

## **Chapter III**

### **Audit of Transactions: Subject Specific Compliance Audit**



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#### GOODS AND SERVICES TAX DEPARTMENT

#### 3.1 Subject Specific Compliance Audits on E-Way Bill System under GST

##### 3.1.1 Introduction to E-Way Bills

Goods and Services Tax (GST), introduced with effect from 01 July 2017, ensured uniformity of tax structure throughout the country which facilitated hassle-free movement of goods across the States. E-Way Bill (EWB) is a document required for movement of goods and is designed to capture details of goods before being moved. Automation and standardisation of the entire process was intended to help check tax evasion and shore up GST collections. EWB is conceived as a shift from Government-monitored tax administration model to a self-reporting model by the taxpayer.

EWB was introduced in Maharashtra State with effect from 01 April 2018 for all inter-state movement of goods having value exceeding ₹ 50,000. EWB was made mandatory for intra-state movement of goods with value exceeding ₹ 1,00,000 and was implemented from 01 July 2018.

##### 3.1.2 Information Systems used for EWBs

The EWB Common portal was developed for uploading information on movement of goods in relation to supply or for reasons other than supply or due to inward supply from an unregistered person. The portal was developed and managed by National Informatics Centre (NIC) based in Karnataka.

The Proper Officers<sup>2</sup> can perform various functions *viz.* verification of EWBs, unblocking of EWBs, viewing and accessing MIS reports *etc.* by accessing the EWB Portal through two means:

- (i) Logging into EWB Common Portal through a web browser using the login credentials provided or
- (ii) Logging into the GST EWB System Mobile App.

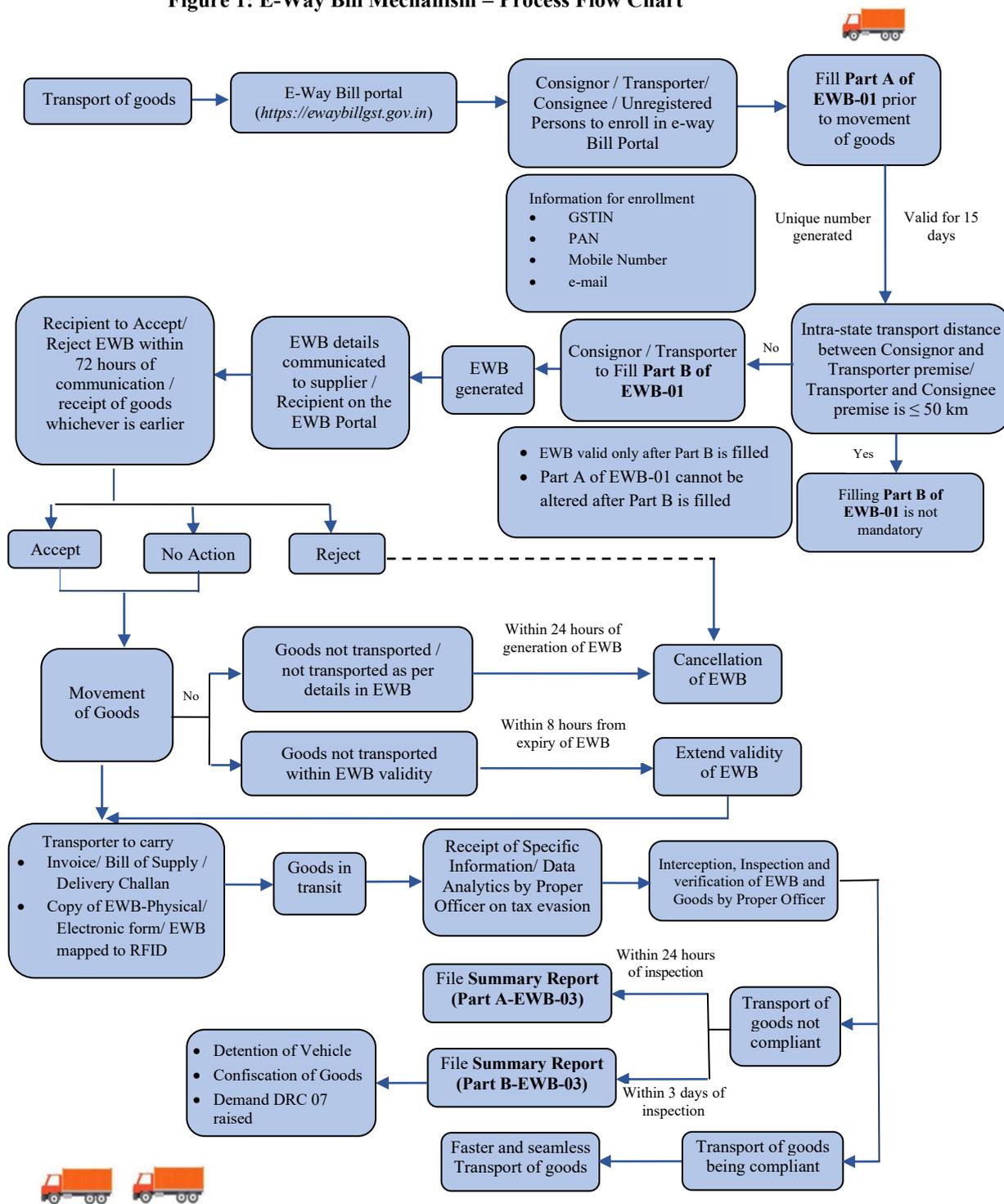
##### 3.1.3 Process involved in the EWB System

