Chapter 3

Compliance Audit Observations

CHAPTER 3

Compliance Audit Observations

Finance Department

3.1 SSCA on Department's Oversight on GST Payments and Returns Filing (Phase-II) for the year 2018-19 to 2020-21

EXECUTIVE SUMMARY

The Government of India introduced the Goods and Services Tax Act, 2017 with effect from 01 July 2017 which replaced many indirect taxes levied and collected by the Centre and the States. Goods and Services Tax is a destination-based consumption tax on the supply of goods or services or both levied on value addition. The Centre and the States simultaneously levy GST on a common tax base. Central GST (CGST) and State GST (SGST)/Union Territory GST (UTGST) are levied on intra state supplies, and Integrated GST (IGST) is levied on inter-state supplies. This Subject Specific Compliance Audit (SSCA) was conducted between March 2023 to March 2025 with the broad objective of seeking an assurance that rules and procedures have been designed to secure an effective check on tax compliance and the scrutiny procedures, internal audit and other compliance functions of the CT & GST Circles are adequate and effective. The sample for this SSCA comprised a set of deviations identified through data analysis for centralised audit (earlier termed as Limited Audit) that did not involve field visits, a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayer's records at departmental premises and a sample of CT & GST Circles for evaluating the compliance functions of the Circles. Accordingly, 195 taxpayers were selected for Centralised Audit and 79 taxpayers selected for Detailed Audit under this SSCA (for three years from 2018-19 to 2020-21). Audit noticed mismatch in input tax credit, taxable turnover and tax liability of ₹10,267.19 crore in respect of 195 taxpayers selected for Centralised Audit. Similarly, Audit noticed deviations in utilisation of input tax credit amounting to ₹ 1,228.31 crore, mismatch in discharge of tax liability amounting to ₹530.65 crore during the course of Detailed Audit.

It is recommended that

3.1 *The Department may ensure that scrutiny proceedings are completed in strict compliance with the established Standard Operating Procedures.*

3.2 *The Department may instruct its field formations to take timely action on completing the cancellation proceedings and ensuring filing of GSTR-10.*

3.3 *The Department may initiate remedial action for all the compliance deviations brought out in this Report before they get time barred.*

3.4 *The Department may pursue with the taxpayers for production of financial statements and other specific taxpayers' records as requisitioned by Audit.*

3.1.1 Introduction

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

Section 59 of the OGST 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 on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the Act read with Rule 99 of OGST Rules stipulate that the proper officer may scrutinise the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Commercial Tax & Goods and Service Tax (CT & GST) Department of Government of Odisha in this new tax regime.

3.1.2 Audit Objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the Department with respect to tax compliance under GST regime. Audit of 'Department's oversight on GST Payments and Return filing-(Phase-II)' was taken up with the following audit objectives to seek an assurance on:

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

ii. Whether the scrutiny procedures, cancellation of registration and other compliance functions of the Circles were adequate and effective.

3.1.3 Audit Methodology and Scope

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period April 2018 to March 2021. Through data analysis a set of 15 deviations were identified across the domains of Input Tax Credit, Discharge of tax liability, Registration and Return filing. Such deviations were followed up through a centralised audit[34], whereby these deviations were communicated to the relevant State departmental field formations and action taken by the jurisdictional formations on the identified deviations was ascertained without involving field visits. The centralised audit

[34] Centralised Audit also did not involve seeking taxpayer's granular records such as financial statements related ledger accounts, invoices, agreements, *etc*.

was supplemented by a detailed audit involving field visits for verification of records available with the jurisdictional field formations. Returns and related attachments and information were assessed through the back-office application of the GSTN portal as much as feasible to examine the data/documents relating to the taxpayers (viz. registration, tax payment, returns and other departmental functions). The detailed audit also involved accessing relevant granular records from the taxpayers such as invoices through the respective field formations. This apart, compliance functions of the departmental formation (Circle Audit) such as scrutiny of returns, action taken on non-filers/late filers, Cancellation of Registrations were also reviewed in selected Circles.

The review of the scrutiny of returns by the Department and verification of taxpayer's records covered the period from April 2018 to March 2021, while the audit of the functions of selected Circles covered the period 2020-21. The SSCA covered only the State administered taxpayers. The field audit was conducted from 05 June 2024 to 20 September 2024.

Entry conference of this SSCA was held on 01 August 2023 with the Commissioner of CT & GST, Odisha in which the audit objectives, sample selection, audit scope and methodology were discussed. The Exit conference was held on 26 December 2024 with the Commissioner of CT & GST, Odisha, in which the audit findings were discussed. The views expressed by the Commissioner of CT & GST during the Exit Conference and the written replies to the draft report have been suitably incorporated in the relevant paragraphs.

3.1.4 Audit sample

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

There were three distinct parts of this SSCA as below:

3.1.4.1 Part I- Audit of Circles

10 Circles with jurisdiction over more than one selected sample of cases for Detailed Audit were considered as the sample of Circles for evaluation of their oversight functions.

3.1.4.2 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, 301 inconsistencies in respect of 195 taxpayers were issued as audit queries for Centralised Audit.

3.1.4.3 Part III-Detailed audit

It was conducted by accessing taxpayers' records through Circles for evaluation of the extent of tax compliance by taxpayers. The sample of taxpayers for Detailed Audit was selected on the basis of risk parameters such as Excess ITC, Tax Liability mismatch, Disproportionate exempted turnover to total turnover and Irregular ITC mismatch. Seventy-nine taxpayers from 24 Circles were selected for Detailed Audit comprising taxpayer belonging to Large[35], Next Large[36], Medium[37] and Small[38] strata.

The samples selected for centralised audit, detailed audit and audit of Circles are detailed in ***Appendix 3.1 /3.1(A)/3.1 (B).***

3.1.5 Audit criteria

The sources of audit criteria comprised the provisions contained in the OGST Act, IGST Act, and Rules made thereunder. The significant provisions are given in **Table 3.1**:

Table 3.1: Sources of audit criteria

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

In addition, the notifications and circulars issued by CBIC/State tax department 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 and Standard Operating Procedures (SOP) containing instructions to departmental officers on various aspects related to filing returns,

35 First category comprising Large taxpayers – top 0.25 *per cent* of taxpayers based on turnover

36 Second category comprising Next Large taxpayers – 0.25 per cent of taxpayers based on turnover

37 Third category comprising of medium taxpayers – having turnover of ₹ 20 crore/₹10 crore/ ₹7.5 crore

38 Fourth category comprising of small taxpayers – having turnover of ₹5 crore/₹2.5 crore

scrutiny of returns and cancellation of registrations etc. are also formed part of the audit criteria.

