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Report of the
Comptroller and Auditor General of India
for the period ended March 2024

Union Government
Department of Revenue
(Indirect Taxes – Goods and Services Tax)
Report No. 20 of 2026
(Compliance Audit - Civil)

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Laid on the table of Lok Sabha/Rajya Sabha on ____________

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Preface

This Report for the period ended March 2024 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 with the issues involving levy and collection of Goods and Services Tax.

The instances mentioned in this Report are those, which came to notice in the course of test audit conducted during 2024-25 and 2025-26.

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 with the issues involving levy and collection of Central Goods and Services Tax.

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 includes the findings of the third phase of audit of IT system of the GSTN. Chapter IV discusses the systemic and compliance issues, observed during the course of the Subject Specific Compliance Audit (SSCA) of Works Contract and Construction Services under Goods and Services Tax. Audit observed 1,334 compliance deficiencies involving ₹ 401.42 crore out of which, the Department accepted audit observations in respect of 903 cases with money value of ₹ 268.36 crore and reported recovery of ₹ 15.88 crore in 399 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 ₹ 1,14,847 crore (eight per cent) during FY24 over FY23. For the FY ended 2023-24 there was a decline in indirect taxes to GDP ratio, when it decreased to 4.98 per cent in FY 24 from 5.15 per cent in FY 23. The decrease in the indirect taxes as a percentage of GDP during FY24 was mainly due to decrease in Central Excise revenue which decreased to ₹ 3,05,362 crore in FY24 from ₹ 3,19,000 crore in FY23. Central GST revenue, however, increased by 13 per cent (₹ 1,08,804 crore) during FY 24 over FY 23.

(Paragraph 1.3)

Chapter III: IT Audit of GSTN- Phase III

The first phase of IT audit[1] was conducted between May and October 2018 covering two modules - Registration and Payments apart from the Inter-state

[1] The findings of this audit were included in Chapter 3 of the Comptroller and Auditor General (CAG)'s Compliance Audit Report No. 11 of 2019 Indirect Taxes-GST.

Goods and Service Tax (IGST) settlement reports, limited review of IT Security related reports of Standardisation Testing and Quality Certification (STQC), Business Continuity Plans and Change Management process for the period up to December 2017. The second phase of audit of IT system of the GSTN[2] was conducted between October 2019 and July 2020 to cover two other modules viz. Refunds and Returns; the E-Way Bill system implemented by NIC Bengaluru and to follow up on the audit findings of Phase I.

The third phase of audit of IT system of the GSTN was conducted to assess the extent to which GSTN has implemented the audit findings of the earlier two phases of audit and to evaluate the additional functionalities deployed in Registrations and Returns modules and IGST settlement reports, while also reviewing IT Governance and IT Security.

(Paragraph 3.2)

Overall, the follow up of earlier audit findings disclosed that out of the 56 outstanding audit findings from the earlier two phases of audit, GSTN had rectified 38 issues, one issue has been partly rectified and rectification was in progress in three cases, while in the remaining cases rectification was not initiated, inadequate or not required due to changed provisions.

(Paragraph 3.3)

Registration Module

While most of the additional features deployed between April 2019 and March 2023, that were verified, were functioning as envisaged, Audit observed deficiencies in eight features in the front-end taxpayer registration module in terms of improper and inadequate validations and deficiencies in seven functionalities in the tax officers' module relating to approval and cancellation of registrations, alert mechanism to monitor potential breaches and process delays in approval of registration.

(Paragraph 3.5)

Returns Module

While most of the additional features deployed between April 2019 and March 2023, that were verified, were functioning as envisaged, Audit observed nine deficiencies in mapping business rules and not implementing functionalities relating to filing of returns, verifying eligibility of taxpayers, discharge of tax liability, reversal of Input Tax Credit and systemic alerts to Proper Officers to facilitate monitoring. Audit also observed that five functionalities that were implemented were not functioning as intended.

(Paragraph 3.6)

[2] The findings of this audit were included in Chapter 3 of the next CAG's Compliance Audit Report no 1 of 2021 Indirect Taxes-GST, Central Excise and Service Tax.

IGST Settlement

Audit analysed the settlement reports and data outputs based on various scenarios reflected in SRS Phase-II (version 2.00) and observed five deficiencies pertaining to various settlement reports not being generated and discrepancies in apportionment of IGST in cases where settlement reports were generated.

(Paragraph 3.7)

IT Governance and IT Security

Audit observed that GSTN was largely compliant with the requirements of applicable IT frameworks, infrastructure creation and monitoring of performance against Service Level Agreements. However, there were a few gaps in these areas, involving partial compliance to IT frameworks, gaps in infrastructure planning in terms of enhancing portal capacity and moving to more resilient data centers.

(Paragraph 3.8)

Audit recommended that GSTN may

i. **expedite the rectification of the deficiencies in validation in the front-end taxpayer registration module.**

ii. **expedite the rectification of the improper restriction imposed on eligible taxpayers opting for Composition Levy Scheme.**

iii. **rectify the deficiencies in functionalities of uploading physical verification reports, incorrect mapping of business rule relating to cancellation of registrations and integration of banking platforms.**

iv. **expedite incorporation of features to enable tax officers to monitor taxpayers under Composition Levy Scheme breaching the threshold.**

v. **develop validations for enforcing eligibility for quarterly filing, discharging additional liability in GSTR 9, auto compute interest for delayed return filings, ensure timely filing of ITC -03 and rectify validation weakness in the invoice furnishing facility.**

vi. **expedite developing functionalities for reversing ITC when supplier amends GSTN of recipient and issuing notices to all return filing defaulters.**

vii. **expedite developing a mechanism for monitoring the value of services supplied by taxpayers under the Composition Levy Scheme.**

viii. **expedite the process of rectifying the discrepancies in functionalities of sequential return filing.**

ix. consider making available the summary sheet in GSTR 4A to facilitate taxpayers under Composition Levy Scheme.

x. rectify the inconsistencies and discrepancies in auto populated values in returns as it is a critical element in ensuring compliance and simplification of return filing process.

xi. address the issue of inconsistency of rules with the revised settlement procedure and not settling IGST collected against compounding of offences.

xii. initiate the process of reverse settlement of IGST for taxpayers who file ITC -01 and on appeal orders granting IGST refund.

(Paragraph 3.10)

Chapter IV: Works Contract and Construction Services under Goods and Services Tax

The Subject Specific Compliance Audit (SSCA) on Works Contract and Construction Services focused on identifying both key areas of compliance as well as instances of non-compliance by the taxpayers and/or Department.

(Paragraph 4.2)

The scope of the SSCA included the review of return scrutiny conducted by the Department and verification of CBIC administered taxpayer records for the period April 2020 to March 2022, corresponding to the financial years (FYs) of 2020-21 and 2021-22. For the Range audit, the records for the period 2020-21 to 2023-24 was the subject matter of examination.

(Paragraph 4.3)

Based on 12 predefined risk parameters associated with ITC and Undischarged Liability, each carrying specific risk scores, a total of 715 taxpayers falling under 69 Commissionerates (out of 104 Commissionerates) under CBIC were selected as audit sample. In addition to 715 taxpayers, 20 taxpayers falling under 12 Commissionerates (out of 96 taxpayers), exclusively engaged in the metro projects were also selected for audit.

Further, as part of the SSCA, a sample of 115 taxpayers was drawn from the jurisdiction of Audit Commissionerates, from the cases which were planned for audit covering the FYs 2020-21 and 2021-22 relating to works contract/ construction services sector.

Lastly, Audit selected a sample of 71 Ranges (out of 528 ranges) as a part of this SSCA to review oversight functions of Ranges.

Thus, in all, Audit selected a total of 850 taxpayers and 71 Ranges.

(Paragraph 4.5)

Out of the overall sample of 735 taxpayers, verification of GST returns and basic records such as financial statements and GST ledgers of taxpayers was limited by unavailability of GST Returns – GSTR-2A and GSTR-9C and financial statements, on the backend application of the Department in 22 cases, which potentially involved an identified mismatch in tax discharge, availment of ITC and availment of concessional tax rate applicable to works contract suppliers of ₹36.09 crore[3]. In six cases under six Ranges, the Department produced the records after the completion of field audit but the same could not be audited due to reporting challenges.

In addition, the second stage verification was impaired due to partial production of granular[4] taxpayer records requisitioned and pursued based on identified risks. These granular records, which are not available with the Department had to be obtained from the individual taxpayers. These records were not forthcoming in 431 cases (involving 392 taxpayers), where Audit had identified mismatches in tax liability, availment of both ITC and concessional tax rate of ₹2,732.56 crore.

(Paragraph 4.7.1)

Out of a sample of 735 taxpayers, Audit observed 123 cases of compliance deficiencies, with a revenue implication of ₹190.98 crore, due to incorrect availment of concessional rate of tax/exemptions on works contracts relating to construction of road, bridges, railways and earthwork, short discharge of liability on works contract services provided to Government authority/entity, short discharge of liability by builder/developer under RCM, irregularities in residential real estate/real estate projects, irregular availing of ITC on ongoing/completed projects, not discharging GST on unaccounted 'on-money' income discovered by Income Tax authorities and short discharge of tax liability in execution of metro projects.

(Paragraph 4.7.3)

Audit observed 1,057 compliance deficiencies involving 522 taxpayers, out of the sample of 715 taxpayers, due to not declaring service codes and additional places of business in GST Registration, mismatch in availment of ITC and short levy of tax and interest, involving an amount of ₹188.98 crore.

(Paragraph 4.7.4)

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[3] Commissionerates - Bhubaneswar (three cases - ₹27.65 crore); Bengaluru East (three cases - ₹2.84 crore); Belagavi (two cases- ₹2.31 crore); Bengaluru North (three cases - ₹1.62 crore); Kochi (one case - ₹1.16 crore); Bengaluru West (one case- ₹0.34 crore); Dibrugarh, Guwahati; (two cases -₹0.17 crore); Raipur, Indore, Bhopal and Itanagar (seven cases – nil)

[4] Supplementary financial ledgers, invoices, agreement copies etc.

Audit evaluated the adequacy and effectiveness of the system prevailing in the selected sample of 71 Ranges for scrutiny and assessment of returns. Nineteen Ranges did not provide the details of scrutiny of GST returns filed by taxpayers. Audit observed deficiencies in oversight functions in 57 Ranges across the sampled Ranges.

While four Ranges did not conduct scrutiny as envisaged, deficiencies in scrutinised cases were noticed in 11 Ranges, which reflect gaps in assessed tax/ interest involving an amount of ₹3.18 crore.

In 73 cases across 12 Ranges, Audit observed delays, mainly in issue of ASMT10 and ASMT12 and action taken under Section 73 and 74 of the GST. Follow up of cases red flagged by the Directorate General of Audit and Risk Management (DGARM) was deficient in 76 cases across 10 Ranges involving a financial implication of ₹12.81 lakh.

(Paragraph 4.7.5)

Audit recommends

- ***The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where the concessions related to works contract services are availed by sub-contractor/sub-sub-contractors who are executing works of road, bridge and railways to ensure proper discharge of tax by taxpayers.***

  The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

- ***The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where concessional rate for earthwork is claimed on works contract services executed by service providers (sub-sub-contractors) other than sub-contractors to ensure proper discharge of tax by taxpayers.***

  The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

- ***The Department may institute a mechanism for reviewing (by selecting for scrutiny or internal audit etc.) cases where taxpayers executing works contracts or construction services receive services from Governments or procure inputs and input services from unregistered suppliers to ensure proper discharge of tax under RCM by such taxpayers.***

- ***The Department needs to ensure effective co-ordination between CBDT and CBIC and leverage the information of unaccounted income available with the Income Tax authorities to determine corresponding GST liability of taxpayers providing works contract and construction services.***

(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 products[5]. GST came into effect from 1 July 2017[6]. 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

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

6 With effect from 8 July 2017 in Jammu and Kashmir

may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

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 Executive 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 2019-20 to 2023-24 have been given in **Table 1.1** below:

Table 1.1: Resources of the Government of India

(₹ in crore)

Particulars	2023-24	2022-23	2021-22	2020-21	2019-20
A. Total Revenue Receipts*	42,17,668	36,61,672	33,34,813	24,59,509	25,98,705
i. Direct Tax Receipts	19,60,166	16,63,686	14,12,422	9,47,174	10,50,685
ii. Indirect Tax Receipts including other taxes	15,05,352[7]	13,90,505	12,96,893	10,79,929	9,59,374
(As per cent of Total Revenue Receipts)	(35.69 %)	*(37.97 %)*	*(38.89 %)*	*(43.91 %)*	*(36.92 %)*
iii. Non-Tax Receipts	7,51,137	6,05,594	6,24,192	4,30,654	5,88,273
iv. Grants-in-aid & contributions	1,013	1,887	1,306	1,752	373
B. Miscellaneous Capital Receipts	45,281	46,035	14,638	37,897	50,349
C. Recovery of Loans and Advances	1,16,974	36,273	24,948	29,923	18,647
D. Public Debt Receipts	91,60,050	88,64,893	82,49,152	81,62,910	73,01,386
Receipts of Government of India (A+B+C+D)	**1,35,39,973**	**1,26,08,873**	**1,16,23,551**	**1,06,90,239**	**99,69,087**

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 ₹ 1, 14,847 crore (8.26 per cent) during FY24 over FY23. The annual growth of indirect taxes (Y-o-Y), which increased from 12.57 percent in FY 21 to 20.09 per cent in FY22 shows declining trend in FY23 and decreased to 7.22 per cent. However, the annual growth of indirect taxes (Y-o-Y) shows increasing trend in FY 24. The growth in indirect taxes was due to increase in the receipts from Goods and Services Tax and Customs Duty, which increased, respectively, by ₹ 1,08,804 crore (13 per cent) and ₹ 19,748 crore (nine per cent) over the previous year (FY23). However, Central Excise decreased by ₹ 13,638 crore (four per cent) during FY24.

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7 Indirect tax Receipts also includes receipts of ₹ 411.76 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 ₹ 3,333.63 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.

The share of indirect taxes in total revenue receipts had decreased from 43.90 per cent in FY21 to 35.69 per cent in FY24.

1.3.1.1 Growth of Indirect Taxes - Trends and Composition

Table 1.2 below depicts the relative growth of indirect taxes during FY20 to FY24, with respect to GDP and Gross Tax Revenue.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)

Year	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
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	5.15	30,54,191	45.40
FY24	15,01,607	3,01,22,956[8]	4.98	34,65,518	43.33

Source: Tax revenue - Union Finance Accounts

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

During FY 23 and FY 24, after increasing from 4.70 per cent in FY 20 to 5.47 per cent in FY22, the Indirect taxes to GDP ratio decreased to 5.15 per cent and 4.98 per cent, respectively. During FY 23 and FY 24, the decline in Indirect taxes to GDP ratio may be attributed to decrease in Central Excise revenue which decreased to ₹ 3,19,000 crore and ₹ 3,05,362 crore in FY23 and FY 24, respectively, from ₹ 3,90,808 crore in FY22.

Indirect taxes as a percentage of gross tax revenue showed an declining trend from FY 21 to FY 24 where the indirect taxes as a percentage of Gross Tax Revenue decreased from 53.16 per cent in FY 21 to 43.33 per cent in FY 24.

When Audit pointed this out (October 2025), Ministry stated (February 2026) that FY21 and part of FY22 were not normal as the economy was hit by unprecedented COVID pandemic and negative growth was observed in GDP as well as Direct Taxes in FY21. In FY22, economy had witnessed a steep V-shaped recovery and Direct Tax saw an astounding growth of 49 per cent in FY22 due to low base and indirect taxes had also registered an impressive growth of around 20 per cent on a comparable base. Ministry further stated that share of Indirect Taxes in the total Revenue Receipts from FY12 onwards, barring FY21 and FY22, was in the range of 33 per cent to 39 per cent. The share of Indirect Taxes in total revenue Receipts for FY20, FY23, and FY24 was well within this range.

[8] GDP for FY24-Press note released by Ministry of Statistics and Programme Implementation on 30 May 2025.

Ministry had attributed decline in the share of indirect taxes in Gross Tax Revenue to the negative y-o-y growth of Central Excise Duty in FY23 and FY24 due to deep Union Excise Duty cuts since November 2021 to contain the inflation, lower exports of refined petroleum products and substantial increase in the collection of Direct Taxes.

1.3.2 Comparative growth of various components of Indirect Taxes

The **Table 1.3** depicts the relative growth of various components of indirect taxes during FY 20 to FY 24:

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

(₹ in crore)

Tax component	2019-20	2020-21	2021-22	2022-23	2023-24
Central GST Taxes[9]	6,01,784	5,51,541	7,02,105	8,53,901	9,62,705
Customs	1,09,283	1,34,750	1,99,728	2,13,371	2,33,119
Central Excise	2,39,452	3,89,667	3,90,808	3,19,000	3,05,362
Service Tax	6,029	1,615	1,012	431	425
Other taxes and duties	26	24	19	-142	-4.32
Indirect Taxes	**9,56,574**	**10,77,597**	**12,93,672**	**13,86,561**	**15,01,607**

Source: Union Finance Accounts of the respective years.

As evident from the table above, Central GST revenue increased by 13 per cent (₹ 1,08,804 crore) during FY 24 over FY 23. The other major component of Indirect taxes viz. Customs duty also grew by nine per cent (₹ 19,748 crore) during the same period.

The share of Central GST taxes in the indirect taxes decreased to 51 per cent in FY21 from 63 per cent in FY20. However, from FY21 to FY24 share of Central GST taxes in the indirect taxes increased from 51 per cent in FY 21 to 64 per cent in FY24[10].

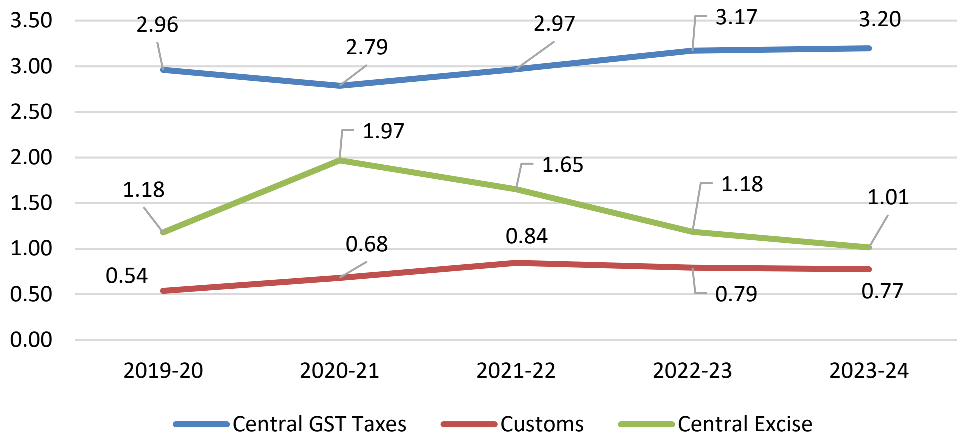
[9] GST revenue included Central Goods and Service Tax, Integrated Goods and Service Tax (IGST), UT Goods and Service Tax and GST Compensation Cess. During FY20, FY21, FY22 and FY23, IGST of ₹ 9,125 crore, ₹ 7,251 crore, ₹ 2,119 crore and ₹ 4,748 crore, respectively was retained in the Consolidated Fund of India, which was required to be apportioned between Centre and States. Audit had highlighted this issue in paragraph 1.3 of C&AG's Audit Report No. 7 of 2024 and 25 of 2025. In response to audit observation, Ministry had revised the accounting procedure for accounting adjustment of un-apportioned amount of IGST with effect from 2024-25.

[10]

Tax component	2019-20	2020-21	2021-22	2022-23	2023-24
Central GST Taxes	63%	51%	54%	62%	64%
Customs	11%	13%	15%	15%	16%
Central Excise	25%	36%	30%	23%	20%
Service Tax	1%	0%	0%	0%	0%

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

Chart 1.1: Major Components of Indirect Taxes as per cent of GDP



As evident from the chart above, Central GST revenue as a percentage of GDP increased to 3.20 per cent in FY 24 from 2.96 per cent in FY 20. Revenue from Customs as per cent of GDP decreased from 0.84 per cent in FY22 to 0.77 FY24, after showing an increasing trend from 0.54 per cent in FY20 to 0.84 per cent in FY22. However, revenue from Central Excise as per cent of GDP decreased from 1.18 per cent in FY20 to 1.01 per cent in FY24.

When Audit pointed this out (October 2025), Ministry stated (February 2026) that increase in Central GST revenue as a per cent of GDP indicates greater tax buoyancy, administrative efficiency and structure consolidation of GST. Ministry also attributed the increase in GST collections to the GST compliance which had improved significantly due to the introduction of e-invoicing, auto-matched returns and data-driven scrutiny, along with technology-enabled enforcement and action against fake invoicing.

With respect to declining trends of Central Excise from FY20 to FY24, Ministry stated that this was on account of downward calibration in Central Excise duty in November 2021 and May 2022.Ministry also attributed this decline to shift from Diesel vehicles to CNG and Electric vehicles and the increase in per cent of ethanol blending in petrol in FY24 in comparison to FY21.

With respect to Customs duties, Ministry stated that in FY23 customs revenue was impacted due to reduction in Customs duty and exemptions, given to high revenue yielding items like lentils, edible oil, precious metals, cotton etc., which was also continued on most of the item in FY24 as well. Ministry also attributed the reasons for such trend in customs duty to trade liberalization initiatives, including duty concessions along with moderation in international commodity process.

1.3.3 GST revenue of Government of India: Budget Estimates vs Actual Receipts

Table 1.4 below depicts a comparison of the Budget Estimates and the corresponding actuals for GST receipts.

Table 1.4: Budget, Revised estimates and Actual receipts (GST)

(₹ in crore)

Year	Budget Estimates (BE)					Revised Estimates (RE)					Actual Receipts				
	CGST	UTGST	IGST	Cess	Total	CGST	UTGST	IGST	Cess	Total	CGST	UTGST	IGST	Cess	Total
2020-21	5,80,000	3,000	-	1,10,500	6,93,500	4,31,000	2,719	-	84,100	5,17,819	4,56,334	2764	7,251	85,192	5,51,541
2021-22	5,30,000	3,327	-	1,00,000	6,33,327	5,70,000	3,327	-	1,05,000	6,78,327	5,91,226	3,991	2,119	1,04,769	7,02,105
2022-23	6,60,000	3,706	-	1,20,000	7,83,706	7,24,000	3,928	-	1,30,000	8,57,928	7,18,522	4,768	4,748	1,25,863	8,53,901
2023-24	8,11,600	3,935	-	1,45,000	9,60,535	8,11,600	4,330	-	1,45,000	9,60,930	8,20,622	5,497	-4,850	1,41,436	9,62,705

Source: Union Finance Accounts and Receipt budget documents of respective years.

As could be seen from the table above, the Central GST revenue[11] was short of the Budget Estimates for the year 2020-21. The shortfall vis-à-vis Budget Estimates was 20 per cent. However, during 2021-22 to 2023-24, Actual Receipts were 111 per cent, 109 per cent and 100 per cent, respectively, of the Budget Estimates.

The actuals for 2020-21 and 2021-22 exceeded the Revised Estimates by seven per cent and four percent, respectively. During 2022-23 and 2023-24 the actuals were at par with the Revised Estimates.

In this regard, it is pertinent to mention that the actual receipts of the Central GST revenue also includes the amount of year-end IGST balances retained in the Consolidated Fund of India which was ₹ 9,125 crore, ₹ 7,251 crore, ₹ 2,119 crore and ₹ 4,748 crore in FY20, FY21 FY 22 and FY 23, respectively.

When Audit pointed this out (October 2025), Ministry stated (February 2026) that variations between Budget Estimates and Actuals in FY 21 was due to COVID Pandemic.

1.4 Conclusion

The Indirect taxes collections increased by ₹ 1, 14, 847 crore (eight per cent) during FY24 over FY23. For the FY ended 2023-24 there was a decline in Indirect taxes to GDP ratio when it decreased to 4.98 per cent in FY 24 from 5.15 per cent in FY 23. The decrease in the Indirect taxes as a percentage of

[11] CGST, IGST and GST Compensation Cess

GDP during FY24 was mainly due to decrease in Central Excise revenue which decreased to ₹ 3, 05, 362 crore in FY24 from ₹ 3, 19,000 crore in FY23, decline of 18 per cent.

Central GST revenue increased by increased by 13 per cent (₹ 1, 08,804 crore) during FY 24 over FY 23. During FY24, Central GST revenue as a percentage of GDP increased to 3.20 per cent from 3.17 per cent in FY23.

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 assessees 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 a Executive Commissionerates 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 assessees 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 assessees. 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 2024-25 and 2025-26, nine field audit offices headed by Directors General (DsG)/Principal Directors (PDs) of Audit carried out Subject Specific Compliance Audit (SSCA) of the Works Contract and Construction Services under Goods and Services Tax to evaluate whether the administration was effective in ensuring compliance with the provisions of CGST Act, rules, notifications and prescribed procedures relating to levy and collection of tax, Input Tax Credit (ITC) availment and exemptions claimed by the taxpayers involved in works contracts/ construction services. Audit observed 1,334 compliance deviations with monetary impact of ₹ 401.42 crore. Audit findings of this SSCA are included in Chapter IV of this Report.

Audit also conducted the third phase of the audit of IT system of GSTN with the objectives of assessing the extent to which GSTN has implemented the audit findings of the earlier two phases of audit and to evaluate the additional functionalities deployed in the 'Registration', and 'Returns' modules and 'IGST settlement reports' for their conformance with business rules envisaged in the CGST Act and Rules and to ensure authenticity, completeness and accuracy of data for these modules as well as assessing IT governance and security. 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.

2.4 Follow-up of previous CAG's Audit Reports

In the last four years (excluding FY24), we had included 345 audit paragraphs/SSCAs pertaining to Central Excise, Service Tax and Goods and Services Tax involving money value of ₹ 29,425.07 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			FY19 & FY20	FY21	FY22	FY23	Total
Paragraphs/SSCA Included		No.	297	30	11	7	**345**
		Amt.	1,236.26	1,251.18	2,875.40	24,062.23	**29,425.07**
Paragraphs accepted/Partially Accepted	As on 31.05.2026	No.	205	28	11	2	246
		Amt.	1,101.12	1,209.86	2,252.75	22,180.26	**26,743.99**
Recoveries effected	As on 31.05.2026	No.	107	14	10	2	**133**
		Amt.	43.24	195.52	84.97	145.41	**469.14**

The Ministry had accepted audit observations in 246 audit paragraphs/SSCAs involving money value of ₹ 26,743.99 crore, and had recovered ₹ 469.14 crore in respect of 133 audit paragraphs/SSCAs.

2.5 Response by Ministry to audit observations included in this report

After the reports containing the findings of the SSCA on Works Contract and Construction services and the third phase of audit of IT system of the GSTN were issued, the Ministry and GSTN were requested to offer their comments on the audit observations within a period of six weeks. Out of the 1,334 cases of compliance issues, with money value of ₹401.42 crore, observed in the SSCA on Works Contract and Construction services and included in this Audit Report, the Ministry accepted audit observations in 903 cases with money value of ₹268.36 crore and reported recovery of ₹15.88 crore crore in 339 cases at the instance of audit.

The Ministry/GSTN had also accepted most of the audit findings reported in third phase of audit of IT system of the GSTN, which have been included in this Report.

In addition to the above, four draft paragraphs related to indirect taxes administration and Revenue Trends under GST were issued to the Ministry. Ministry's reply to these draft paragraphs have also been received, which have been incorporated in this Report.

Chapter III IT Audit of GSTN- Phase III

3.1 Introduction

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, marking a historic reform in the country's taxation system. It is a comprehensive, destination-based[12] indirect tax designed to subsume several indirect taxes like Central Excise duty, Service Tax, countervailing duty etc. and State Value Added Tax/Sales Tax, Central Sales Tax, Purchase Tax, Luxury Tax, Entry Tax etc. levied by Central and State Governments respectively into a single tax with a single unified framework.

The GST Council, established under the 101st Constitutional Amendment Act, 2016, is the apex governing body responsible for overseeing the implementation and administration of the Goods and Services Tax (GST) in India. Chaired by the Union Finance Minister and comprising of Union Minister of State in charge of Revenue or Finance; and the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government and Union Territory, the Council ensures a collaborative federal structure for decision-making. Its primary role is to recommend GST rates, exemptions, thresholds, procedural regulation or any other matter relating to goods and services tax.

The Goods and Services Tax Network (GSTN) is a government-owned, non-profit company that provides the technology backbone that undergirds tax administration. Incorporated in 2013, GSTN was initially structured as a public-private partnership but became a fully government-owned company in 2022, with shareholding divided equally between the Central and State Governments and the 50 per cent share is again equally divided among 31 entities (28 states and 3 Union Territories). The GST technology system developed by GSTN is a unique and complex IT initiative as it established, for the first time, a uniform interface for the taxpayer under indirect taxes through a common and shared IT infrastructure between the Centre and States. GSTN provides the technological framework to facilitate the seamless capture, processing, and exchange of information among various stakeholders, including taxpayers, State and Central Governments, Accounting Authorities, Banks, and the Reserve Bank of India.

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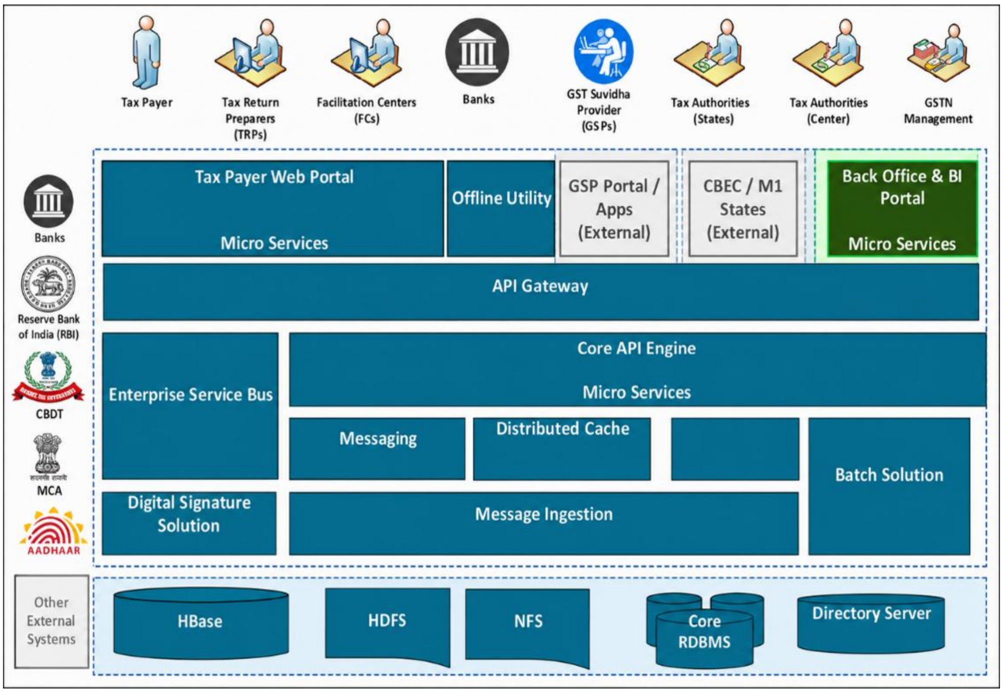
[12] Destination-based Tax**:** GST is a destination-based tax, levied at each stage of the supply chain, from the manufacturer to the consumer. It is applied on the value addition at each stage, allowing for the seamless flow of tax credits and reducing the tax burden on the end consumer.