Rule 138 of the Maharashtra Goods and Services Tax Rules (MGST Rules), 2017, (amended from time to time) provides for the EWB mechanism. The EWB system includes various processes such as the enrollment of the required persons in the portal, Generation of EWB, Extension, Cancellation and Rejection of the EWBs generated *etc.* The entire process flow of EWB system under GST is depicted in **Figure 1**.

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<sup>2</sup> Proper Officer in relation to any function to be performed under the MGST Act, 2017 means the Commissioner or the officer of the State who is assigned that function by the Commissioner.

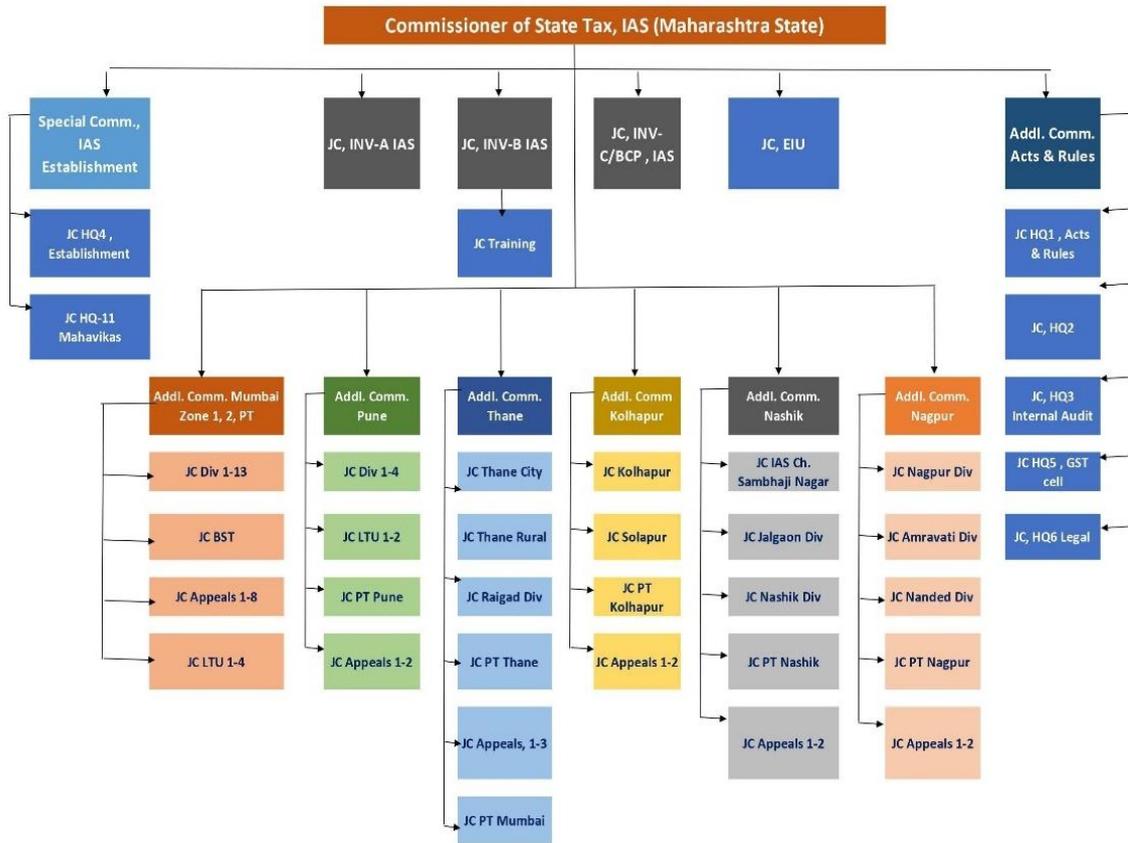
Figure 1: E-Way Bill Mechanism – Process Flow Chart



