4.8.5.2 (b)(1)	1	0.54	0.54	0.00
4.8.5.2 (b)(2)	1	2.86	0.00	0.00
4.8.5.2 (b)(3)	1	0.09	0.00	0.00
4.8.5.2 (c)(4)	1	0.04	0.04	0.00
4.8.5.2 (c)(5)	1	0.87	0.00	0.00
Arunachal Pradesh	7	3.26	3.25	0.00
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.4	6	3.26	3.25	0.00
Assam	137	233.82	173.30	0.32
4.8.3.1 (2)	4	0.00	0.00	0.00
4.8.3.1 (3)	3	0.03	0.03	0.00
4.8.3.3 (3)	1	0.00	0.00	0.00
4.8.3.3 (5)	2	0.00	0.00	0.00
4.8.4	98	231.48	171.18	0.31
4.8.5.2 (a)(1)	12	0.50	0.28	0.01
4.8.5.2 (b)(1)	16	1.81	1.81	0.00
4.8.5.2 (c)(2)	1	0.00	0.00	0.00
Bihar	282	176.48	156.75	0.47
4.8.3.1 (2)	5	0.00	0.00	0.00
4.8.3.1 (3)	3	0.11	0.08	0.00
4.8.3.3 (3)	5	0.00	0.00	0.00
4.8.3.3 (5)	6	0.00	0.00	0.00
4.8.4	253	176.23	156.56	0.47
4.8.5.2 (a)(1)	10	0.14	0.11	0.00
Chhattisgarh	226	143.02	61.17	0.06
4.8.3.3 (3)	4	0.00	0.00	0.00
4.8.4	219	143.01	61.17	0.05
4.8.5.2 (a)(1)	2	0.00	0.00	0.00
4.8.5.2 (b)(1)	1	0.01	0.00	0.01
Delhi	495	1,714.49	1,575.02	0.36
4.8.2.2 (2)	10	0.00	0.00	0.00
4.8.2.2 (3)	10	0.07	0.01	0.00
4.8.3.1 (2)	10	0.00	0.00	0.00

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
4.8.3.1 (3)	1	0.10	0.00	0.00
4.8.3.3 (3)	10	0.00	0.00	0.00
4.8.3.3 (5)	10	0.00	0.00	0.00
4.8.4	425	1,708.30	1,569.49	0.29
4.8.5.2 (a)(1)	1	0.00	0.00	0.00
4.8.5.2 (b)(1)	8	5.87	5.52	0.00
4.8.5.2 (b)(2)	1	0.07	0.00	0.07
4.8.5.2 (b)(3)	2	0.00	0.00	0.00
4.8.5.2 (c)(2)	3	0.06	0.00	0.00
4.8.5.2 (c)(5)	4	0.02	0.00	0.00
Goa	18	4.31	3.04	0.00
4.8.3.2 (2)	1	0.41	0.41	0.00
4.8.3.3 (1)	1	0.00	0.00	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	14	3.87	2.63	0.00
4.8.5.2 (a)(1)	1	0.03	0.00	0.00
Gujarat	253	1,210.95	865.40	1.64
4.8.3.1 (2)	8	0.00	0.00	0.00
4.8.4	201	990.67	646.18	1.09
4.8.5.2 (a)(1)	17	0.25	0.00	0.07
4.8.5.2 (b)(1)	6	201.16	200.60	0.45
4.8.5.2 (b)(3)	5	0.05	0.02	0.02
4.8.5.2 (c)(2)	12	13.85	13.63	0.01
4.8.5.2 (c)(4)	1	0.01	0.01	0.00
4.8.5.2 (c)(5)	3	4.96	4.96	0.00
Haryana	192	1,433.53	1,292.22	1.72
4.8.2.2 (3)	2	0.00	0.00	0.00
4.8.3.1 (2)	2	0.00	0.00	0.00
4.8.3.3 (3)	1	0.00	0.00	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	160	1,432.53	1,292.22	1.65
4.8.5.2 (a)(1)	12	0.03	0.00	0.03
4.8.5.2 (b)(1)	6	0.01	0.00	0.01
4.8.5.2 (b)(3)	2	0.94	0.00	0.01
4.8.5.2 (c)(2)	2	0.02	0.00	0.02
4.8.5.2 (c)(4)	1	0.00	0.00	0.00
4.8.5.2 (c)(5)	3	0.00	0.00	0.00
Himachal Pradesh	32	175.66	24.50	0.67
4.8.3.1 (4)	1	0.00	0.00	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	23	175.65	24.50	0.65
4.8.5.2 (a)(1)	2	0.01	0.00	0.02
4.8.5.2 (b)(1)	2	0.00	0.00	0.00
4.8.5.2 (b)(2)	1	0.00	0.00	0.00