The following **chart 3.1** is an overview of the logical architecture showing various layers of the GST system.

Chart 3.1: The logical system architecture of the GST system



In order to address the challenge of processing and storing voluminous data, GSTN leverages two data stores - Big Data Store for keeping large amount of invoice data and RDBMS for keeping payment/ledger/registration meta data.

The system developed by GSTN, designated as a common portal, has been functioning as the front-end interface of the overall GST IT eco-system and provides for filing of registration application, filing of returns, creation of challans for tax payment, payment of GST, settlement of IGST payment, and generation of Business Intelligence and analytics.

3.2 Audit of GSTN - Modalities

The various functional modules of the Information Technology (IT) infrastructure were rolled out in phases and consequently audit of the IT system of the GSTN system was taken up in phases. The first phase of IT audit was conducted between May and October 2018 covering two modules - Registration and Payments apart from the Inter-state Goods and Service Tax (IGST) settlement reports, limited review of IT Security related reports of Standardisation Testing and Quality Certification (STQC), Business Continuity Plans and Change Management process for the period up to December 2017. The findings of this audit were included in Chapter 3 of the Comptroller and Auditor General (CAG)'s Compliance Audit Report No. 11/2019 Indirect Taxes-GST, Central Excise and Service Tax.

The second phase of audit of IT system of the GSTN was conducted between October 2019 and July 2020 to cover two other modules viz. Refunds and Returns; the E-Way Bill system implemented by NIC Bengaluru and to follow up on the audit findings of Phase I. The findings of this audit were included in Chapter 3 of the next CAG's Compliance Audit Report No. 1 of 2021 Indirect Taxes-GST, Central Excise and Service Tax.

This is the third phase of audit of IT system of the GSTN, which was conducted essentially as a follow up of the audit findings of the earlier two phases as well as to evaluate the additional functionalities deployed in Registrations and Returns modules and IGST settlement reports, while also reviewing IT Governance and IT Security.

3.2.1 Audit objectives

The third phase of the audit of IT system of GSTN was undertaken with the objectives of assessing the:

i. extent to which GSTN has implemented the audit recommendations of the earlier two phases of audit;

ii. additional functionalities deployed in the 'Registration', and 'Returns' modules and 'IGST settlement reports' conform with business rules envisaged in the CGST Act and Rules and the data therein is authentic, complete and accurate;

iii. robustness of IT governance and IT security.

3.2.2 Audit scope

The audit scope for this phase of audit was the follow up of the 56 outstanding audit recommendations from the earlier two phases of audit of the IT system of GSTN and to evaluate the additional functionalities in the 'Registration' and 'Returns' modules deployed from April 2019 to March 2023 and IGST settlement reports. Audit also reviewed the extant state of IT governance and IT security mechanisms for the period up to March 2025.

3.2.3 Audit methodology

The Entry Conference for this phase of audit was conducted with GSTN on 6 June 2024, in which the audit objectives, scope, timelines and methodology were discussed and explained. The audit methodology involved various techniques to test the controls and to carry out substantive testing. The user facing front-end validations were tested with a set of pre-defined checks in the User Acceptance Testing (UAT) environment. Data queries were used to assess the process and output validations as well as to assess the accuracy, authenticity and correctness of data. Data analysis and substantive testing were carried out to verify the discrepancies and identify the factors that caused the discrepancies. Anomalies identified through UAT or data queries were followed up with Audit Queries to GSTN, wherever necessary, seeking clarifications or additional details. Audit Observations were communicated to GSTN based on verified replies to Audit Queries and/or confirmed outputs of **Data Queries**. All the responses received from GSTN to Audit Observations have been incorporated suitably at the respective paragraphs in this report. The Exit Conference was conducted with GSTN and the Ministry on 13 February 2026

3.2.4 Audit criteria

Audit criteria were derived from various sources which comprised the following:

i. Central GST Act, 2017 and Central GST Rules, 2017

ii. GST Settlement of Funds Rules, 2017

iii. Notification and circulars issued by CBIC from time-to-time

iv. Systems Requirement Specification (SRS)

v. Recommendations made in CAG's Compliance Audit Reports 11/2019 and 1/2021 relating to Phase-I and Phase-II of audit of IT system of GSTN respectively

vi. Standards, Certificates, best practices issued/adopted by various authorities - Ministry of Electronics and Information Technology (MEITY), Indian Computer Emergency response team (CERT-in), NCCIPC (National Critical Information Infrastructure Protection Center), STQC, National Cybersecurity Preparedness Consortium (NCSC) and Indian Standards Organisation (ISO) Standards.

3.3 Summary of Audit findings

The audit findings from the IT Audit of GSTN (Phase III) have been categorised and are featured module wise in succeeding paragraphs.

The follow up of earlier audit findings disclosed that out of the 56 outstanding audit recommendations from the earlier two phases of audit, GSTN had rectified 38 issues, one issue had been partly rectified and rectification was in progress in three cases, which are discussed in the para 3.4. Rectification in the remaining cases were not initiated, inadequate or not required due to changed provisions.

Out of the additional functionalities in the Registration and Returns modules that were reviewed, Audit observed 39 deficiencies in validations, not mapping of business rules and not implementing functionalities, which are discussed in paras 3.5 and 3.6.

Further, out of 31 IGST settlement reports envisaged, GSTN was generating only 14 reports. While some settlement reports were no longer required, a few deficiencies remain in IGST settlement. Further, Audit also observed deficiencies in some settlement reports as discussed in para 3.7.

Audit also observed gaps in IT Governance and IT Security mainly on account of partial adherence to IT frameworks and deficiencies in infrastructure planning as discussed in para 3.8.

3.4 Follow up of earlier audit findings

The audit findings from Phase I of the audit of IT system of GSTN, covering the modules for Registration, GST Payment, settlement of Integrated GST, aspects of Business Continuity Plan and Change Management Process were reported in Chapter 3 of CAG's Audit Report No. 11 of 2019 (Indirect Taxes-GST, Central Excise and Service Tax), of which 22 audit findings remained outstanding.

Similarly, the audit findings from Phase II of the audit of IT system of GSTN, covering the modules of Refund, Returns, E-Way Bill and other issues were reported in Chapter 3 of CAG's Audit Report No. 01 of 2021 (Indirect Taxes-GST, Central Excise and Service Tax), of which 34 audit findings remained outstanding.

The implementation status of these outstanding audit findings observed in the follow up conducted in this phase of audit against each module is summarised below:

i. **Registration module:** This module deals with the processes of application for registration, verification and approval, which are essentially online processes. The findings comprised gaps in validations, incorrect data capture and delays in underlying processes. Follow up audit disclosed that GSTN had resolved six out of the nine audit findings, two deficiencies persist despite assurance to implement and one issue has been overtaken by subsequent amendments and hence does not require further follow up.

Table 3.1: Result of follow up – Registration Module

Sl. No.	Para no of Audit Report[13]	Outstanding audit finding	Implementation status
1	3.7.2(b)	GST Registrations under Composition Levy Scheme allowed for restricted Harmonized System of Nomenclature (HSN) Codes due to inadequate validation	Rectified
2	3.8.1(b)	Registration for Other Notified Persons – Unavailability of facility for validating notification number or uploading the required documents	Rectified
3	3.9.1	Search functionality gave output for the period beyond the search criteria	Rectified
4	3.9.2	No option for different languages at GSTN Portal	Not implemented
5	3.9.3	The feature for providing registration for multiple business verticals was not implemented	Provisions amended. 'Multiple verticals' replaced' Places of Business'[14]
6	3.9.4	Central GST jurisdiction within each State was not mapped	Rectified
7	3.9.4	Absence of jurisdictional mapping of the address of place of business	Rectified
8	3.10.1	Delay in issuance of Application Reference Number, GSTIN and Unique Identification Number	Issue persists even after rectification
9	3.10.2	Not validating Corporate Identification Number of Companies	Rectified

As regards the multilingual support not implemented, GSTN replied (April 2025) that the portal, was envisaged (as per Request For Proposal - RFP 1.0), to support English and 14 official languages. However, due to the phased implementation of GST provisions and modules, localization was postponed until all functionalities were stabilized. GSTN stated that it prioritizes accessibility and inclusivity and aims to support 22 additional languages as per the Constitution's eighth schedule, incorporated in the draft RFP for GST 2.0. GSTN further stated the selection of a new Managed Service Provider was underway, and once onboarded, bilingual implementation will be taken up on priority and implemented.

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[13] CAG's Audit Report no 11/2019 (Indirect Taxes- GST)

[14] Registration of multiple business verticals has been replaced with 'Places of business' vide CGST Notification 03/2019 dated 29-01-2019 wef 01-02-2019

ii. **Payment module:** This module enables taxpayers in making periodic tax payments both in cash from the Electronic Cash Ledger or by using ITC from the Electronic Credit Ledger of the registered taxpayers. The earlier findings suggested deficiencies in population of Electronic Cash Ledger, in acceptance of payments, and delay in remittances. Follow up audit disclosed that GSTN had successfully resolved three out of the four deficiencies pointed out earlier, while one issue has been overtaken by subsequent amendments and therefore does not require further follow up.

Table 3.2: Result of follow up – Payment Module

Sl No	Para no of Audit Report[15]	Outstanding audit finding	Implementation status
1	3.13.2	Electronic Cash Ledger credited without confirmation from bank	New provision stipulates credits based on e-scroll[16]
2	3.14	Not implementing the minimum service requirements for banks leading to delayed remittances /reporting of government receipts	Rectified
3	3.16	Not accepting payments where payment details were received after expiry of the validity period of challan	Rectified
4	3.18	Payment through debit/credit cards not provided in the GSTN System	Rectified

iii. **IGST settlement:** This module deals with apportionment of IGST revenue between the respective consuming States (the SGST portion of IGST revenue) and the Centre (CGST portion of the IGST revenue) as generation of appropriate settlements reports. Earlier findings had disclosed erroneous entries in settlement reports, duplicate records, not generating reports, incorrect computation and unrealistic claims of ITC. Follow up audit disclosed that GSTN had rectified four out of the nine issues pointed out, one issue has been partly rectified, one issue has not been implemented despite assurance, while implementation of the remaining three issues was in progress.

[15] CAG's Audit Report no 11/2019 (Indirect Taxes- GST)

[16] New Rule 87(8) inserted vide Notification No. 26/2022- CT dated 26-12-2022 envisages that where the Bank fails to communicate confirmation Electronic Cash Ledger can be updated based on e-scroll

Table 3.3: Result of follow up – IGST Settlement

Sl. No.	Para no of - Audit Report[17]	Outstanding audit finding	Implementation status
1	3.22.1	Settlement reports not being prepared	Rectified
2	3.22.2	Not integrating GST system with the ICEGATE system of Customs and payments made under appeal, refund and prosecution for IGST settlement not considered for preparing IGST settlement reports	Partly rectified
3	3.22.3	Not settling interest	Rectified
4	3.23	Duplicate records pertaining to taxpayers appearing in various settlement reports	In progress
5	3.24	Incorrect computation of IGST Settlement	Rectified
6	3.25	Erroneous entries in settlement reports - STL 01.02/01.03, 01.05 and 1.06	In progress
7	3.25	Erroneous entries in settlement report - STL 01.04	In progress
8	3.26	Lack of validation leading to unrealistic claims of ITC of IGST	Rectified
9	3.27	Inaccuracies in IGST settlement algorithms	Issue persists even after rectification

iv. **Returns module:** The Returns module enables taxpayers to file all periodic returns online. This module also auto generates GSTR 2A (statement of inward supplies of a taxpayer) of the recipient based on the GSTR 1 Return (Statement of outward supplies) of the supplier. The earlier audit findings had disclosed absence of validations across various returns, incorrect mapping of business rules, permitting ITC availment on ineligible items and to ineligible taxpayers, not computing interest and reports not being generated. The follow up audit disclosed that GSTN had resolved all the eight deficiencies pointed out earlier.

[17] CAG's Audit Report no 11 of 2019 (Indirect Taxes- GST)

Table 3.4: Result of follow up – Returns Module

Sl. No.	Para no of - Audit Report[18]	Outstanding audit finding	Implementation status
1	3.8.3.3	Incorrect creation of GSTR-2A leading to irregular availability of ITC	Rectified
2	3.8.3.4	Absence of turnover validation leading to composition taxpayers filing GSTR-4 even after crossing the threshold limit	Rectified
3	3.8.3.5	Absence of provisions leading to not paying tax on Reverse Charge Mechanism basis by Non-Resident Taxable Persons	Rectified
4	3.8.3.6	Incorrect mapping of Rule to SRS diluted the requirement for taxpayers to declare requisite HSN details in GSTR-1	Rectified
5	3.8.3.7	Not computing actual interest liability and not enforcing payment thereof through the system.	Rectified
6	3.8.3.8	Ineligible taxpayers allowed to avail benefit under TRAN-2	Rectified
7	3.8.3.9	System allowing ITC availment in respect of ineligible items in TRAN-2	Rectified
8	3.8.3.10	Credits allowed in TRAN-2 without validating tax rate as per law	Rectified

v. **E-Way Bill module:** This module enables generation of E-Way Bills (EWBs) by the consignors, consignees as well as by the transporters for evidencing movement of goods. The earlier findings had disclosed deficiencies in various functionalities of EWBs and GSTN had rectified eight out of the nine deficiencies pointed out, while resolution of one issue was pending with other agencies.

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[18] CAG's Audit Report no 1 of 2021 (Indirect Taxes- GST, Central Excise and Service Tax)

Table 3.5: Result of follow up – E-Way Bill Module

Sl. No.	Para no of - Audit Report[19]	Outstanding audit finding	Implementation status
1	3.9.5.1	Lack of validations in rejection of EWBs	Rectified
2	3.9.5.2	Lack of validation to record supply to or by SEZ	Rectified
3	3.9.5.3	Lack of validation in extension of EWBs	Rectified
4	3.9.5.4	Errors in automatic calculation of distance based on PIN Code	Rectified
5	3.9.5.5	Lack of validation in recording multi-vehicle mode of transport	Rectification pending with other agencies
6	3.9.5.6	Lack of validation in recording transportation by rail	Rectified
7	3.9.5.7	Not utilizing MIS Reports by departmental officers	Rectified
8	3.9.5.8	Not utilizing analytic reports on EWBs	Rectified
9	3.9.5.9	Deficiencies in Disaster Recovery Management of EWB system	Rectified

vi. **Refund module:** The Refund module deals with receiving applications from taxpayers for refund of tax paid on account of exports or inverted duty structure etc and processing the refunds as per rules. Earlier audit had identified validation weaknesses in the Refund module leading to excess refunds, deficient re-credits to ITC, not endorsing invoices of supplies to SEZ, not implementing interest on delayed refunds and 'withhold request', not excluding ITC credit on capital goods etc. Out of 13 deficiencies pointed out, five have been rectified, deficiencies persisted in three cases even after rectification, in two cases rectification were pending with other agencies, one issue was not taken up for implementation and reply was awaited in the remaining two cases.

[19] CAG's Audit Report no 1 of 2021 (Indirect Taxes- GST, Central Excise and Service Tax)

Table 3.6: Result of follow up – Refund Module

Sl. No.	Para no of - Audit Report[20]	Outstanding audit finding	Implementation status
1	3.7.3.2	Unmitigated risk in GST Refund mechanism	Reply awaited
2	3.7.3.3	Deficient re-crediting facility of ITC where Deficiency Memo was issued on second and subsequent occasion	Rectified
3	3.7.3.4	Excess refund allowed by system in case of export without payment of tax	Issue persists even after rectification
4	3.7.3.5	Mandatory validation not enforced - (Details of endorsement of invoices of supplies to SEZ)	Rectification pending with other agencies
5	3.7.3.6	Not implementing "Withhold" request functionality	Issue persists even after rectification
6	3.7.3.7	Functionality for interest on delayed payment of Refund not implemented in the system	Not implemented
7	3.7.3.8	Not allocating RFD 10 of Other Notified Persons to State Jurisdictional Authority	Reply awaited
8	3.7.3.9	Absence of auto–exclusion functionality to deduct the ITC of Capital goods	Issue persists even after rectification
9	3.7.3.10	Absence of adequate controls / validations leading to excess claim of refund	Rectified
10	3.7.3.11	Functionality for unregistered person / consumer to apply for refund not implemented	Rectified
11	3.7.3.12.1	Reconciliation gaps between GST Portal and ICES	Rectification pending with other agencies
12	3.7.3.12.2	Not deploying validation to restrict the shipping bills having higher rate of duty drawback	Rectified
13	3.7.3.12.3	Absence of system validation leading to excess IGST Refund amount	Rectified

vii. **Other issues:** Four deficiencies on delayed resolution, license management, performance of GSTN portal on peak filing days and disaster recovery drills have been rectified.

3.5 Registration

The registration process is governed by Sections 22 to 30 of CGST Act- 2017, Rules 8 to 26 of the CGST Rules- 2017 and related notifications and circulars issued by CBIC from time to time. These provisions envisage that suppliers of goods exceeding the aggregate annual turnover threshold of ₹40 lakh (₹20 lakh for Special Category States) and suppliers of services exceeding the aggregated annual turnover threshold of ₹20 lakh (₹10 lakh for Special Category States) have to be compulsorily registered in GST, within 30 days of becoming eligible for registration. For a perspective of the registration

[20] CAG's Audit Report No. 1 of 2021 (Indirect Taxes- GST, Central Excise and Service Tax)

process, the process flow of application for registration, verification and approval processes are represented below.

Chart 3.2: Process flow of Registration under GST

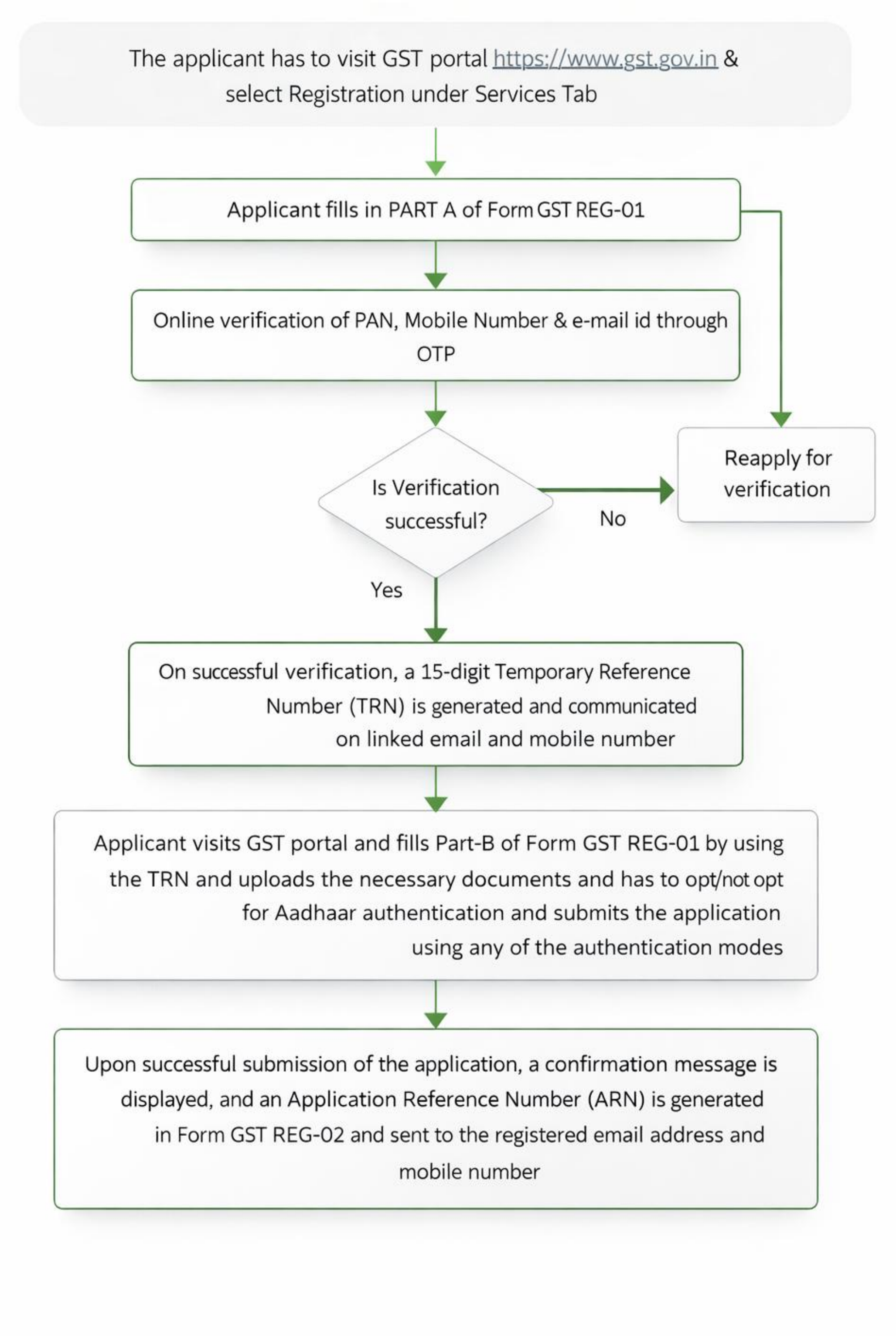
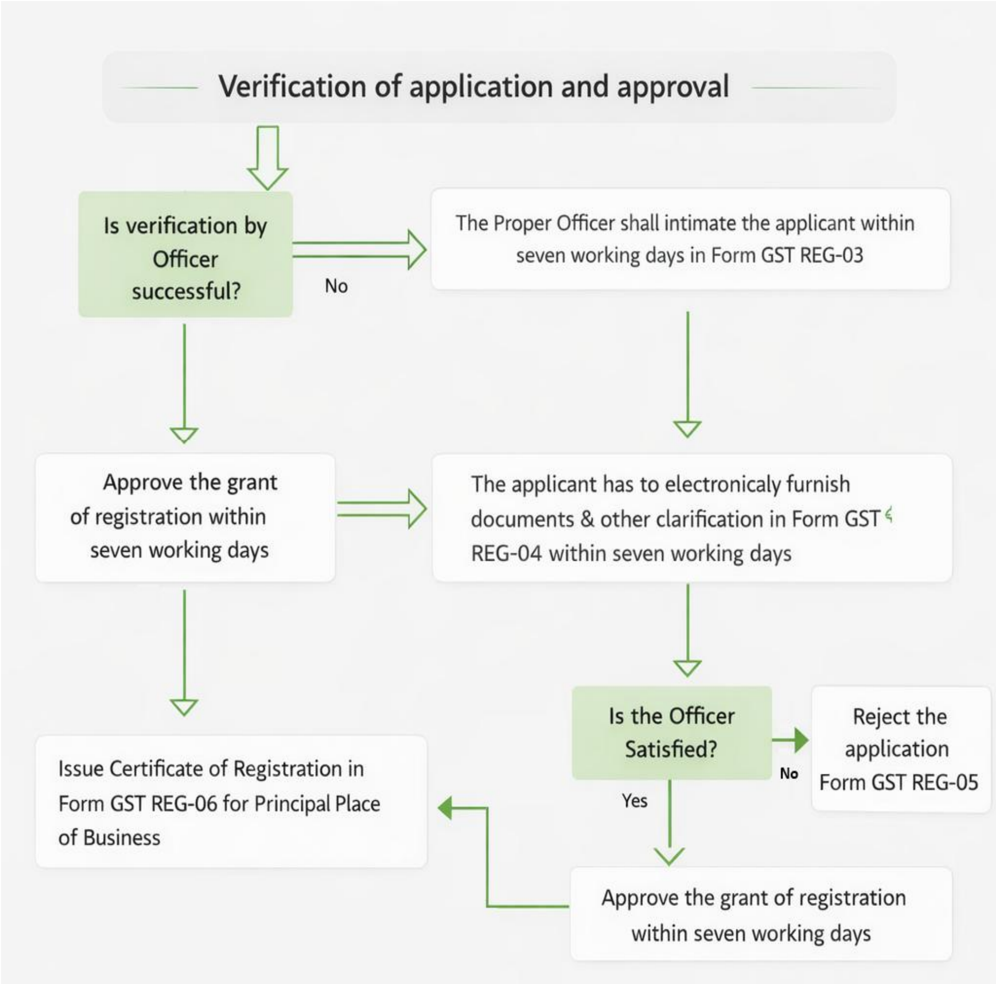


Chart 3.3: Process flow of verification and approval of registration



To enable the process of registration, GSTN system has a front-end taxpayer registration module for applicants to apply for registration and a tax officer's module, comprising the back office, to approve the registration. The validations, verified by Audit in UAT environment, disclosed deficiencies in both the taxpayer registration module as well as in tax officer's module of the GSTN IT system.

While most of the additional features deployed between April 2019 and March 2023, that were verified, were functioning as envisaged, Audit observed deficiencies in eight features in the front-end taxpayer registration module in terms of improper and inadequate validations and deficiencies in seven functionalities in the tax officers' module relating to approval and cancellation of registrations, alert mechanism to monitor potential breaches and process delays in approval of registration.

3.5.1 Deficiencies in front end taxpayer registration module

The frontend taxpayer module enables applicants to fill in the application form for registration and follow the sequential process as depicted in Chart 3.2. Audit of the validations and features introduced by GSTN during the period from April 2019 to March 2023, disclosed that while most of the features were functioning as envisaged, there were a few inadequacies, as under:

i. **Improper validation of Permanent Account Number of applicants:** The GSTN developed a functionality to implement the rule[21] stipulating online validation of Permanent Account Number (PAN) of applicants, from the database maintained by the Central Board of Direct Taxes, to be verified through One Time Password (OTP) sent to the mobile number and email address linked to the PAN.

Audit tested the functionality in the User Acceptance Testing (UAT) environment as well as in the live environment on GST common portal (https://reg.gst.gov.in/registration/) and observed that the PAN was getting validated through OTPs sent on mobile numbers and email addresses not linked with the respective PAN. Further, a Temporary Reference Number (TRN) was generated in these cases, after validation of PAN in the above manner. This lacuna leaves the registration process (Part A of the application for registration) vulnerable to exploitation by unscrupulous entities.

After this being pointed out (January 2025), the GSTN replied (January & March 2025) that while GSTN had developed the Change Request to restrict misuse of PAN and tested, the CBDT database was found to be incomplete and the functionality was not deployed in production. It was further stated that GSTN was analysing the CBDT data periodically and once the data quality improves, a decision to deploy the functionality would be taken and that the matter was already brought to the knowledge of Department of Revenue.

ii. **Generation of Application Reference Number without completion of biometric authentication:** A functionality was developed to implement the rule[22], for identification and document verification of an applicant, who opts

[21] Rule 8 (2) (a) inserted vide Notification No. 26/2022-CT dated 26.12.2022

[22] Rule 8(4A) of CGST Rules, 2017 states that where an applicant, other than a person notified under sub-section (6D) of section 25, opts for authentication of Aadhaar number, he shall, while submitting the application under sub-rule (4), undergo authentication of Aadhaar number and the date of submission of the application in such cases shall be the date of authentication of the Aadhaar number, or fifteen days from the submission of the application in Part B of FORM GST REG-01 under sub-rule (4), whichever is earlier.

for Aadhaar authentication, while applying for registration and generating an Application Reference Number (ARN)[23].

The functionality, as outlined in the notification[24] and the advisory issued by GSTN, envisages that the applicant, after the submission of the application in Form GST REG-01, will receive either of the following links in the e-mail.

(a) A link for OTP-based Aadhaar Authentication or

(b) A link for booking an appointment with a message to visit a GST Suvidha Kendra (GSK) along with the details of the GSK and jurisdiction, for Biometric-based Aadhaar Authentication and document verification.

Thus, in cases where the link for booking appointment for Biometric-based Aadhaar authentication and document verification has been received by the applicant, the ARN should be generated only after the above authentication/document verification process is completed.

Audit checked the functionality in the UAT environment with two sample cases and observed that after the link is sent for biometric authentication at GSK, the system generates ARN even when the biometric authentication, as envisaged, is not completed. Subsequently, the registrations were getting approved and GSTINs were being issued.

Additionally, Audit identified by a data query that there were 1,017 cases in the production database, where the system had issued biometric authentication intimations, but authentication either failed or was not completed. Out of these 1,017 cases, Audit test checked a sample of 100 registration application cases from production environment pertaining to the state of Gujarat for the year 2023–24 and observed that 86 out of 100 applicants were possessing active GST registration without undergoing mandatory biometric authentication after the system sent intimation links to these applicants.

When this was pointed out (January 2025), GSTN confirmed deployment (February 2025) of a functionality to block ARNs where biometric/ document verification is incomplete, with corresponding warnings and status updates integrated across applicant notifications.

iii. **Lack of validation of Corporate Identification Number and Director Identification Number:** A company applying for GST registration has to furnish Corporate Identification Number (CIN), issued by the Registrar of Companies (RoC), which is a unique 21-digit alphanumeric code that identifies

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[23] Rule 8(5) states that ARN would be generated on receipt of application under sub rule (4) or sub rule (4A) of Rule 8.

[24] CGST Notification No. 27/2022

a company registered in India and a Director Identification Number (DIN), which is a unique 8-digit number issued by the Ministry of Corporate Affairs (MCA) to individuals who are appointed as directors of these companies in India.

Audit tested this functionality in UAT environment by generating an application for registration of a private company and observed that, in Part-B of the registration application, the GST portal accepted random CIN and DIN, which were not related to the company and directors respectively and ARN was generated followed by GST registration.

Further, Audit noticed that the "List of Documents to be uploaded" appended to Form GST REG-01 did not include documents related to CIN and DIN. In UAT environment also, there was no field for uploading these documents. The lacunae suggested that system is not properly integrated with RoC and MCA portals as the CIN and DIN are not being validated by the respective agencies.

After this being pointed out (January 2025), GSTN replied (February 2026) that a request has been raised (RQM 26745) for implementing the CIN DIN validation using new APIs of MCA and will be taken up in due course of time.

iv. **Not validating Aadhar Enrolment ID under e-KYC process:** Proviso to Rule 10B states that if Aadhaar number has not been assigned to the person, he/she is required to undergo authentication of the Aadhaar number, and such person shall furnish her/his Aadhaar Enrolment ID slip and any of the following identification documents, namely; (i) Bank passbook with photograph; or (ii) Voter identity card issued by the Election Commission of India; or (iii) Passport; or (iv) Driving license issued by the Licensing Authority during registration. It is further provided that such person shall undergo the authentication within a period of thirty days of allotment of Aadhaar number.

An Aadhaar enrolment ID is a unique 28-digit number that is assigned to each applicant for an Aadhaar card. The first 14 digits are the enrolment number, and the next 14 digits are the date and time of enrolment.

Audit tested the validation in the UAT environment and it was observed that the system accepted any dummy Aadhaar Enrolment ID consisting of any combination of random 14 digits enrolment number along with 14 digits of date and time. Further, the system was accepting Aadhaar Enrolment ID even in cases where the PAN of the applicant was already linked with another Aadhaar number.