Audit findings

The audit findings are categorised into the following three categories:

a. Audit of Circles
b. Centralised Audit
c. Detailed Audit

3.1.6 Audit of Circles

In the selected sample of 10 Circles, Audit observed lack of action on late-filers and non-filers, slow pace of scrutiny of returns and inadequate follow up on cancellations of registrations.

3.1.6.1 Trends in return filing

The overall trends in return filing of monthly GSTR 3B[39] and GSTR 1[40] returns are given in ***Appendix 3.2***.

The trends in filing of GSTR-3B and GSTR-1, as shown in ***Appendix 3.2***, revealed that the number of GSTR 3B returns filed had been consistent throughout the years where as the filing of GSTR 1 has seen significant increase in the four years with a slight dip in 2020-21. However, it can also be seen that the percentage of returns filed by due dates was still low.

3.1.6.2 Deficient monitoring mechanism on return filing

Prior to the issue of Standard Operating Procedure (SOP) in May 2022 by the State Commissioner of CT & GST on scrutiny of returns, there was no uniform and consistent approach to the process of scrutiny of returns by the Proper Officers.

Based on relevant information furnished by eight circles, a total of 1,27,704 returns of 22,961 taxpayers had been scrutinised up to the year March 2023. Audit test checked 23 scrutiny cases relating to the tax period 2017-18 to 2019-20 and noticed that demanded amount had been received in 10 cases through DRC-03 notice, whereas no amount was received in 13 cases, though demand notices had been issued in DRC-07.

3.1.6.3 Lack of action on late-filers and non-filers (GSTR-3B)

Section 46 of the Odisha GST Act, 2017 read with Rule 68 of the Odisha GST Rules, 2017 stipulates issue of a notice in Form GSTR-3A requiring filing of return within fifteen days if the taxpayer had failed to file the return within the due date. In case the taxpayer did not file returns even after such notice, the proper officer may proceed to assess the tax liability of the said taxpayer to the best of his judgment, considering all the relevant materials which are available

[39] GSTR-3B: monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer

[40] 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.

or gathered and issue an assessment order in Form ASMT-13. Filing of returns is related to payment of tax as the due date for both the actions are the same, which implies risk of non-payment of tax and penalty in the case of non-filers.

A. Status at the State Level:

Table 3.2 Status of action against non-filers and late-filers

Year	No. of late filers identified	No. of non-filers identified	No. of GSTR-3A issued	Returns filed in response to GSTR-3A	No. of cases in which ASMT-13 issued	No. of cases in which DRC-07 issued	Amount of Demand raised in DRC-07 (₹ in crore)
2020-21	Not furnished	1,39,094	1,29,707	56,856	19,268	12,418	1,119.35
2021-22	12,509	23,453	83,368	34,248	21,495	21,762	1,164.04
2022-23	23,508	1,32,337	1,71,719	74,428	35,544	31,558	1,483.24

(Source: Information furnished by the Commissionerate of CT&GST, Odisha, Cuttack)

B. Status at ten circles examined during Audit

The details of cases identified as non-filers during the period 2020-21 were requisitioned from a sample of 10 Circles covered by Audit. The details were not furnished by Jajpur Circle. As per the information furnished by nine Circles, the return filing position ***(Appendix 3.3)*** is as follows in **Table 3.3**:

Table 3.3 Return filing position in selected nine circles

FY	No. of non-filers identified	GSTR 3A notices issued	No. of returns filed in pursuance of GSTR 3A	ASMT-13 initiated	ASMT-13 initiated, and Assessment completed	ASMT-13 Assessment completed & Amount assessed (₹ in crore)	Amount recovered (₹ in crore)
2020-21	43,563	42,754	19,908	14,360	4,874	252.68	127.01

(Source: Information provided by nine selected Circles)

The analysis of the action taken by the Circles against non-filers revealed that 3A notices were issued in 98.14 per cent case and in response to the 3A notices issued 46.46 *per cent* taxpayers filed their returns. Subsequently, issuance of ASMT-13 was initiated in 62.60 *per cent* of cases where returns were not filed even after the issuance of GSTR 3A and best judgement assessment was completed and demand order was issued in ASMT-13 with a demand of ₹252.68 crore in 21.25 *per cent* of non-filers. Out of the total demanded amount of ₹252.68 crore, an amount of only ₹127.01 crore had been recovered.

3.1.6.4 Scrutiny of returns

As per Section 61 of the OGST Act, various returns filed by taxpayers have to be scrutinised by the Proper Officer to verify the correctness of the returns, and suitable action has to be taken on any discrepancies or inconsistencies reflected in the returns. The Proper Officer designated for this purpose is the Circle Officer. Further, Rule 99 of the OGST Rules, 2017 mandates that the discrepancies, if any, shall be communicated to the taxpayer to seek his explanation.

The State CT & GST Commissionerate issued instructions in the form of Standard Operating Procedure (SOP) for Scrutiny of Returns vide notification[41] in May 2022. In this SOP, the instructions and the methodology for selection of cases and assigning them to proper officers for scrutiny have been discussed. Prior to this, there was no uniform and consistent approach to the process of scrutiny of returns and no timeline was fixed by the Department for completion of scrutiny of returns.

A. Status at the State Level

Table 3.4: Status of scrutiny of returns

FY	No. of returns scrutinised	No. of cases in which ASMT-10[42] issued	Amount involved in such ASMT-10 (₹ in lakh)	No. of cases in which SCN[43] issued (DRC[44]-01)	Amount as per SCN (₹ in crore)	Amount recovered (₹ in crore)
2020-21	68,641	15,199	NA	8,599	482.84	16.32
2021-22	71,187	13,268	NA	17,959	908.99	47.94
2022-23	37,159	12,982	NA	10,907	1,124.04	46.10

(Source: Information furnished by the Commissionerate of CT&GST, Odisha)

B. Status at the Ten Circles covered by Audit

The status of cases identified for scrutiny up to the year 2022-23 was requisitioned from the selected ten circles. As per information furnished by eight Circles (Jajpur and Jharsuguda Circles did not provide information) the status of scrutiny of returns ***(Appendix 3.4)*** was as follows in **Table 3.5**.