### 3.1.4 Organizational Structure of the Department

The Department of Goods and Services Tax function under the administrative control of the Additional Chief Secretary, Finance Department at Government level. The Commissioner of State Tax, Maharashtra State (CST) is the head of the Department. The organisational setup is depicted below in **Figure 2**:

Figure 2: Organizational Structure



(Source: mahagst.gov.in)

The CST, Maharashtra State is responsible for preparation of plan for taking the drives for interception activities in the State and the Joint Commissioner, Border Check Post (BCP) implements it. The work of interception at selected locations is carried out by field Joint Commissioner (JC) Offices by engaging the available staff in their offices.

### 3.1.5 Audit Objectives

This Subject Specific Compliance Audit (SSCA) was conducted with the following Audit Objectives:

- Whether the EWB mechanism is effective in protecting revenue interest of the Government.
- Whether the Preventive/Enforcement activities of the Department in enforcing EWB provisions are efficient and effective.

### 3.1.6 Audit Criteria

The SSCA on EWB system under GST has been evaluated against the following audit criteria:

- Maharashtra Goods and Services Tax Act, 2017 (MGST Act),
- Maharashtra Goods and Services Tax Rules, 2017 (MGST Rules),
- Notifications / Circulars issued by Government of Maharashtra,
- Advisories / Standard Operating Procedures issued by NIC, CBIC and CST.

### 3.1.7 Audit Scope

EWB transactions of the persons registered in the EWB portal pertaining to the period between 1 April 2018 and 31 March 2022 were covered during the audit. EWB data generated for the audit period was extracted from Goods and Services Tax Network (GSTN) and analysed. Movements of conveyances by roadways alone had been considered for this audit. Railway/Airway/Seaway EWBs had been excluded from the scope of this audit.

The scope of audit also includes evaluation of the preventive functions of the department with reference to EWBs *viz.*, interception of vehicles, verification of documents, inspection of goods and action taken thereof.

### 3.1.8 Audit Sampling and methodology

A problem-centric approach was attempted for this SSCA as EWB generation under GST is a necessary condition to precede any movement of goods subject to the threshold limit. A total of 160 EWBs pertaining to 51 taxpayers falling under 10 Divisions<sup>3</sup> were taken as sample for Audit Objective-1. Wherever discrepancies were noticed within the selected sample of 51 taxpayers, all EWBs generated by these taxpayers were scrutinised to verify compliance.

Audit Objective-2 evaluated the problems associated with enforcement/preventive activities *viz.*, Operational preparedness, effectiveness of Anti-Evasion measures and intra-Department and inter-Department coordination. For Audit Objective-2, out of the 31 nodal offices under CST, Maharashtra, 20 *per cent* of the nodal offices *i.e.*, six offices<sup>4</sup> were taken as sample using stratified sampling method. From the six nodal offices, out of 907 cases, booked by these offices during interception, 196 booked cases were taken for detailed audit using stratified sampling method<sup>5</sup>.

### 3.1.9 Acknowledgement

An Entry conference was held (February 2023) with the Secretary (Financial Reforms), Finance Department and Commissioner of State Tax in wherein the Audit objectives, and the sampling were discussed. The audit was conducted during June- December 2023. The Exit conference was conducted (June 2024) with the Secretary (Financial Reforms), Finance Department and Commissioner of State Tax in wherein the findings of the SSCA were discussed. The views/comments of the Department have been incorporated in the relevant paragraphs wherever applicable.