When this was pointed out (January 2025), GSTN stated (February 2026) that the feasibility of verification of Aadhaar Enrolment ID and integration with

UIDAI was explored but could not be implemented as there is no such API available at UIDAI's end currently.

v. **Improper restriction on eligible persons opting for Composition Levy Scheme:** Section 10(2) of the CGST Act, 2017 stipulates that a registered person engaged in the manufacture of specified goods notified by the government shall not be eligible for registration under the Composition Levy Scheme[25]. The Central Government subsequently notified[26] the specified goods/restricted goods as tobacco, ice cream, pan masala, aerated beverages, bricks etc.

Audit tested the functionality in the UAT environment by applying for registration under Composition Levy Scheme as a person, who is a manufacturer (of goods other than the notified/restricted goods) while also being a trader/service provider dealing in the specified goods restricted for Composition Levy Scheme. The system did not allow the registration under Composition levy Scheme, even though such applicants are eligible for registration under Composition Levy Scheme.

This improper restriction imposed by the system, potentially impacts small traders who could also be manufacturers of certain goods (not being the notified/restricted goods) and barring such persons from applying under Composition Levy Scheme affects ease of doing business**.** As the case fulfils conditions for opting for Composition Levy Scheme, single registration under Composition Levy Scheme can be allowed for applicants with such use cases.

When this was pointed out (January 2025), GSTN stated (February 2026) that a Change Request (vide CR 28514-D) has been raised to implement the validation by which an applicant will be able to apply for registration under Composition Levy Scheme as a person, who is a manufacturer (of goods other than the notified/restricted goods) as well as a trader/service provider dealing in the specified goods restricted for Composition Levy Scheme.

vi. **Ineffective validation for enforcing provision of bank account details and suspension of registration:** Rule 10A of CGST Rules, 2017 mandates that a registered person must furnish bank account details on the common portal within 30 days of registration or before filing return GSTR-1, whichever is earlier. Further, Rule 21A(2A)(b) states that not complying with Rule 10A will lead to suspension of registration, with an intimation sent electronically in

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25 An optional simplified scheme for small taxpayers with aggregated annual turnover less than ₹1.5 crore (₹75 lakhs for special category states) wherein the taxpayer opting for this scheme need only to pay tax ranging from one to six per cent of their turnover and file quarterly returns

26 Notification No. 14/2019-Central Tax dated 7 March 2019

Form GST REG-31, requiring the taxpayer to justify why their registration should not be cancelled.

GSTN developed a feature[27] to prevent the taxpayer from navigating beyond the warning pop-up until bank account details are added and disabling dashboard access and other functionalities. Audit tested the feature in the UAT environment, by not providing bank account details until 19 November 2024 to a registration granted on 20 September 2024, i.e., until two months after the grant of registration. Audit observed that the other functionalities were not disabled in the UAT environment and though the GST registration, in this case, was liable to be suspended, the system did not suspend the registration automatically and no intimation of the suspension in form GST REG-31 was communicated electronically to the email address of the defaulter taxpayer.

The output of the feature was, therefore, not in line with the provisions of the Rule. When this was pointed out (January 2025), GSTN intimated (February 2026) that a Change Request (CR 29095) has been deployed on 3 Dec 2025 and to suspend registration of taxpayers in accordance with Rule 10A of CGST Rules, 2017.

vii. **Not activating live camera functionality during registration:** The person applying for registration under GST must provide the details of promoter/proprietor/partner and authorized signatory and upload the photograph of the person whose details have been given as promoter/ proprietor/partner and authorized signatory. Alternatively, the GST system/Common Portal offers the option of using the device camera to capture a live selfie photograph as proof of identity, eliminating the need to upload a pre-existing photograph.

Audit observed during testing of the live camera functionality for capturing live photograph of the applicant in UAT/ Live environment during registration process on multiple occasions at different dates and various time intervals that the live camera module failed to function during the test processes. In every test scenario, the camera did not get activated to capture the selfie, even after waiting for considerable durations ranging from 1 to 27 minutes and the live camera failed to capture the live photograph of the applicant.

After this was pointed out (April 2025), GSTN accepted (February 2026) the audit observation and stated that the issue of camera not working has been fixed and deployed in production on 31 October 2025.

[27] Change Requests No 20221 and 23411

viii. **Deficiency in OIDAR registration:** As per Section 2(17) of IGST Act, 2017, Online Information Database Access and Retrieval Services (OIDAR) refers to services such as advertising on internet, cloud services, digital storage, online gaming etc. whose delivery is mediated by information technology over the internet and the nature of which renders their supply essentially automated involving minimal human intervention.

For OIDAR applicants, entering of bank account details are optional at the time of registration. However, when opted during registration process, the details should be validated to ensure that bank account is valid, active and matches with the PAN on which GSTIN was created.

Audit tested the functionality in UAT environment and observed that the system was accepting random bank account number while filling the bank account details without any validation of bank account number, IFSC Code etc.

When this was pointed out (January 2025), GSTN replied (March 2025) that Bank account validation for OIDAR has since been deployed in production. GSTN further stated that geo-mapping was enabled in 2022 as a facilitation for taxpayer and supplemented by physical verification. GSTN also stated that extension of geo mapping facility to other taxpayer types will be explored in due course. As regards, PIN validation, GSTN accepted the audit observation and stated that it will be taken up for OIDAR type taxpayer as well.

Recommendation 1: GSTN may expedite the rectification of deficiencies in validation in the front-end taxpayer registration module

Recommendation 2: GSTN may expedite the rectification of improper restriction imposed on eligible taxpayers opting for Composition Levy Scheme

3.5.2 Deficiencies in tax officer's module

The tax officer's module enables tax officers to perform the back-office functions of verifying the registration application, creating field visits for cases requiring physical verification of principal place of business and approve/reject registration applications. Audit of the functionalities in this module relating to the process of approval and cancellation of registration and alert mechanisms disclosed the following deficiencies.

i. **Deficiency in functionality for preparing and uploading Physical Verification Reports:** As per Rule 25(2) of the CGST Rules, 2017, physical verification of a business premise is mandatory before granting registration in the circumstances specified in the proviso to sub-rule (1) of Rule 9. Further, as per Rule 9, the Proper Officer is to examine the application and accompanying documents. If everything is in order, the grant of registration is to be approved within seven working days from the date of submission.

The Physical Verification Report (PVR), along with other documents and photographs, must be uploaded in Form GST REG-30 on the common portal at least five working days before the completion of the specified time period.

GSTN has developed a functionality to prepare and upload the Physical Verification Report by the Proper Officers. Audit verified the functionality, in the UAT environment, by uploading a PVR with negative remarks recommending rejection of the registration application. Audit observed that the system failed to link the PVR to the corresponding registration application and also did not flag an alert to the Proper Officer to refer to the PVR, before approving the registration**.** This deficiency compromises the purpose of the functionality.

When this was pointed out (September 2024), GSTN stated (September 2024) that the issue of linking PVR to the registration application was already in the knowledge of GSTN and the required use case was developed through a Change Request (CR 26443 A) to provide PVR to PO at the application level to enable the PO to take a decision based on the PVR.

GSTN further intimated (February 2026) that the required functionality to alert tax officers regarding Field Visit report including negative report has been implemented (vide CR 26443B).

ii. Audit also observed that in the Form GST-REG 30 to be uploaded, there was no facility to upload the supporting documents confirming the place of business and as such the evidence of place of business was not getting captured in the system.

When this was pointed out (January 2025), GSTN stated (February 2026) that as per notified Form REG-30, no such document is required to be uploaded. However, feature to "upload photograph of the place with the person who is present at the place where the verification is considered", as envisaged in point 9 of the said Form, has already been implemented. Further, a feature to enhance the size of "upload photograph" and "E-KYC documents upload", in Form REG-30 has been implemented on 4th August 2025 (CR 29836).

Audit agrees with the features already implemented and that an option "Document verified (Yes/No)" was available in the system (Sl. No. 8 of Form GST REG-30). However, absence of a feature to capture supporting documents (electricity/water bills, ownership records/rent agreement/property tax bill), and identity proof of the person present during verification (voter card, PAN card, driving licence, etc.) weakens the traceability and evidentiary value of the physical verification process. It also leaves scope for fraudulent registrations to go undetected.

iii. **Absence of mechanism to track taxpayers under Composition Levy Scheme supplying services beyond the threshold:** As per extant provisions[28], a person opting for Composition Levy Scheme may engage in supply services of value not exceeding 10 percent of turnover in a state in the preceding financial year or ₹ five lakh whichever is higher.

Audit identified, by a data query on data pertaining to the randomly sampled states of Gujarat, West Bengal, Delhi for the period 2019-20 & 2021-22, that there were 4,064 cases under Composition Levy Scheme supplying both goods and services. Of these, Audit analysed a sample of 100 GSTINs and observed that 64 active taxpayers were engaged in exclusive supply of services and six active taxpayers supplied services exceeding the threshold of 10 per cent of turnover in a state or ₹ five lakh (whichever is higher) and were still continuing as composition taxpayers.

When this was pointed out (June 2025), GSTN stated (July 2025) that due to the current design of CMP-08 return, where only aggregated outward supplies (including exempt supplies) is reported in Table 3.1, it is not feasible to ascertain the exact value of services for applying the relevant provisions of Section 10(1) of the CGST Act. GSTN further intimated (February 2026) that law committee has since recommended to modify the form to report supplies related to goods and services as distinct entries in Table 3. Accordingly, a Change Request (CR 30463) has been issued in this regard and the requisite validations will be incorporated in the system as part of this Change Request or its tranche, once the new form is notified.

iv. **Absence of integration with banking platforms leading to bank validation failures:** GSTN developed a functionality[29] for validating all bank accounts of existing and cancelled taxpayers to ensure that bank accounts are active and the bank accounts details are authentic, valid and matches with the PAN on which GSTIN was created.

Audit identified through a data query on data pertaining to the states of Rajasthan, Gujarat, and West Bengal for the period 2022-23 that there were 138 taxpayers whose bank accounts were not validated. Out of these, an analysis of data of 100 taxpayers revealed that 74 GSTINs, which were active, had bank validation failures, suggesting that system lacks integration with

[28] Second proviso to Section 10(1) of the CGST Act (as amended with effect from 01.02.2019)

[29] BRD 21595

entities like NPCI or other banking platforms to validate bank account details against PAN.

When this was pointed out (January 2025), GSTN stated (February 2026) that the bank account validation process is being undertaken through NPCI in respect of banks which have integration with NPCI. As a few cooperative banks are not integrated with NPCI, their bank accounts could not be validated. However, GSTN stated that a functionality has been implemented to enable the tax officer to validate such left out bank accounts, if any taxpayer approaches for the same.

v. **Incorrect mapping of business rules for cancellation of registration:** Rule 20 of the CGST Rules, 2017 read with Circular No. 69/43/2018-GST provides that the taxpayer applying for cancellation of registration shall submit the application in Form GST REG-16 on the common portal within a period of 30 days of the "occurrence of the event warranting the cancellation". The application should be promptly accepted by the officer, and the cancellation order should be issued in Form GST REG-19, with the effective cancellation date being the same as the date requested in Form GST REG-16. In any case, the effective date cannot be a date earlier to the date of application for the same.

While testing the registration cancellation process in the UAT mode, Audit observed that the system allowed cancellation of registration with effective date of cancellation prior to the date of application for cancellation. In a test case, an application on 4 December 2024, in Form GST REG-16, for cancellation of registration seeking cancellation with effect from 5 November 2024 was accepted by the system. Furthermore, the system allowed the tax officer to accept the cancellation application with effective date of cancellation from 5 November 2024 and a cancellation order was issued in Form GST REG-19, which was in contravention to the rule provisions ibid and suggested incorrect mapping of business rules.

After this was pointed out (January 2025), GSTN replied (February 2026) that the functionality was in line with Section 29 read with Rule 20 and the mentioned circular, as 30 days prior to date of application filing is provided to the taxpayer as per Rule 20. It was stated that a period of 30 calendar days is provided in the system to implement the spirit of Rule 20 wherein it is mentioned that the cancellation may be applied on portal within a period of 30 days of the occurrence of the event warranting the cancellation. In the test case, the cancellation sought by taxpayer falls "within 30 days from date of application".

The reply is not tenable as the rule only states that the taxpayer should apply for cancellation within 30 days of occurrence of event for cancellation and does not envisage cancellation with retrospective effect from the date of occurrence of the event. The circular clearly articulates this position as it states that 'in any case the effective date cannot be a date earlier to the date of application'. The logic interpreted by GSTN is therefore not in consonance with the business rules.

vi. **Absence of alerts to monitor validity of SEZ registrations:** As per the proviso to Section 25 (1) of the CGST Act, 2017, a person having a unit, as defined in the Special Economic Zone Act 2005, in Special Economic Zone (SEZ) or being Special Economic Zone Developer (SEZ Developer) shall have to apply for a separate registration, as distinct from the place of business located outside the SEZ in the same State or Union Territory. Therefore, each SEZ unit/SEZ developer requires a separate registration under GST.

The Law Committee mandated (December 2019)[30] capturing dates of Letter of Approval (LoA) or Letter of Permission (LoP) issued to the SEZ Unit/SEZ Developers in the GST system at the time of registration. Post expiry of validity, the registration needs to be cancelled either by taxpayer or officer. In compliance with the Law Committee's decision, the GSTN developed a functionality[31] to capture validity period of the LoA/LoP for SEZ Units/SEZ developers and the said field was made mandatory in Form GST REG-01.

Audit analysed data of 100 SEZ registration applications identified from production data pertaining to the states of Gujarat, Tamil Nadu and West Bengal for the years 2020-21 & 2022-23 and observed that 84 cases were active even after expiry of the validity period of LoA/LoP, thereby the system is prone to the risk of allowing ineligible SEZ benefits**.** Further, it was observed that there were no core amendments relating to extension of validity period. No system alerts were generated flagging cases of expiry of validity period of LoA/LoP to enable review by tax officers.

GSTN intimated (February 2026) that a functionality to alert taxpayer and the tax officer has been implemented (vide CR 28514-B) and deployed on 1 July 2025.

vii. **Delays in approval process leading to deemed approval:** Rule 9 (5) of the CGST Rules, 2017 stipulates that if a Proper Officer fails to take any action within seven working days/ 30 days (for cases requiring physical verification) from the date of submission of application, the application for registration shall be deemed to have been be approved.

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[30] In its meeting held on 11-12 December 2019

[31] Change Request No.16283

Audit identified through a data query on registration data for the randomly state of Gujarat for the year 2023-24, that a total of 41 registration applications got auto approved/deemed approval after the period of thirty days from the generation of ARNs. This suggested delays in manual processing and approval process.

On this being pointed out (January 2025), GSTN stated (February 2026) that an alert mechanism has been implemented by which the tax officer gets the number of applications, which are critical in terms of pendency, to process the application.

Recommendation 3: GSTN may rectify the deficiencies in functionalities of uploading physical verification reports, incorrect mapping of business rule relating to cancellation of registrations and integration of banking platforms.

Recommendation 4: GSTN may expedite incorporation of the feature to enable tax officers to monitor taxpayers under Composition Levy Scheme breaching the threshold.

3.6 Returns

GST returns are forms that taxpayers registered under GST must file to report their business transactions - sales, output tax and input tax credit. Returns are filed electronically through the GST portal (www.gst.gov.in). The type of return depends on the taxpayer's registration category, turnover, and business activities. The GST framework mandates several types of returns[32], each serving a specific purpose. Some of the basic returns pertaining to a regular (normal) taxpayer[33] are described below:

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

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

[33] A regular taxpayer is a taxpayer whose aggregate annual turnover exceeds ₹40 lakhs for goods and ₹20 lakhs for services. A regular taxpayer is entitled to collect GST from recipients/customers and can claim ITC on eligible business purchases

populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.

GSTR-9: annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source/Tax Collector at Source, Casual Taxable Person, and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover details.

GSTR-2A/GSTR 2B: a system-generated statement of inward supplies for a recipient, which is populated from the corresponding return of suppliers' and contains details of ITC available for claim and ineligible ITC.

The process flow of GSTR 3B and GSTR 9 are featured in the Chart below:

Chart 3.4: Process flow of GSTR 3B- Monthly summary return

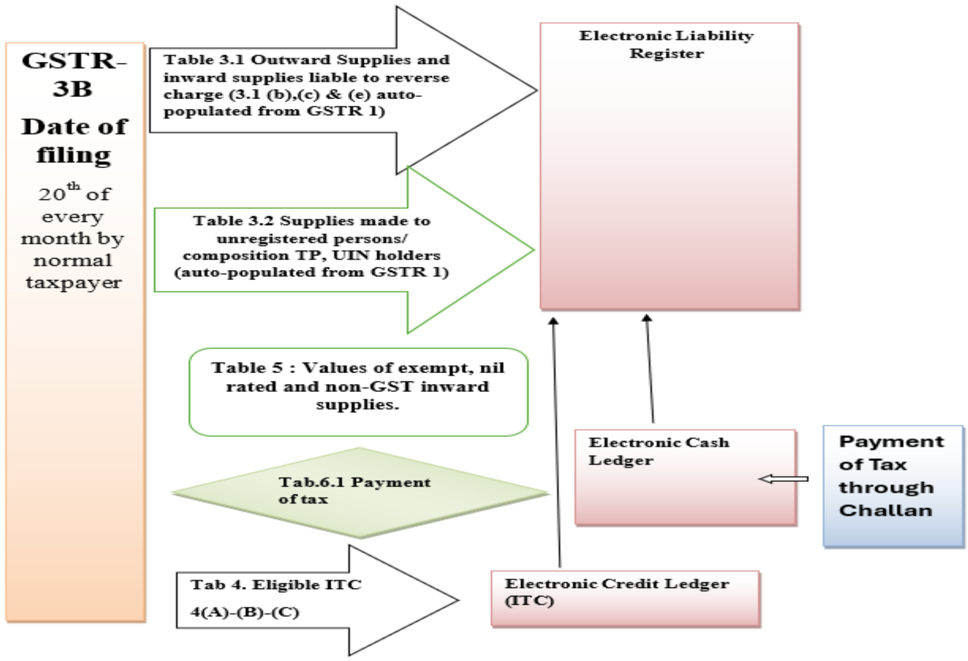
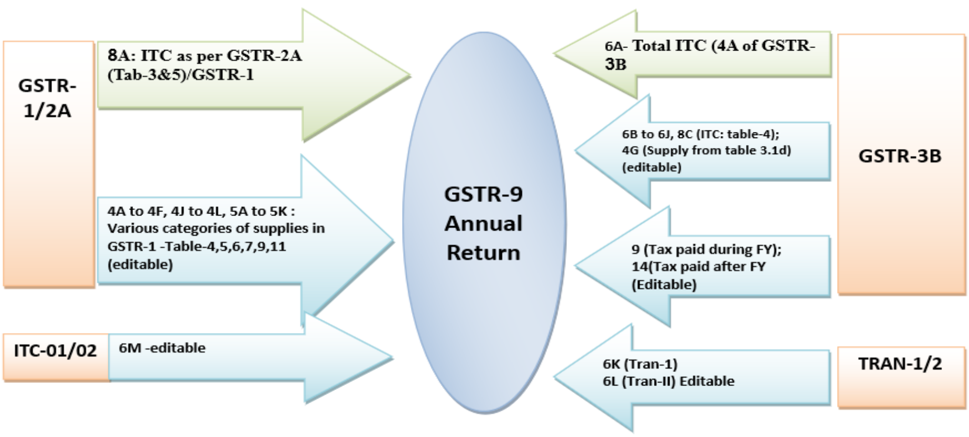


Chart 3.5: Process flow chart of GSTR 9 - Annual return



While most of the additional features deployed between April 2019 and March 2023, that were verified, were functioning as envisaged, Audit observed nine deficiencies in mapping business rules and not implementing functionalities relating to filing of returns, verifying eligibility of taxpayers, discharge of tax liability, reversal of Input Tax Credit and systemic alerts to Proper Officers to facilitate monitoring. Audit also observed that five functionalities that were implemented were not functioning as intended.

3.6.1 Deficiencies in mapping business rules and not implementing functionalities

Return filing is an automated process and it is imperative that the functionalities are mapped to business rules and are implemented fully to facilitate compliance by taxpayers in filing of returns and discharging tax liability and to facilitate tax officers in maintaining oversight. While most of the functionalities deployed were functioning as envisaged, Audit observed a few deficiencies in mapping of business rules and not implementing functionalities as brought out below:

i. **Not implementing functionality to validate eligibility for quarterly return filing:** Proviso to Section 39(1) read with Rule 61(A) and sub rule 61(A)(2) provides that a registered person intending to furnish return on quarterly basis and having aggregate turnover up to five crore rupees will be allowed to furnish return every quarter along with monthly payment of tax, with effect from 01 January 2021, by opting for Quarterly Return filing and Monthly Payment of Taxes (QRMP) Scheme. Option for QRMP Scheme, once exercised, will continue till the registered person revises the option or his Aggregate Turnover (ATO) exceeds rupees five crore. If the ATO exceeds five crore rupees during the current financial year, the registered person should opt for furnishing of return monthly, from the first month of the quarter, succeeding the quarter during which his aggregate turnover exceeded five crore rupees. In case of registered persons under the same PAN all such persons become ineligible to continue under the scheme if the ATO of all the GSTINs put together crosses the 5 crore rupees threshold.

When compliance to this provision was tested in the UAT environment, Audit observed that registered persons were able to file quarterly returns even when the ATO exceeded the prescribed threshold. Further, analysis of data extracted from production environment for the period 2021-24, revealed that in 90,720 instances, taxpayers had crossed the threshold of five crore rupees but had filed quarterly returns, indicating that system does not have a validation mechanism to compute the aggregate turnover of all GSTINs under the same PAN and prevent such taxpayers who opted for the QRMP scheme, from continuing under the scheme when the threshold limit is crossed.

When this was pointed out (January 2025), GSTN stated (February 2026) that the requirement for the functionality to automatically force taxpayer to opt-out from QRMP scheme has been taken up for development (vide CR 27001). GSTN further stated that due to limited resources and other crucial changes in GST 2.0 being prioritised, it has not yet been implemented in the system and that it will be taken up for development shortly.

ii. **Validation weakness in respect of Invoice Furnishing Facility:** As per Rule 59(2) of the CGST Rules, 2017, registered persons furnishing returns on a quarterly basis under the proviso to subsection (1) of Section 39 may report details of outward supplies to registered persons, up to a cumulative value of ₹50 lakh in each of the first and second months of a quarter, using the Invoice Furnishing Facility (IFF). These details can be furnished electronically on the common portal from the 1st to the 13th day of the month succeeding such month. Further, Rule 59(3) provides that the details of outward supplies furnished using the IFF, for the first and second months of a quarter, shall not be furnished in FORM GSTR-1 for the said quarter.

Audit observed an anomaly in the functionality developed to implement the above rule provision. Validation testing in the UAT environment revealed that the GSTN system did not enforce the ₹50 lakh threshold, allowing taxpayers to upload invoices via IFF even when the cumulative invoice value exceeded ₹50 lakh. To provide a perspective, data analysis for the financial year 2023-24 revealed that in 1,21,433 instances the cumulative value of B2B invoices furnished via IFF exceeded ₹50 lakh in the first or second month of a quarter.

When this was pointed out (January 2025), GSTN stated (February 2026) that given the high transaction volumes and diverse compliance patterns, over-validation at the portal level may lead to avoidable system constraints, user grievances and operational bottlenecks without proportionate compliance gains. The GST framework consciously balances system-based facilitation with post-facto verification and enforcement mechanisms.

GSTN further stated that, nevertheless, it has taken note of the audit observation and the feasibility of introducing soft validations, alerts, or advisories to guide taxpayers regarding the ₹50 lakh threshold was being examined.

Audit is of the view that soft validations or alerts, while useful as supplementary measures, do not substitute for effective system-level enforcement where the law prescribes an explicit ceiling. Absence of statutory validations and shifting the burden to post-facto detection and corrective action potentially weakens compliance assurance.

iii. **Lack of validation of value of services supplied by taxpayers under Composition Levy Scheme:** As per second proviso to Section 10(1) of the CGST Act (effective from 01 February 2019) the person who opts to pay tax under clause (a) or (b) or (c) under Section 10(1), may supply services (other than those referred to in clause (b) of paragraph of Schedule II) of value not exceeding ten percent of turnover in a State in the preceding financial year or Rupees five lakh whichever is higher.

Audit observed that there were no separate fields for capturing details of services and goods while filing the CMP-08 and GSTR-4 returns[34] and as such that the business rule governing this segregation was not implemented in the system. Consequently, the system failed to check a taxpayer's eligibility to continue under the Composition Levy Scheme.

When this was pointed out (January 2025), GSTN stated (February 2026) that the proposed changes to Form GST CMP-08, introducing separate fields for reporting supplies of goods and services while filing CMP-08 and GSTR-4 returns, have been approved by the Law Committee. These changes are currently under development (CR No. 30463) and that the revised format of CMP-08 is under discussion with Law Committee.

iv. **Absence of a functionality to reverse ITC when supplier amends GSTIN of the recipient:** As per the provisions of Section 38, read with Rule 60(7), an auto-generated statement in **Form GSTR-2B** is made available every month to provide the details of ITC available to the recipient based on the outward supplies reported by suppliers in **Form GSTR-1.** Form GSTR-2B furnishes details of inward supplies eligible for ITC for the recipient and details of supplies where ITC cannot be availed, either wholly or partially.

Further, Section 37 (3) envisages that if a registered person discovers errors or omissions in the outward supply details furnished in **GSTR-1** filed by him for earlier tax periods, he may rectify it in **Table 9 of** GSTR-1 in the current period and the amended details would be reflected in the recipient's GSTR-2B for the current period.

Audit observed from a test check of Form GSTR 2B in UAT, that when a supplier amends the invoice by changing the GSTIN of the recipient, the newly added recipient's GSTR-2B is correctly populated under "ITC Available". However, the ITC is not reversed in the original recipient's GSTR-2B for the

[34] UAT check was conducted by filing CMP-08 of the taxpayer (GSTIN CJSPG4288DZ6) for the quarter Apr-Jun 2024-25

period in which the amendment was made. As a result, the amount of ITC for utilisation for payment of tax is available in the GSTR-2B of both the original recipient and the recipient of the amended invoice.

When this was pointed out (January 2025), GSTN stated (February 2026) the issue identified by Audit pertains to a system enhancement under phased implementation, and appropriate corrective functionality is under development within **Invoice Management System (IMS)**.

v. **Not implementing validation in GSTR 9 for discharging additional tax liability:** Section 49(7) of the CGST Act, read with Rule 85(2), mandates that all liabilities of a taxable person, including tax, interest, late fees, or other amounts payable as per returns, be recorded in the Electronic Liability Register in Form PMT-01. This register, maintained at the common portal, comprises Part I for return-related liabilities and Part II for other liabilities, with debits reflecting amounts payable. A return is treated as invalid if closing balance in Electronic Liability Register is positive.

Further, taxpayers are entitled to declare additional liability while filing the Annual Return and discharge tax on the additional liability declared. As per instruction 9 under Form GSTR-9 (Annual Return), taxpayers have the option to select "Annual Return" from the drop-down menu in Form DRC-03 (Form to make tax payments) to discharge payment on any additional liability identified. The instruction further clarifies that such liability must be discharged exclusively through the Electronic Cash Ledger.

On examining the validations in GSTR 9, Audit further observed that:

a) **Additional Liabilities not being captured in Electronic Liability Register:** Where any additional tax liability is declared in GSTR-9 (beyond the aggregated tax paid through GSTR-3B returns), the excess liability is not being captured and populated in the Electronic Liability Register. This lapse allows taxpayers to file the Annual Return without fully discharging their tax obligations.

The Ministry stated (February 2026) that the requirement of debiting the Electronic Liability Register for additional liabilities declared in the 'return', envisaged in Section 49(7) of CGST Act, read with Rule 85(2)(a) of CGST Rules, 2017, appears to relate to the monthly/quarterly return (GSTR 3B) to be filed by the taxpayers under Section 39 of the CGST Act, 2017, rather than the annual return in Form GSTR-9, which is an additional return, required to be filed by such registered persons under the provisions of Section 44 of the CGST Act, 2017.

Audit is of the view that interpretation of the expression "the return" under Section 49(7) of the CGST Act read with Rule 85(2)(a) of the CGST Rules as applicable only to the return furnished under Section 39 (i.e., Form GSTR-3B) is restrictive. There is no explicit exclusion in Section 49 or Rule 85 restricting the debiting mechanism only to liabilities arising from Section 39 returns. Form GSTR-9 is a statutory return prescribed under the Act, and any additional tax liability declared therein constitutes an admitted liability under the law, which is required to be reflected in and debited to the Electronic Liability Ledger to ensure that all admitted liabilities are systematically captured and properly discharged.

b) **Absence of validation for DRC-03 Payments in GSTR-9:** When additional liabilities are declared in GSTR 9 and corresponding tax for the additional liability is discharged, as per rules, in Form DRC-03, such tax payments are not captured/reflected in GSTR 9.

Ministry stated (February 2026) that the absence of validation for DRC-03 payments in GSTR-9, has been proposed to Policy Wing to add a new Table (after Table 9 and Table 14) to capture the payment made through DRC-03 in GSTR 9 for FY 2025-26.

c) Improper settling of additional liability through credit ledger: Data analysis for the financial years 2021-22, 2022-23 & 2023-24 revealed that in 2,69,834 instances, taxpayers utilized the credit ledger to settle additional liabilities reported in GSTR-9, instead of mandating payment through the **Electronic Cash Ledger**. This **validation failure** in DRC -03 enables taxpayers to **utilize ITC** to settle such liabilities, which is **contrary to the stipulations under Instruction 9 of Form GSTR-9.**

The Ministry stated (February 2026) that instructions for GSTR 9 for FY 2024-25 have been amended to allow the payment of additional liability through ITC as well.

d) **No Alerts to tax officers on taxpayers not discharging liabilities:** The GST system does not notify tax officers when a taxpayer files GSTR-9 without settling additional liabilities.

The Ministry stated (February 2026) that in respect of providing alerts to tax officers on taxpayers not discharging liabilities, presently the tax payable column in Table 9 of GSTR 9 is editable and captures the liability for the current year, for which GSTR 9 is furnished. However, tax paid column in Table 9 of GSTR 9, which is auto populated from GSTR 3B and not editable may include tax paid on supplies for previous FY also. Therefore, additional liabilities cannot be identified based on the current format of Table 9 of GSTR 9. The suggestion given by Audit is possible only after making the necessary amendment in Form GSTR 9, which is under examination for GSTR 9 of 2025-26 onwards.

However, it is pertinent to point out that as per notification No. 13/2025–Central Tax, a new column has been introduced in Form GSTR-9 to capture the difference between “Tax Payable” and “Tax Paid.” Since the system now distinctly captures the difference, it should be possible for GSTN system to generate automated alerts or exception reports wherever a positive differential remains unpaid.

vi. **Functionality for issuing GSTR 3A notices to defaulters not developed:** Section 46 of the CGST Act read with Rule 68 of the CGST Rules mandates the issuance of an electronic notice in Form GSTR-3A to a registered person who fails to file returns within 15 days of the due date, as required under Section 39, Section 44 (Annual Returns), Section 45 (Final Returns) or Section 52 (tax collection at source by Electronic Commerce Operators).