Table 3.5: Details of scrutiny of returns in selected eight Circles

No. of taxpayers whose returns were scrutinised	No. of returns scrutinised (2022-23)	No. of ASMT-10 issued	Discrepancies in ASMT-10, accepted by taxpayers	Amount recovered after issue of ASMT-10 (₹ in crore)	No. of SCN issued	Amount involved in the SCN (₹ in crore)	Amount recovered from SCN (₹ in crore)
22,961	1,27,704	6,265	2,679	17.34	5,444	1,078.06	19.94

(Source: Information furnished by the eight selected CT&GST Circles covered under audit)

Audit noticed that out of 1,27,704 returns pertaining to 22,961 taxpayers scrutinised, ASMT-10 had been issued to 27.28 per cent of the taxpayers scrutinised and in 42.76 *per cent* cases, the taxpayers had accepted the discrepancies pointed out in ASMT-10 with a recovery of ₹17.34 crore.

---

41 No.6179/CT/GST

42 Notice for intimating discrepancies in the return after scrutiny

43 Show Cause Notice

44 Demand and Recovery Certificate

Subsequently, in 5,444 cases SCNs were issued with a demand of ₹1078.06 crore out of which ₹19.94 crore has been recovered.

Due to non-production of records of those cases where taxpayers did not respond to ASMT-10 and taxpayers who had accepted the discrepancies pointed out in ASMT-10 but did not pay the required tax, Audit was unable to derive assurance that there was no revenue leakage.

In absence of complete documentary records / electronic database, Audit could not verify the procedure of scrutiny of returns in adherence to specified scheduled time and other procedural norms with implication of any revenue loss to the state exchequer.

The matter was reported to the Department and the State Government (December 2024). Their reply was awaited (June 2025).

Recommendation 3.1:

The Department may ensure that scrutiny proceedings are completed in strict compliance with the established Standard Operating Procedures.

3.1.6.5 Cancellation of Registrations

Section 29 of the OGST Act 2017 read with Rule 20 of the OGST Rules allows for cancellation of registration by the taxpayers in certain situations like closure of business, turnover falling below threshold limit for registration, transfer/ merger/amalgamation of business, 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 prescribed Form in REG-16 on the GST common portal within a period of 30 days of the "occurrence of the event warranting the cancellation".

Section 29(2) of the OGST 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 return for three consecutive tax periods, normal taxpayers not filing return for continuous period of six months, registered persons not commencing business within six months from date of registration and registration obtained by means of fraud, willful misstatement or suppression of facts.

Section 45 of the OGST Act requires every registered person other than (a) Input Service Distributors (ISD) or a non-resident taxable persons (NRTPs) or (b) Composition taxable person (Section 10) or (c) persons paying tax under section 51 - Tax collected at source (TCS) or persons paying tax under section 52 - Tax deducted at source (TDS), whose registration has been cancelled, to file a final return in the prescribed Form 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 the 10 selected CT & GST Circles, nine Circles (Jajpur Circle did not furnish details) produced the information on the cancellation function ***(Appendix 3.5)*** which have been given in the ***Table 3.6***.

Table 3.6 :Details of cancellation of RC in selected circles

Year	No. of applications received for cancellation of RC	Suo Moto cancellations initiated by proper officers	REG-20 order passed (dropping the proceedings)	No. of cases in which order of cancellation issued in REG-19	No. of cases in which GSTR-10 filed	No. of cases in which GSTR-10 not filed	No. of cases where action was initiated by the Department
2020-21	1,900	6,283	465	4,730	809	3,921	53

(Source: Information furnished by the State Commissionerate of CT&GST, Odisha)

As per Rule-68 of the OGST Act, 2017 and as prescribed in Circular No.129/48/2019-GST dated 24 December 2019, GSTR-3A must 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 OGST Act read with Rule 100 of the OGST 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 fee 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 OGST Act.

As per the information furnished by the Circles, out of 4,730 cases where the order of cancellation of registration was issued, in only 809 cases (17.10 *per cent*) the taxpayers had filed their final returns (GSTR-10) and in only 1.35 *per cent* i.e. 53 cases[45] action was initiated by the Circles for non-filing of GSTR-10.

Non-filing of GSTR-10 has potential risk of taxpayer not discharging his tax liability and loss to the Government exchequer due to non-reversal of ITC already availed on the stock held as on the date of cancellation.

On this being pointed out (December 2024), the reply of the Department was still awaited (June 2025).

Recommendation 3.2:

The Department may instruct its field formations to take timely action on completing the cancellation proceedings and ensuring filing of GSTR-10.

3.1.7 Centralised Audit

Audit analysed GST returns data pertaining to the periods from 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

[45] Cuttack-I West, BBSR-I, Sambalpur-II

of 15 parameters, which can be broadly categorised into two domains - ITC and Tax payments.

The following seven GST returns[46] were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data:

- GSTR-1: monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-3B: monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR-6: monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.
- GSTR-8: monthly return to be filed by the e-commerce operators who are required to deduct TCS (Tax collected at source) under GST, introduced in October 2018.
- GSTR-9: annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deducted at Source/Tax Collected at Source (TDS/TCS), Casual Taxable Person (CTP), 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 ₹2 crore in a financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.
- GSTR-2A: a system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1 / 5, ISD details from GSTR 6, details from GSTR-7 and GSTR- 8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs

The pan-State analysis on the 15 identified parameters undertaken are summarised in **Table 3.7 (a)** and **Table 3.7(b).**

46 GSTR-1, GSTR-3B, GSTR-4(TPs under Composition Scheme), GSTR-6(ISD), GSTR-7(TPs deducting TDS), GSTR-8(E-commerce operators), GSTR-9 (Annual return)

Table 3.7(a): Details of data Analysis undertaken – ITC and Tax liability

Sl. No.	Algorithm used	Risk pursued
1	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
2	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 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.	ITC passed on without remittance of tax by the supplier
3	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
4	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
5	Positive figure in GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch	Mismatch between ITC availed in Annual returns and expenses in financial statements
6	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
7	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
8	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.	Undischarged tax liabilities
9	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	Non/short payment of interest
10	E-commerce GSTR-8 became effective from 1 October 2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are	Composition Levy Scheme taxpayers also

Sl. No.	Algorithm used	Risk pursued
	also filing GSTR-4/CMP-08 under Composition Levy Scheme (CLS).	availing e-commerce facility
11	The composition levy scheme 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.	Irregularly operating under composition levy scheme even after crossing the threshold limit.