Audit acknowledges the cooperation and assistance extended by Secretary (Financial Reforms), Finance Department, Commissioner of State Tax and the Joint Commissioners of Divisions and field level functionaries during the course of the audit.

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<sup>3</sup> Mumbai LTU-1, Thane City, Thane Rural, Raigad, Nasik, Pune-1, Pune-4, Aurangabad, Kolhapur and Nagpur.

<sup>4</sup> Mumbai Nodal-1, Mumbai Nodal-10, Thane City, Nasik, Pune-3 and Aurangabad.

<sup>5</sup> 31 Division offices were arranged in descending order of number of interception cases and stratified into two taking median at number 16. Sample of three Divisions from top 15 and three Divisions from bottom 15 were selected. Intercepted cases in each Division were selected by using random sampling through IDEA Software.

## Audit Findings

The Audit findings have been categorized into two perspectives viz. effectiveness of EWB system in protecting the revenue and the shortfalls noticed in the enforcement functions of the Department.

### 3.1.10 Audit Objective 1 — Whether EWB mechanism is effective in protecting revenue interest of the Government

EWB is a document required for movement of goods and is designed to capture details of goods before being moved. The EWBs generated for outward supplies are supported by invoices and the invoice details are required to be reported in their GST returns.

Substantive Audit<sup>6</sup> was conducted in respect of 51 taxpayers by detailed examination of records for the year 2018-22 relating to these 51 taxpayers which brought the extent of deficiencies and consequent revenue impact as detailed in **Table-1**:

**Table-1: Details of observations in sampled cases**

Sl. No.	Nature of Observation	No. of taxpayers	Tax involved (₹ in crore)
1	Generation of EWBs by cancelled taxpayers	43	96.85
2	Generation of EWBs by the taxpayers who had filed Nil Returns	5	3.53
3	Generation of EWBs by Non-filers of GST returns	9	0.72
4	Generation of multiple EWBs on the strength of same invoice	7	0.14
5	Generation of EWBs for the transactions effected through invalid vehicles	4	2.36
6	Abnormally high value EWBs generated by the taxpayers	6	--
7	Non-receipt of goods by the consignee having same PAN number as consignor	8	1.56
8	Non/short creation of demand for tax and penalty during EWB verification	27	0.20
9	Delayed payment of tax and penalty to the Government account	5	0.05

The observations are discussed in detail in the following paragraphs.

#### 3.1.10.1 Generation of EWBs by cancelled taxpayers

As per Section 29 of the MGST Act, the proper officer may, either on his own motion or on an application filed by the registered person cancel the registration from such date, including any retrospective date, as may deem fit, where the registered person has contravened provisions of the Act or has not filed returns for specified periods or the registration was obtained by means of fraud, willful misstatement or suppression of facts. The cancellation of registration under this section shall not affect the liability of the person to pay tax and other dues under this Act. Further, as per Rule 22(3) of MGST Rules, 2017, proper offices will notify the taxpayer, directing him to pay arrear of any tax, interest or penalty.

<sup>6</sup> Substantive Audit is a scrutiny in detail of relevant records for cause analysis and to ascertain action required thereon.

Audit observed that out of 51 taxpayers, registrations of 43 taxpayers under 10 Divisions were cancelled, however, the taxpayers generated EWBs after date of cancellation, as detailed below:

(i) Out of 43 taxpayers, in case of 11 taxpayers registration was cancelled by the Department (in one case<sup>7</sup>, registration was cancelled on request made by the taxpayers while 10 registrations were cancelled *suo moto* by the proper officers due to reasons such as, failing to furnish returns for continuous six months or non-commencement of business or not conducting business from place of business). In all cases, registrations were cancelled from retrospective date ranging 8 months to 69 months from their date of registration. During this intervening period, the taxpayers were active and conducted business activity, as they generated EWB bills during these periods. These 11 taxpayers generated 132 EWBs having assessable value of ₹ 28.98 crore and ₹ 4.19 crore as tax liability (**Appendix 3.1.1**).