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
4.8.5.2 (b)(3)	1	0.00	0.00	0.00
4.8.5.2 (c)(2)	1	0.00	0.00	0.00
Jammu and Kashmir	12	1.84	1.76	0.00
4.8.4	12	1.84	1.76	0.00
Jharkhand	192	286.06	45.95	0.25
4.8.4	174	285.30	45.95	0.25
4.8.5.2 (a)(1)	18	0.76	0.00	0.00
Karnataka	485	1,519.37	542.11	0.53
4.8.2.2 (2)	4	0.29	0.29	0.00
4.8.2.2 (3)	3	0.43	0.40	0.00
4.8.2.2 (5)	2	0.03	0.03	0.00
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.3.1 (3)	1	0.00	0.00	0.00
4.8.3.1 (4)	1	0.19	0.19	0.00
4.8.3.2 (1)	8	0.00	0.00	0.00
4.8.3.2 (2)	3	0.06	0.00	0.00
4.8.3.3 (1)	3	0.00	0.00	0.00
4.8.3.3 (5)	7	0.00	0.00	0.00
4.8.4	377	1,022.32	516.78	0.44
4.8.5.2 (a)(1)	20	1.20	1.01	0.03
4.8.5.2 (b)(1)	30	287.84	6.03	0.01
4.8.5.2 (b)(2)	6	0.97	0.45	0.05
4.8.5.2 (c)(2)	7	6.64	1.31	0.00
4.8.5.2 (c)(3)	4	24.90	3.90	0.00
4.8.5.2 (c)(4)	5	0.00	0.00	0.00
4.8.5.2 (c)(5)	3	174.50	11.72	0.00
Kerala	237	341.12	184.39	3.40
4.8.2.2 (3)	1	0.00	0.00	0.00
4.8.2.2 (4)	1	0.00	0.00	0.00
4.8.3.1 (3)	1	0.00	0.00	0.00
4.8.3.2 (1)	1	0.00	0.00	0.00
4.8.3.2 (2)	5	0.50	0.50	0.00
4.8.3.3 (1)	7	0.00	0.00	0.00
4.8.3.3 (3)	4	0.00	0.00	0.00
4.8.3.3 (5)	10	0.00	0.00	0.00
4.8.4	127	308.07	151.67	1.50
4.8.5.2 (a)(1)	25	3.57	3.48	0.08
4.8.5.2 (b)(1)	9	21.25	21.25	0.00
4.8.5.2 (b)(2)	15	5.28	5.20	1.29
4.8.5.2 (b)(3)	1	0.11	0.11	0.00
4.8.5.2 (c)(2)	7	0.27	0.23	0.01
4.8.5.2 (c)(3)	2	0.67	0.67	0.00
4.8.5.2 (c)(4)	2	0.06	0.06	0.00
4.8.5.2 (c)(5)	19	1.34	1.22	0.52