The functionality to issue GSTR 3A electronically has only been implemented from January 2021 for monthly/quarterly return non-filers of GSTR-3B. Audit observed that though the Business Requirement Document (BRD 23030) pertaining to issuance of notice to defaulters was approved in May 2022, it was not deployed in production.

When this was pointed out (January 2025), GSTN stated (February 2026) that at present system-based issuance of Form GSTR-3A has been implemented for not filing or delayed filing of Form GSTR-3B**,** Form GSTR-9 (Annual Return) and Form GSTR-10 (Final Return)**.** Further, issuance of notices for not filing of GSTR-4 also has been deployed and for FY 2024–25 and onwards.

Notices in Form GSTR-3A for not filing of CMP-08 and GSTR-5 are proposed to be prioritised and issued shortly. However, issuance of GSTR 3A notices for not filing of GSTR-6 and GSTR-7 was not recommended by the Law Committee.

GSTN further stated that the **Business Requirement Document (BRD 23030)** envisages a comprehensive and unified automation framework for issuance of Form GSTR-3A across all return types. The implementation is being taken up in a phased manner to ensure correctness, system stability, and alignment with evolving compliance workflows.

vii. **Absence of a functionality to auto compute interest for delayed filing of GSTR 5A:** GSTR-5A is a return to be furnished by Online Information and Database Access or Retrieval (OIDAR) service provider, of the services provided to non-taxable persons, from a place outside India to a person in India.

During a check in UAT environment, Audit observed that though the GSTR-5A return due on 20 October 2024 was filed belatedly on 07 November 2024, the GSTN portal allowed filing the return though Table 6 (interest and other amounts) was left blank without indicating the applicable interest. Data analysis also revealed that in 54 belated filings out of a total 84 OIDAR filings during 2023-24, the interest amount was not levied, indicating absence of functionality to compute interest for delayed filing of GSTR-5A.

When this was pointed out (January 2025), GSTN stated (February 2026) the changes for the auto calculation of interest in GSTR-5A is proposed to be prioritised and taken up for development shortly.

viii. **Absence of mechanism to validate claim of IGST credit on imports:** Form GSTR 2B is a static monthly statement generated on the 14th of each month, detailing the ITC available to taxpayers. It includes IGST paid on imports and inward supplies from Special Economic Zones, sourced from the Indian Customs Electronic Gateway (ICEGATE), a feature available since August 2020.

Rule 36(4) of GST Rules mandates restricting ITC to the extent reflected in GSTR 2B. The eligible ITC on import of goods in Table 4(A) (1) of GSTR 3B is auto-populated from Table 3, Part A, Section IV of GSTR 2B.

A comparison of import data for 2023-24, available in GSTR 2B revealed that:

a. In 3,41,575 cases, the ITC availed on IGST in GSTR 3B (Table 4(A)(1)) was not equal to the amounts reflected as available and eligible in form GSTR 2B (Table 3, Part A, Section IV)

b. In 1,43,930 cases, the ITC availed in GSTR 3B exceeded the eligible ITC available in GSTR 2B.

As ICEGATE is the primary data source for IGST paid on imports, ITC not auto-populated from ICEGATE into GSTR 2B is not legally claimable. This discrepancy highlights inadequate validation mechanism to prevent taxpayers from claiming excess ITC in GSTR 3B, enabling tax liability offsets without corresponding IGST payments.

When this was pointed out (January 2025), GSTN stated (February 2026) Form GSTR-2B reflects IGST paid on imports on the basis of Bill of Entry data received from ICEGATE, and serves as a facilitative, auto-generated statement for the taxpayer. However, a Bill of Entry not appearing in GSTR-2B does not, by itself, imply that IGST has not been paid, as delays or inconsistencies in data flow from ICEGATE may occur.

To address such situations, the GST portal provides a dedicated “Fetch BOE” functionality, through which taxpayers can fetch missing or pending Bill of Entry data directly from ICEGATE and ensure that all legitimate import-related ITC is reflected in Form GSTR-2B. This functionality acts as a system-level control to reconcile Customs data and GST credit flow.

It further stated that as FORM GSTR-3B is a self-assessed return, and taxpayers are legally empowered to assess and declare eligible ITC, including IGST paid on imports, based on statutory documents such as the Bill of Entry. Given the dependence on external systems (ICEGATE) and the dynamic nature of data synchronisation, restricting editability of auto-populated values in GSTR-3B through hard system validations may lead to denial of legitimate ITC and unwarranted hardship to compliant taxpayers.

The reply is not tenable. The "Fetch BOE" functionality, in addition to regular auto-population enables flow of import IGST data in GSTR-2B directly from ICEGATE based on validated Customs records and there should be no requirement for taxpayers to manually declare any additional import ITC beyond such authenticated system-driven data. Allowing unrestricted manual reporting in GSTR-3B without corresponding ICEGATE validation weakens audit trail and undermines the integrity of data between Customs and GST.

ix. **Absence of a validation for ensuring timely filing of ITC-03:** As per Rule 3(3) of CGST Rules, regular taxpayers who opt for Composition Levy Scheme or where goods or services or both supplied by taxpayer becomes wholly exempt are required to furnish Form GST ITC-03 within a period of 60 days from the commencement of the relevant financial year.

Audit observed, from a sample extracted, that 36 taxpayers did not furnish the GST ITC-03 within the stipulated period.

On this being pointed out (May 2025), GSTN acknowledged (February 2026) the absence of system level validation to enforce the 60-day deadline and stated that a request (RQM 30251) has been raised for development of a system-level validation on the GST Portal to restrict filing of Form GST ITC-03 beyond 60 days.

Recommendation 5: GSTN may develop validations for enforcing eligibility for quarterly filing, discharging additional liability in GSTR 9, auto compute interest for delayed return filings, ensure timely filing of ITC -03 and rectify validation weakness in the invoice furnishing facility.

Recommendation 6: GSTN may expedite developing functionalities for reversing ITC when supplier amends GSTN of recipient and issuing notices to all return filing defaulters.

Recommendation 7: GSTN may expedite developing a mechanism for monitoring the value of services supplied by taxpayers under the Composition Levy Scheme.

3.6.2 Deficiencies in functionalities implemented

Audit observed the deficiencies in the following functionalities relating to Returns module as they were not functioning as intended:

i. **Deficiency in the functionality implemented for sequential filing:** As per Section 37(4) of the CGST Act, effective[35] from 01 October 2022, a taxpayer shall not be allowed to furnish GSTR-1 for a current tax period if GSTR-1 for any of the previous periods remains unfiled. Further, Rule 59(6) of the CGST Rules 2017, effective[36] from 01 January 2022, envisages that GSTR-1 for a tax period cannot be filed unless GSTR-3B for the preceding tax period has been furnished. Additionally, as per Section 39(10) of the CGST Act, 2017, effective[37] from 01 October 2022, a taxpayer is not allowed to file GSTR-3B for a tax period unless the GSTR-1 for the same tax period has been furnished.

Data analysis disclosed that in 468 instances, GSTR-1 was allowed to be filed without filing of GSTR 1 for the previous tax period. In 1,27,992 instances, it was seen that GSTR 1 was filed without filing the preceding GSTR 3B. In 9,085 instances, taxpayers were able to file GSTR-3B returns even though GSTR-1 for the same tax period were not filed, indicating glitches in enforcing sequential filing of returns.

When this was pointed out (January 2025), GSTN stated (February 2026) that the functionality of ensuring filing of GSTR-1 before filing of GSTR-3B was prospectively made available from October 2022. On preliminary analysis of the given dataset, it was identified that the required check to ensure sequential filing is missing for return filings done through SMS mode and this missing check in SMS filing would be fixed shortly. GSTN further stated that the data was still being analysed to find out any other cause leading to such missing of sequential validation.

ii. **Deficiency in the functionality of providing a summary sheet in Form GSTR 4A:** Form GSTR-4A is an auto-drafted inward supply and view only form for taxpayers under Composition Levy Scheme. It is created on the basis of data from the saved/submitted/filed Form GSTR-1 and GSTR-5 of their suppliers.

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35 Notification No. 18/2022 dated 28 September 2022

36 Notification No. 35/2021 dated 24 September 2021

37 Notification No. 18/2022 dated 28 September 2022

GSTN implemented a functionality (Change Request 18891), to make available a GSTIN-level summary in a single sheet within the downloaded excel file of Form GSTR-4A. Since taxpayers under the Composition Levy Scheme file Form GSTR-4 annually and report inward supplies at the GSTIN level along with other details, providing this summary would ease the return filing process.

While testing this functionality in the UAT environment, Audit observed that the GSTR-4A excel sheet download[38] did not include a GSTIN-level summary sheet and the excel file only contained individual records.

When this was pointed out (January 2025), GSTN cited (February 2026) para 1.2 of the Change Request (CR 18891), which states that GSTIN wise summary of GSTR 4 Annual will be available in Excel format. GSTN further stated that Business Rule 7 of GSTR 4A only refers to document-based summary and not GSTIN level summary.

Audit examined the reply furnished by GSTN, which suggests that while GSTIN level summary will be available for GSTR 4, such a summary is not envisaged for GSTR4A. Section B – "Details of Proposed Change" of the Change Request specifically states that "a summary at GSTIN level may be kept in one sheet of Excel file at the end". Further, the overview of the Change Request states that a summary level the GSTIN-level summary in the Excel file "can be auto-populated in GSTR-4", indicating that the summary is to be generated in the GSTR-4A Excel file for subsequent use in GSTR-4 annual filing. Hence the GSTN's interpretation that the GSTIN-level summary pertains only to GSTR-4 (Annual Return) is not consistent with the structure and sequencing of the Change Request. Therefore, the functionality needs to be implemented as envisaged in the Change Request, considering that providing the GSTIN level summary sheet in the downloaded GSTR 4A would ease the return filing process.

iii. **Inconsistencies in auto population:** GSTN has implemented a system whereby the data captured in monthly and quarterly returns are auto populated in the annual returns. Some of these auto-populated values have been made uneditable, while others allow manual edition. A review of auto-population of critical data points revealed inconsistencies, which are brought out below:

a) **Inconsistency in auto population of values in annual return of taxpayers in Composition Levy Scheme:** GSTR-4 is an annual GST return prescribed for taxpayers under the Composition Levy Scheme while GST CMP-

[38] GSTIN 07LALAB1221E6ZV

08 is a quarterly statement to be filed by taxpayers under the Composition Levy Scheme.

GSTN implemented a functionality (CR 21592) to auto populate the outward supplies data (including exempt supplies) from the quarterly CMP-08 into Table 5 of GSTR -4, which represents aggregate value of outward supplies (including exempt supplies) for all four quarters.

Analysis of data of a sample of 100 cases for the year 2023-24 pertaining to Delhi, revealed that in 87 cases, the sum of outward supplies for all four quarters was not matching with the auto populated value in Table 5 of GSTR 4.

On being pointed out (March 2025), GSTN replied (July 2025) that after reviewing the sample of 87 mismatched records, the issue could not be replicated and that detailed analysis of the remaining records was still in progress.

b) **Inconsistency between Tables in GSTR 9: Table 4N** of GSTR-9 represents the total tax liability on outward supplies and advances received during the financial year, as declared in the monthly or quarterly return. Table 9 in Part IV of GSTR-9 provides the consolidated value of tax liability and tax paid as per the monthly returns.

Table 9 of GSTR 9 is editable allowing taxpayers to modify and report tax liability for the relevant financial year while keeping Table 4N also editable. The 'tax payable' reported in Table 9 of Form GSTR-9 should correspond with the tax liability in Table 4N. However, analysis of data of three years from 2021-22 to 2023-24 revealed that in 38,13,129 cases, Table 4N tax liability did not tally with Table 9 (Column 2).

When this was pointed out (January 2025), GSTN intimated (February 2026) that it has proposed to auto populate tax liability from Table 4N of GSTR 9 from FY 2025-26 onwards. However, interest and late fees will be auto populated from GSTR 3B as they are not captured in Table 4N of GSTR 9.

c) **Discrepancy in auto populated values in Table 14 of GSTR 9:** Tables 10 and 11 in Part V of GSTR-9 capture details of additions or amendments made to supplies already reported in the returns of the previous financial year, as declared in Tables 9A and 9C of Form GSTR-1 filed up to November 30 of the following year. The differential tax liability arising from these amendments is reflected in Table 14 of GSTR 9, which calculates the tax payable based on the information reported in Tables 10 and 11.

GSTN implemented a validation (CR 23750) to ensure that the tax payable in Table 14 matches the net liability derived from Table 10 and Table 11. A review of this functionality in the UAT environment showed that Table 14 was auto populated and was un-editable field. This was supplemented by analysis of data for the three years from 2021-22 to 2023-24, which revealed that in 24,377 cases, the tax payable in Table 14 did not match with the computed net liability from Tables 10 and 11.

When this was pointed out (January 2025), GSTN stated (February 2026) that on analysis of the data, it was observed that the difference between the auto populated values in Table 14 and those in Tables 10 and 11 of GSTR 9 was primarily due to the fact that both Table 10 & 11 have editable fields. Further, Table 14 has two columns 'Payable' and 'Paid' of which the 'Paid' column is also editable by the taxpayers. Thus, wherever the taxpayers manually enter values, it results into such kind of differences in GSTR 9. GSTN further stated that a new column is added in GSTR 9 from the FY 2024-25 to auto calculate the difference between tax payable and tax paid in the Table 14.

The reply of GSTN is not tenable. Even without considering the tax paid values which can be edited by taxpayers, the issue is that the functionality implemented to match the system calculated value of tax payable in Table 14 with the net liability derived from Table 10 and Table 11, is not functioning properly as borne out by data analysis. Therefore, the discrepancy in auto population of 'Tax Payable' column of Table 14 needs to be addressed and resolved.

Recommendation 8: GSTN may expedite the process of rectifying the discrepancies in functionalities of sequential return filing.

Recommendation 9: GSTN may consider making available the summary sheet in GSTR 4A to facilitate taxpayers under Composition Levy Scheme.

Recommendation 10: GSTN may rectify the inconsistencies and discrepancies in auto populated values in returns as it is a critical element in ensuring compliance and simplification of return filing process.

3.7 IGST Settlement

Integrated Goods and Services Tax (IGST) is one of the components of GST that deals with the taxation of interstate transactions of taxable goods or services, which is levied by the Central Government. IGST Settlement between the Centre and States is a crucial aspect of the GST regime. It involves the distribution of revenue between the Central and State governments arising from interstate transactions. The settlement process aims to ensure a fair and equitable distribution of tax revenues between the Centre and the States. The GST Council, being the apex decision-making body for GST-related matters, plays a crucial role in overseeing the IGST settlement process.

The IGST collected is deposited into a common pool with the Centre. In the normal course of business, after layers of Business to Business (B2B) transactions when the final Business to Consumer (B2C) transactions takes place, IGST is automatically distributed between the Centre (with the CGST portion of IGST) and the respective States (with the SGST portion of IGST) where the goods and services are finally consumed when the final consumption takes place.

A distinct IGST settlement process is necessitated due to cross utilisation of credit by the businesses between SGST/UTGST, CGST and IGST in discharging tax liabilities and to apportion the balance in the IGST common pool that remains unsettled due to the ITC chain being broken i.e., when some businesses in the value chain are not eligible to avail ITC or taxpayers do not utilise the ITC within the specified time or unregistered persons are involved in the business value chain and the ITC flow gets blocked and other situations where Place of Supply cannot be determined. Sections 5 and 17 of the IGST Act, 2017 stipulates the collection, distribution and apportionment of IGST between the Centre and the States. GSTN is responsible for preparation of algorithm and facilitating the authorities for settling the IGST amount between Centre and State. The algorithm is designed to encompass apportionment of revenues collected from all components relating to inter-state trade i.e., tax, interest and penalty levied on inter-state trade.

GST Settlement of Funds Rules, 2017 (GSTSF Rules) provides that GSTN shall transmit settlement reports electronically to the authorities by 25th of the month in which GST returns are submitted. The details relating to the apportionment to be made between Centre and States/UTs shall be sent by the GSTN to the Authorities in Forms GST STL 1.01 to GST STL 1.12, for each State and Union Territory. These reports show the settlement/ apportionment of amounts (payable/receivable) between the Union and the States/UTs.

Accordingly, the GSTN prepared (July 2017) System Requirement Specifications (SRS) for Returns Module - Settlement Reports (version 6.00) envisaging the functionalities for creation and display of the Settlement Reports. The SRS covered all the relevant GST returns and other modules such as assessment, appeal, refunds for generating the desired settlement reports. Further, SRS for other than Returns Module – Settlement Reports Phase-II (version 2.00) was prepared (March 2018) for settling the IGST paid in various scenarios which are not covered under the SRS related to Return Module.

To provide a perspective on the nature and extent of IGST settlements, as per details provided by GSTN, IGST settlement of ₹ 9,01,557 crore was carried out between April 2025 and January 2026, of which 97 per cent (approx.) were undisputed by the States.

Audit analysed the settlement reports and data outputs based on various scenarios reflected in SRS Phase-II (version 2.00) and observed five deficiencies pertaining to various settlement reports not being generated and discrepancies in apportionment of IGST in cases where settlement reports were generated.

3.7.1 Not generating some IGST settlement reports

Audit observed that that out of 31 IGST settlement reports envisaged for generation, GSTN was only generating 14[39] reports and 17 reports were not being generated. The details of these 17 reports, responses of GSTN and remarks of Audit are summarized in the **Table 3.7** below:

Table 3.7: Details of settlement reports not being generated

Sl. No.	Settlement Report (GST STL No)	Brief purpose of the GST STL Form	Response of GSTN and remarks of Audit
1	01.07	SGST/UTGST portion of IGST collected on Business-to-Business supplies where ITC remains un-utilised till specified period	GSTN stated that the information in GST STL 1.07 report pertains to ineligibility of ITC on account of limitation under Section 16(4). This amount is being settled post August 2022 by virtue of the same information being declared in Table 4(D)(2) of GSTR-3B in terms of circular No. 170/02/2022-GST dated 6 July 2022. Though action has been taken by GSTN, the GST Settlement of Fund Rules has not been updated to reflect the revised procedure for settlement. GSTN further stated (February 2026) that the process of the amendment of the Rules is under way.
2	01.10	SGST/UTGST portion of IGST collected on goods/services imported by registered person (other than composition) where ITC is declared as ineligible.	GSTN stated that the information in GST STL 1.10 pertains to ITC on account of import by registered persons, which has been declared as ineligible by the recipient by virtue of the provisions of Section 17(5) of CGST Act. This information is now being declared in Table 4B (1) of GSTR-3B post August 2022 by virtue of the circular No. 170/02/2022-GST dated 6th July 2022.

[39] GST STL 01.01; 01.02; 01.03; 01.04; 01.05; 01.06; 01.08; 01.09; 01.12; 02.01; 02.02; 03.02; 07.01 and 07.02

Sl. No.	Settlement Report (GST STL No)	Brief purpose of the GST STL Form	Response of GSTN and remarks of Audit
			Though action has been taken by GSTN, the GST Settlement of Fund Rules has not been updated to reflect the revised procedure for settlement. GSTN further stated (February 2026) that the process of the amendment of the Rules is under way.
3	01.11	SGST/UTGST portion of IGST collected on goods imported by registered person where ITC remains un-utilised till specified period	GSTN stated that the information in GST STL 1.11 reports pertains to ineligibility of ITC on account of limitation under section 16(4). This amount is being settled post August' 2022 by virtue of the same information being declared in Table 4(D)(2) of GSTR-3B in terms of circular No. 170/02/2022-GST dated 6th July 2022[40]. Though action has been taken by GSTN, the GST Settlement of Fund Rules has not been updated to reflect the revised procedure for settlement. GSTN further stated (February 2026) that the process of the amendment of the Rules is under way.
4	03.01	Monthly State-wise consolidated statement showing a summary of amount recovered as Integrated Tax, interest and penalty thereon, or compounding amount, or deposited for filing appeal.	GSTN stated (February 2026) that this report is to incorporate monthly consolidated amount of IGST recoveries apportioned between the Centre and the States. This information at a consolidated is available as an entry against "Report no. 3.02 in STL 2.01" (in the case of the Centre) and as an entry against "Report no. 3.02 in STL 1.01" (in respect of each of the States).
5	04.01	Monthly State-wise consolidated statement showing a summary of the apportionment of Integrated Tax to the State (State Tax) or the Centre (Union	GSTN stated that these reports pertain to the settlement of IGST in cases where either the identity the taxpayer is not known or where the Place of supply is not known. Reports 4.02 and 4.03 were crafted to cater to these two rare situations.

[40] In view of the GST Council decision not to operationalize GSTR-2 and GSTR-3, the schema envisaged in the various settlement reports (01.07, 01.10 and 01.11) could not be implemented and the summary return in GSTR-3B has been adopted for carrying out the necessary settlements at an aggregate level. The detailed statement pertaining to inward supplies and the auto generated returns envisaged in GSTR-3 was finally done away with in 2022. Subsequently, the summary return in GSTR-3B was adopted as the default return and the entire settlement process was dovetailed accordingly by the issuance of detailed Circular No. 170/02/2022-GST dated 6th July 2022. All ineligible ITC, for earlier periods also, was declared in Table 4B of GSTR- 3B and settlement was done accordingly.

Sl. No.	Settlement Report (GST STL No)	Brief purpose of the GST STL Form	Response of GSTN and remarks of Audit
		Territory Tax), and to the Centre (Central Tax), in a particular month relating to Integrated Tax collected in respect of which Place of Supply could not be determined or the taxable person making such supplies is not identifiable.	There is no situation where the identity of the person could not be known since Rule 87(4) mandates issuance of a temporary identification number for any unregistered person wishing to make any deposit towards tax. Further, every payment, barring pre-deposit for filing appeal, is to be made PoS wise where it pertains to IGST. First and second proviso to Section 17(2) of IGST Act was enacted to tackle these circumstances. This provision mandates settlement to be made on a pro-rata basis either on the basis of value of taxable supplies to all states or in the ratio of collection in each of the states in the preceding FY. Thus, it can be seen that amounts in reports 4.02 and 4.03, if any, were to be settled on an ad-hoc basis only and by the very nature they could never be precise. GSTN further stated that amounts in the IGST accounts settled so far on ad-hoc basis also includes amounts, if any, on the aforesaid two accounts. Audit is of the view that discontinuance of the mandated report needs necessary approval from the Department of Revenue, Ministry of Finance.
6	04.02	List of registered people from whom Integrated Tax has been collected in respect of which Place of Supply made by taxable person could not be determined and is to be apportioned as provided under first proviso of Section 17 (2) of the IGST Act.	
7	04.03	Details of Integrated Tax collected in respect of which the taxable person making such supplies is not identifiable and is to be apportioned as provided under second proviso of Section 17(2) of the IGST Act. This was envisaged as an annual report to be submitted in October each year.	
8	05.01	Monthly State-wise consolidated statement showing a summary wherein Integrated Tax paid by taxpayer was apportioned but subsequently refunded to the person.	GSTN stated that this series of settlement reports from STL 5.01 to 5.09 relate to reduction in settlement primarily on account of credit notes issued by the suppliers (B2B & B2C both), mismatch, ineligible ITC (previously apportioned). Reduction on account of credit notes issued by suppliers (in GSTR-1) is already taken care of by reporting / populating net values in GSTR-3B and hence only the adjusted amount enters settlement and thus there was no need to further reduce settlement on account of credit notes. This settlement design was laid out in the settlement rules in view of the detailed GSTR-1, 2, 3 architectures.
9	05.02	Issue of credit notes by suppliers where supply is not eligible for ITC as per section 17 of CGST Act, SGST Act and	

<table>
<tr><th>Sl. No.</th><th>Settlement Report (GST STL No)</th><th>Brief purpose of the GST STL Form</th><th>Response of GSTN and remarks of Audit</th></tr>
<tr><td></td><td></td><td>Section 21 of UTGST Act.</td><td rowspan="8">GSTN further stated that settlement for cases of supplies made to recipients who are TDS deductors and non- resident taxable persons, which are subsequently reduced by credit notes/downward revision of invoice values are settled through settlement form STL 01.05.
Audit remarks
Reporting of net values in GSTR 3B and coverage under other settlement forms do not address all situations of reverse settlement as shown below.
a) IGST amount is not being reverse settled for taxpayers who had filed ITC-01 (for inputs held in stock under special circumstances) under Sections 18(1)(a) to 18(1)(d) of CGST Act, 2017 as GST STL 05.07 is not being generated.
GSTN stated that IGST declared in Form ITC -01 under Sections 18 (1) (a) to (d) are not being settled currently and that a functionality would be developed.
b) Appeal Orders resulting in IGST refund against the Demand orders for the IGST (Apportioned earlier) and interest in this behalf (if any) are not being reverse settled as GST STL 05.08, which is not being generated.
GSTN stated that a change request to provide for reverse settlement in such cases has been given to the technical team and would be operationalized.</td></tr>
<tr><td>10</td><td>05.03</td><td>Reduction due to issue of credit notes to taxable person under Composition Levy Scheme.</td></tr>
<tr><td>11</td><td>05.04</td><td>Reduction due to the issue of credit notes to unregistered persons.</td></tr>
<tr><td>12</td><td>05.05</td><td>Reduction due to refund of deposit made for filing appeal along with interest.</td></tr>
<tr><td>13</td><td>05.06</td><td>Reduction on account of interest apportioned earlier on account of mismatch of ITC/Credit Note but now reclaimed.</td></tr>
<tr><td>14</td><td>05.07</td><td>Amount apportioned on account of inter-State inward supplies for which ITC was declared as ineligible but now becomes eligible.</td></tr>
<tr><td>15</td><td>05.08</td><td>Amount apportioned on account of recovery of outstanding dues and subsequently refunded with interest due to appeal order.</td></tr>
<tr><td>16</td><td>05.09</td><td>Reduction due to – (a) Amendment in returns, or (b) Release of refund in specified categories (c) Any other reason of the amount already apportioned.</td></tr>
<tr><td>17</td><td>06.01</td><td>Report of settlement arising between the Centre (Central Tax) and the State (State Tax) or the Centre (Union Territory Tax) on account of recovery of any tax, interest,</td><td>GSTN stated (February 2026) that this is the consolidation of the reports relating to (a) IGST recovered from refund and settled to the Centre and the corresponding State/s, taxpayer-wise and major and minor head-wise, and (b) inter-head transfers within the cash ledgers, again taxpayer-wise and major and minor head-wise. The reports at (a) above are</td></tr>
</table>

Sl. No.	Settlement Report (GST STL No)	Brief purpose of the GST STL Form	Response of GSTN and remarks of Audit
		penalty, fees or any other amount from refund.	generated and transmitted as STL 6.02 (Taxpayer-wise) and 6.02A Major and minor head-wise) while reports at (b) are generated and transmitted as STL 6.03 (Taxpayer-wise) and 6.03A (major and minor head-wise).

3.7.2 Discrepancies in IGST settlement in the reports that were being generated

A review of the 14 settlement reports that were being generated disclosed discrepancies in the IGST settlement and apportionment in certain settlement reports as detailed below:

i. **Discrepancies in settlement of IGST collected on supplies to unregistered persons:** A review of data outputs relating to settlement report no GST STL 01.04 dealing with settlement of IGST on supplies to unregistered persons, disclosed discrepancies in 81 cases between the IGST received and settled. In 50 out of the 81 cases, the lesser IGST was settled whereas in remaining 31 cases the IGST settled was higher against the IGST received and liable to be apportioned.

When this was pointed out (May 2025), GSTN sought for (July 2025) the source data point against which the settlement values were compared. It was clarified that the base used for comparison of the settlement was Column 4 of Table 3.2 of GSTR 3B - IGST for supplies made to unregistered persons. However, GSTN's comments on observation are awaited (March 2026).

ii. **Not settling IGST collected against compounding of offences:** As per the System Requirement Specification of settlement reports, there is a settlement form (GST STL 03.02) that envisages settlement of IGST collected against offences that have been compounded by Commissioners[41] through form GST CPD-02. The IGST amount shall be settled between the Centre and State of registration of the taxpayer.

Audit observed that settlement of IGST on compounded offences under GST STL 03.02 is not happening owing to unavailability of information in CPD-02.

When this was pointed out (May 2025), GSTN accepted (July 2025) that Form GST CPD -02 does not contain information on place of supply for any IGST payment on compounding of offences and that the matter was being sent to the Law Committee for considering any revision that may be required to facilitate settlement.

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[41] In the exercise of powers conferred by Rule 162(3) of CGST Rules

Recommendation 11: GSTN may address the issue of inconsistency of rules with the revised settlement procedure and not settling IGST collected against compounding of offences.

Recommendation 12: GSTN may initiate the process of reverse settlement of IGST for taxpayers who file ITC -01 and on appeal orders granting IGST refund.

3.8 IT Governance and IT Security

IT governance is the overall framework that guides IT operations in an organization. It is an integral part of enterprise governance and comprises organizational leadership, institutional structures, and processes to ensure that the IT system sustains organizational goals and strategy while balancing risks, compliance and effectively managing resources.

IT Governance plays a key role in determining the control environment and sets the foundation for establishing sound internal control practices and reporting at functional levels for management oversight and review. The key elements of IT governance include creating organizational structures and establishing standards, policies and procedures.

Information Security is the ability of a system to protect information and system resources with respect to confidentiality and integrity. Information Security is increasingly gaining importance for government institutions as the interconnection of public and private networks and sharing of information resources increase the complexity of controlling access and preserving the confidentiality, integrity and availability of data. The key elements of IT Security, therefore, include developing and implementing the information security environment, developing a security policy, organisation of IT security, asset management, access controls, incident management and compliance, security audits and creating and fostering user awareness.

The Chief Information Security Officer (CISO), GSTN and the concerned cyber security team of Infosys are responsible for security of the GSTN and data centre. Infosys is the Managed Service Provider (MSP), for development, enhancement, and operations of the GST System.

Audit observed that GSTN was largely compliant with the requirements of applicable IT frameworks, infrastructure creation and monitoring of performance against Service Level Agreements. However, there were a few gaps in these areas, involving partial compliance to IT frameworks, gaps in infrastructure planning in terms of enhancing portal capacity and moving to more resilient data centers.

3.8.1 Gaps in compliance with IT frameworks

The gaps in compliance with government IT frameworks, websites and application standards observed in audit are as under:

i. **Partial compliance with MEITY guidelines:** Three controls related to the Data Protection and Privacy Act, 2023 related to data protection and privacy out of the 71 controls contained in the MeitY/CERT-In comprehensive check list have not been fully achieved. Despite the same being noticed during the GSTN system security overview in March, 2024, GSTN has not envisaged a timeline for achieving full compliance with MeitY/CERT-In guidelines.