Table 3.7(b): Data analysis undertaken - Turnover/ Taxable Supply

Sl. No.	Algorithm used	Risk pursued
1	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
2	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.
3	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
4	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

Audit queries were issued to the respective Circles (December 2023) without further scrutiny of taxpayer's records. The audit checks in these cases were limited to verifying the Department's action on the identified mismatches. After considering the replies received from the Department (January 2025), the detailed position against the queries/ observations, as of June 2025 is depicted in ***Appendices 3.7*** and ***3.8.***

3.1.7.1 Results of Centralised Audit

Based on responses received from the Department on the 301 inconsistencies ***(Appendix 3.6)***, the extent to which each of the 15 parameters translated into compliance deviations and turnover mismatch is summarised in ***Appendices 3.7*** and ***3.8.***

Out of 233 inconsistencies, in 70 cases, constituting 30.04 *per cent*, the Department has taken remedial action on the audit observations involving a recovery of ₹100.86 crore ***(Appendix 3.6 (A))*** and raised demand for ₹21.87 crore ***(Appendix 3.6 (B))*** i.e. 4.29 *per cent* of the total mismatch value including SCNs issued in 35 cases ***(Appendix 3.6 (C))*** and ASMT-10 issued in nine cases ***(Appendix 3.6 (D))***.

Data entry errors by taxpayers comprised two cases ***(Appendix 3.6 (F))***. The Department had proactively acted in 75 cases ***(Appendix 3.6 (G))*** i.e. 32.18 *per cent* cases before issue of audit query and in 43 cases constituting 18.45 *per cent*, Audit accepted the response of the Department explaining the deviations ***(Appendix 3.6 (H))***. However, in eight cases, constituting 3.43 *per cent*, the Department's replies were not supported with documentary evidence ***(Appendix 3.6 (I))*** and in 35 cases, constituting 15.02 *per cent*, the Department stated that it was examining the audit query with underlying mismatches of ₹ 488.41 crore ***(Appendix 3.6 (J))***.

The summary of compliance mismatches relating to taxable turnover is shown in ***Appendix 3.8***.

Out of the 68 cases ***(Appendix 3.6)*** of turnover related mismatches, in 21 cases ***(Appendix 3.8)*** constituting 30.88 per cent of the cases, the Department had taken action on the audit observations with a demand creation of ₹13.89 crore in three cases ***(Appendix 3.6 (B))*** and in 18 cases, SCNs were issued amounting to ₹513.48 crore ***(Appendix 3.6 (C))***. Further, in 20 cases, constituting 29.41 *per cent*, Audit accepted the response of the Department explaining the deviations ***(Appendix 3.6 (H))*** and in four cases, Department identified that the mismatches were due to data entry errors ***(Appendix 3.6 (F))***. Also, in 17 cases department had proactively taken action before issue of audit query ***(Appendix 3.6 (G))***. In the remaining five cases, constituting 7.35 *per cent*, the Department stated that it was examining the mismatches ***(Appendix 3.6 (J)).***

Illustrative cases of each dimension

i) Mismatch in ITC availed

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

To analyse the veracity of ITC utilisation, relevant data were extracted from GSTR 3B and GSTR 2A for the year 2018-19, and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR 2A with all its amendments and the ITC availed in GSTR 3B in Table 4A (5) +4(D) excluding the reversals in Table 4B (2) but including the ITC availed in the subsequent year 2019-20 from Table 8C of GSTR 9.

Audit observed that in case of a taxpayer under Bhubaneswar-II Circle, the ITC available as per GSTR 2A was ₹19.29 crore and the ITC availed in table 4A (5) of GSTR 3B was ₹26.57 crore. This indicates mismatch in ITC availed amounting to ₹7.28 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that a show cause notice in DRC-01 had been issued to the taxpayer. Further reply was awaited (July 2025).

(ii) Undischarged Tax liabil1ity

GSTR 1 depicts the monthly details of outward supplies of Goods or Services. These details also assessed by the taxpayer and mentioned in annual return

GSTR 9 in the relevant columns. Further, taxable value and tax paid thereof are also shown in GSTR 3B.

To analyse the undischarged tax liability, relevant data were extracted from GSTR 1 and GSTR 9 for the year 2018-19 and the tax payable in these returns was compared with the tax paid as declared in GSTR 9. Where GSTR 9 was not available, a comparison of tax payable between GSTR 1 and GSTR 3B was resorted to. The amendments and advance adjustments declared in GSTR 1 and 9 were also considered for this purpose.

For the algorithm, tables 4 to 11 of GSTR 1 and tables 4N, 10 and 11 of GSTR 9 were considered. The greater of the tax liability between GSTR 1 and GSTR 9 was compared with the tax paid declared in tables 9 and 14 of GSTR 9 to identify the short payment of tax. In the case of GSTR 3B, tables 6.1 (a)[47] and 6.1 (b)[48]were considered.

During audit, it was observed that in case of a taxpayer, under Barbil Circle, the tax payable as declared in table 4 to 11 of GSTR 1 was ₹3.85 crore and the tax paid depicted in tables 6.1 (a) & 6.1 (b) of GSTR 3B was ₹55,292. This indicates a mismatch of tax liability amounting to ₹3.85 crore between tax payable and tax paid.

On this being pointed out (December 2023), the Department stated (January 2025) that a show cause notice (DRC-01) has been issued to the taxpayer for tax, interest and penalty amounting to ₹6.74 crore. Further reply in this regard was awaited (July 2025).

iii) Suppression of tax liability compared with E-way bill

The tax payable on supplies including zero rated supplies[49] of GSTR3B was compared with the tax liability disclosed in the E-way bill of the taxpayer.

To analyse the veracity of suppression of tax liability, relevant data were extracted from supplies including zero rated supplies (Table 3.1(a) + 3.1 (b) of the GSTR 3B) for the year 2018-19 and the tax liabilities declared in the E-way bills of the taxpayer for the relevant year.

Audit observed that in case of a taxpayer under Jajpur Circle, the tax paid on supplies including zero rated supplies as per GSTR 3B was ₹5.41 crore and the tax liabilities declared in the E-way bills of the taxpayer was ₹6.51 crore. This resulted in suppression of tax liability amounting to ₹1.10 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that a notice in GSTR 3A has been issued to the taxpayer. Further reply was awaited (July 2025).

iv) Irregular passing of ITC without discharging the tax liability (filing of GSTR 1 without filing GSTR 3B)

Audit identified those taxpayers who have not filed GSTR 3B but have filed GSTR 1. GSTR 3B return is the only instrument through which the liability is offset and ITC is availed. The very availability of GSTR 1 and non-filing of GSTR 3B indicates that the taxpayers had carried on the business during the

47 Tax paid in forward charge mechanism.
48 Tax paid in Reverse charge mechanism
49 Outward taxable supplies (zero rated, other than zero rated, nil rated and exempted)

period but have not discharged their tax liability and may have also passed on irregular ITC.