However, proper officers did not take cognizance of supply made during the intervening period and did not ascertain and demand tax payable by the taxpayer while cancelling the registration which resulted in non-recovery of tax of ₹ 4.19 crore along with applicable interest.

On being pointed out (July 2023 to September 2023) by Audit, the Department intimated (July 2023 to April 2024) that in two cases DRC 07 was issued while in another two cases notices under section 63 were issued. In one case, it was informed that audit observation was under examination. In six cases it was replied that since the registrations of taxpayers was cancelled, no ITC was passed.

One case is illustrated below:

Audit observed that a taxpayer, (GSTIN 27XXXXXXXXXX1ZP) under, VASAI-703 Charge<sup>8</sup> in Thane Rural Division (new Division – Mira-Bhayander<sup>9</sup>) was cancelled on 12 April 2021 *ab initio w.e.f.* from 3 December 2020. The taxpayer had generated 20 EWBs in the months of December 2020 and January 2021 for movement of goods valued ₹ 13.49 crore with tax liability of ₹ 2.42 crore. The taxpayer also filed GSTR 3B and GSTR 1 for the month of December 2020. However, the proper officer did not take cognizance of EWBs generated during December 2020 to January 2021 and did not demand the tax arrears while issuing order of cancellation. Also, no action was taken for recovery of ITC from the recipients of the supplies from the taxpayer.

On being pointed out (August 2023), JC, Thane Rural stated (September 2023) that registration of the taxpayer was cancelled with retrospective effect and as the taxpayer did not file GSTR 1 and GSTR 3B, issue of reversal of ITC did not arise.

The reply is not entirely acceptable, as profile of the taxpayer on GST portal indicated that the taxpayer filed GSTR 3B and GSTR 1 for the month of December 2020. Also, the recipients could avail ITC on the basis of invoices

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<sup>7</sup> GST no. 27 XXXXXXXXXXXXX1ZP.

<sup>8</sup> Charge is the smallest unit of administration in CST Department headed by State Tax Officer (STO).

<sup>9</sup> Jurisdictional Division was changed due to restructuring of MGST Department in August 2024.

issued by the taxpayer and same need to be recovered from the recipient due to being ineligible ITC. The reply is silent on both these aspects.

***Recommendation 1: Government may issue suitable instruction to the Departmental officer to take cognizance of supplies made by the taxpayers in case of retrospective cancellation and accordingly determine tax arrears and interest and raise the demand the same in the order of cancellation.***

(ii) As per a circular<sup>10</sup>, issued (November 2019) by CST, Maharashtra, a taxpayer who issues invoice without actual supply of goods or services to pass on inadmissible ITC or who obtain registration by means of fraud, wilful misstatement or suppression of facts or obtain registration for fraudulent purposes, such taxpayers are termed as Non-Genuine Taxpayers (NGTP). The circular envisages that the nodal officers have to undertake verification of the taxpayers to identify NGTP. The details of taxpayers identified as NGTP are shared with Economic Intelligence Unit (EIU) which prepare the list of such NGTP and act as repository and send the list to Mahavikas<sup>11</sup> and Mahavikas will publish the list on MAHAGST portal<sup>12</sup>. However, the original evidences shall remain in the custody of the nodal officer who shall take all actions as per law.

Out of 43 taxpayers, 32 taxpayers were identified as (NGTP)<sup>13</sup> by the Department, citing various reasons and their registrations were cancelled *ab initio*. These taxpayers generated 3,577 EWBs for supplies worth ₹ 637.32 crore and tax liability of ₹ 92.66 crore after the date of cancellation of their registration (**Appendix 3.1.2**). However, ITC was not recovered from recipient of supplies from these taxpayers.

On being pointed out by Audit (July 2023 to September 2023), the Department replied (July 2023 to April 2024) that in 15 cases since the taxpayers were declared NGTP, no ITC was passed. The reply is not acceptable as declaration of NGTP does not prohibit availing of ITC by the recipients.

In five cases, it was stated that taxpayers' details were sent to EIU. The replies are silent about action taken for reversal of ITC.

In seven cases, it was stated that letters were sent to jurisdictional tax authorities for reversal of ITC. However, in all cases letters were issued after being pointed out by Audit.