When this was pointed out (January 2025) by Audit, GSTN stated (February 2026) that it had revised the CSA check list to 282 points. A detailed audit was performed by KPMG (appointed by MeitY/NIC) against the 282 points check list and 40 points scoring sheet, prescribed by MeitY, during July 2024 to December 2024 and the final score of CSA audit was "0", which is the highest compliance score.

ii. **Partial compliance with Indian Government Websites and apps (GIGW) Standards /Audit:** Audit observed that GSTN is not fully compliant with the Indian Government Websites and apps (GIGW) Standards/Audit. Some of the webpages of websites maintained by GSTN do not give proper information as detailed below

a. **Website not available:** As per Para 5.4.7 of GIGW 3.0 guidelines, there should be a mechanism in place to ensure that no ‘page not found’ errors occur in any webpage of a website.

Audit observed that the portal[42] website links of states and CBIC and no websites were found on clicking the links of the states of Tripura, Mizoram, Tamil Nadu and West Bengal.

On being pointed out (April 2025), GSTN stated (July 2025) that GST common portal is only a place holder for the state /CBIC websites and the responsibility of maintaining these websites lies with them.

While Audit concurs that the primary responsibility of maintaining their websites is with the respective entities, GSTN website should provide links of active websites instead of directing users to inactive or incorrect pages.

b. **Linked webpages showed system error:** A ‘news’ segment was featured in https://selfservice.gstsystem.in/ Default.aspx and randomly clicking news in two cases dated 21.02.2024 and 28.02.2024, Audit observed that the linked webpages showed system error. On being pointed out (April 2025), GSTN

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[42] https:/services.gst.gov.in/services/gstlaw/gstlawlist

stated (July 2025) that the issue of broken link would be checked and fixed accordingly.

c. **Information on webpage not updated:** GSTN in their portal's webpage https://www.gstn.org.in/post-press-release has information regarding various press releases on GST. Audit observed that the information of press releases was not updated since December 2020.

GSTN stated (February 2026) that all these issues have been communicated to Department of Revenue in FY 2024 and would be addressed as a part of GST 2.0 RFP implementation.

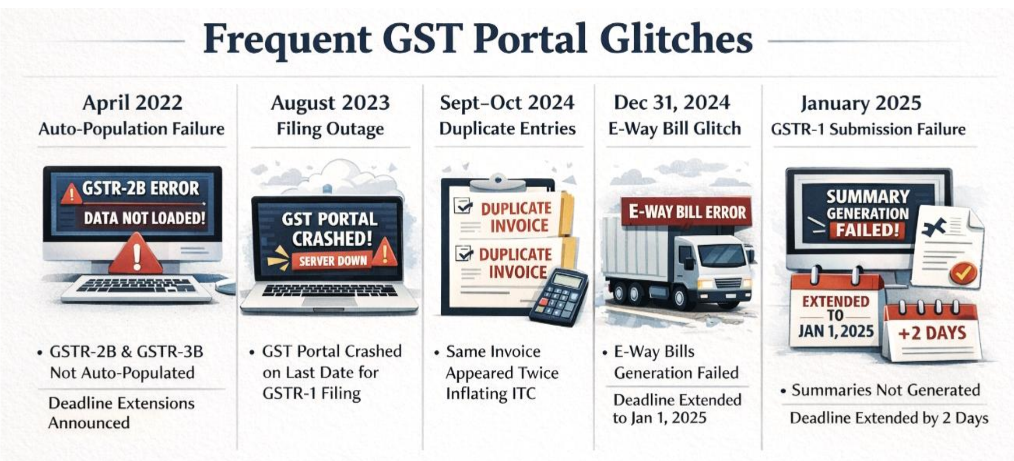
3.8.2 Gaps in planning for upgradation of infrastructure

One of the main aspects of governance involves maintaining oversight over technological infrastructure, consider upgradations and future planning. The gaps in planning for upgradation of infrastructure are as under:

i. **Lower concurrency rate leads to difficulties to handle peak capacity:** During GSTN Steering Committee Review meeting (23 June 2022), GSTN observed that a detailed plan needs to be prepared to ensure higher concurrency, higher taxpayer capacity and also to replace infrastructure items that have reached end of support. It was also highlighted that in the recent past certain items of GST system infrastructure have exceeded their allocated 70 percent capacity. GSTN considered this to be a critical item that needs immediate addressing.

GSTN has not upgraded its capacity and Audit observed that the GST portal was down on 10 and 11 April 2024 i.e. the last days for filing GSTR-1 for March 2024 and GSTN had responded to a taxpayer stating that it has reached the higher concurrency limit.

Audit, also observed the following instances of portal glitches, some of which were due to the system failing to handle peak load capacity leading to extension of return submission dates.



When this was pointed out (April 2025), GSTN stated (February 2026) enhancement of the GST portal infrastructure to support 500,000 concurrent taxpayers, an increase from the existing capacity of 300,000 concurrent users, has been considered in the GST 2.0 RFP implementation.

ii. **Moving to more resilient data centres:** GSTN currently hosts Tier-3 Data Centre (DC/DR/NDC/NDR) with multilevel physical and environmental security controls in an outsourced model. The Tier 4 Data Centres represent the next level of technological advancement with the highest level of redundancy (with redundant systems for all critical components) and fault tolerance, offering the most reliable infrastructure. From a governance perspective, GSTN at present does have a documented plan for harnessing advancement in technology and moving into more resilient Tier 4 data centres.

When this was pointed out (May 2025), GSTN accepted (February 2026) the suggestion to deliberate on future plans for moving to more resilient data centres.

iii. **Not using updated encryption algorithm for data encryption:** In the GSTSP security review for the month of March 2024, GSTN identified vulnerability for Data Base (DB) users that they must not use the 'mysql_native_password' authentication plugin. The DB servers currently use the Secured Hashing Algorithm 1 (SHA1) for authentication, which is fundamental to data security.

Audit noted that the encryption technology converts input data into a fixed-size hash value, ensuring that even a slight change in the data results in a drastically altered hash value. The encryption technology used is one of the earliest versions of SHA encryption. Its strength lies in simplicity and its speed of generating hash algorithms. However, its simplicity has its inherent cryptographic weaknesses.

As attacks on SHA-1 in other applications have become increasingly severe, National Institute of Standards and Technology (NIST) had stated that it would stop using SHA-1 in its last remaining specified protocols by December 31, 2030. In 2022, the agency recommended that IT professionals should replace SHA-1, in the limited situations where it was still used, with newer algorithms that were more secure. It further recommended that anyone relying on SHA-1 for security should migrate to higher encryptions as soon as possible.

Audit observed that GSTN did not have a documented plan to harness available upgraded technologies and to migrate to SHA-2 (SHA-256) or SHA-3 so as to enhance its ability to manage threats related to cybersecurity.

Further, GSTN did not state whether salt function[43] was attached to hash technology to ensure the same input (i.e. message) produces different output (i.e. digest).

After this was pointed out (February 2025), GSTN stated (February 2026) that the SHA 2 production implementation for all components across the GST System (including DB servers) was done in the month of March 2025, eliminating the risk completely.

3.8.3 Other governance gaps

The other gaps in governance in establishing and maintaining oversight over various components of Information Technology and Information Technology contracts observed in audit are as under:

i. **License management:** As per License Management Process document of GSTN, license management is the management and traceability of every aspect of a procured license from beginning to end, and it includes the key process areas i.e. name of the licence, name of the OEM, quantity of license procured / deployed /spare and its validity, metric of license, periodic review etc. Further, it stipulates that license deployment shall be taken up as per the business requirement. The Asset Manager, Software Quality Assurance (SQA) and Application & Infrastructure Support (AIS) teams shall be the users and responsible for the licence management process.

Based on a review of the GSTN monthly Governance review report for the month of January 2024, Audit sought for records relating to details of licenses (expiry date, date of renewal etc.),which were due for renewal as on 31 March/ 01 April 2024 and complete records were not made available to Audit. Hence efficiency of license management could not be evaluated. In response to an audit observation (May 2025) GSTN provided (July 2025) the new expiry dates of licences but did not provide other details of dates of renewal and replacement.

GSTN further stated (February 2026) that GSTN had validated that all hardware assets and software licenses have been duly renewed and remain valid up to 30 September 2025. Accordingly, no hardware asset or software license is pending for renewal or replacement as on date within the said validity period for GST 1.0.

[43] Salting is the process of adding a unique value to the end of a password before hashing takes place. Salting the hash is crucial because it ensures that the encryption process results in a different hash value, even when two passwords are the same.

The reply does not address the issue of whether the licences were renewed in time or risk exposure in the interval between the expiry of licences and renewal dates, which would have to be addressed systemically.

ii. **User satisfaction surveys:** GSTN envisaged[44] that the MSP shall conduct User Satisfaction Survey in every quarter. The participants for the survey shall be selected randomly as minimum 1.5 per cent of Taxpayers, 1.5 per cent of GSTPs and 5 per cent of Model-2 Tax Officials. As per the SLA, responses would be under four categories i.e. Excellent, Satisfactory, Requires improvement and Unsatisfactory. Further, there was a provision of liquidated damages if optimum score of 75 percent with responses 'excellent' or 'satisfactory' was not achieved.

MSP received responses (May 2025) in the categories of 'strongly agree', 'agree', 'neutral responses', 'disagree', 'strongly disagree'. It achieved optimum score of 75 per cent after wrongly considering 'strongly agree', 'agree' and 'neutral' responses together. Audit observed that these categories were not mentioned in the SLA. Further, 'neutral' (with 18 per cent score) response did not bear any degree of agreement and hence its exclusion could have rendered the MSP liable for liquidating damages.

When this was pointed out (May 2025), GSTN stated (February 2026) that for standardization and to capture true sentiment distribution, a more familiar and widely used nomenclature Likert scale was adopted for performance of Customer Satisfaction Survey (CSAT) i.e., 'strongly agree', 'agree', 'neutral responses', 'disagree', 'strongly disagree'. Including a neutral option in the survey design was essential to capture respondents who genuinely feel indifferent or lack a strong opinion. This improves the accuracy of data by preventing forced choices that could lead to biased or polarized results. Audit's view to the extent that the actual CSAT scale categories may match with the SLA specified categories is being incorporated in the corresponding SLA for RFP 2.0.

iii. **Use of logo of GSTN without permission:** As per the Clause 14.6 of the agreement between GSTN and Invoice Registration Portals (IRPs), any design, production marketing/promotional materials or advertisement which bears the name, logo and/or trademark of GSTN, shall not be used /distributed / issued by the IRPs without prior written permission of GSTN.

During the test check of the portals of IRPs, Audit noted that the IRP homepage of M/s Defmacro Software, showed name as clearirp.in and the webpage leads to the GSTN managed einvoice web portal (i.e., einvoice4).

[44] Item 3.37- Outcome of User Satisfaction survey of SLA methodology documents dated 16 October 2018

Audit further observed that logos of both Cleartax and GSTN were shown on the homepage of clearirp.in**.** As GSTN has not given any right to use the GSTN logo to clearirp.in under the agreement, the use of logo was the violation of the above-mentioned agreement.

On this being pointed out by Audit (April 2025), GSTN stated (February 2026) that it issued a 'GSTN Branding Guidelines for IRPs' in September 2025 and conducted an initial compliance assessment, based on these guidelines, for all private IRPs including Clear Tax in the month of October 2025 and shared observations with respective IRPs for compliance adherence.

iv. **Absence of mechanism for monitoring of SLAs of IRPs by GSTN:** Under the "Operations, Service Levels & Parameters for Monitoring & Review of IRPs" mentioned in the https://www.gstn.org.in/IRP, GSTN listed some Service Level Agreements (SLAs) and operational parameters that have to be met by the IRPs. Further, the IRPs will need to provide a live dashboard to be accessible by GSTN 24x7. The dashboard shall provide all live health, operational and performance metrics to GSTN, as they occur. However, no such dashboard giving all this information was seen on the related IRP websites.

When this was pointed out (April 2025), GSTN stated (February 2026) that GSTN itself had developed a comprehensive dashboard to monitor the overall e-Invoice ecosystem. The dashboard is live and provides a holistic view of key operational metrics of the IRP and GST systems.

3.9. Conclusion

The present audit was the third phase of audit of IT system of the GSTN, which was conducted essentially as a follow up of the audit findings of the earlier two phases as well as evaluating the additional functionalities deployed in Registrations and Returns modules deployed from April 2019 to March 2023 and IGST settlement reports apart from reviewing the extant state of IT governance and IT security mechanisms for the period up to March 2025.

The follow up of earlier audit findings disclosed that out of the 56 audit findings from the earlier two phases of audit, GSTN had rectified 38 issues, one issue has been partly rectified and rectification was in progress in three cases, while in the remaining cases the rectification was not initiated, inadequate or not required due to change provisions.

Out of the additional functionalities in the Registration and Returns modules that were reviewed, Audit observed 39 deficiencies in validations, not mapping business rules and not implementing functionalities. The deficiencies in the front end taxpayer registration module were in terms of improper and inadequate validations and deficiencies in the tax officers' module were relating to approval and cancellation of registrations, alert mechanism to monitor potential breaches and process delays in approval of registration. Similarly, in the Returns module, Audit observed deficiencies in mapping business rules, not implementing functionalities relating to filing of returns, verifying eligibility of taxpayers, discharge of tax liability, reversal of Input Tax Credit and systemic alerts to Proper Officers to facilitate monitoring. Audit also observed that some functionalities that were implemented were not functioning as intended.

Further, out of 31 IGST settlement reports envisaged, GSTN was generating only 14 reports. While some settlement reports were no longer required, some gaps remain in IGST settlement.

Audit also observed that the IT Governance and IT security were largely compliant with the requirements of applicable IT frameworks, infrastructure creation and monitoring of performance against Service Level Agreements. However, there were a few gaps in compliance with IT frameworks and infrastructure planning in terms of enhancing portal capacity and moving to more resilient data centers.

3.10 Summary of recommendations

GSTN may

i. expedite the rectification of the deficiencies in validation in the front-end taxpayer registration module.

ii. expedite the rectification of the improper restriction imposed on eligible taxpayers opting for Composition Levy Scheme.

iii. rectify the deficiencies in functionalities of uploading physical verification reports, incorrect mapping of business rule relating to cancellation of registrations and integration of banking platforms.

iv. expedite incorporation of features to enable tax officers to monitor taxpayers under Composition Levy Scheme breaching the threshold.

v. develop validations for enforcing eligibility for quarterly filing, discharging additional liability in GSTR 9, auto compute interest for delayed return filings, ensure timely filing of ITC -03 and rectify validation weakness in the invoice furnishing facility.

vi. expedite developing functionalities for reversing ITC when supplier amends GSTN of recipient and issuing notices to all return filing defaulters.

vii. expedite developing a mechanism for monitoring the value of services supplied by taxpayers under the Composition Levy Scheme.

viii. expedite the process of rectifying the discrepancies in functionalities of sequential return filing.

ix. consider making available the summary sheet in GSTR 4A to facilitate taxpayers under Composition Levy Scheme.

x. rectify the inconsistencies and discrepancies in auto populated values in returns as it is a critical element in ensuring compliance and simplification of return filing process.

xi. address the issue of inconsistency of rules with the revised settlement procedure and not settling IGST collected against compounding of offences.

xii. initiate the process of reverse settlement of IGST for taxpayers who file ITC -01 and on appeal orders granting IGST refund.

Chapter IV Works Contract and Construction Services under Goods and Services Tax

4.1 Introduction

Construction is a broad term that encompasses the art and science of creating objects, systems, or organisations. Derived from the Latin word *construere*, which stems from *con*-meaning 'together' and *struere* meaning 'to pile up', the term refers to the entire process involved in bringing buildings, infrastructure, and industrial facilities into existence. This process typically begins with planning, financing and design, followed by the actual building phase, and continues through to the asset's readiness for use. It also includes subsequent activities such as repairs, maintenance, upgrades, expansions, and ultimately, the demolition or decommissioning of the structure.

In India, the construction sector serves as a vital indicator of economic development, as it generates investment opportunities across a range of allied industries. Being a labour-intensive field, it provides employment to over five crore people, both directly and indirectly, making it the second-largest source of employment in the country. As per the findings of the Construction Skill Development Council of India Research, nearly 80 per cent of the workforce in this sector consists of unskilled labour. Further, the findings also states that the construction industry contributes about nine per cent to the nation's Gross Domestic Product (GDP), underlining its economic importance[45].

4.1.1 Taxability of work contract services under previously levied Value added Tax and Service tax regime

Under the Value Added Tax (VAT) in the case of Gannon Dunkerly[46], the Hon'ble Supreme Court had held that in case of a works contract, the dominant intention of the contract is the execution of works, which is a service and there is no element of sale of goods (as per Sale of Goods Act). The contract being one indivisible contract, it cannot be broken up to levy VAT on sale of goods involved in the execution of works contract. In 1983, Constitution of India was amended and Article 366(29A)(b)[47] was inserted, which enabled the State Governments to levy tax (VAT) on transfer of

45 Construction Skill Development Council of India Research findings (September 2022).

46 The State of Madras Versus Gannon Dunkerley and Company (Madras) Limited, 1959 SCR 379

47 Article 366(29A)(b) was inserted by the 46th Amendment to the Constitution in 1982 with effect from 2 February 1983. Article 366(29A)(b) stipulates tax on sale and purchase of goods includes a tax on the transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract.

property in goods (whether as goods or in some other form) involved in the execution of a works contract.

Under the Service Tax regime, Works contract has been defined in Section 65B of the Finance Act, 1994 as a contract wherein transfer of property in goods involved in the execution of such contract is leviable to tax as sale of goods and such contract is for the purpose of carrying out construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration of any moveable or immoveable property or for carrying out any other similar activity or a part thereof in relation to such property. By virtue of Section 66E of Finance Act, 1994, the service portion involved in the execution of works contract was a declared service. Hence, Service Tax could be levied only on the service element of the works contract. The principles of segregation of the value of goods were provided in Rule 2A of the Service Tax (Determination of Value) Rules, 2006.

4.1.2 Taxability of works contract services under Goods and Services Tax

The concept of a 'Works Contract' is specifically defined in Section 2 (119) of the Central Goods and Services Tax Act, 2017 (CGST Act). According to this definition, a works contract refers to any contract involving the building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration, or commissioning of any immovable property, provided there is a transfer of property in goods, either as goods or in another form, during the execution of the contract. A crucial requirement for a service to qualify as a works contract under Goods and Services Tax (GST) is the transfer of property.

Further, as per para 6(a) of Schedule II to the CGST Act, Works Contract falls under a Composite Supply and shall be treated as a supply of services. Entry No. 5(b) of Schedule ibid also states that construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer will be treated as a supply of services.

A works contract, therefore, is a composite supply of both services and goods, with the service element being dominant in the contract between parties. In a general sense, a contract of works, may relate to both movable and immovable property. Under GST law, the definition of 'Works Contract' has been restricted to any work undertaken for an 'Immovable Property' unlike the erstwhile VAT and Service Tax provisions where works contracts for movable properties were also considered.

4.2 Audit objectives

The Subject Specific Compliance Audit (SSCA) focused on identifying both key areas of compliance as well as instances of non-compliance by the taxpayers and/or Department. The purpose of undertaking this SSCA was to evaluate the following aspects:

(i) Whether the administration was effective in ensuring compliance with the provisions of CGST Act, rules, notifications and prescribed procedures relating to levy and collection of Tax, Input Tax Credit (ITC[48]) availment and exemptions claimed by the taxpayers involved in works contracts/ construction services; and

(ii) Evaluation of functions of Ranges (departmental field formations) to assess the effectiveness of scrutiny and assessments and compliance on Directorate General of Analytics and Risk Management (DGARM) reports relating to works contract/construction services.

4.3 Audit scope

The scope of the SSCA included the review of return scrutiny conducted by the Department and verification of CBIC administered taxpayer records for the period April 2020 to March 2022, corresponding to the financial years (FYs) of 2020-21 and 2021-22. For the Range audit, the records for the period 2020-21 to 2023-24 was the subject matter of examination.

4.4 Audit methodology

The SSCA was structured in two distinct components:

- Part I involved a detailed audit, which was conducted through desk reviews at the field audit offices and on-site verification of taxpayer records at the Central Board of Indirect Taxes and Customs (CBIC) field formations.
- Part II focused on the audit of Ranges/Departmental field formations, aimed at evaluating the functioning and effectiveness of the respective Ranges.

The SSCA covered only the centrally (CBIC) administered taxpayers. The field audit was conducted from August 2024 to April 2025. The replies received from the Commissionerates and lower formations as at the end of December 2025 have been suitably incorporated in the report. An 'Entry Conference' was conducted with the CBIC on 12 August 2024 and during the conference audit objectives and scope of this SSCA were discussed. An exit conference to discuss the audit findings and recommendations was conducted on 13 February 2026 and the replies of the Ministry on the audit findings and

[48] ITC is a mechanism to avoid cascading of taxes ('tax on tax').

recommendations, received on 12 February 2026 have been appropriately incorporated in the Report.

4.5 Sample selection

The sampling methodology and the scoring mechanism adopted for selection of sample for detailed audit are described below:

4.5.1 Sampling methodology

A segregation of taxpayers who were providing works contract services was carried out as under:

Financial materiality: The total taxpayers, initially segregated into jurisdictions, were stratified based on their turnover as under:

- **L1 Category**: Top one per cent of taxpayers (Large taxpayers)
- **L2 Category**: Next two per cent of taxpayers (Next tier of large taxpayers)
- **M1 Category**: Next three per cent of taxpayers (Medium-sized taxpayers)
- **M2 Category**: Next four per cent of taxpayers (Another segment of medium taxpayers)
- **Small Negative Turnover /Small Positive Turnover**: This last category comprised the remaining taxpayers. Within this group, a maximum of two taxpayers with the highest small negative turnover were selected. If such taxpayers were unavailable, those with small positive turnover were chosen.

From each of these three categories viz. Large, medium and small, we selected 36 per cent, 27 per cent and 27 per cent totalling 90 per cent of the sample size. These were selected based on 12 risk parameters as given at ***Paragraph 4.5.2*** with assigned risk scores. The remaining 10 per cent of sample was based on a random selection.

4.5.2 Scoring mechanism – Risk parameters

The scoring model facilitated a risk-based selection of taxpayers for detailed audit. The risk parameters used for selection of taxpayers are provided in **Table 4.1**:

Table 4.1: Risk parameters

Sl. No.	Risk Description
1.	Not declaring new construction project in case of Service Account Code (SAC[49]) 99541 and not removing completed projects i.e. where Occupancy Certificate (OC) is received in REG-06[50].
2.	Ratio of tax paid at concessional rates[51] (i.e. 1-1.5 per cent / 5-7.5 per cent/ 12 per cent) to the normal rates i.e. 18 per cent.
3.	Ratio of taxable value on which tax paid at concessional rates (i.e. 1-1.5 per cent / 5-7.5 per cent) to the total taxable value a vis ITC reversed/ availed under Rule 42 and 43 of Central Goods and Service Tax Rules, 2017 (CGST Rules).
4.	Mismatch in Tax deducted at source (TDS) credit in Table 9 of GSTR-2A vis-à-vis the taxable value declared in GSTR-3B.
5.	(a) Exemption/concessional rates availed under SAC 995433 (Excavating and earthmoving services) (b) Exemptions/concessional rates availed under SAC 99546 (Installation services)
6.	ITC availed after the limitation period
7.	Ratio of Nil rated/ Exempted/ Non-GST supply/ Total Outward supply
8.	Ratio of credit notes (tax) to tax paid
9.	Tax paid under reverse charge mechanism (RCM[52]) in GSTR-3B is nil or ratio of Total taxable value (GSTR-1) to taxable value on inward supplies liable to tax under RCM (GSTR-3B) is very high.
10.	Ratio of tax paid against unregistered suppliers under RCM is less than 20 per cent as compared to ITC availed
11.	Registration date and value of ITC taken is more than ₹20 lakh within three months of registration.
12.	Availment of Input Service Distributor (ISD) credit.

4.5.3 Quantum of sample selected

Based on 12 predefined risk parameters associated with ITC and Undischarged Liability, each carrying specific risk scores, a total of **715 taxpayers** (out of the total 2.16 lakh taxpayers segregated as explained

[49] SAC is a six-digit identifier used to classify services under GST in India based on the United Nations Central Product Classification (UNCPC) but has been adapted by the CBIC to suit Indian tax requirements.

[50] REG-06 is a certificate of registration made available to the applicant applying for registration on the common portal showing the principal place of business and additional place or places of business.

[51] The rate of GST for Works Contract service has been prescribed in serial number 3 of Notification No. 11/2017-Central Tax (Rate) dated 28 June 2017 as amended from time to time. Certain works contract services are eligible for a concessional GST rate. The applicable rate depends on the nature of the work, the recipient, and the relevant specific exemptions.

[52] RCM means the liability to pay tax is on the recipient of supply of goods or services instead of the supplier of such goods or services in respect of notified categories of supply.

in ***Paragraph 4.5.1 and 4.5.2***) falling under 69 Commissionerates (out of 104 Commissionerates) under CBIC were selected as audit sample. In addition to 715 taxpayers as mentioned above, **20 taxpayers** falling under 12 Commissionerates (out of 96 taxpayers), exclusively engaged in the metro projects were also selected for audit.

Further, as part of the SSCA, a sample of **115 taxpayers** was drawn from the jurisdiction of the Audit Commissionerate, from the cases which were planned for audit covering the FYs 2020-21 and 2021-22 relating to works contract/construction services sector.

Lastly, Audit selected a sample of **71 Ranges** (out of 528 ranges) as a part of this SSCA to review oversight functions of Ranges.

Thus, in all, Audit selected a total of **850** taxpayers and **71** Ranges.

4.6 Audit criteria

The sources of audit criteria comprised the provisions contained in the CGST Act, Integrated Goods and Services Tax Act, 2017 (IGST Act), rules and notifications made thereunder. The significant provisions of the Act generally applicable to all sectors and the specific provisions that apply to construction services and works contract services are given in **Table 4.2**:

Table 2: Significant provisions of the Act/Rules/Notifications

Sl. No.	Audit Area	Provisions of the Act/ Rules/ Notification
1.	Filing of returns	Section 37,38 and 39 of CGST Act Rule 59, 60, 61 and 80 of CGST Rules
2.	Undischarged liability	Section 9 and 49 of CGST Act, Rule 85 to 88 of CGST Rules
3.	Registration	Section 22 to 25 of CGST Act Rules 8 to 26 of CGST Rules
4.	Classification and Rate of Tax	Rule 1 to 5 of General Interpretative Rules (GIR), Notification No.11/2017-Central Tax (Rate) dated 28 June 2017 as amended time to time.
5.	Nature of supply	Section 7 of the CGST Act
6.	Time of supply	Section 12 and 13 of the CGST Act
7.	Value of supply	Section 15 of the CGST Act
8.	Place of supply	Section 12(3) and 13(4) of the IGST Act
9.	Payment of tax	Section 11(2), 32(1), 49 to 52 and Section 76 of the CGST Act
10.	RCM	Section 9(3) of the CGST Act and Section 5(3) of the IGST Act read with Notification No.13/2017-Central Tax (Rate) and 8/2017 Central Tax (Rate) both dated 28 June 2017.
11.	ITC	Section 16 and 17 of the CGST Act

Sl. No.	Audit Area	Provisions of the Act/ Rules/ Notification
12.	Effectiveness of Internal Audit	Section 65 and 66 of the CGST Act and Rule 101 of the CGST Rules

Specific provisions applicable to Works contract/Construction services

Sl. No.	Audit Area	Provisions of the Act/ Rules/ Notification
1.	Valuation	Paragraph 2 of Notification No.11/2017-Central Tax (Rate) dated 28 June 2017
2.	Rate of tax	Notification No.11/2017-Central Tax (Rate) dated 28 June 2017 Notification No.20/2017-Central Tax (Rate) dated 22 August 2017 Notification No.1/2018-Central Tax (Rate) dated 25 January 2018 Notification No.3/2019-Central Tax (Rate) dated 29 March 2019 Notification No.15/2021-Central Tax (Rate) dated 18 November 2021
3.	ITC	Section 17(5)(c) and 17(5)(d) of the CGST Act Notification No.11/2017-Central Tax (Rate) dated 28 June 2017 as amended by Notification No.3/2019 Central Tax (Rate) dated 29 March 2019 and further amended by Notification No.15/2021-Central Tax (Rate) dated 18 November 2021.
4.	Place of supply	Section 12(3) and 13(4) of the IGST Act

4.7 Audit findings

The scheme of classification of services and rate of tax has been notified by Notification No.11/2017-Central Tax (Rate) dated 28 June 2017. The classification of services is based on United Nations Central Product Classification. Under the GST framework, construction services are classified under SAC 9954. This code covers a range of services such as the construction services of buildings (99541), general construction services of civil engineering works (99542), site preparation services (99543), assembly and erection of prefabricated constructions (99544), special trade construction services (99545), installation services (99546), and building completion and finishing services (99547).

As per Section 17(5)(c) of the CGST Act, ITC shall not be available in respect of the 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 service. Thus, ITC for works contract can be availed only by one who is in the same line of business and is using such services received for further supply of works contract service.

4.7.1 Scope limitation

The verification of records in this SSCA involved two stages viz. the first stage comprised verification of GST returns and basic records such as financial statements and GST ledgers of taxpayers, which should generally be available digitally in the backend application of Department and the second stage comprised verification of granular taxpayer records such as subsidiary ledgers, agreements, invoices requisitioned based on risks identified at the first stage verification.

Unavailability of records: The taxpayers are ordinarily required to upload the GSTR 9C and financial statements while filing GST returns and the auto drafted GSTR 2A of taxpayers should be available on the backend application of the Department maintained by GSTN. Out of the overall sample of 735 taxpayers, the first stage verification was limited by unavailability of GST Returns – GSTR-2A and GSTR-9C and financial statements, on the backend application of the Department in 22 cases, which potentially involved an identified mismatch in tax discharge, availment of ITC and availment of concessional tax rate applicable to works contract suppliers of ₹36.09 crore[53]. In six cases under six Ranges, the Department produced the records after the completion of field audit but the same could not be audited due to reporting challenges.

When this was pointed out (between August 2024 and April 2025), the Ministry stated (February 2026) that direct access to data has been provided by GSTN to the Comptroller and Auditor General of India (CAG). Thus, access to returns such as GSTR-2A and 9C would be available to Audit. In case of any problem in accessing such records, matter needs to be taken up directly with GSTN and the Department has no role in this issue.

Ministry's reply is not acceptable as even though Audit has access to the GSTN data, the GSTR-2A, 9C and Financial Statements were requisitioned from the Department only in cases where they were not available in the GSTN system. Therefore, this is not an access issue and the Ministry has to address the compliance gaps by taxpayers and ensure availability of these documents in the backend system of the Department.