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
Madhya Pradesh	364	236.44	200.40	1.49
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.4	336	232.71	196.87	1.30
4.8.5.2 (a)(1)	5	0.02	0.00	0.02
4.8.5.2 (b)(1)	7	1.95	1.95	0.00
4.8.5.2 (b)(2)	1	0.02	0.02	0.00
4.8.5.2 (b)(3)	2	0.03	0.02	0.00
4.8.5.2 (c)(2)	5	1.34	1.34	0.00
4.8.5.2 (c)(4)	6	0.37	0.20	0.17
4.8.5.2 (c)(5)	1	0.00	0.00	0.00
Maharashtra	395	2,695.11	936.58	9.07
4.8.2.2 (2)	3	0.00	0.00	0.00
4.8.2.2 (3)	2	0.43	0.43	0.00
4.8.3.1 (3)	4	0.30	0.30	0.00
4.8.3.3 (2)	1	0.00	0.00	0.00
4.8.3.3 (3)	2	0.00	0.00	0.00
4.8.3.3 (5)	5	0.00	0.00	0.00
4.8.4	345	2,649.17	891.60	8.75
4.8.5.2 (a)(1)	13	2.04	1.20	0.20
4.8.5.2 (b)(1)	11	5.48	5.45	0.03
4.8.5.2 (b)(2)	3	37.60	37.60	0.00
4.8.5.2 (c)(2)	3	0.07	0.00	0.07
4.8.5.2 (c)(5)	3	0.02	0.00	0.02
Meghalaya	15	4.08	3.36	0.07
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.3.1 (3)	1	0.07	0.00	0.07
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	11	4.00	3.35	0.00
4.8.5.2 (c)(2)	1	0.01	0.01	0.00
Mizoram	15	21.82	21.82	0.00
4.8.3.1 (3)	1	0.01	0.01	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	9	20.86	20.86	0.00
4.8.5.2 (a)(1)	1	0.36	0.36	0.00
4.8.5.2 (b)(1)	3	0.59	0.59	0.00
Nagaland	11	2.90	2.90	0.00
4.8.3.1 (2)	1	0.00	0.00	0.00
4.8.3.1 (3)	1	0.00	0.00	0.00
4.8.3.2 (3)	1	0.00	0.00	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	7	2.90	2.90	0.00
Odisha	290	451.05	373.46	0.35
4.8.2.2 (3)	5	1.32	0.90	0.00
4.8.3.2 (3)	1	0.27	0.27	0.00

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
4.8.3.3 (3)	5	0.00	0.00	0.00
4.8.4	212	339.17	271.21	0.10
4.8.5.2 (a)(1)	33	0.39	0.03	0.25
4.8.5.2 (b)(1)	12	25.04	25.04	0.00
4.8.5.2 (b)(2)	2	63.04	60.91	0.00
4.8.5.2 (b)(3)	1	0.45	0.45	0.00
4.8.5.2 (c)(2)	10	5.03	0.51	0.00
4.8.5.2 (c)(3)	5	5.26	3.06	0.00
4.8.5.2 (c)(5)	4	11.08	11.08	0.00
Puducherry	3	9.19	0.11	0.00
4.8.4	2	9.08	0.00	0.00
4.8.5.2 (b)(1)	1	0.11	0.11	0.00
Punjab	135	1,164.57	150.76	0.00
4.8.4	135	1,164.57	150.76	0.00
Rajasthan	106	189.33	32.50	0.13
4.8.2.2 (2)	1	0.25	0.25	0.00
4.8.2.2 (4)	2	9.93	9.93	0.00
4.8.2.2 (5)	1	0.76	0.76	0.00
4.8.3.1 (2)	2	0.00	0.00	0.00
4.8.3.1 (3)	1	0.00	0.00	0.00
4.8.3.3 (5)	2	0.00	0.00	0.00
4.8.4	87	178.23	21.54	0.11
4.8.5.2 (a)(1)	9	0.04	0.02	0.01
4.8.5.2 (b)(1)	1	0.12	0.00	0.01
Sikkim	5	2.53	2.49	0.00
4.8.4	3	2.47	2.47	0.00
4.8.5.2 (a)(1)	1	0.04	0.00	0.00
4.8.5.2 (c)(2)	1	0.01	0.01	0.00
Tamil Nadu	485	992.32	546.14	2.83
4.8.2.2 (2)	2	0.02	0.02	0.00
4.8.3.2 (3)	1	0.15	0.15	0.00
4.8.3.3 (3)	2	0.00	0.00	0.00
4.8.3.3 (5)	5	0.00	0.00	0.00
4.8.4	382	970.00	527.44	2.68
4.8.5.2 (a)(1)	44	11.22	9.67	0.02
4.8.5.2 (b)(1)	25	3.54	3.44	0.07
4.8.5.2 (b)(2)	2	0.05	0.05	0.00
4.8.5.2 (b)(3)	5	3.08	3.08	0.00
4.8.5.2 (c)(2)	8	0.78	0.78	0.00
4.8.5.2 (c)(4)	7	3.48	1.51	0.06
4.8.5.2 (c)(5)	2	0.00	0.00	0.00
Telangana	191	505.73	392.27	10.72
4.8.3.1 (3)	1	0.10	0.00	0.10
4.8.3.3 (3)	1	0.00	0.00	0.00