Audit analysed the datasets pertaining to relevant fields in the GSTR 1 of a taxpayer under Jagatsinghpur Circle and noticed that the taxpayer had not filed even a single GSTR 3B in 2018-19 though GSTR 1 was filed only in April 2018 with taxable value of ₹12.66 crore and tax liability of ₹2.28 crore. The non-filing of GSTR-3B indicates to irregular passing on of ITC without payment of tax resulting in non-discharge of tax amounting to ₹ 2.28 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that DRC 07 have been issued and recovery proceedings under Section 79 of OGST Act, 2017 had been initiated against the taxpayer.

v) Excess ITC availed under ISD mechanism

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

In case of a taxpayer, under Bhubaneswar-I Circle, Audit observed that for the year 2019-20, the ITC availed in table 6G of GSTR 9 was ₹ 0.25 crore and the ITC transferred by the ISD in table (5A+8A+9A) of GSTR 6 was Nil. This resulted in mismatch in availment of ITC transferred by the ISD amounting to ₹ 0.25 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that show cause notice (DRC-01) under Section 74 of OGST Act, 2017 had been issued. Further reply was awaited (July 2025).

vi) Suppression of Taxable Value identified through TDS

The suppression in taxable value is identified through comparison of the outward supplies (other than zero rated, nil rated and exempted) declared in the GSTR 3B with the net taxable supplies liable for TDS as per Table-9 of GSTR-2A.

Audit observed in case of a taxpayer under CT & GST Circle-I, Bhubaneswar that the outward supplies in the GSTR 3B for the year 2020-21 was ₹7.19 crore whereas the taxable value liable for TDS was ₹13.83 crore as per TDS and TCS received certificate. The comparison in both the data indicates to probable suppression in taxable value amounting to ₹6.64 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that show cause notice (DRC-01) had been issued to the taxpayer. Further reply was awaited (July 2025).

vii) ITC availed without remittance of tax by the supplier

In order to analyse the extent of compliance of ITC availment under Section 16(4) of the OGST Act, an attempt was made to identify likely cases where the ITC would have been passed on by the taxpayer without the actual remitting of the tax. For this purpose, the relevant data from GSTR-9 particularly pertaining to table 8A of GSTR-9 was compared with the ITC data reflected in GSTR-2A.

To analyse the veracity of ITC availed without remittance of tax, relevant data was extracted from the total eligible ITC as per table 8A of GSTR9 for the year and the total ITC claimed as per GSTR 2A of the taxpayer for the relevant year.

Audit observed that in case of a taxpayer, under Bhubaneswar-IV Circle, the total eligible ITC as per table 8A of GSTR9 for the year 2018-19 was ₹34.46 crore and the total ITC claimed as per GSTR 2A of the taxpayer was ₹43.83 crore. Hence, a mismatch of ₹9.37 crore in ITC was observed.

On this being pointed out (December 2023), the Department stated (January 2025) that demand has been raised after audit and adjudication. Further reply from the Department was awaited (July 2025).

(viii) Mismatch of Taxable turnover between Annual Audited Financial Statement and Annual Return (Table 7G of GSTR 9C)

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

The certified reconciliation statement submitted by the taxpayer as required under rule 80(3) of OGST Rules in Form GSTR 9C for the year 2020-21 was analysed at data level to review the extent of identified mismatch in taxable turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The un-reconciled amount in cases where the turnover in GSTR 9C is less than the financial statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of taxable supplies. It could also be on account of non-reporting of both taxable and exempted supplies.

Audit query on mismatch of taxable turnover in Table 7G of GSTR-9C, amounting to ₹41.26 crore was issued in respect of a taxpayer, under Bhubaneswar-IV Circle.

On this being pointed out (December 2023), the Department stated (January 2025) that a show cause notice (DRC-01) had been issued. Further reply was awaited (July 2025).

ix) Mismatch in the tax payable and tax paid as per Annual Return (Table 9R of GSTR 9C)

To analyse the extent of identified mismatch in rate-wise tax payable and tax paid as per the Annual Return and the books of account, the certified reconciliation statement submitted by the taxpayer as required under rule 80(3) of OGST Rules in form GSTR 9C for the year 2020-21 was analysed at data level.

Table 9 of the form 9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return GSTR 9. The unreconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or *vice versa* or incorrect levy of CGST/OGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) in respect of the 2020-21 transactions carried out in the subsequent year from April to September 2022. Consequential interest payments - both short payments and payments under incorrect heads - also need to be examined in this regard.

Audit observed that rate-wise tax payable by a taxpayer under Bhubaneswar-I Circle for the period 2020-21 was ₹11.98 crore whereas the tax paid as per annual return GSTR-9 was ₹7.02 crore. The unreconciled payment of tax declared in Table 9R of GSTR 9C, amounts to ₹4.96 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that show cause notice (DRC-01) had been issued. Further reply was awaited (July 2025).

x) Mismatch of ITC between Annual Audited Financial Statement and Annual Return for the year (12F of GSTR 9C)

Table 12 of GSTR 9C reconciles ITC declared in annual return (GSTR9) with ITC availed as per audited Annual financial statement or books of accounts. Column 12F of this table deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of OGST Rules in form GSTR 9C for the year 2019-20 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

Audit query on mismatch of unreconciled ITC in Table 12F of GSTR-9C, amounting to ₹1.97 crore was issued in respect of a taxpayer, under Rourkela-II Circle.

On this being pointed out (December 2023), the Department stated (January 2025) that show cause notice (DRC-01) had been issued. Further reply from the Department was awaited (July 2025).

xi) Mismatch of ITC between Annual Audited Financial Statement and Annual Return (Table 14T of GSTR 9C)

Table 14 of GSTR 9C reconciles ITC declared in annual return (GSTR9) with ITC availed on expenses as per Audited Annual Financial Statement or Books of Accounts. Column 14T of this table deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under the rule 80(3) of OGST Rules in form GSTR 9C for the year 2019-20 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the expenses reported in the Financial Statements.

Audit query on mismatch of unreconciled ITC in Table 14T of GSTR-9C, amounting to ₹54.26 crore was issued in respect of a taxpayer, under Bhubaneswar-II Circle.