[53] Commissionerates - Bhubaneswar (three cases - ₹27.65 crore); Bengaluru East (three cases - ₹2.84 crore); Belagavi (two cases- ₹2.31 crore); Bengaluru North (three cases - ₹1.62 crore); Kochi (one case - ₹1.16 crore); Bengaluru West (one case- ₹0.34 crore); Dibrugarh, Guwahati; (two cases -₹0.17 crore); Raipur, Indore, Bhopal and Itanagar (seven cases – nil)

Partial production of granular records of taxpayers: In addition, the second stage verification was impaired due to partial production of granular[54] taxpayer records requisitioned and pursued based on identified risks. These granular records, which are not available with the Department had to be obtained from the individual taxpayers. These records were not forthcoming in 431 cases (involving 392 taxpayers), where Audit had identified mismatches in tax liability, availment of both ITC and concessional tax rate of ₹ 2,732.56 crore as shown in **Table 4.3**:

Table 4.3: Partial production of granular records of taxpayers

Jurisdictional Zones	Sample	Mismatch in tax liability/ITC and concessional rate availment	
	Number of taxpayers	Number of taxpayers	**Amount of potential risk of deviations (₹ in crore)
Meerut	36	23	831.96
Hyderabad	43	33	603.94
Lucknow	22	16	369.50
Kolkata	91	73	264.31
Pune	37	13	225.08
Delhi	34	11	127.94
Bhubaneshwar	27	12	113.11
Bhopal	68	38	71.31
Bengaluru	37	6	73.33
Ranchi	24	24	24.49
Chandigarh	21	9	9.55
Visakhapatnam	32	24	5.84
Chennai	56	42	4.60
Thiruvananthapuram	30	2	3.56
Panchkula	19	4	1.63
Guwahati	24	11	1.52
Mumbai	35	13	0.89
Jaipur	41	18	0
Ahmedabad	24	14	0
Vadodara	19	5	0
Nagpur	15	1	0
Total	**735**	**392**	**2,732.56**

** The amount of deviation noted does not directly indicate tax evasion but represents the potential risk associated with ITC claims and the availing of concessional rate benefits by taxpayers. These benefits are subject to specific conditions outlined in relevant notifications, Acts, or Rules. However, due to the necessary records and supporting information not being produced, Audit was unable to verify whether those conditions were duly met.

54 Supplementary financial ledgers, invoices, agreement copies etc.

In 214 cases, the Department either produced the records after the completion of field audit or issued Show Cause Notices to taxpayers, which could not be audited due to reporting challenges.

When this was pointed out (between August 2024 and April 2025), the Ministry stated (February 2026) that Instruction No. 5/2025-GST dated 2 May 2025 has been issued to field formations by CBIC regarding timely production of records/ information for audit. It has also been instructed that in those cases wherein records are available with taxpayer, the same may be sought by writing letter and provided to CAG audit team as soon as possible. The records/ documents/ details available with the field officers are furnished to Audit. However, additional documents sought during audit, which are not readily available with the Department have to be called for from the taxpayers and sometimes taxpayers may either refuse to furnish records or there may be considerable delay in submission of records by the taxpayers.

Though the CBIC had issued instructions on 2 May 2025 to its field formation for timely production of records/information for audit. Despite the instructions, there has been a persistent issue in the GST regime, and the Department may consider instituting a sustainable mechanism such as incorporating suitable provisions in the GST statute, to empower the departmental field formations to obtain the records requisitioned by Audit, based on identified risks, from the taxpayers for onward submission to the CAG audit teams.

4.7.2 Summary of audit findings

Notwithstanding the above, Audit reviewed the aspects of discharge of tax and availment of ITC by the taxpayers involved in works contract supplies (including execution of metro projects and a set of taxpayers selected for internal audit by the Department) as well as the functions of the Ranges with respect to the taxpayers registered as works contract/construction service suppliers.

Audit reviewed the aspects of discharge of tax and availment of ITC by the taxpayers involved in works contract/construct supplies as well as the functions of the Ranges with respect to the taxpayers registered under SAC code 9954 and the findings have been grouped into following four categories:

a) Compliance issues specific to work contract/construction services

b) Other compliance issues

c) Deficiencies in Range functions

d) Taxpayers' audit by Department

The audit findings emanating from this SSCA on Works Contract and Construction services comprised 1,334 compliance deficiencies involving an amount of ₹401.42 crore. Out of these compliance deviations, the Department accepted 903 deficiencies with revenue implication of ₹268.36 crore[55].

4.7.3 Compliance issues specific to works contract/construction services

Works contract services are governed by specific provisions under the Act, Rules and notifications relating to valuation of services, applicability of GST rates and availment of ITC.

> Out of a sample of 735 taxpayers, Audit observed 123 cases of compliance deficiencies, with a revenue implication of ₹190.98 crore, due to incorrect availment of concessional rate of tax/exemptions on works contracts relating to construction of road, bridges, railways and earthwork, short discharge of liability on works contract services provided to Government authority/entity, short discharge of liability by builder/developer under RCM, irregularities in residential real estate/real estate projects, irregular availing of ITC on ongoing/completed projects, not discharging GST on unaccounted 'on-money' income discovered by Income Tax authorities and short discharge of tax liability in execution of metro projects.

These issues are highlighted in succeeding paragraphs:

4.7.3.1 Incorrect availment of concessional rate of tax and exemption on works contracts relating to construction of road, bridges and railways

Notification No.11/2017-Central Tax (Rate) dated 28 June 2017, Sl. No. 3(iv) and 3 (v), allows a concessional rate of 12 per cent for works contract in relation to construction of road, bridge, tunnel, or terminal for road transportation for use by the general public and railways, including monorail and metro respectively. As per entry 3(ix) in a subsequent Notification issued in January 2018,[56] exemption from 18 per cent rate of tax was granted to supplies classified under entry 3 (iii) and 3 (vi) by the sub-contractor to the main contractor. Notably, there is no specific exemption from 18 per cent rate of tax, on works contract services provided by sub-contractor to main contractor in relation to road, bridge, tunnel or terminal for road transportation for use by the general public and railways, including monorail and metro.

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[55] Out of this, an amount of ₹15.88 crore was recovered at the instance of audit.

[56] No.1/2018 dated 25 January 2018

Audit observed compliance deficiencies in 19 cases involving 18 taxpayers (out of 715 taxpayers examined), amounting to ₹107.54 crore, due to incorrect availment of exemptions/concessional rates on works contract services by the taxpayers and consequent discharge of tax liability at lower rates.

When this was pointed out (August 2024 to January 2025), the Department/Ministry initiated remedial action (issued Show Cause Notice (SCN)/Order In Original (OIO) or recovered) in 12 cases (November 2024 and February 2025), involving money value of ₹71.43 crore, out of which recovery of ₹0.10 crore was made in three cases and demand of ₹42.80 crore was confirmed in three cases. Replies to the remaining seven cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) A taxpayer under Mancherial Range, Medchal Commissionerate, had supplied work contract services under SAC code 9954 to another taxpayer vide 48 invoices for the financial year 2020-21 and 2021-22 at ₹630.33 crore and levied GST at the rate of 12 per cent.

Further, Audit observed that the taxpayer was awarded work contract service by another taxpayer, vide letter of award in October 2019 for execution of road works, civil and other associated work on Engineering, Procurement and Construction (EPC) basis for four lane of NH 363 from Mancherial to Repallewada in the State of Telangana. This indicated that taxpayer was a sub-contractor to the other taxpayer.

Therefore, the taxpayer had availed undue benefit of concessional rate of GST and charged only 12 per cent of GST instead of 18 per cent. Not adhering to the notification mentioned above resulted in short payment of tax of ₹37.82 crore.

When this was pointed out (October 2024), the Department/Ministry intimated issuance of SCN in November 2024 and confirmed the demand of ₹37.82 crore in February 2025.

(ii) A taxpayer, located in jurisdiction of Nuapada Range, Rourkela Commissionerate, had entered into agreements with another taxpayer, a sub-contractor for National Highway Authority of India (NHAI) related work as observed from the financial statements for FYs 2020–21 and 2021–22. Since the taxpayer was functioning as a service provider to a sub-contractor, the concessional rate of 12 per cent GST was not applicable as per Notification No.11/2017. Despite this, the taxpayer had discharged GST at 12 per cent on bills raised on another taxpayer as against 18 per cent, leading to a short discharge of liability of ₹27.44 crore.

When this was pointed out (October 2024), the Department/Ministry intimated issuance of SCN in March 2025.

(iii) During examination of the GSTR-1 for FYs 2020-21 and 2021-22 filed by the taxpayer of Bhagalpur Range, Patna-I Commissionerate, Audit observed that the taxpayer has issued invoices on behalf of work done for many private companies and charged GST at the concessional rate of 12 per cent. However, as per the above mentioned notifications, the concessional rate is available only for item no. 3(iv) viz. a road, bridge, tunnel, or terminal for road transportation for use by general public and others and services provided to Government by a main contractor. GST rate is chargeable at the rate of 18 per cent for services provided by sub-contractor to main contractor. In this case, the taxpayer, as a sub-contractor, has provided services to various main contractors under these circumstances, the GST rate would have to be charged at the normal rate of 18 per cent on all the invoices of ₹184.52 crore issued to main contractors (Private Companies) representing taxable values for FYs 2020-21 and 2021-22, as against the concessional rate of 12 per cent that was levied. This resulted in short levy of tax by ₹11.07 crore.

This was pointed out (October 2024) and the reply of the Department/ Ministry was awaited (February 2026).

(iv) In the case of a taxpayer, under Range-II, Chennai South Commissionerate, examination of GSTR-1 returns and sales invoices for the period April 2020 to March 2022 revealed that the taxpayer was providing Business to Business (B2B) services under SAC 995421[57]. These services do not qualify for the concessional rate of 12 per cent, but the taxpayer incorrectly charged GST at 12 per cent instead of the applicable 18 per cent, resulting in a short payment of ₹4.94 crore.

When this was pointed out (October 2024), the Department/Ministry intimated issuance of SCN in November 2024, which was confirmed in February 2025.

Recommendation No.1

The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where the concessions related to works contract services are availed by sub-contractor/sub-sub-contractors who

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[57] General construction services of highways, streets, roads, railways and airfield runways, bridges and tunnels

are executing works of road, bridge and railways to ensure proper discharge of tax by taxpayers.

The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

4.7.3.2 Incorrect availment of exemptions/Concessional rates on works contracts related to earthwork

Notification No.11/2017-Central Tax (Rate) dated 28 June 2017 Sl. No 3 (vii), allows a concessional rate of five per cent for composite supply of works contract, involving predominantly earthwork (constituting more than 75 per cent of the works contract) provided to the Central Government, State Government, Union Territory, Local Authority, Governmental Authority or a Government Entity. With effect from 1 January 2022, the concessional rate is not admissible when services are provided to Governmental Authority or a Government Entity.

Further, this concessional rate of five per cent for earthwork was allowed to sub-contractor providing composite supply of works contract to a main contractor as per Sl. No 3 (x) of Notification No.11/2017, dated 28 June 2017. Notably, there is no specific exemption for any service provider other than sub-contractor for earthwork.

Audit observed compliance deficiencies in 12 cases involving 10 taxpayers (out of a sample of 715 taxpayers), amounting to ₹35.70 crore, due to incorrect availment of exemptions/concessional rates on works contract services by the taxpayers related to earthwork and consequent discharge of tax liability at lower rates by the taxpayers.

When this was pointed out (August 2024 to January 2025), Department/Ministry initiated action (issued SCN/recovered) in 10 cases (April 2023 to November 2024) involving money value of ₹34.64 crore. Replies to the remaining two cases were rebutted (February 2026).

A few illustrative cases are featured below:

(i) A taxpayer, under Range-III, Pune-I Commissionerate, provided excavation services as per the invoices under the SAC 995433 during FY 2020–21 worth ₹44.67 crore to another taxpayer and paid GST at the concessional rate of five per cent. It was observed that, the taxpayer paid concessional rate of GST for excavation services. SAC 995433 categorises Excavating and earthmoving services which did not involve the transfer of property in goods and hence did not qualify for concessional rate. This service attracts 18 per cent GST.

Further, since the recipient of service is not listed as a principal contractor for the *Samruddhi Mahamarg Project*, the taxpayer was not a sub-contractor (and was acting as a sub-sub-contractor), and hence was not eligible for the concessional rate as per Notification No.11/2017. The shortfall in GST payment was estimated at ₹9.51 crore including interest.

When this was pointed out (November 2024), the Department/Ministry intimated issuance of SCN to the taxpayer in September 2025.

(ii) A taxpayer under Pujagutta-II Range, Hyderabad Commissionerate, supplied works contract services to another valuing ₹70.35 crore for the period 2020-22 at a concessional tax rate of five per cent.

As verified from the sub-contract agreement entered in April 2019 between the taxpayers, Audit observed that Government of Telangana had awarded the original contract of work to the taxpayer. Further, the taxpayer has sub-contracted some portion of the work to another taxpayer and further taxpayer has sub-sub-contracted the work to the taxpayer.

Therefore, as the taxpayer is a service provider (sub-sub-contractor) to the sub-contractor, the taxpayer was not eligible for the concessional tax rate of five per cent and is liable to pay tax at a normal rate of 18 per cent. As against the tax payable of ₹12.66 crore, (at 18 per cent - normal rate) only ₹3.51 crore has been paid (at five per cent - concessional rate). This resulted in short payment of tax of ₹9.14 crore.

When this was pointed out (January 2025), the Department/Ministry intimated that SCN dated 15 September 2025 was issued to taxpayer. Audit noted that the SCN issued covered the short payment of tax pointed out by audit.

(iii) A taxpayer under Kukatpally Range, Medchal Commissionerate, had supplied earthwork services in FY 2020-21 under SAC 995421 to another taxpayer and charged GST at five per cent on taxable value of ₹73.16 crore vide four invoices. The concessional rate of five per cent was applicable only when the earthwork services are provided to Central Government, State Government, Union territory, local authority, a Governmental Authority or a Government Entity (up to 1 January 2022). Since the taxpayer supplied the earthwork service to taxpayer, the concessional rate is not applicable, and the taxpayer was liable to pay tax at 18 per cent. This resulted in short levy of tax of ₹9.51 crore.

When this was pointed out (November 2024), the Department/Ministry intimated issuance of the SCN in November 2024 and adjudicated the same in February 2025.

(iv) Scrutiny of GSTR-1 of taxpayer of Moosapet Range, Medchal Commissionerate, for FY 2020-21, disclosed that the taxpayer had supplied work contract services under SAC 995422 to another taxpayer vide four invoices of taxable value of ₹20.60 crore and levied GST at the rate of five per cent. However, as per notifications mentioned above, concessional rate of five per cent of GST is applicable only to those taxpayers who provide services to Central/State Government and Union Territory (UT)/local authority or services provided to Governmental Authority/ Government Entity (up to 1 January 2022). Since the taxpayer had supplied services to a private entity, tax was leviable at the normal rate of 18 per cent. This involved a short payment of tax of ₹ 2.67 crore.

When this was pointed out (October 2024), Department/Ministry intimated issuance of SCN in November 2024 and adjudicated the same in February 2025.

Recommendation No.2

The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where concessional rate for earthwork is claimed on works contract services executed by service providers (sub-sub-contractors) other than sub-contractors to ensure proper discharge of tax by taxpayers.

The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

4.7.3.3 Short discharge of liability on works contract services provided to Government Authority/ Entity

Notification No.15/2021-Central Tax (Rate) dated 18 November 2021 and Notification No.22/2021-Central Tax (Rate) dated 31 December 2021, effective from 1 January 2022, stipulate that composite supply of works contract services supplied to the Governmental Authority or a Government Entity will attract tax at the increased rate of 18 per cent from 1 January 2022 onwards instead of the concessional rate of 12 per cent applicable prior to this date.

Audit observed compliance deficiencies in 24 cases involving 24 taxpayers (out of a sample of 715 taxpayers), amounting to ₹12.57 crore, due to incorrect application of lower rate of GST on works contract services supplied by the taxpayers to Government Authority or Government Entity after 1 January 2022.

When this was pointed out (August 2024 to January 2025), Department/Ministry accepted the observation (admitted, SCN issued and demand confirmed) in 14 cases involving money value of ₹10.37 crore. Replies to the remaining 10 cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) A taxpayer registered under Range-48, Delhi South Commissionerate, for the period 2021-22 revealed that the taxpayer had provided construction services to two Government Entities involving taxable value of ₹105.19 crore. Since the concessional rate does not apply for services provided to these entities with effect from 1 January 2022, GST should have been paid at the rate of 18 per cent instead of 12 per cent. Payment of tax at the rate of 12 per cent, resulted in short payment of GST of ₹6.31 crore.

Similar observation was raised in another case a taxpayer of Range-77, Delhi South Commissionerate for ₹2.20 crore.

When this was pointed out (December 2024), the Department/Ministry intimated issuance of SCNs to the taxpayers in January 2026.

(ii) Audit observed that a taxpayer under Urban-II Range, Varanasi Commissionerate, had provided work contract services under SAC 9954 of ₹11.26 crore to Government Authority or Government Entity during January 2022 to March 2022 and levied GST at the concessional rate of 12 per cent.

Since the recipient of services were Governmental Entities/ Governmental authorities, the concessional rate of 12 per cent was not applicable and tax should have been levied at the normal rate of 18 per cent, resulting in short payment of tax of ₹67.59 lakh.

This was pointed out (January 2025) and the reply of the Department/Ministry was awaited (February 2026).

(iii) A taxpayer of Hubli-B Range, Belagavi Commissionerate, entered into contract agreement with another taxpayer (main contractor), providing works contract service as a sub-contractor for construction of entire Chitradurga branch canal work. The works contract was originally awarded to the main contractor by a wholly owned undertaking of the Government of Karnataka, incorporated under the Company's Act, 2013, as a Special Purpose Vehicle to cater to the drinking water and irrigation needs of drought-prone areas of districts.

On verification of sale invoices and agreement of the taxpayer with main contractor, it was found that the taxpayer had discharged GST tax at 12 per cent instead of 18 per cent, on the invoices issued from 1 January 2022. This resulted in short payment of tax of ₹48.07 lakh.

When this was pointed out (November 2024), the Department/Ministry accepted (May 2025), the observation and stated that SCN will be issued shortly. Further developments were awaited (February 2026).

4.7.3.4 Short discharge of liability by builders/developers under RCM

As per 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 shall be paid on reverse charge basis by the recipient of such services.

The services supplied by the Governments such as Transferrable Development Rights (TDR) or Floor Space Index (FSI) (including additional FSI) and Development charges are subject to GST at 18 per cent under the RCM, when such services are rendered on or after 1 April 2019. This applies to both commercial apartments and un-booked residential apartments, as of the date of issuance of the completion certificate or first occupation of the project, whichever is earlier, as clarified in CBIC FAQ (Part II), No.7, dated 14 May 2019.

Further, Notification No.11/2017–Central Tax (Rate), dated 28 June 2017, envisaged, among others, that where the value of input and input services received from registered suppliers during the financial year (or part of the financial year until the date of issuance of the completion certificate or first occupation of the project, whichever is earlier) is less than 80 per cent of the total value of inputs and input services, the promoter is required to pay tax on the value of input and input services comprising such shortfall at the rate of 18 per cent on a reverse charge basis. All provisions of the CGST Act, will apply to the promoter as if he is the person liable for paying the tax on the supply of such goods or services or both.

Audit observed compliance deficiencies in 21 cases involving 16 taxpayers (out of a sample of 715 taxpayers), amounting to ₹15.35 crore, due to short discharge of liability by builder/developer under RCM on TDR, Development charges and shortfall (less than 80 per cent) in purchases from registered taxpayers.

When this was pointed out (August 2024 to January 2025), Department/ Ministry accepted the observation in 16 cases involving ₹14.47 crore. Out of these 16 cases, SCN was issued in 11 cases involving ₹12.78 crore and recovery (including partial recovery) of ₹29.54 lakh was made in two cases. Replies to the remaining five cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) Audit observed that a taxpayer under Range-I, Pune-I Commissionerate, made payments of ₹9.09 crore and ₹8.38 crore for FY 2020-21 and 2021-22 respectively to local authorities for development charges relating to a commercial complex and did not pay GST under RCM, as envisaged in the cited notifications, resulting in a short discharge of tax of ₹4.99 crore including interest.

When this was pointed out (December 2024), Department/Ministry intimated that SCN has been issued to the taxpayer in January 2026.

(ii) Audit observed that a taxpayer of Range-V, Pune-I Commissionerate, made payments of ₹11.62 crore to Pune Municipal Corporation (PMC) during FY 2020-21 and 2021-22 without paying GST on RCM for residential and commercial complex, amounting to ₹2.39 crore, including interest.

When this was pointed out (January 2025) the Department/Ministry informed that DRC-01A (a pre-Show Cause Notice) has been issued to the taxpayer in February 2026.

(iii) In case of a taxpayer of Range-III, Pune-II Commissionerate, Audit observed that purchases from registered taxpayers during FY 2020-21 and 2021-22 were ₹1.74 crore and ₹6.74 crore respectively, which was less than 80 per cent of total inputs and input services. The taxpayer did not discharge GST under RCM amounting to ₹1.50 crore, which was payable towards the shortfall in purchases.

When this was pointed out (December 2024), the Department/Ministry intimated issuance of SCN to taxpayer in January 2026.

(iv) Scrutiny of financial records of a taxpayer under Range-III, Pune-II Commissionerate revealed that expenses such as PMC development charges, TDR/FSI (in case of commercial units), project legal expenses, and site security charges etc. were shown, which are liable for GST payments under RCM. The tax paid on RCM as disclosed by the taxpayer in its returns was lower than the RCM tax liability on such expenses mentioned in financial statements. This resulted in short payment of tax of ₹1.18 crore under RCM.

When this was pointed out (November 2024), Department/Ministry intimated issuance of SCN to the taxpayer in January 2026.

Recommendation No.3

The Department may institute a mechanism for reviewing (by selecting for scrutiny or internal audit etc.) cases where taxpayers executing works contracts or construction services receive services from Governments or

procure inputs and input services from unregistered suppliers to ensure proper discharge of tax under RCM by such taxpayers.

4.7.3.5 Irregularity observed in Residential Real Estate/Real Estate Projects

As per Notification No.11/2017-Central Tax (Rate) dated 28 June 2017 the term 'Real Estate Project' (REP) shall have the same meaning as assigned to it in clause (zn) of Section 2 of the Real Estate (Regulation and Development) Act, 2016 (16 of 2016). According to this definition, REP shall mean the development of a building or a building consisting of apartments, or converting an existing building or a part thereof into apartments, or the development of land into plots or apartments, as the case may be, for the purpose of selling. Further, 'Residential Real Estate Project (RREP)[58]' shall mean a REP in which the carpet area of the commercial apartments is not more than 15 per cent of the total carpet area of all the apartments in the REP.

As per Notification No.11/2017 dated 28 June 2017 Sr. No. (i) to (if) sale of under construction affordable[59] residential apartments shall be taxed at the rate of one per cent on the consideration[60] whereas sale of under construction unaffordable residential apartments and commercial units in RREP projects shall be taxed at the rate of five per cent. No ITC is available in case of units sold where tax is at the rate of one per cent or five per cent.

Sale of under construction commercial units (in REP) shall be taxed at the rate of 12 per cent. As per entry no.3 (xii) of Notification ibid, construction services other than those mentioned at 3(i) to (if) are taxable at the rate of 18 per cent. ITC is available in case of commercial units only (in case of REP and in proportion of commercial area) and in respect of residential apartment units sold at lower rates; tax liability has to be discharged in cash i.e. by debiting electronic cash ledger.

Audit observed compliance deficiencies in five cases involving five taxpayers (out of a sample of 715 taxpayers), amounting to ₹2.04 crore, due short discharge of liability by builder/developer involved in RREP/REP projects.

When this was pointed out (August 2024 to January 2025), the Department/Ministry intimated issuance of SCN/OIO in three cases for ₹1.04 crore. Replies to the remaining two cases were awaited/rebutted (February 2026).

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[58] As per Notification No.11/2017 dated 28 June 2017.

[59] having carpet area not exceeding 60 square metre in metropolitan cities or 90 square metre in cities or towns other than metropolitan cities and for which the gross amount charged is not more than ₹45 lakh.

[60] after deducting 1/3rd towards land cost from the total consideration.

A few illustrative cases are featured below:

(i) A taxpayer under GST Range-IV, Jodhpur Commissionerate, was engaged as sub-contractor to provide single dwelling or multi dwelling/multi-storeyed residential buildings services to various contractors. Audit observed that the taxpayer supplied works contract services under SAC 995411 amounting ₹7.31 crore and ₹8.24 crore for FY 2020-21 and 2021-22 respectively and paid tax at a rate of 12 per cent, as against 18 per cent applicable for SAC 995411. This resulted in short levy of tax of ₹93.31 lakh.

This was pointed out (November 2024) and the reply of Department/Ministry was awaited (February 2026).

(ii) A taxpayer of Range-V, Vadodara-I Commissionerate, sold 69 duplex units in Vadodara (other than a metropolitan city). The taxpayer paid GST at the rate of one per cent on all duplex units considering them as affordable housing scheme. However cross checking with the '*Raja chitthi*' (building permit) and Form-3[61] submitted by Chartered Accountant and attached to Sale deed (*Dastavej*) issued by 'Vadodara Municipal Corporation' (VMC) showed that the scheme contained duplex units covering ground floor, first floor and store cabin on the terrace. The floor plan (obtained from internet) of the unit indicated that the total carpet area of a unit was 112.09 square metre which is more than 90 square metre as eligible for affordable housing. Additionally, the taxpayer sold one of the Duplex units (No. 22) for ₹55.01 lakh, which is above the threshold value of ₹45 lakh prescribed of affordable housing scheme. Thus, the scheme did not qualify as an affordable housing scheme, and the taxpayer was not eligible for concessional rate of one per cent under Sl. No.3 (i) of the Notification. The taxpayer was liable to pay tax at the rate of five per cent. Not complying resulted in short levy of tax of ₹81.90 lakh.

When this was pointed out (September 2024), Department/Ministry intimated issuance of SCN in May 2025.

(iii) A taxpayer under Gunfoundry-II Range, Hyderabad Commissionerate was engaged in providing works contracts services under SAC 995413, 995461 and 995469 related to electrical installation services where the rate of tax is 18 per cent. Audit observed, from the supply register of the taxpayer pertaining to Telangana State, that during FY 2021-22, the taxpayer provided electrical installation services (SAC 995461) including electrical wiring and fitting services fire alarm installation services, burglar alarm system to four

[61] Form-3 is a Chartered Accountant's (CA) certificate required under the RERA Act, used primarily to certify the cost incurred on construction and land for withdrawing funds from the designated RERA bank account.

customers valuing ₹3.52 crore and charged tax at the concessional rate of 12 per cent as against the applicable rate of 18 per cent. This resulted in short payment of GST (by 6 per cent of taxable value) of ₹21.17 lakh.

When this was pointed (January 2025), the Department/Ministry intimated issuance of SCN in June 2025 which was adjudicated in July 2025.

(iv) In the case of a taxpayer under Range-III, Pune-I Commissionerate, Audit observed from the Profit and Loss Account that out of the total income of ₹10.30 crore from the sale of residential units, ₹54 lakh was accounted as infrastructure charges. However, the taxpayer had discharged GST at a concessional rate of five per cent on the entire income, including the infrastructure charges. Since infrastructure charges do not fall under the category of residential unit sales, they are taxable at 18 per cent. This resulted in short payment of tax amounting to ₹7.02 lakh.

When this was pointed out (October 2024), the Department while not accepting the observation stated (April 2024) that infrastructure charges are included in the value of flat and that it was not an isolated service but a component of the construction service of the residential apartment.

The reply is not acceptable as other charges collected by builder as infrastructure charges are not eligible for concessional rate of tax. Reply of the Ministry was awaited (February 2026).

4.7.3.6 Irregular availing of ITC on ongoing/completed projects

Notification No.11/2017 Central Tax (Rate) dated 28 June 2017 at Sl.no.3 (ie) as amended in March 2019, stipulates that in case of an ongoing project, the promoter who has exercised option to pay tax on construction of apartments as specified therein, shall pay the same at the concessional rate of 12 per cent with availment of ITC. The option must be exercised in Form Annexure IV to the March 2019 amendment notification on or before 20 May 2019 and where no such option is exercised, it shall be deemed to be that the taxpayer has opted pay tax at the rate of 1/1.5 per cent[62] or 5/7.5 per cent[63] without ITC.

Further, Section 18(4) of CGST Act envisages that where any registered person who has availed of input tax credit opts to pay tax under Section 10 or, where the goods or services or both supplied by him become wholly exempt, he shall pay an amount equivalent to the inputs tax credit in respect of inputs held in stock and inputs contained in semi-finished or finished goods

[62] GST at 1 per cent and 1.5 per cent effective from 1 April 2019 for affordable residential units

[63] GST at 5 per cent and 7.5 per cent effective from 1 April 2019 for non-affordable residential units and commercial units

held in stock and on capital goods. After payment of such amount, the balance of input tax credit, if any, lying in his electronic credit ledger shall lapse.

Audit observed compliance deficiencies in 12 cases involving nine taxpayers (out of 715 taxpayers examined), amounting to ₹3.22 crore, due to irregular availing of ITC on ongoing/completed projects in construction services supplied by the taxpayers (Builders/Developers).

When this was pointed out (September 2024 to January 2025), the Department/Ministry initiated remedial action (recovered, issued SCN and admitted) in 10 cases/observations, involving money value of ₹2.50 crore and recovered an amount of ₹44.65 lakh in three cases. Replies to the remaining two cases were awaited (February 2026).

A few illustrative cases are featured below:-

(i) A taxpayer under Kakkanad Range-I, Kochi Commissionerate, discharged the tax liability at concessional rate (at one per cent) during the financial year 2020-21 and 2021-22. However, on verification of credit ledger and GSTR-3B returns, it was noticed that the taxpayer had availed the input tax credit (after reversals) amounting to ₹73.36 lakh during the period 2020-21 to 2021-22. The occupancy certificate was issued on 18 March 2023 by the Municipality (Thrikkakara) on completion of construction of the residential apartment. As per electronic credit ledger, the total ITC available (when the occupancy certificate was issued) in respect of this project was ₹63.96 lakh. As per GSTR-1 returns, the taxpayer had not undertaken any other work contract service during the period April 2020 to February 2022 and hence ITC amounting to ₹63.96 lakh accumulated in the credit ledger, pertained to the residential apartment, which had to be reversed.

This was pointed out (January 2025), the Department/Ministry intimated issuance of SCN to the taxpayer in August 2025.

(ii) A taxpayer of Kakkanad Range-5, Kochi Commissionerate, during the period 2020-21 and 2021-22 was engaged in the construction of one ongoing project which commenced on 10 August 2016 and another two projects which commenced after 1 April 2019. On scrutiny of the available records relating to the projects, there was no evidence of the taxpayer having exercised the option to pay tax, with availment of ITC, in the Form prescribed in respect of ongoing projects. As such, the taxpayer is deemed to have opted to pay tax at lower rate and, therefore, forfeiting the eligibility of ITC. However, on scrutiny of returns filed by the taxpayer for the period 2020-21 and 2021-22, it was seen that taxpayer had claimed ITC amounting to ₹49.00 lakh for the year 2020-21 and ₹52.31 lakh for the year 2021-22 for the ongoing projects. The taxpayer was liable to reverse the ineligible ITC claimed.

This was pointed out in January 2025; the Department/Ministry intimated issuance of SCN to taxpayer in March 2025.

(iii) In the case of a taxpayer under Range IV, Surat Commissionerate, the taxpayer, engaged in residential construction projects, constructed Town Planning Scheme No. 21 and received Building Use permissions for all blocks by 13 September 2021. As per Section 18(4), ITC should lapse upon Building Use approval, as the supply of real estate (after obtaining occupancy certificate or Building Use) is an exempt supply. However, the taxpayer not only failed to reverse ₹28.86 lakh of ITC available when Building Use was issued but also availed an additional ₹5.80 lakh post Building Use, totalling ₹34.67 lakh.