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	155	478.49	365.90	9.86
4.8.5.2 (a)(1)	16	0.78	0.04	0.73
4.8.5.2 (b)(1)	4	24.36	24.36	0.00
4.8.5.2 (b)(2)	4	0.13	0.10	0.03
4.8.5.2 (b)(3)	1	0.01	0.01	0.00
4.8.5.2 (c)(2)	2	0.02	0.02	0.00
4.8.5.2 (c)(4)	4	0.66	0.66	0.00
4.8.5.2 (c)(5)	2	1.18	1.18	0.00
Tripura	10	13.86	3.34	0.01
4.8.3.1 (3)	1	0.02	0.00	0.00
4.8.3.3 (5)	1	0.00	0.00	0.00
4.8.4	6	13.74	3.34	0.01
4.8.5.2 (a)(1)	2	0.10	0.00	0.00
Uttar Pradesh	401	520.38	370.80	13.43
4.8.2.2 (2)	1	0.00	0.00	0.00
4.8.3.1 (2)	4	0.00	0.00	0.00
4.8.3.3 (3)	5	0.00	0.00	0.00
4.8.4	341	515.63	369.73	11.85
4.8.5.2 (a)(1)	17	0.73	0.57	0.07
4.8.5.2 (b)(1)	23	3.90	0.45	1.47
4.8.5.2 (b)(2)	2	0.03	0.00	0.00
4.8.5.2 (b)(3)	1	0.00	0.00	0.00
4.8.5.2 (c)(2)	1	0.00	0.00	0.00
4.8.5.2 (c)(4)	2	0.05	0.05	0.00
4.8.5.2 (c)(5)	4	0.04	0.00	0.04
Uttarakhand	114	26.97	7.38	0.08
4.8.2.2 (2)	2	0.00	0.00	0.00
4.8.2.2 (3)	2	0.02	0.00	0.00
4.8.3.2 (2)	1	0.00	0.00	0.00
4.8.3.2 (3)	2	0.03	0.00	0.00
4.8.3.3 (1)	1	0.00	0.00	0.00
4.8.3.3 (3)	2	0.00	0.00	0.00
4.8.3.3 (5)	2	0.00	0.00	0.00
4.8.4	94	26.80	7.37	0.00
4.8.5.2 (b)(1)	2	0.08	0.00	0.08
4.8.5.2 (b)(2)	4	0.01	0.00	0.00
4.8.5.2 (c)(2)	1	0.01	0.00	0.00
4.8.5.2 (c)(5)	1	0.01	0.01	0.00
West Bengal	413	2,083.24	1,112.65	3.87
4.8.2.2 (2)	4	0.42	0.29	0.00
4.8.3.1 (2)	4	0.00	0.00	0.00
4.8.3.1 (3)	6	1.06	1.06	0.00
4.8.3.1 (4)	2	1.54	1.54	0.00