On this being pointed out (December 2023), the Department stated (January 2025) that show cause notice in DRC-01 had been issued. Further reply from the Department was awaited (July 2025).

xii) Suppression of taxable Value- mismatch in unbilled revenue

Table 5B of GSTR-9C captures the unbilled revenue at the beginning of the financial year and Table 5H of the GSTR-9C of the previous year captures the unbilled revenue at the end of the financial year. To identify the suppression of taxable value on account of unbilled revenue, the unbilled revenue declared at the end of a financial year (as per Table 5H of GSTR 9C) is compared with the unbilled revenue carried forward to the Table-5B of GSTR-9C of the subsequent financial year.

Audit observed the unbilled revenue of a taxpayer under Bhubaneswar-I Circle at the beginning of the year 2019-20 was NIL (as per table 5B of GSTR-9C) whereas the unbilled revenue as per table 5H of GSTR 9C at the end of the year 2018-19 was ₹5.24 crore. This indicates probable suppression of taxable value on account of unbilled revenue of ₹5.24 crore for the year 2019-20.

On this being pointed out (December 2023), the Department stated (January 2025) that a demand has been created. Further reply from the Department was awaited (July 2025).

xiii) Non-payment of interest on delayed remittance of tax

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

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

Audit observed that in case of a taxpayer, under Jajpur Circle, wherein the returns (GSTR 3B) pertaining to the months for April 2018, October 2018, December 2018 and March 2019 in the year 2018-19 involving tax liability amounting to ₹ 8.80 crore were filed with delay ranging from 55 to 322 days between November 2018 and February 2020. This resulted in short payment of interest amounting to ₹ 0.99 crore.

On this being pointed out (December 2023), the Department stated (January 2025) that a demand for ₹ 0.99 crore has been created. Further reply from the Department was awaited (July 2025).

3.1.7.2 Analysis of causative factors (Deviations from GST law and rules)

Considering the Department's response to all 301 cases (233 cases of ITC and Tax payment mismatch and 68 cases of Turnover mismatch) of data mismatches, the factors that caused the data deviations/inconsistencies are as follows:

Out of the 301 cases involving ₹10,267.19 crore summarised in ***Appendices 3.7*** and **3.8**, the Department has recovered ₹100.86 crore in 13 cases and raised demand for ₹35.76 crore in 13 cases. Further, the Department has issued SCN/DRC-01 Notice in 53 cases for ₹853.63 crore; intimation in ASMT-10 in nine cases for ₹68.71 crore and was still examining 40 cases involving ₹621.26 crore. Also, the Department had already taken action before issue of audit query in 92 cases involving ₹2,088.08 crore ***(Appendices 3.6 (A) to (J)).*** In the remaining 81 cases, Audit could not offer any comments due to data entry error, lack of evidence, non-furnishing of replies, *etc.*

Illustration of Data Entry Error:

The data entry errors constituted 1.99 *per cent* (6 cases) of the total responses received and Audit accepted the Department's responses in these cases. In one case of Cuttack – I City Circle, it was observed that the total eligible ITC was ₹32,97,405 and the taxpayer claimed ₹8,84,72,931 which indicated to availing of ineligible ITC of ₹8,51,75,526

On this being pointed out (December 2023), the Department stated (January 2025) that the taxpayer had erroneously entered the ITC under SGST as ₹8,60,35,683 against ₹8,60,356.83, due to which the mismatch had occurred.

Recommendation 3.3:

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

3.1.8 Detailed Audit

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

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through State level data analysis, a detailed audit of GST returns was also conducted as a part of this review. A risk-based sample of 79 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR 9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in CAG's field audit office. Based on desk review results, detailed audit was conducted in the State CT & GST field formations by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices etc. to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

As brought out in the previous paragraphs detailed audit involved a desk review of GST returns and other basic records to identify risks and red flags, which were followed up by field audit to identify the extent of non-compliance by taxpayers and action taken by the State CT & GST field formations. Non-compliance by taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of ITC and discharge of tax payments. The audit findings are therefore categorised under a) Returns b) Utilisation of ITC and c) Discharge of tax liability.

I. Scope limitation (non-production of records)

Despite the requisition and follow-up, 12 Circles out of the selected 24 Circles did not produce (although two circles[50] partially produced) taxpayer's records such as annual financial statements (Balance sheet, Profit & loss accounts, journal and ledgers, Auditor's report, invoices etc.) in 43 taxpayers out of the 79 selected taxpayers (54.43 *per cent*). Consequently, in these cases, audit was restricted to the returns filed by the taxpayers for analysis and comment on the deviations such as mismatch in ITC, mismatch in tax liabilities, mismatch in turnover, mismatch in payments, which constituted a significant scope limitation.

As a result of non-production of records, mismatches noticed through data analysis amounting to ₹2,528.12 crore, could not be examined in detail by Audit. The circle wise non-production of records for three years from 2018-19 to 2020-21 is summarised in ***Appendix 3.9***.

In reply, the Department stated (January 2025) that Odisha being a Model-II state, all information relating to GST like various returns, forms, payments, taxpayer's registrations, return scrutiny, adjudication and arrear management are already available in GSTN Back Office. But the production of Granular records like Director's report, financial statements with schedules, Notes to Accounts, Input invoices, Purchase & sale invoices, Contract or agreement for supply, Debit & Credit notes, Party ledger, Goods receipt Notes etc. of individual taxpayers were beyond the scope of GST provisions and it depends upon the request made by the concerned Circle Officer to the individual taxpayers. Reply of the Department is not acceptable to Audit as para 19 of Chapter-4 of Audit Regulations 2020 read with Section 16 and Section 18 of CAG's DPC Act 1971 mandates Audit for access to all data, information and documents including electronic data. Further, the documents called for by Audit were on the basis of identified risks and mismatches. Also, it is pertinent to mention that 12 Circles have already produced all the Granular records of the taxpayers collecting from them as requisitioned by Audit.

Recommendation 3.4:

The Department may pursue with the taxpayers for production of financial statements and other specific taxpayers' records as requisitioned by Audit.

II. Returns: -

a) Non-payment of interest by taxpayers

Audit examined returns filed in GSTR-3B by the 79 selected taxpayers pertaining to 24 Circles and observed that 25 taxpayers across seven Circles had

[50] Bhubaneswar – III and Bhubaneswar - IV

either filed their returns belatedly or paid the taxes with delays, as a result of which interest of ₹0.42 crore was due from these taxpayers ***(Appendix 3.10).***

On this being pointed out (September 2024), the Department intimated that necessary action has been taken by the concerned Circles and an amount of ₹ 0.02 crore from four taxpayers has been recovered.