When this was pointed out (November 2024), the Department/Ministry intimated (December 2024) that the taxpayer had paid an amount of ₹42.30 lakh vide DRC-03 (form for payment of tax) in December 2024.

4.7.3.7 GST applicability on unaccounted 'on-money' income, discovered by Income tax Department from the builder/developer

As per Section 74 of CGST Act, where it appears to the Proper Officer that any tax has not been paid or short paid by reason of fraud, or any wilful-misstatement or suppression of facts to evade tax, he shall serve notice on the person chargeable with tax which has not been so paid requiring him to show cause as to why he should not pay the amount specified in the notice along with interest payable thereon under Section 50 and a penalty equivalent to the tax specified in the notice.

Prevention of tax evasion and broadening the tax base are critical components of effective tax administration aimed at maximising tax realization. As tax systems increasingly rely on voluntary compliance, it becomes essential for tax authorities to implement robust mechanisms for collecting and cross-verifying information from multiple sources. This ensures that eligible taxpayers are appropriately brought under the tax net.

A mechanism for sharing of information with Central Economic Intelligence Bureau (CEIB) has been prescribed both by Central Board of Direct Taxes (CBDT) and CBIC vide Notification/Order dated 25 July 2018 and Instruction No.2/2021-22, dated 16 August 2021 respectively.

In this context, an audit was conducted on a sample of selected taxpayers who were assessed under Sections 143(3) or 153A of the Income Tax Act, 1961, during the FYs covered under the SSCA. The scrutiny assessment orders were cross verified with the taxpayers' GST returns.

Audit observed that in two out of 715 taxpayers where assessments under Sections 143 (3) or 153A were provided to Audit for examination. These assessment showed additions totalling ₹42.58 crore were made in respect of unaccounted 'on-money' income. These additions, being unrecorded business receipts, were liable to GST at applicable rates. The GST implication in these two cases worked out to ₹5.65 crore.

These two cases are discussed below:

(i) A taxpayer under Tapovan Range, Nashik Commissionerate, was engaged in the construction of residential and commercial buildings. Income Tax assessment under Section 143 (3) of the Income Tax Act for AY 2022-23 (FY 2021–22) revealed unaccounted cash receipts of ₹33.58 crore from 'on-money' sales of flats and shops, which were added to the taxable income by the Income Tax Department. Since these receipts were not recorded in the books of accounts, they were also omitted from GST liability declarations, resulting in suppression of taxable turnover and consequent underpayment of GST.

When this was pointed out (January 2025), the Department/Ministry intimated that out of ₹ 4.03 crore of tax liability, taxpayer had paid ₹2.62 crore in June 2025. Further, Department had issued SCN (September 2025) regarding the short payment of tax amounting ₹1.41 crore.

(ii) A taxpayer under Kondapur-II Range, Rangareddy Commissionerate, was subject to a survey under Section 133A of the Income Tax Act, 1961. The survey revealed unaccounted business receipts of ₹9 crore received from another taxpayer. These receipts were neither disclosed in GSTR-1 nor was the corresponding GST liability of ₹1.62 crore (at 18 per cent) discharged.

When this was pointed out (December 2024), the Department replied (December 2024) that the findings were based on materials seized at third-party premises and that no direct evidence was found in the taxpayer's own records.

The reply is not acceptable as the Income Tax Department confirmed business transactions between the taxpayers and had raised an income tax demand by treating the ₹9 crore as unaccounted income. The information related to the income tax proceedings need to be leveraged to address corresponding GST liabilities on unaccounted supplies. Reply of the Ministry was awaited (February 2026).

Recommendation No.4

The Department needs to ensure effective co-ordination between CBDT and CBIC and leverage the information of unaccounted income available with the Income Tax authorities to determine corresponding GST liability of taxpayers providing works contract and construction services.

4.7.3.8 Short discharge of tax liability in execution of metro projects

Metro projects involve a variety of contractors' specialising in different areas of construction, systems and operations. Key contractors include civil construction companies, systems integration companies, and rolling stock suppliers. Additional specialists may be needed for specific tasks like electrical work, signalling, telecommunications and elevators work. As such, the notifications and exemptions that apply to works contract/construction services apply uniformly to the execution of metro projects.

Audit observed 28 compliance deficiencies involving 14 taxpayers, involving an amount of ₹ 8.91 crore, due to short discharge of liability.

When this was pointed out (March to April 2025), Department initiated remedial measures (admitted, SCN issued and recovered) in 22 cases, involving an amount of ₹ 3.74 crore and recovered ₹ 22.37 lakh. Replies to the remaining six cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) As per the provisions of Section 51 of CGST Act read with Rule 12 of CGST Rules and Notification No.50/2018-Central Tax dated 13 September 2018, the Government Departments are required to deduct tax at source at the rate of two per cent from the payment made to suppliers of goods and / or services or both.

A taxpayer under Maduravoyal Range, Chennai Outer Commissionerate was providing works contract services to a Government Department. Audit observed that turnover reported in the GST return by the taxpayer of ₹ 48.74 crore as against a turnover ₹74.82 crore calculated based on data of tax deducted at source for that works contract service by the Government Department concerned. Thus, there was under reporting of supplies to the tune of ₹26.08 crore and consequent short payment of GST of ₹3.13 crore.

When this was pointed out (April 2025) the Department/Ministry stated that the taxpayer had filed Writ Petition in Hon'ble High Court of Madras and Hon'ble Court have granted interim stay to the taxpayer.

(ii) Lift and escalator installation services have been classified under SAC 9954 and are chargeable at 18 per cent. However, 12 per cent concessional rate is applicable to contractors providing these services under affordable housing scheme or government supply or composite supply. The Advance Authority Ruling (AAR) in the case of M/s. BG Elevators and Escalators Private Limited dated 9 March 2021, also confirmed a tax liability of 18 per cent on all supplies.

From a review of records of the taxpayer under Range-V, Surat Commissionerate, for the years 2020-21 and 2021-22, Audit observed that the taxpayer supplied installation and commissioning of lifts to private entity and government agencies with an assessable value of ₹24.94 crore and discharged tax of ₹2.99 crore at the concessional rate of 12 per cent. Since the taxpayer was not a contractor executing affordable housing scheme or a supplier to government entity, the taxpayer was not eligible for the concessional tax rate of 12 per cent and tax should have been discharged at the rate of 18 per cent. Irregular availment of concessional rate resulted in short payment of tax ₹1.49 crore with applicable interest.

When this was pointed out (March 2025), the Department/Ministry informed that SCN has been issued in August 2025.

4.7.4 Other compliance issues

The GST Act mandates registration of businesses with an annual turnover of ₹20 lakh from services (₹10 lakh in respect of Special Category states) with appropriate disclosure of places of businesses. The GST Act further mandates periodic filing of GST returns or statements as required under Sections 37, 38, 39 or 45 of CGST Act by the prescribed due dates and other compliances on registered taxpayers.

Under Section 61 of the CGST Act, the returns filed by taxpayers are required to be scrutinized by the designated Proper Officer, typically the Range Officer, to verify their accuracy and identify any inconsistencies or discrepancies. Appropriate action is to be initiated wherever such issues are detected.

Audit observed 1,057 compliance deficiencies involving 522 taxpayers, out of the sample of 715 taxpayers, due to not declaring service codes and additional places of business in GST Registration, mismatch in availment of ITC and short levy of tax and interest, involving an amount of ₹188.98 crore

These issues are highlighted in succeeding paragraphs:

4.7.4.1 Registration – Not declaring new SAC Code in Registration Certificate

According to Rule 24(2)(a) of the CGST Rules individuals migrated from the earlier tax regime and granted provisional registration under sub-rule (1) are required to submit an application electronically in Form GST REG-26. This application, along with the necessary information and supporting documents, must be filed on the common portal either directly or through a Commissioner-notified Facilitation Centre.

Rule 24(2)(b) of the said rules mandates that this information must be submitted within three months or within such extended time as permitted by the Commissioner. Further, as per Rule 24(2)(c), if the information provided is found to be accurate and complete by the Proper Officer, a permanent registration certificate in Form GST REG-06 shall be issued electronically. Conversely, Rule 24(3) specifies that if the required information is either not furnished or is found to be incorrect or incomplete, the Proper Officer should issue an SCN in Form GST REG-27 and, after giving the taxpayer an opportunity to be heard, cancel the provisional registration through an order in Form GST REG-28.

The Ministry's 2012 publication White Paper on Black Money[64] identified real estate as one of the sector particularly susceptible to tax evasion and the generation of unaccounted income. As such, correct classification of services is not only necessary for accurate tax reporting and compliance but also aids the government in sector-specific policy formulation, especially in areas like works contracts and construction services.

Audit observed that in 176 out of the sample of 715 cases, taxpayers continued to declare their services using outdated service tax codes relating to legacy tax regime (00440XXX) rather than the correct SAC codes related to works contract or construction services (9954XX) in GST regime.

When this was pointed out (August 2024 to January 2025), the Department/Ministry had accepted the audit findings in 135 cases. Replies to the remaining 41 cases were awaited/rebutted (February 2026).

4.7.4.2 Registration - Not/Incorrectly declaring additional place of business

As per Section 2(85) of the CGST Act, the term 'place of business' encompasses any location where business is ordinarily conducted, including warehouses, godowns, or any other premises where a registered person stores goods or receives or supplies goods or services. An 'additional place of business' refers to any such business-related location within the State, other than the principal place of business, from which a taxpayer conducts operations. Rule 19 of the CGST Rules prescribes the procedure for carrying out amendments to registration details, including those relating to the principal and additional places of business.

[64] Government's white paper on black money, Press Release, dated 16 May 2012

Accurate declaration of additional places of business is crucial for monitoring project-wise ITC claims and ensuring compliance with the applicable provisions of the CGST Act and Rules.

Audit observed that in 15 out of the sample of 715 cases, the taxpayers had either failed to declare or incorrectly declared the number of additional places of business.

When this was pointed out (August 2024 to January 2025), the Department/Ministry accepted the observation in eight cases, while responses for the remaining seven cases were awaited/rebutted (February 2026).

A few illustrative cases are given below:

(i) In the case of a taxpayer falling under Range-III, Pune-I Commissionerate, the taxpayer was found to be providing excavation services under SAC 995433, among other activities. Examination of tax invoices and work orders revealed execution of services across multiple locations including Vaibhavwadi (District Sindhudurg), Rang Hill Corner (Pune), Erandwane (Pune), and Bhagpur (District Jalgaon). However, registration details indicated that the taxpayer had not declared any additional place of business.

When this was pointed out (January 2025), the Department forwarded the reply of taxpayer in December 2025, who accepted the observation. Reply of the Ministry was awaited (February 2026).

(ii) Scrutiny of works executed by the taxpayer under Chandanagar Range, Rangareddy Commissionerate, disclosed that two projects were taken up by the taxpayer during 2020-21 and 2021-22, from places other than the place of business registered in Registration Certificate.

When this was pointed out (October 2024), the Department/Ministry replied (April 2025) that the audit observation is accepted, and a SCN was issued to the taxpayer (March 2025).

4.7.4.3 Return filing – Not paying/short payment of interest, late fee and penalty

As per Section 50 of the CGST Act, any person liable to pay tax under the provisions of the Act or associated rules, but who fails to pay the tax (in whole or in part) within the prescribed period, is required to pay interest for the duration of the delay. The applicable interest rate is as notified under the Act.

As per Section 47 of the CGST Act, any registered person who fails to furnish returns or statements[65] as required under Sections 37, 38, 39, or 45 by the prescribed due dates is liable to pay a late fee of ₹100 per day, subject to a maximum of ₹5,000. Additionally, for delays in furnishing the annual return under Section 44, the late fee is ₹100 per day, capped at 0.25 per cent of the taxpayer's turnover in the State or Union Territory.

As per notification No.19/2021 dated 1 June 2021 for nil filers, the late fee is fixed at ₹500 per return, while for other taxpayers, it is determined based on turnover slabs as explained in the relevant section. a conditional waiver of late fees was also provided for delayed filing of GSTR-3B, applicable if returns were filed between 1 June and 31 August 2021, with the late fee capped at ₹500 per Act per return.

Audit observed short levy of interest (considering only the net tax liability paid in cash), late fee and penalty due to delayed filing of GSTR-3B return and consequent delayed payment of tax during the FYs 2020–21 and 2021–22 in 243 cases involving 205 taxpayers, out of the sample of 715 taxpayers, amounting to ₹4.08 crore.

When this was pointed out (August 2024 to January 2025), Department/Ministry accepted the observation in 176 cases involving money value of ₹2.81 crore and had recovered ₹1.81 crore. Replies to the remaining 67 cases were awaited/rebutted (February 2026).

A few Illustrative cases are featured below:

(i) Audit observed that a taxpayer under Range-V, Pune-I Commissionerate, availed ITC of ₹1.19 crore on value of ₹5.70 crore of royalty expenses (as per Table 14G of GSTR -9C of 2021-22) and discharged taxes of ₹4.80 lakh, ₹49.25 lakh and ₹54.46 lakh on RCM basis in respect of 2017-18, 2018-19 and 2019-20 respectively only in 2021 vide DRC-03 dated 16 July 2021). However, interest of ₹34.75 lakh was not paid on delayed payment of tax.

This was pointed out (January 2025) and the reply of the Department/ Ministry was awaited (February 2026).

(ii) Audit verified the invoices declared in GSTR-1 returns of a taxpayer under Ameerpet-II Range, Hyderabad Commissionerate and date of discharge of tax through the succeeding GSTR-3B returns during 2020-22 and observed delayed discharge of tax on 20 invoices, against which interest was short levied by ₹19.17 lakh.

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[65] Furnishing details of outward supplies, Communication of details of inward supplies and input tax credit, Furnishing of returns and Final return.

When this was pointed out (December 2024), the Department/Ministry replied (August 2025) that the entire amount has been recovered (vide DRC-03 dated 1 August 2025).

(iii) A review of GSTR-3B returns of taxpayer under Range-III, Chennai South Commissionerate, disclosed that the taxpayer had belatedly filed the GSTR-3B returns for the months of January 2021 to December 2021 (except August 2021) and March 2022. The consequent short payment/not paying of interest on account of delayed remittance of tax during 2020-21 and 2021-22 worked out to ₹13.12 lakh.

When this was pointed out (December 2024), the Department/Ministry recovered the amount of ₹13.12 lakh (vide DRC-03 dated 19 November 2024).

4.7.4.4 Return filing - mismatches in availing ITC and tax payments

Section 16(2) of the CGST Act read with Rule 36 of CGST Rules, lays down the specific conditions under which ITC can be availed. The conditions include furnishing of relevant returns, in which the ITC is claimed, by the taxpayer and discharge of tax by the supplier. Section 17 of CGST Act prescribes, among others, the credits which are blocked from availing, while Section 9 prescribes levy and collection of tax, including levy of tax on RCM for specific categories of goods or services and Section 49 lays down the mechanism for payment of tax.

Section 61 of the CGST Act, envisages that of returns filed by taxpayers are required to be scrutinized by the designated Proper Officer to verify the correctness of returns and related particulars filed by taxpayers and intimate discrepancies to them for rectification.

A review of the GST returns filed by the selected sample of taxpayers disclosed discrepancies involving mismatches in ITC availment and discharge of tax payment in 451 cases involving 376 taxpayers and a revenue implication of ₹ 144.67 crore as detailed in the succeeding paragraphs.

The dimension wise cases of mismatches in availment of ITC and discharge of tax payments observed and the extent of action taken by the Department is given in **Table 4.4** below:

Table 4.4: Mismatches in availment of ITC and discharge of tax payments

Dimension	Mismatches identified			Action taken by the Department		Department reply awaited /Rebutted	
	No of taxpayers	No of cases	₹ in crore	No of cases admitted[66]	₹ in crore	No of cases	₹ in crore
Mismatch In ITC availed as per GSTR-2A /2B /3B /9 /9C Returns	158	195	38.07	140	27.34	55	10.73
RCM- Excess availment of ITC / ITC Claimed without payment of tax	6	6	0.58	3	0.08	3	0.50
Irregular availment of ITC on ISD credit by recipients	2	2	0.76	0	0	2	0.76
Not reversing/ Short reversal of ITC	50	57	11.62	41	10.23	16	1.39
Unreconciled ITC in Table 14T[67] and 12F[68] of GSTR-9C	17	18	7.33	7	0.24	11	7.09
Availing of ineligible ITC Identified as Blocked Credit	26	28	2.67	23	1.74	5	0.93
Unreconciled turnover/ taxable turnover in Table 5R &7G of GSTR-9C	5	5	0.31	2	0.04	3	0.27
Unreconciled tax liability in Table 9R of GSTR-9C	6	6	0.31	2	0.24	4	0.07
Short declaration of tax liability as per Returns (GSTR-1/3B/9/9C)	106	134	83.02	72	44.47	62	38.55
Total	**376**	**451**	**144.67**	**290**	**84.38**	**161**	**60.29**

As can be seen from the above table when these identified mismatches were communicated, the Department /Ministry admitted 290 mismatches involving amount of ₹ 84.38 crore. Replies to the remaining 161 mismatches involving ₹60.29 crore were awaited/rebutted (February 2026).

4.7.4.5 Exclusion of taxable supplies

Under Section 7 of the CGST Act 'supply' includes all forms of goods or services made for a consideration in the course or furtherance of business, including imports and specified transactions made without consideration. Supplies must be made by a registered, taxable person within the taxable territory. Certain activities specified in Schedule I are deemed to be supplies even if made without consideration, while Schedule II classifies specific transactions as either goods or services.

66 Including cases where SCN issued, OIO and recovered.
67 Reconciliation of ITC declared in Annual Return (GSTR-9) with ITC availed on expenses as per audited Annual Financial Statement or books of account – Un-reconciled ITC
68 Table 12F of GSTR-9C is used to report the unreconciled ITC between the audited financial statements and the GSTR-9 return.

Audit observed compliance deficiencies in 45 cases involving 44 taxpayers, (out of a sample of 715 taxpayers) amounting to ₹ 15.67 crore due to exclusion of supply by taxpayers.

When this was pointed out (August 2024 to January 2025), Department/Ministry issued SCN, admitted observations or recovered dues in 25 cases involving a money value of ₹12.34 crore. The replies to the remaining 20 cases were awaited/rebutted (February 2026).

A few Illustrative cases are featured below:

(i) In case of a taxpayer of Range-IV, Thane Commissionerate, Audit observed a difference between the sales figure reported in the financial statements and the supplies on tax was offered as per GSTR-9 during 2020-21 and 2021-22. The difference was of ₹22.90 crore (₹34.77 crore-₹11.87 crore) and ₹7.32 crore (₹13.72 crore- ₹6.39 crore) for FY 2020-21 and 2021-22 respectively. This involved a short levy of tax at 18 per cent amounting ₹4.12 crore and ₹1.31 crore for 2020-21 and 2021-22 respectively.

When this was pointed out (October 2024), the Department/Ministry intimated issuance of SCN in June 2025.

(ii) Audit observed from the financial statements of taxpayer under Kondapur-I Range, Rangareddy Commissionerate, that the taxpayer provided Corporate Guarantee of ₹725 crore to its related parties during 2020-21, which were not included as taxable supplies in GSTR-1 for 2020-21 and the taxpayer did not pay GST on this transaction. The taxpayer had also provided Corporate Guarantee of ₹1,080 crore before 2020-21, which were also similarly excluded. This resulted in short levy of tax of ₹3.25 crore by considering the value of supply at one per cent of the guarantee given and taxability at 18 per cent (₹1805 crore x one per cent x GST at 18 per cent).

When this was pointed (October 2024), the Department/Ministry intimated issuance of SCN in September 2025.

4.7.4.6 Short discharge of tax due to misclassification of supplies/ incorrect application of rate of tax

Under the GST framework the rates of tax on goods and services are governed by Notifications 1/2017 – Central Tax (Rate) and 1/2017 – Integrated Tax (Rate), which are structured into six rate schedules. These notifications are to be interpreted using the First Schedule to the Customs Tariff Act, 1975, including its Chapter Notes and General Explanatory Notes. The Explanatory Notes to the Scheme of Classification of Services further clarify that when a service qualifies for multiple categories, the most specific classification should be preferred over general descriptions.

Audit observed compliance deficiencies in 13 cases involving 11 taxpayers (out of a sample of 715 taxpayers), amounting to ₹2.35 crore, due to misclassification of supply or incorrect application of rate of tax leading to short discharge of tax liability.

When this was pointed out (August 2024 to January 2025), the Department/Ministry initiated remedial measures (admitted, recovered, SCN issued) in 11 cases involving a money value of ₹2.06 crore and recovered an amount of ₹5.10 lakh. Replies to the remaining two cases were awaited (February 2026).

A few illustrative cases are featured below:

(i) A taxpayer under Deogarh Range, Rourkela Commissionerate, had entered into an agreement with NHAI for supply of works contract service under Hybrid Annuity mode[69] during the period from February 2018 to May 2022. Further scrutiny revealed that during the period 2020-21 and 2021-22, the taxpayer had paid GST at 12 per cent of the taxable value on electrical utility service and shifting of the Government Buildings etc. However, Notification No.11/2017 dated 28 June 2017 provides for a rate of 12 per cent, which is applicable only to the original works and not to the utility services. As such tax had to be discharged at 18 per cent. This resulted in short discharge of tax of ₹97.96 lakh.

When this was pointed out in October 2024, the Department/Ministry intimated issuance of SCN (March 2025).

(ii) Audit observed from GSTR-1 returns for the years 2020-21 and 2021-22 that the taxpayer under Range-II, Ludhiana Commissionerate discharged tax liability of ₹95.36 lakh at 12 per cent as against ₹1.41 crore payable at 18 per cent applicable for services under SAC 955461- Electrical installation services. This resulted in short levy of tax amounting ₹41.04 lakh besides interest and penalty leviable as per GST Act.

When this was pointed out (November 2024), the Department/Ministry intimated issuance of SCN (November 2024).

4.7.4.7 Undischarged liability due to not considering the time of supply

In the context of works contract and construction services, projects typically span several years, during which payments are released in stages based on the progress of work. These payments are formalized through Running

[69] In hybrid annuity mode 40 per cent the Project Cost is to be provided by the Government as Construction Support during the construction period and the balance 60 per cent as annuity payments over the operations period along with interest thereon to the concessionaire.

Account (RA) Bills, which allow contractors to receive funds corresponding to the portion of work completed at each stage.

As per Section 2(33) of the CGST Act, 2017, such services fall under the definition of “continuous supply of services”, i.e., services provided or agreed to be provided on a continuous or recurring basis under a contract that exceeds three months and involves periodic payment obligations. The time of supply provisions, governed by Section 13 of the CGST Act, envisages that periodic payments received/advances received have to be considered for discharge of tax. Section 31(5) outlines the timeline for issuing invoices in cases of continuous supply.

Audit observed compliance deficiencies in 27 cases involving 25 taxpayers (out of a sample of 715 taxpayers), amounting to ₹ 9.70 crore, due to not considering time of supply provisions, resulting in short discharge of liability.

When this was pointed out (August 2024 to January 2025), Department/Ministry initiated action (admitted, SCN issued and recovered) in 18 cases amounting ₹ 6.90 crore and recovered an amount of ₹24.77 lakh. Replies to the remaining nine cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) In the case of a taxpayer, registered under Range DWD4, CGST Commissionerate Bengaluru West, Audit observed that the taxpayer had received advances of ₹8.85 crores and ₹10.42 crore during 2020–21 and 2021–22 respectively. The taxpayer did not pay GST at the time of receipt of advances, as required under the provisions of time of supply. Instead, GST was discharged when the taxpayer was issuing invoices for supplies without adjusting advances received. This resulted in a short payment of tax amounting to ₹2.18 crore and unpaid interest of ₹1.60 crore for the delay in payment of GST during 2020-21 and 2021-22.

When this was pointed out (December 2024), the Department/Ministry intimated issuance of SCN in April 2025.

(ii) In the case of a taxpayer registered under Range-VI, CGST Commissionerate Kolkata North, Audit observed that the taxpayer had shown retention money of ₹10.29 crore against execution of works contract under schedule –‘Current Assets’ in the Balance Sheet as on 31 March 2022 with a note that the relevant taxes on retention money against execution of works contract are payable at the time of realization. As per the note given in the Balance Sheet, it is clear that taxpayer was not paying GST on retention money. This has resulted in undischarged tax liability of ₹1.23 crore, calculated on retention money of ₹10.29 crore, at the rate of 12 per cent. Interest is also leviable on the late payment of tax.

When this was pointed out to the Department (December 2024), the Department stated (January 2025) that as per Chartered Accountant certification, out of ₹10.29 crore, ₹8.70 crore was security deposit and the balance amount of ₹1.60 crore was retention money, citing Note 2.16 of the Balance Sheet. The reply is not tenable as ₹10.29 crore was accounted as retention money in the accounts. Reply of the Ministry was awaited (February 2026).

(iii) Scrutiny of records of a taxpayer, under Range END2, Bengaluru Commissionerate revealed that the taxpayer had received mobilization advance amounting to ₹32.04 crore bearing 5 per cent interest per annum, for execution of works during the period from 2020-22. The taxpayer was adjusting both the advances received and interest on such advances against the invoices issued by the taxpayer for the executed portion of the work. During the year 2020-21, an amount of ₹3.35 crore and interest of ₹4.32 crore was adjusted against supply invoices. Similarly, during 2021-22, an adjustment of ₹22.15 crore and ₹92.57 lakh interest was made against the supply invoices. Thus, as at the end of the FY 2021-22 taxpayer had a balance of ₹6.54 crore as mobilization advance. Not discharging GST on advances received was not in conformity with the time of supply provisions of GST. As the taxpayer had taken registration in August 2020, the liability on the advances received arose on the date of registration. The interest liability on the delayed payment in this case amounted to ₹83.65 lakh. Further, the taxpayer was also liable to pay tax on the unadjusted portion of advance of ₹6.54 crore. The tax liability on this portion worked out to ₹78.55 lakh.

When this was pointed out (February 2025), the Department/Ministry intimated issuance of SCN in May 2025 and adjudicated the same in August 2025.

4.7.4.8 Not paying/Short payment of tax on royalty under RCM

As per Sl. No. 5 of Notification No.13/2017–Central Tax (Rate) dated 28 June 2017, services provided by the Central Government, State Government, or a local authority to a business entity are liable to GST under RCM. The levy of royalty falls within the definition of 'supply' under Section 7 of the CGST Act. Further, CBIC Circular (No. 164/20/2021 dated 6 October 2021) clarifies that such royalty is classifiable under SAC 997337, relating to "licensing services for the right to use minerals including exploration and evaluation," and is taxable at 18 per cent.

Audit observed compliance deficiencies in 15 cases involving 15 taxpayers out of a sample of 715 taxpayers, amounting to ₹5.01 crore, due to short discharge of liability on royalty expense booked in accounts.

When this was pointed out (August 2024 to January 2025), Department/ Ministry initiated remedial measures (admitted and SCN issued) in 12 cases, involving a money value of ₹ 4.41 crore and recovered ₹0.05 lakh. Replies to the remaining three cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) A taxpayer under GST-III Range, Udaipur Commissionerate, had accounted for royalty expenses of ₹7.03 crore in the income and expense statement for 2020-21. Audit observed that though the royalty amount of ₹7.03 crore was paid to government, the tax liability at 18 per cent amounting to ₹1.26 crore was not discharged under RCM, which was recoverable from the taxpayer with applicable interest.

When this was pointed out (November 2024), the Department/Ministry intimated issuance of SCN in September 2025.

(ii) Audit observed in the case of a taxpayer under Vanasthalipuram Range, Rangareddy Commissionerate, that though the taxpayer had accounted for the amounts retained by the Government of Telangana towards Seigniorage Charges, DMF (District Mineral Foundation Charges), SMET (State Mineral Exploration Trust) and NAC (National Academy of Construction) in his books of account for 2020-21 and 2021-22, the taxpayer did not discharge the GST liability of ₹1.06 crore on the total amount of ₹5.90 crore on Seigniorage Charges, DMF, SMET, NAC for 2020-21 and 2021-22.

When this was pointed out (December 2024), the Department/Ministry intimated issuance of SCN in December 2025.

(iii) In the case of a taxpayer, under Range-III, Pune-I Commissionerate, the taxpayer paid ₹3.23 crore as royalty for 2020–21 and 2021–22. However, Audit observed that their GSTR-9 filings reflected only ₹5.39 lakh as the taxable value under RCM, resulting in a shortfall of ₹57.17 lakh in discharge of tax.

When this was pointed out (November 2024), the Department/Ministry intimated issuance of SCN (October 2025).

4.7.4.9 Not paying /Short payment of tax on GTA and Other Charges under RCM

Notification No.13/2017 – Central Tax (Rate), dated 28 June 2017 outlines several categories of services liable for RCM, which include a) Goods

Transport Agency (GTA) services for the transport of goods by road to any registered person b) Legal services supplied by an individual advocate or firm to a business entity c) Services supplied by the government or local authority to a business entity, excluding certain notified services d) Director's services to a company or body corporate and e) Other miscellaneous charges, including municipal charges, when provided to business entities.

Audit observed compliance deficiencies in 72 cases involving 66 taxpayers (out of a sample of 715 taxpayers), amounting to ₹ 7.50 crore, due to not discharging/short discharge of liability under RCM by taxpayers on GTA and other services.

When this was pointed out (August 2024 to January 2025), Department/Ministry initiated remedial measures in 41 cases, involving an amount of ₹ 4.24 crore and recovered ₹ 41.75 lakh. Replies to the remaining 31 cases were awaited/rebutted (February 2026).

A few illustrative cases are featured below:

(i) In case of a taxpayer under Range-II, Mumbai West Commissionerate, it was observed from Income Tax Returns of Assessment Year 2021-22 (FY 2020-21) and Assessment Year 2022-23 (FY 2021-22) that ₹43.98 lakh and ₹8.87 crore respectively were debited on account of 'MCGM charges'[70]. As per Sl. No 5 of Notification 13/2017 tax at 18 per cent was liable to be paid on reverse charge basis on aforesaid amounts. However, Audit observed from GSTRs-9 and GSTR-9Cs of the relevant period, that the tax remained unpaid, resulting in short levy of tax of ₹1.67 crore.

When this was pointed out (February 2025), the Department/Ministry intimated issuance of SCN (December 2025).

(ii) In the case of a taxpayer, under Bhubaneswar X Range, Bhubaneswar Commissionerate, the taxpayer reported freight and cartage charges of ₹2.15 crore in 2020–21 and ₹9.19 crore in 2021–22. Audit observed that GST was not paid under RCM in 2020–21, while tax of ₹0.03 crore was only discharged against a taxable value of ₹0.70 crore during 2021-22. The taxpayer was liable to pay GST at 5 per cent on total transport charges, and as such a tax liability of ₹0.53 crore remained unpaid.

This was pointed (December 2024), the Department/Ministry intimated SCN has been issued to the taxpayer in January 2026.

[70] MCGM, or the **Municipal Corporation of Greater Mumbai**, is the official authority of the State Government that oversees the infrastructural development of various locations in Mumbai. Therefore, it levies tax on all city property owners who hold a domicile certificate.