State/UT/Para Number	Number	SGST Amount Involved	SGST amount accepted	SGST amount recovered
4.8.3.2 (2)	2	0.00	0.00	0.00
4.8.3.3 (2)	1	0.00	0.00	0.00
4.8.3.3 (3)	2	0.00	0.00	0.00
4.8.3.3 (5)	8	0.00	0.00	0.00
4.8.4	329	2,065.73	1,095.45	3.75
4.8.5.2 (a)(1)	34	0.28	0.12	0.12
4.8.5.2 (b)(1)	15	13.59	13.58	0.00
4.8.5.2 (b)(3)	2	0.01	0.00	0.00
4.8.5.2 (c)(2)	2	0.60	0.60	0.00
4.8.5.2 (c)(5)	2	0.01	0.01	0.00
Grand Total	5,701	16,582.51	9,218.72	51.95

Glossary

ACES	Automation of Central Excise and Service Tax
ADVAIT	Advanced Analytics in Indirect Taxation
AIO	All-in-one Systems
ARSM	Automated Return Scrutiny Module
BI	Business Intelligence
BIFA	Business Intelligence and Fraud Analytics
BIFR	Board for Industrial and Financial Reconstruction
BO	Back Office
BOOT	Build, Own, Operate, and transfer type of public-private partnership
CAG	Comptroller and Audit General of India
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes and Customs
CENVAT	Central Value Added Tax
CESTAT	Customs Excise and Service Tax Appellate Tribunal
CGST	Central Goods and Services Tax
CLS	Composition Levy Scheme
CSO	Central Statistics Office
CVD	Countervailing duty
DDM	Directorate of Data Management
DDO	Drawing and Disbursing Officer
DGARM	Directorate General of Analytics and Risk Management
DGCEI	Directorate General of Central Excise Intelligence
DGFT	Director General of Foreign Trade
DGGI	Directorate General of Goods and Services Tax Intelligence
DoR	Department of Revenue
DRI	Directorate of Revenue Intelligence
ECL	Electronic Credit Ledger
GDP	Gross Domestic Product

GST	Goods and Services Tax
GSTAM	Goods and Services Tax Audit Manual
GSTIN	Goods and Services Tax Identification Number
GSTN	Goods and Services Tax Network
GSTR	Goods and Services Tax Return
HSN	Harmonised system of nomenclature
ICAI	Institute of Chartered Accountants of India
IFF	Invoice Furnishing Facility
IGST	Integrated Goods and Services Tax
ISD	Input Service Distributor
IT	Information Technology
ITC	Input Tax Credit
ITR	Income Tax Return
MIS	Management Information System
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPRs	Monthly Performance Reports
NACEN	National Academy of Customs, Excise & Narcotics
NACIN	National Academy of Customs, Indirect Taxes & Narcotics
OIA	Order-in-Appeal
OIOs	Orders-in-Original
PAN	Permanent Account Number
PFMS	Public Financial Management System
PIB	Press Information Bureau
PLA	Personal Ledger Account
PPP	Public-private partnership
QRMP	Quarterly return with monthly payment
RCM	Reverse Charge Mechanism
RMS	Risk Management System
SAC	Service Accounting Codes

SAD	Special Additional Duty
SCN	Show Cause Notice
SGST	State Goods and Services Tax
SOP	Standard Operating Procedure
SSCA	Subject Specific Compliance Audit
TDS	Tax Deducted at Source
UT	Union Territory
UTGST	Union Territory Goods and Services Tax
VAHAN	Motor vehicle registration database of Ministry of Road Transport & Highways (MoRTH), Government of India

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