Illustrative case:

A taxpayer, having GSTIN-21**********1ZV, under Bhubaneswar-III Circle for the period 2018-19, had filed the GSTR 3B returns of April 2018 to June 2018 in January 2019 and of July 2018 to December 2018 in February 2019 without paying any interest on delayed payment of tax. This amounted to a short payment of ₹ 0.12 crore in interest payment.

On this being pointed by Audit (September 2024), the Department stated (January 2025) that action will be taken as per the provisions of the OGST Act. Further reply from the Department was awaited (June 2025).

III. Data entry errors

Audit observed data entry errors in two cases out of 682 mismatches in respect of 79 taxpayers across 24 CT & GST Circles. The errors resulted in discrepancy in excess credit availed under ISD mechanism ***(Appendix 3.11).***

Illustrative case:

The taxpayer having GSTIN-21XXXXXXXXXX1ZE under CT & GST Circle, Barbil availed credit of ₹9.33 crore under ISD in the year 2020-21 in Table-4A (4) of GSTR-3B as against nil credit available to him as per his GSTR-2A for that year. This resulted in incorrect availment of credit of ₹ 9.33 crore under ISD.

On this being pointed out (July 2024), Department stated (January 2025) that the taxpayer had erroneously entered the amount in the Table-4A (4) instead of Table-4A(5) of the GSTR-3B and the same had been rectified while filing the annual return (GSTR-9) for 2020-21.

IV. Utilisation of Input Tax Credit

Input Tax Credit (ITC) means the Goods and Services Tax (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 for payment of taxes on outward supplies.

Section 16 of Odisha Goods and Services Tax (OGST) Act, 2017 provides that every registered person shall 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 course of furtherance of his business and said amount shall be credited to the electronics credit ledger of such person. Section 17 of Odisha Goods and Services Tax (OGST) Act, 2017 provides for restrictions in ITC availment which are attributable to the purpose of his business. Rule 36 to Rule 45 of Odisha Goods and Services Tax (OGST) Rules 2017 prescribes the procedures for availing and reversal of ITC.

a) Excess ITC Availed

As per Section 61 of the Odisha Goods and Services Tax (OGST) Act, 2017 read with the Rule-99 of OGST Rules, 2017, various returns filed by taxpayers must be scrutinised by the proper officer to verify the correctness of the returns, and suitable action must be taken on any discrepancies or inconsistencies reflected in the returns. The Proper officer designated for this purpose has been defined under Section-2(91) of OGST Act, 2017 read with the Notification No.11516 dated 25.07.2017 issued by Commissioner of CT & GST, Odisha. Section 42 of OGST Act, 2017 prescribes the mechanism for matching, reversal and reclaim of ITC wherein it was conditions for availing Input tax credit.

To analyse the extent of ITC admissible to be availed, Audit examined the relevant data tables from GSTR-3B and GSTR-2A for the year 2018-19, 2019-20 and 2020-21. Details of tax remitted by the suppliers were matched with the ITC availed by the taxpayers. The methodology adopted was to compare the ITC available as per GSTR 2A with all its amendments and the ITC availed in GSTR 3B in Table 4A (5) including the blocked credits in Table 4D and ITC availed in the subsequent years from Table 8C of GSTR 9.

Audit observed that 52 taxpayers out of a sample of 79 taxpayers had availed excess ITC amounting to ₹1,228.31 crore during 2018-19, 2019-20 and 2020-21 ***(Appendix 3.12).***

Illustrative case:

A taxpayer, having GSTIN- 21**********1ZF, under Sambalpur I Circle had availed ITC of ₹8.66 crore as per table 4A(5) of GSTR-3B whereas ITC of ₹8.61 crore was available as per B2B table of GSTR-2A. Hence, the taxpayer had availed excess ITC to the tune of ₹0.05 crore.

On this being pointed out (September 2024), the Department stated (January 2025) that ASMT-10 was issued to the taxpayer, subsequently the taxpayer had reversed ITC amounting to ₹4,11,984 in DRC-03 and a demand has been now issued for the payment of interest.

V. Discharge of tax liability

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

The greater of tax liability between GSTR 1 and GSTR 9 was compared with the tax paid declared in tables Table 6.1 (A) + (B) of GSTR-3B. Audit observed that 46 taxpayers had not discharged tax liability of ₹ 530.65 crore in 79 cases ***(Appendix 3.13).***

Illustrative case:

Audit noticed in case of a taxpayer having GSTIN-21**********1Z9, under Bhubaneswar-III Circle, that the taxpayer has declared ₹1,392.10 crore as tax liability in GSTR-1 (greater of the liabilities in GSTR-1 and GSTR-9) and had discharged tax liability of ₹1,278.99 crore in GSTR 3B resulting in short discharge of ₹113.11 crore.

On this being pointed out (September 2024), the Department replied (January 2025) that an internal tax audit of the taxpayer was underway. Further reply in this case was awaited (June 2025).

Other observations for three years from 2018-19 to 2020-21 relating to mismatches of ITC, Turnover, Tax payments and Tax liabilities where granular records were not produced to Audit and only mismatch details through data analysis are available are shown in **Table 3.8.**

Table 3.8: Mismatch of ITC, Taxable Turnover, Tax Payments and Tax Liability

(₹ in Crore)

Sl. No.	Audit Dimensions	No. of cases	No. of Circles	Amount of mismatch	Remarks
			Mismatches of ITC		
1.	Irregular set-off of ITC in respect of Cess. As per Section-11(2) of GST (Compensation to States) Act, 2017 input tax credit in respect of Cess leviable under Section-8 shall be utilised only towards payment of Cess on supply of goods and services leviable under the said section. ***(Appendix 3.14)***	2	1	52.68	On this being pointed out (July 2024), Department replied (September 2024) that after necessary verification /reconciliation, the cases were dropped. The department has, however, not produced any documentary evidence in support of their action taken. Further replies were awaited (June 2025).
2.	Mismatch of ITC was identified on verification of the Table-12F of GSTR-9C where ITC availed as per the Annual Audited Financial Statement was compared with ITC availed as per annual return in GSTR-9. ***(Appendix 3.15)***	19	9	85.97	On these cases being pointed out (June 2024 to September 2024), the Department replied (July 2024 to September 2024) that notices in DRC 1/ASMT -10 had been issued in nine cases; demand has been raised in one case; recovered the amount in three cases; in five cases the department has dropped the cases and had not produced any documentary evidence in support of their action taken and in one case they are