4.7.5 Deficiencies in Range functions

Ranges are the lowest organisational hierarchies under the CBIC for tax administration and maintaining oversight over taxpayer compliance. Range Officers entrusted with responsibilities as Proper Officers have to perform a variety of roles in terms of assessment levy and collection of tax, which include scrutiny of returns filed by registered persons, determining tax liability and follow up of recovery of dues, monitoring late/non-filers of GST returns and other compliances vested with taxpayers.

Audit selected a sample of 71 Ranges as a part of this SSCA to review oversight functions of Ranges during the period 2020-21 to 2023-24.

Audit evaluated the adequacy and effectiveness of the system prevailing in the selected sample of 71 Ranges for scrutiny and assessment of returns. Nineteen Ranges did not provide the details of scrutiny of GST returns filed by taxpayers. Audit observed deficiencies in oversight functions in 57 Ranges across the sampled Ranges.

Four Ranges did not conduct scrutiny as envisaged. Deficiencies in scrutinised cases were noticed in 11 Ranges, which reflect gaps in assessed tax / interest involving an amount of ₹3.18 crore.

In 73 cases across 12 Ranges, Audit observed delays, mainly in issue of ASMT10 and ASMT12 and action taken under Section 73 and 74 of the GST. Follow up of cases red flagged by the Directorate General of Audit and Risk Management (DGARM) was deficient in 76 cases across 10 Ranges involving a financial implication of ₹12.81 lakh.

In 20 Ranges involving 5,652 cases, there was deficiencies in monitoring the late filers/non-filers involving money value of ₹ 3.28 crore.

Audit selected a sample of 71 Ranges as a part of this SSCA to review oversight functions of Ranges during the period 2020-21 to 2023-24 and observed deficiencies in scrutiny, follow up of notices, monitoring of late/non-filers and processing refund claims, which are brought out in the following paragraphs.

4.7.5.1 Deficiencies in scrutiny

Section 61 of the Act provides for scrutiny of returns by the Proper Officer. Rule 99 lays down the procedure for acting on the discrepancies noticed. DGARM selects the returns for scrutiny on the basis of risk parameters and communicates the same to the jurisdictional Commissionerates.

A scrutiny module for online scrutiny of returns has been made available in the CBIC backend application for scrutiny of returns filed for 2019-20 onwards and instructions are detailed in Instruction No. 02/2023 dated 26 May 2023.

Audit evaluated the adequacy and effectiveness of the system prevailing in the selected sample of 71 Ranges for scrutiny and assessment of returns for the period up to March 2024, which disclosed the following deficiencies:

i. **Not producing information:** Nineteen Ranges[71] did not provide the details of scrutiny of GST returns filed by taxpayers registered under works contract and construction services (SAC 9954) for the period from 2020-21 to 2023-24.

ii. **Not conducting scrutiny:** Four[72] Ranges did not conduct scrutiny as envisaged. For instance, in Range-III, Division-I of Surat Commissionerate, records showed that scrutiny of returns was not carried out for 2020–21 and 2021–22. For 2022–23, out of 10 cases received for scrutiny, only one taxpayer was engaged in works contract service, In FY 2023–24, although 14 cases were received for scrutiny, none pertained to works contract services.

    When this issue was brought to the attention of the Department in September 2024, the Superintendent of the range responded (October 2024) that scrutiny at the Range level is conducted only for cases allotted by DGARM, routed through the headquarters, and that the matter is governed by existing policy directives. Reply of Ministry was awaited (February 2026).

iii. **Short levy of tax and interest/penalty due to inadequate scrutiny:** Audit observed deficiencies in 22 scrutinised cases in 11 out of the selected 71 Ranges, which reflect gaps in assessed tax / interest involving an amount of ₹3.18 crore**.**

When this was pointed out (August 2024 to January 2025), the Department/Ministry accepted the observation in 18 cases (nine Ranges). Replies of the Department/Ministry were awaited/rebutted in four cases (three Ranges).

Illustrative case of inadequate scrutiny in Range IV, Division Hazaribagh under Ranchi Commissionerate are featured below:

A taxpayer had disclosed turnover of ₹28.15 crore only for 2019-20, as against receipts of ₹34.02 crore from works contract services. This resulted in short

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[71] 1. Coimbatore IA; 2. Vadapalani Range V; 3. Egmore Range III; 4. Erode I; 5. BED-08; 6. Range-II (Alwar); 7. Arrah; 8. Gopalganj; 9. Range-IV (Ranchi); 10. Mango; 11. Bobbili; 12. Saroornagar; 13. Amaravathi Capital City Range; 14. Gudimalkapur; 15. Kukatpally; 16. Range-15 (Ghaziabad); 17. Range-V Tanakpur; 18. Range-1 Muzaffar Nagar; 19. Range-III (Pune-1)

[72] 1. Arrah; 2. Gopalganj; 3. III (Surat); 4. Range-I Muzzafarnagar

payment of tax of ₹1.93 crore including interest. However, this was not detected in scrutiny.

When this was pointed out (December 2024), the Department/Ministry intimated issuance of SCN in August 2025.

4.7.5.2 Deficiencies in issuing notices

As per Rule 99 of the CGST Rules, 2017, when a return filed by a registered taxpayer is selected for scrutiny, the Proper Officer must examine the return in accordance with Section 61 of the CGST Act. In cases where discrepancies are identified, the Proper Officer is required to issue a notice in Form ASMT-10, informing the taxpayer of the discrepancy and seeking an explanation within 30 days from the date of service of the notice, or within an extended period as permitted. On receipt of reply/explanation from the taxpayer in Form ASMT-11, which if acceptable to the Proper Officer, an order in Form ASMT-12 has to be issued to registered taxpayer within 30 days from the receipt of ASMT-11.

Out of the selected sample of 71 Ranges, Audit observed that:

i. In 45 cases (in 10 Ranges), ASMT-10 was issued to the taxpayers with delays ranging from 14 to 82 days.

ii. In 28 cases (in seven Ranges), where explanations received from taxpayers in form ASMT-11 were found acceptable, orders in form ASMT-12 were delayed ranging from five to 579 days.

When this was pointed out (August 2024 to January 2025), the Department accepted the observation in 32 case (under three Ranges). The replies of Ministry/Department to the remaining 41 cases (under seven ranges) were awaited/rebutted (February 2026).

4.7.5.3 Deficiencies in follow up of red flagged cases

DGARM shares the lists of high-risk taxpayers with the CBIC field formations through various analytical reports on the Directorate of Data Management (DDM) portal for action. In such cases flagged as high-risk (red flagged reports) by DGARM, Range officers are expected to conduct comprehensive verification procedures, including recovery of differential tax or credit along with applicable interest. On completion of action, CBIC field formations are required to upload, action taken on the respective DGARM reports, in the DDM portal incorporating details regarding detection and recoveries.

Audit observed that in 76 cases (in 10 Ranges out of a sample of 71 Ranges) involving tax deviation of ₹12.81 lakh, which were red flagged, the Ranges did not conduct the requisite verification as envisaged.

When this was pointed out (from August 2024 to January 2025), the Department/Ministry accepted the audit observations in 28 cases (in seven Ranges) and in the remaining cases 48 cases (in three Ranges), Department/Ministry replies were awaited (February 2026).

An illustrative case is highlighted below:

In one case in Range-II, Division Kottayam under Thiruvananthapuram Commissionerate, Audit observed that DGARM report identified interest liability of ₹1.60 lakh for late payment of tax and late filing /not filing returns, but the Range did not carry out the verification. When this was pointed out (December 2024), the Department/Ministry intimated (February 2025) recovery of ₹1.56 lakh vide DRC-03 in January 2025.

4.7.5.4 Deficiencies in monitoring non/late filers

Under Section 46 of the CGST Act, read with Rule 68 of the CGST Rules, tax authorities are mandated to issue a notice in Form GSTR-3A to taxpayers who fail to file their returns within the stipulated due date. If the taxpayer does not comply within 15 days of receiving this notice, the Proper Officer may proceed with the best judgment assessment and issue an assessment order in Form ASMT-13, considering all relevant material available. This assessment must be completed within five years from the due date for filing the annual return for the relevant financial year. To ensure consistent enforcement, the Board issued Standard Operating Procedure through Circular No. 129/48/2019-GST dated 24 December 2019 prescribing the methodology to be followed by Range Officers.

Audit observed in 20 out of 71 Ranges selected, that GSTR-3A notices were issued in 5,652 [73] cases of returns not filed. However, assessments were not completed, and assessment orders were not issued.

When this being pointed out (August 2024 to January 2025), the Department/Ministry accepted audit observations in 15 Ranges (involving 2,115 cases). Replies from the remaining eight Ranges (involving 3,537 cases) were awaited/rebutted (February 2026).

Two cases are highlighted below.

(i) In Range-02, Rohtak Division under Rohtak Commissionerate, 3,541 non-filers were identified during the period 2020-21 to 2023-24 and GSTR-3A notices were issued. In response to the GSTR-3A notices, 366 non-filers filed the returns leaving a balance of 3,175 non-filers where Department was

[73] In 16 cases, GSTR-3A notice was also not issued.

required to conduct assessment and issue assessment orders. However, Audit observed that the Department did not issue ASMT-13 in these cases.

When this was pointed out (August 2024), the Department replied (November 2024) that the portal issued the SCN to the taxpayer automatically in the case where taxpayer does not file the return within stipulated time. Further, if the taxpayer does not submit the reply of the SCN then the portal automatically initiates the suo-moto cancellation of the GSTIN. The reply is not acceptable as even though the issue of notices and suo moto cancellation in respect of non-filers have been automated, the assessment of tax liability continues to vest with the Range Officers as per Standard Operating Procedure of December 2019. Further, the Department has to ensure that final returns i.e., GSTR-10 have been filed by the cancelled taxpayers as merely cancellation of registration does not ensure recovery of pending dues from the taxpayer. Reply of the Ministry was awaited (February 2026).

(ii) Similarly, in Hospet-B Range, Hospet Division Belagavi Commissionerate, 226 non-filers were identified during the period 2020-21 to 2023-24, and GSTR-3A notices were issued. In response to GSTR-3A, 140 non-filers filed the returns leaving a balance of 86 non-filers. Audit observed that the Department did not conclude assessments in these 86 cases.

When this was pointed out (November 2024), the Department/Ministry replied (February 2025) that GSTR-3A notices are being issued by the system itself. Out of the remaining 86 taxpayers, three non-filers have filed the returns belatedly and registration of remaining 83 taxpayers was cancelled.

The reply is not acceptable as even though the issue of notices in respect of non-filers have been automated, the assessment of tax liability continues to vest with the Range Officers as per Standard Operating Procedure of December 2019 which was not undertaken. The Department also did not ensure that the cancelled taxpayers file their final return - GSTR 10.

4.7.6 Taxpayers' audit by Department

Section 65 of the CGST Act, read with Rule 101 of the CGST Rules, the Commissioner or an authorized officer may initiate an audit of any registered person through a general or specific order.

The audit mechanism, institutionalised as Internal Audit, serves as a key tool for evaluating taxpayer compliance with the GST law and associated rules. The DGARM plays a crucial role in this process by identifying high-risk taxpayers based on analytical risk assessments drawn from GST data.

From the taxpayers selected for internal audit under Section 65 of CGST Act, compliance deficiencies were observed in 97 cases involving 53 taxpayers having financial implication of ₹14.87 crore.

As part of the SSCA, a sample of 115 taxpayers was drawn from the jurisdiction of the Audit Commissionerates, from the cases which were planned for audit by the Audit Commissionerates covering the FYs 2020-21 and 2021-22 relating to taxpayers in works contract/construction services sector. Audit observed that though these cases were planned for Audit, audit Commissionerates did not conduct the audit in all cases. The sample of 115 taxpayers, therefore, included 70 taxpayers which were audited and 45 taxpayers that were not audited.

Audit observations revealed compliance deficiencies in both audited and unaudited cases. In the audited category, deficiencies were noticed in 70 cases (Including 19 cases of not producing/partially producing records) involving 43 out of total 70 taxpayers, with a total financial implication of ₹3.14 crore.

When this was pointed out (August 2024 to January 2025), Department initiated action in 31 cases involving an amount of ₹0.86 crore and recovered amount of ₹11.74 lakh. Replies to the remaining 20 cases were awaited/rebutted (February 2026).

Similarly, in the unaudited cases, compliance deficiencies were observed in 67 cases (including 21 cases of not producing/ partially producing records) involving 33 out of 45 taxpayers which were examined, involving a financial implication of ₹11.73 crore.

When this was pointed out to the Department (August 2024 and January 2025), the Department initiated action in 24 cases involving an amount of ₹3.21 crore and recovered an amount of ₹1.67 crore. Replies to the remaining 22 cases were awaited/rebutted (February 2026).

The Ministry requested (February 2026) for details of the concerned CBIC Audit Commissionerate to whom the observation, which was since provided (February 2026). Further reply of the Ministry was awaited (February 2026).

A few cases are illustrated as below:

(i) On verification of the sales register for the year 2020-21 and 2021-22 of under Range ESD6, Bengaluru South Commissionerate, it was noticed that the supply of services under SAC 995466 with taxable value of ₹114.59 crore was charged with GST of 12 per cent. However as per provisions of Notification No.11/2017 and the Authority of Advance Rulings in Karnataka (Goods and Service Tax), dated 9 March 2021, GST to be levied on the supply of services under Lift and escalator installation services classified under SAC 995466 is 18 per cent. This resulted in short levy of GST of ₹6.87crore along with the applicable interest.

When this was pointed out (January 2025), the Department did not accept the observation (August 2025) and stated that concessional rate of 12 per cent is applicable to the composite supply of works contract pertaining to single residential unit. The reply was not acceptable as the supply involved is classified under SAC code 995466 which deals with "Lift and escalator installation services" and effective rate of supply is 18 per cent irrespective of supply made to single residential unit or for domestic or commercial use. This view is supported by Authority of Advance Ruling in case of M/s Smartech Elevators KER/129/2021 dated 18 February 2022. The reply of the Ministry was awaited (February 2026).

(ii) During scrutiny of GSTR-2A and GSTR-3B of a taxpayer of Kakkanad Range-III, Kochi Commissionerate, for the year 2020-21, it was noticed that ITC available as per GSTR-2A with all its amendments was ₹15.85 lakh whereas taxpayer had availed ITC of ₹1.31 crore through GSTR-3B in 2020-21. This had resulted in excess availing of ITC to the tune of ₹1.15 crore.

When this was pointed out (December 2024), the Department/Ministry accepted the observation and issued the SCN in March 2025.

(iii) During scrutiny of GSTR-9C for the financial year 2020-21, a taxpayer under Ranchi Audit Commissionerate, had paid tax of ₹43.15 crore at the rate of 12 per cent whereas tax payable was ₹43.82 crore on taxable value of ₹365.25 crore. This resulted in short discharge of liability of GST ₹67.19 lakh and applicable interest of ₹45.79 lakh.

This was pointed out in January 2025, and Department's/Ministry's reply was awaited (February 2026).

The audit findings suggest the need for enhancing both the audit coverage and the quality of audit to ensure better oversight in high-risk sector such as the works and construction services.

4.8 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-I**.

4.9 Conclusion

The SSCA was conducted with an objective to examine whether the GST administration was effective in ensuring compliance with the provisions of GST Act, rules, notifications and prescribed procedures relating to levy and collection of Tax, ITC availment and exemptions claimed by the taxpayers involved in works contracts/ construction services. The SSCA also evaluated the functions of Ranges (departmental field formations) to assess the effectiveness of scrutiny and assessments and compliance on Directorate General of Audit and Risk Management (DGARM) reports relating to works contract/construction services.

The SSCA on works contract/construction services covered a sample of 735 taxpayers. The CBIC had issued instructions on 2 May 2025 to its field formation for timely production of records/information for audit. In 392 out of 735 taxpayers (53.33 per cent), granular records, which the Department had to obtain from the respective taxpayers were not forthcoming, posing a significant limitation to the scope of verification and analysis.

The audit findings emanating from this SSCA on Works Contract and Construction services comprised 1,334 compliance deficiencies involving an amount of ₹401.42 crore. Out of these compliance deviations, the Department accepted 903 deficiencies with revenue implication of ₹268.36 crore.

Out of the 1,334 deficiencies, 123 cases specifically related with the works contract services, with a revenue implication of ₹190.98 crore, which were caused due to incorrect availment of concessional rate of tax/exemptions on works contracts relating to construction of road, bridges, railways and earthwork, short discharge of liability on works contract services provided to Government authority/entity, short discharge of liability by builder/ developer under RCM, irregularities in residential real estate/real estate projects and irregular availing of ITC on ongoing/completed project**,** not discharging GST on unaccounted 'on-money' income discovered by Income Tax authorities short discharge of tax liability in execution of metro projects.

The general compliance deficiencies in filing GST returns, utilisation of ITC and discharge of tax liability were seen in 1,057 cases, involving 522 taxpayers, out of the 1,334 compliance deficiencies, which were mainly caused due to not declaring service codes and additional places of business in GST registration, mismatch in availment of ITC and short levy of tax and interest, involving an amount of ₹188.98 crore.

Audit also evaluated the adequacy and effectiveness of the system prevailing in the selected sample of 71 Ranges for scrutiny and assessment of returns. Nineteen Ranges did not provide the details of scrutiny of GST returns filed by taxpayers. Audit observed oversight deficiencies in 57 ranges across the sampled Ranges. While four Ranges did not conduct scrutiny, deficiencies in scrutinised cases/cases red flagged by the DGARM were noticed in 11 Ranges, involving an amount of ₹3.18 crore. Delays, mainly in issue of ASMT10, ASMT12 and action under Section 73 and 74 were observed across 12 Ranges. Further deficiencies in follow up of red flagged cases were seen in 10 Ranges, involving a money value of ₹12.81 lakh. In 20 Ranges involving 5,652 cases, there was deficiencies in monitoring the late filers/non-filers involving money value of ₹3.28 crore.

Further with reference to internal audit, compliance deficiencies were observed in 97 cases involving 54 taxpayers with a financial implication of ₹14.87 crore, which comprised cases that were audited by the department as well as those planned but not audited.

4.10 Summary of recommendations

1. The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where the concessions related to works contract services are availed by sub-contractor/sub-sub-contractors who are executing works of road, bridge and railways to ensure proper discharge of tax by taxpayers.

   The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

2. The Department may institute a mechanism for covering a larger sample of cases in scrutiny or internal audit, where concessional rate for earthwork is claimed on works contract services executed by service providers (sub-sub-contractors) other than sub-contractors to ensure proper discharge of tax by taxpayers.

   The Department may also explore the possibility of incorporating appropriate validation controls to regulate the concessions being claimed.

3. The Department may institute a mechanism for reviewing (by selecting for scrutiny or internal audit etc.) cases where taxpayers executing works contracts or construction services receive services from Governments or procure inputs and input services from unregistered suppliers to ensure proper discharge of tax under RCM by such taxpayers.

4. The Department needs to ensure effective co-ordination between CBDT and CBIC and leverage the information of unaccounted income available with the Income Tax authorities to determine corresponding GST liability of taxpayers providing works contract and construction services.

New Delhi **(SMITA GOPAL)**
Dated: 27 July 2026 **Principal Director (Indirect Taxes)**

Countersigned

New Delhi **(K. SANJAY MURTHY)**
Dated: 29 July 2026 **Comptroller and Auditor General of India**

Appendices

Appendix I: Impact on State Goods and Services Tax
(Refer Para 4.8)

(Amount in ₹ crore)

State/UT Para No.	SGST amount involved	SGST amount accepted	SGST amount recovered
Andhra Pradesh	**6.710**	**5.087**	**0.248**
4.7.3.4	0.024	0.000	0.000
4.7.4.3	0.161	0.079	0.036
4.7.4.4	6.209	4.953	0.203
4.7.4.5	0.078	0.000	0.000
4.7.4.6	0.005	0.005	0.008
4.7.4.9	0.177	0.000	0.000
4.7.5.1	0.056	0.049	0.000
Arunachal Pradesh	**0.051**	**0.001**	**0.001**
4.7.4.3	0.051	0.001	0.001
Assam	**0.063**	**0.059**	**0.003**
4.7.4.3	0.059	0.059	0.003
4.7.4.4	0.002	0.000	0.000
4.7.5.3	0.001	0.000	0.000
Bihar	**11.055**	**1.207**	**0.020**
4.7.3.1	5.536	0.000	0.000
4.7.3.3	0.079	0.075	0.000
4.7.3.4	0.328	0.000	0.000
4.7.4.3	0.097	0.022	0.020
4.7.4.4	3.915	0.053	0.000
4.7.4.8	0.043	0.000	0.000
4.7.5.1	1.005	1.005	0.000
4.7.5.3	0.053	0.053	0.000
Chattisgarh	**5.082**	**0.333**	**0.031**
4.7.3.1	3.031	0.045	0.000
4.7.4.3	0.013	0.000	0.000
4.7.4.4	1.408	0.031	0.031
4.7.4.5	0.372	0.000	0.000
4.7.4.9	0.001	0.000	0.000
4.7.6	0.257	0.257	0.000
Delhi	**5.614**	**4.340**	**0.059**
4.7.3.1	0.016	0.016	0.029
4.7.3.3	4.258	4.258	0.000
4.7.4.3	0.018	0.006	0.004
4.7.4.4	1.223	0.060	0.026
4.7.6	0.099	0.000	0.000
Gujarat	**2.582**	**2.189**	**0.321**
4.7.3.1	0.007	0.007	0.013
4.7.3.2	0.063	0.063	0.004
4.7.3.3	0.043	0.043	0.000
4.7.3.5	0.412	0.412	0.000
4.7.3.6	0.387	0.387	0.214

State/UT Para No.	SGST amount involved	SGST amount accepted	SGST amount recovered
4.7.3.8	1.138	0.771	0.000
4.7.4.3	0.017	0.017	0.015
4.7.4.4	0.189	0.189	0.070
4.7.4.5	0.289	0.289	0.000
4.7.4.6	0.009	0.009	0.004
4.7.4.9	0.027	0.001	0.000
4.7.6	0.001	0.001	0.001
Haryana	**3.235**	**0.184**	**0.135**
4.7.4.3	0.026	0.026	0.005
4.7.4.4	3.173	0.132	0.103
4.7.4.5	0.032	0.023	0.023
4.7.4.9	0.003	0.003	0.003
4.7.6	0.001	0.001	0.001
Himachal Pradesh	**1.317**	**1.317**	**0.000**
4.7.4.4	1.317	1.317	0.000
Jammu and Kashmir	**0.731**	**0.731**	**0.000**
4.7.5.4	0.731	0.731	0.000
Jharkhand	**1.924**	**0.833**	**0.016**
4.7.3.3	0.080	0.080	0.000
4.7.4.3	0.031	0.031	0.008
4.7.4.4	0.772	0.621	0.008
4.7.4.5	0.328	0.000	0.000
4.7.4.8	0.101	0.101	0.000
4.7.6	0.612	0.000	0.000
Karnataka	**9.703**	**4.939**	**0.208**
4.7.3.1	0.293	0.126	0.000
4.7.3.3	0.281	0.281	0.000
4.7.3.4	0.025	0.025	0.025
4.7.4.3	0.073	0.066	0.048
4.7.4.4	1.524	0.473	0.022
4.7.4.5	0.066	0.059	0.011
4.7.4.6	0.071	0.000	0.000
4.7.4.7	3.366	3.366	0.069
4.7.4.8	0.087	0.087	0.000
4.7.4.9	0.035	0.011	0.012
4.7.5.1	0.002	0.002	0.000
4.7.5.3	0.008	0.008	0.000
4.7.6	3.873	0.436	0.021
Kerala	**2.863**	**2.818**	**0.293**
4.7.3.4	0.011	0.011	0.000
4.7.3.6	0.935	0.935	0.000
4.7.3.8	0.555	0.555	0.104
4.7.4.3	0.104	0.104	0.054
4.7.4.4	0.471	0.450	0.126
4.7.4.7	0.043	0.019	0.008

State/UT Para No.	SGST amount involved	SGST amount accepted	SGST amount recovered
4.7.4.9	0.035	0.035	0.002
4.7.5.3	0.002	0.002	0.000
4.7.5.4	0.118	0.118	0.000
4.7.6	0.590	0.590	0.000
Madhya Pradesh	**22.186**	**16.327**	**0.106**
4.7.4.3	0.114	0.074	0.038
4.7.4.4	19.940	15.347	0.032
4.7.4.5	0.500	0.397	0.002
4.7.4.7	0.026	0.000	0.000
4.7.4.9	1.412	0.326	0.023
4.7.5.4	0.172	0.160	0.000
4.7.6	0.023	0.023	0.010
Maharastra	**25.963**	**20.415**	**3.879**
4.7.3.2	5.718	5.502	0.000
4.7.3.3	0.091	0.091	0.000
4.7.3.4	5.600	5.516	0.000
4.7.3.5	0.035	0.000	0.000
4.7.3.6	0.009	0.009	0.009
4.7.3.7	2.015	2.015	1.515
4.7.3.8	0.008	0.008	0.008
4.7.4.3	0.379	0.205	0.112
4.7.4.4	6.016	2.403	1.960
4.7.4.5	3.321	2.739	0.019
4.7.4.6	0.113	0.113	0.011
4.7.4.7	0.020	0.020	0.000
4.7.4.8	0.564	0.554	0.000
4.7.4.9	1.130	0.933	0.070
4.7.5.4	0.117	0.117	0.000
4.7.6	0.826	0.189	0.175
Meghalaya	**0.030**	**0.000**	**0.000**
4.7.5.4	0.030	0.000	0.000
Odisha	**27.484**	**18.541**	**0.229**
4.7.3.1	21.637	14.103	0.000
4.7.3.3	0.501	0.290	0.002
4.7.3.4	0.450	0.450	0.000
4.7.4.3	0.092	0.040	0.102
4.7.4.4	2.619	2.221	0.113
4.7.4.5	0.004	0.004	0.004
4.7.4.6	0.655	0.655	0.002
4.7.4.8	0.453	0.208	0.000
4.7.4.9	0.297	0.297	0.006
4.7.5.1	0.165	0.165	0.000
4.7.5.4	0.442	0.000	0.000
4.7.6	0.169	0.109	0.000

State/UT Para No.	SGST amount involved	SGST amount accepted	SGST amount recovered
Punjab	**2.944**	**0.221**	**0.011**
4.7.4.3	0.005	0.005	0.003
4.7.4.4	2.734	0.012	0.008
4.7.4.6	0.205	0.205	0.000
Rajasthan	**3.979**	**2.167**	**0.109**
4.7.3.1	0.020	0.020	0.000
4.7.4.3	0.125	0.100	0.078
4.7.4.4	3.327	1.556	0.024
4.7.4.8	0.091	0.091	0.003
4.7.4.9	0.412	0.399	0.004
4.7.6	0.005	0.000	0.000
Sikkim	**0.004**	**0.004**	**0.000**
4.7.4.3	0.004	0.004	0.000
Tamil Nadu	**7.559**	**4.493**	**0.384**
4.7.3.1	2.477	2.477	0.008
4.7.3.8	1.882	0.000	0.000
4.7.4.3	0.204	0.180	0.169
4.7.4.4	1.346	0.543	0.134
4.7.4.5	1.037	0.989	0.000
4.7.6	0.613	0.305	0.073
Telangana	**40.052**	**39.220**	**1.354**
4.7.3.1	18.910	18.910	0.000
4.7.3.2	11.757	11.757	0.000
4.7.3.3	0.031	0.031	0.000
4.7.3.4	0.301	0.301	0.123
4.7.3.5	0.106	0.106	0.000
4.7.3.7	0.810	0.000	0.000
4.7.4.3	0.233	0.230	0.148
4.7.4.4	5.748	5.729	1.083
4.7.4.5	1.625	1.625	0.000
4.7.4.8	0.532	0.532	0.000
Tripura	**0.041**	**0.010**	**0.005**
4.7.4.3	0.010	0.010	0.005
4.7.5.4	0.031	0.000	0.000
Uttar Pradesh	**5.002**	**2.447**	**0.196**
4.7.3.3	0.740	0.000	0.000
4.7.3.6	0.363	0.000	0.000
4.7.4.3	0.047	0.005	0.005
4.7.4.4	2.724	2.259	0.114
4.7.4.5	0.038	0.030	0.030
4.7.4.6	0.116	0.042	0.000

State/UT Para No.	SGST amount involved	SGST amount accepted	SGST amount recovered
4.7.4.7	0.690	0.047	0.047
4.7.4.9	0.026	0.012	0.000
4.7.5.1	0.150	0.000	0.000
4.7.5.4	0.001	0.001	0.000
4.7.6	0.109	0.050	0.000
Uttarakhand	**0.571**	**0.095**	**0.007**
4.7.3.3	0.104	0.000	0.000
4.7.4.3	0.065	0.061	0.001
4.7.4.4	0.250	0.003	0.006
4.7.4.7	0.002	0.000	0.000
4.7.6	0.151	0.031	0.000
West Bengal	**4.079**	**1.285**	**0.066**
4.7.3.8	0.010	0.005	0.000
4.7.4.3	0.088	0.053	0.040
4.7.4.4	3.153	1.210	0.022
4.7.4.5	0.022	0.010	0.000
4.7.4.7	0.707	0.000	0.000
4.7.4.9	0.100	0.006	0.003
Grand Total	**190.822**	**129.262**	**7.677**

Glossary

ARN	Application Reference Number
ARSM	Automated Return Scrutiny Module
BI	Business Intelligence
BIFA	Business Intelligence and Fraud Analytics
BO	Back Office
BRD	Business Requirement Document
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
CERT-in	Indian Computer Emergency response team
CESTAT	Customs Excise and Service Tax Appellate Tribunal
CGST	Central Goods and Services Tax
CIN	Corporate Identification Number
CLS	Composition Levy Scheme
CR	Change Request
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
DIN	Director Identification Number
DoR	Department of Revenue
DRI	Directorate of Revenue Intelligence
ECL	Electronic Credit Ledger
GDP	Gross Domestic Product
GSK	GST Suvidha Kendra
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

IMS	Invoice Management System
ISD	Input Service Distributor
ISO	Indian Standards Organisation
IT	Information Technology
ITC	Input Tax Credit
ITR	Income Tax Return
MEITY	Ministry of Electronics and Information Technology
MIS	Management Information System
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPRs	Monthly Performance Reports
NCCIPC	National Critical Information Infrastructure Protection Center
NCSC	National Cybersecurity Preparedness Consortium
OIDAR	Online Information Database Access and Retrieval Services
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
PVR	Physical Verification Report of a business premise
QRMP	Quarterly return with monthly payment
QRMP	Quarterly Return filing and Monthly Payment of Taxes
RCM	Reverse Charge Mechanism
RMS	Risk Management System
RoC	Registrar of Companies
SAC	Service Accounting Codes
SAD	Special Additional Duty
SCN	Show Cause Notice
SEZ	Special Economic Zone
SGST	State Goods and Services Tax
SOP	Standard Operating Procedure
SSCA	Subject Specific Compliance Audit
TDS	Tax Deducted at Source
UAT	User Acceptance Testing
UIDAI	Unique Identification Authority of India
UT	Union Territory
UTGST	Union Territory Goods and Services Tax

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