

**OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF
INDIA**

New Delhi
24th March, 2021

AUDIT REPORT ON GST PRESENTED IN PARLIAMENT

Compliance Audit Report No. 1 of 2021 of the Comptroller and Auditor General of India on Goods and Services Tax, Central Excise and Service Tax revenue for the years ended March 2019 and March 2020 was presented in Parliament here today.

The Report contains significant results of the compliance audit of Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue, and Information Technology audit of Goods and Services Tax Network (GSTN).

Following are the important audit observations:

Audit noticed that owing to the continuing extensions in the roll out of simplified return forms, the originally envisaged system-verified flow of ITC through “invoice matching” is yet to be implemented and a non-intrusive e-tax system still remains unimplemented. The GST return system is still a work in progress despite more than three years of GST roll out. It is recommended that a definite time frame for roll out of simplified return forms may be fixed and implemented.

Indirect Taxes collections increased by Rs 16,627 crore during FY20 over FY19. However, there is a declining trend in annual growth of Indirect Taxes during the last five years. The annual growth of Indirect Taxes (Y-o-Y) declined from 21.33 *per cent* in FY17 to only 1.76 *per cent* in FY20. Further, share of Indirect taxes in total revenue receipts declined from 38.95 *per cent* in FY17 to 36.92 *per cent* in FY20. Central GST taxes¹ revenue as percentage of GDP declined from 3.08 *per cent* in FY 19 to 2.95 *per cent* in FY20.

Audit examined the status of replies of the Department on CAG’s Audit paras and found shortcomings in Department’s response to CAG’s Audit. Major observations are as under:

A large number of audit observations were pending for compliance in the Local Audit Reports² as on 31 March 2019. Department’s response to these audit observations was intermittent and not substantive leading to persistent accumulation of outstanding paras. Department had not furnished reply to 52 *per cent* (13,475) of total LAR audit paras, pending as on 31 March, 2019. Reply of the department in 6,474 (48 *per cent*) paras was pending for more than three years, as on 31 March 2019.

¹ GST revenue included Central Goods and Services Tax, Integrated Goods and Services Tax, UT Goods and Services Tax and GST Compensation Cess.

² Local audit report is issued by the field audit office to each audited departmental unit. Based on their reply significant observations are included in Audit Reports, which are placed in the Parliament.

Refund module

Absence of adequate controls, risk of claiming refund on unverified ITC and deficiencies in integration of GST Portal with the Indian Customs EDI Systems (ICES) application for IGST refund on export of goods resulted in following deficiencies in Refund module:

- Due to GSTR 2 and 3 being held in abeyance, the envisaged buyer seller reconciliation mechanism could not be implemented resulting in unmitigated risk in the GST refund system.
- Non re-crediting of ITC ledger of taxpayers where Deficiency Memo was issued on second and subsequent occasion.
- The refund of ITC sanctioned was disproportionately more than the actual value of export in case of export without payment of tax (Letter of Undertaking).
- Verification of endorsement detail of invoices of supplies to SEZ with SEZ online was not made mandatory while processing the refund application.
- Due to non-implementation of “With-hold” request functionality at back office there is a possibility of further refunds to the non-compliant exporters.
- Absence of auto-exclusion functionality to deduct the ITC of Capital goods could lead to excess refund being claimed.
- Lack of validation in the system to verify the turnover of inverted rate of supply in Statement-1 with the corresponding entries as provided in Statement-1A could lead to excess claim of refund.

Returns module

Audit noticed lack of adequate validations in the return module, lack of auto calculation of interest liability of taxpayers in GSTR-3B and incorrect mapping of rules to SRS, as follows:

- Incorrect creation of GSTR-2A, which is an important source of information on inward supply for the tax officers, could lead to irregular availability of ITC.
- Absence of validation on turnover, leading to no restriction being imposed on composition taxpayers, in regard to filing of GSTR-4, even after crossing the threshold limit.
- Absence of provisions in the system for Non-Resident Taxable Persons (NRTPs) to pay GST for services received on Reverse Charge Mechanism basis.

E-Way Bill module

- Rejection of EWBs was allowed despite expiration of mandated 72 hours due to browser manipulation.
- Supply to or by SEZ was recorded as intra-state supplies with tax recorded under CGST and SGST, in place of IGST.
- Inherent weakness in periodic updation of Postal Index Number (PIN) Master resulted in incorrect automatic calculation of distance based on PIN Code.

- The quantity once entered while generating the EWB was amendable, which led to inconsistency of values in multivehicle mode of transport.

Audit has made 26 recommendations for consideration of the Ministry / GSTN. The recommendations pertain to implementation of adequate validations in the modules audited; appropriate changes in the rules/forms and incorporation of functionalities in the system for effective implementation of GST laws and rules.

Audit verified 5,822 out of 77,363 transitional credit cases in 81 Central GST Commissionerates and five Audit Commissionerates and noticed 1,182 instances (20 *per cent*) of non-compliance. Instances of irregular claim of transitional credit on input services in transit, irregular availing of Cess of earlier regime as credit, excess carry forward of Cenvat credit, irregular availment of transitional credit on exempted goods etc. with money value of Rs 543.70 crore were also noticed.

During the period October 2018 to March 2020, Audit examined the records relating to 4,736 refunds out of 23,106 in 33 CGST Commissionerates. Audit observed instances of irregular grant of refund due to non-consideration of minimum balance in electronic credit ledger, irregular sanction of refund of input tax credit availed on capital goods etc.

Audit identified lack of effective monitoring mechanism, inadequate coordination among CBIC field formations, delay in issuing clarifications by the Board, delay in investigation/ verification by CBIC field formations, delay in appointment of common adjudicating authority, non-availability of records in the case files etc. as the reasons for many irregularities noticed by Audit. Further, the department cited transition to GST, shortage of staff, heavy pendency of cases, frequent change in adjudicating authority, delay in transfer of records etc. as the reasons for delays in adjudication and other irregularities observed in Audit.

CAG audit report recommends end-to-end computerisation of the SCN and adjudication process, with the following components:

- (i) The process of issuance of SCN may be computerized with inbuilt controls to ensure correct computation of demand, timely issuance of SCN, valid invocation of extended period of time and correctness of the SCN issued.
- (ii) Computerization of adjudication process with inbuilt controls to ensure effective monitoring, conducting of personal hearings and timely issuance of adjudication orders.
- (iii) Maintenance of Call Book may be computerized with inbuilt mechanism to ensure issuance of periodical SCNs, timely retrieval of SCNs from Call Book, intimation to the assessee regarding transfer of cases to Call Book, prior approval of competent authority before transfer of SCNs to Call Book and controls regarding transfer of valid cases to Call Book.

Audit conducted compliance audit of Central Excise and Service tax and examined records of 4,410 assesseees which were audited during 2018-19 and 2019-20. Audit noticed non-compliance of tax laws and rules in respect of 1,562 assesseees (35.42 *per cent*). 2,712 audit observations having monetary impact of Rs 1,036.35 crore were

raised. Audit observed instances of non/short payment of duty/tax, incorrect availing/utilization of CENVAT credit, non/short reversal of CENVAT credit, non-payment of cess, non-payment of interest etc.

Out of 4,410 assesseees, records of which were examined by CAG audit, 1,244 assesseees had already been audited by Internal Audit wing of the Department. The CAG team observed that Internal Audit had failed to detect lapses in 1,104 instances pertaining to 594 assesseees (48 *per cent*), having monetary impact of Rs 420.39 crore.

BSC/SS/TT