Sl. No.	Audit Dimensions	No. of cases	No. of Circles	Amount of mismatch	Remarks
					under correspondence with the taxpayer.
Mismatches of Taxable Turnover					
3.	Mismatch in taxable turnover was identified on verification of the Table-7G of GSTR-9C where taxable turnover declared as per the Annual Audited Financial Statement was compared with that of the annual return in GSTR-9. ***(Appendix 3.16)***	7	2	101.50	On these cases being pointed out (September 2024), the Department replied (November 2024) that Notices in DRC 1A/DRC 03 had been issued in three cases and in four cases the department has dropped the cases and had not produced any documentary evidence in support of their action.
Mismatches of Tax Payments					
4.	Mismatch in payment of tax was identified on verification of the Table-9R of GSTR-9C where rate-wise tax liability declared was compared with payment of tax declared in the annual return in GSTR-9. ***(Appendix 3.17)***	1	1	0.20	On this being pointed out (September 2024), the reply of the Department stated (December 2024) that notices in DRC 1A had been issued.

3.1.9 Conclusion

The Subject Specific Compliance Audit (SSCA) on Department Oversight on GST Payments and Return Filing (Phase-II) was undertaken with the objectives of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and Departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed during the periods from 2018-19 to 2020-21. The SSCA entailed assessing the oversight functions of State CT & GST jurisdictional formations at two levels – at the data level through data queries and at the functional level with a deeper detailed audit of both Circles and of the GST returns, which involved accessing taxpayer records.

The audit sample therefore comprised 195 taxpayer's sample data with high value inconsistencies across 15 parameters selected through data queries for *Centralised Audit* and a sample of 79 taxpayers for *Detailed Audit* of GST returns for three years.

A review of the 10 Circles disclosed that Circle's compliance to essential oversight functions, such as monitoring of returns filing, scrutiny of returns, taxpayer compliance and cancellation of registration needed to be strengthened.

In Centralised audit, 301 high value data inconsistencies were pursued, which resulted in 91 (70 ITC & Tax Liability deviations and 21 Turnover & Taxable supply deviations) compliance deviations where the Department accepted the deviations with revenue implication of ₹1,059.73 crore (₹532.37 crore + ₹527.36 crore). Relatively higher rates of deviations were noticed in ITC mismatches, unsettled liabilities, availing ITC where the supplier has not paid tax.

Detailed audit of GST returns also suggested inadequacies. Certain essential records such as ledger of sundry creditors and tax invoices of selected months as sample etc., were not produced in 43 cases, which resulted in scope limitation. The main deficiencies noticed were mismatch of ITC between GSTR-3B and GSTR-2A and mismatch of tax liability admitted in GSTR-1/GSTR-9 and tax paid shown in GSTR-9. The compliance deficiencies involved a revenue implication of ₹1,999.73 crore.

Considering the compliance deficiencies, pointed out in this report, the Department needs to reinforce the institutional mechanism in the field formations to establish and maintain effective oversight on return filing, taxpayer compliance, tax payments, cancellation of registrations and recovery of dues from defaulters.

3.1.10 Recommendations

The recommendations are as follows-

3.1 ***The Department may ensure that scrutiny proceedings are completed in strict compliance with the established Standard Operating Procedures.***

3.2 ***The Department may instruct its field formations to take timely action on completing the cancellation proceedings and ensuring filing of GSTR-10.***

3.3 ***The Department may initiate remedial action for all the compliance deviations brought out in this Report before they get time barred.***

3.4 ***The Department may pursue with the taxpayers for production of financial statements and other specific taxpayers' records as requisitioned by Audit.***

EXCISE DEPARTMENT

3.2 Non-realisation of Government revenue of ₹ 61.04 lakh towards Transport Fee

Non-issue of demand notice for realisation of transport fee on locally collected Mohua Flower against 21 Out Still licensees, resulted in non-realisation of Government revenue amounting to ₹61.04 lakh.

The Excise Commissioner (EC) clarified (May 2008) that transport fee should be realised for transportation of Mohua Flower (MF) from one place to another, within the State. Such fee shall also be realised for any purchase of MF in small quantity and transported to Out Still (OS) shops for distillation. For realisation of transport fee on MF from the OS licensees, the Excise Department prescribes the rate of transport fee (TF) in the Annual Excise Policy of the State.

Audit test checked (March 2023) records of OS licensees under the jurisdiction of District Excise Office (DEO), Nuapada covering FYs from 2018-19 to 2021-22, and noticed that the OS licensees had collected/ procured MF locally or from MF licensed traders for distillation and manufacture of OS liquor. Audit further noticed that TF in respect of MF procured from licensed MF traders had been deposited in the Government account, whereas TF on MF collected from local people, had not been deposited. During the FYs from 2018-19 to 2021-22, 21 OS licenses had collected 1,49,088.90 quintals of MF from local people, on which they had not deposited TF amounting to ₹61.04 lakh, as detailed in the Table below:

Table 3.2.1: Statement showing collection of MF by 21 OSs for which transport fees had not been deposited

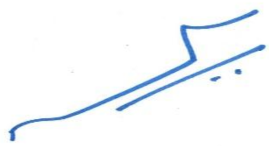
Period (FY)	Quantity of MF procured locally (in quintals)	Rate of Transport Fee (₹ per quintal)	Total transport fee not realised (₹)
2018-19	44,037.50	35	15,41,313
2019-20	39,179.40	40	15,67,176
2020-21	29,839.80	40	11,93,592
2021-22	36,032.20	50	18,01,610
Total	**1,49,088.90**		**61,03,691**

(Source: Records of the Superintendent of Excise, Nuapada)

The Superintendent of Excise concerned had not raised demand for realisation of TF for MF collected by OSs from local people, as of February 2023. This has resulted in non-realisation of Government revenue amounting to ₹61.04 lakh from 21 OS licenses.

Thus, non-adherence to the order of the EC and non-issue of demand notice to the OS licensees resulted in non-realisation of Government revenue amounting to ₹ 61.04 lakh.

The Excise Commissioner stated (July 2023) that show cause notices had been issued to the OS licensees through the concerned Officers-in-charge of Excise and further development was awaited (January 2024).



Bhubaneswar **(SUBU R.)**

The 17 APRIL 2026 **Principal Accountant General (Audit-I)**

Odisha

Countersigned

New Delhi **(K. SANJAY MURTHY)**

The 20 APRIL 2026 **Comptroller and Auditor General of India**