In one case, it was replied that ITC will be blocked while in one other case it was stated that no ITC was passed on as no GSTR 1 was filed.

In three cases, no reply was given regarding reversal of credit from the recipients.

<sup>10</sup> Internal circular 38A of 2019 dated 21 November 2019.

<sup>11</sup> Mahavikas – an acronym for Maharashtra Vikrikar Automation System which started from 2006, to help the dealer to get computerized TIN allotment letter under the erstwhile VAT regime. The same is being used for GST.

<sup>12</sup> This portal is designed to streamline the process of filing GST Returns and making payments for businesses in the State. The portal is integrated with the existing GSTN portal and allows businesses to track their GST filings and payments.

<sup>13</sup> Person does not conduct any business from declared place of business; Registration obtained by means of fraud, wilful misstatement or suppression of facts; Taxpayer found Non-Functioning/Not Existing at the Principal Place of Business.

Further, out of 32 cases, in 12 cases, it was also stated that due to taxpayers being declared as NGTP, details of GSTR 1 and GSTR 3B were not available on BO portal<sup>14</sup>. The reply is not acceptable, as according to Circular *ibid* the nodal officer has to maintain all the information.

One case is illustrated below:

Audit observed that a taxpayer, (GSTIN no. 27XXXXXXXXXX1ZN) under Vasai-501 Charge in Thane Rural Division (new Division<sup>15</sup> – Mira-Bhayander) was cancelled on 28 December 2021 *ab initio w.e.f.* from 26 November 2020 as the taxpayer was declared NGTP. The taxpayer had generated 294 EWBs in the months of January, June, July and October 2021 for movement of goods valued ₹ 120.30 crore with tax liability of ₹ 21.65 crore. The taxpayer also filed GSTR 3B between November 2020 and September 2021 for taxable value of goods ₹ 37.60 crore and tax liability of ₹ 6.76 crore. The taxpayer filed GSTR 1 for the months of December 2020, January, February, June, July, August and September 2021 as seen from tax profile on GST portal, but GSTR 1 returns could not be downloaded from BO portal of the Department, as the same were not available on BO portal. It was also observed that no action was taken for recovery of ITC from the recipients of the supplies from the taxpayer.

On being pointed out (August 2023), JC, Thane Rural stated (September 2023) that as the registration was cancelled *ab initio*, details on BO system were not available. It was also added that registration was cancelled *ab initio* and folder was sent to EIU for further necessary action. This action itself safeguarded the Government revenue.

The reply is not acceptable, as merely declaring a taxpayer NGTP does not safeguard the revenue, and the Department needs to take action to recover ITC from the recipients of supplies from the taxpayer. Also, data relating to NGTP should remain available on BO Portal to take appropriate action and proper monitoring of the case.

Government stated (July 2024) that the State had adopted a comprehensive approach in detection of fake entities and the process for recovery of ITC starts when a taxpayer is declared NGTP. It was added that department had initiated procedures to recover ITC passed by the NGTPs from the ultimate beneficiaries who had availed that ITC.

***Recommendation 2: Government needs to issue suitable instructions to departmental officers for taking appropriate action to recover ITC from the ultimate recipients. Also, issue of non-availability of NGTP data on BO portal may be examined and suitable action taken.***

### **3.1.10.2 Generation of EWBs by the taxpayers who had filed Nil returns**

As per Section 37 of the MGST Act, 2017 read with Rule 59(1) of MGST Rules, 2017, regular taxpayers shall furnish the details of outward supplies in GSTR 1. Further, in accordance with Section 39 of the Act, *ibid*, they are required to furnish Return in GSTR 3B declaring the details of inward and

<sup>14</sup> BO (Back Office) – Backend system used in GST department for all functional activities.

<sup>15</sup> Jurisdictional Division was changed due to restructuring of the Department.

outward supplies of goods or services or both, input tax credit availed, tax payable, tax paid. Section 61 read with Section 63 of Act, *ibid*, mandates the Proper Officer for the scrutiny of returns and assesses the tax liability.

Audit observed that five taxpayers who had filed ‘NIL’ return during the audit period had generated 38 EWBs for movement of goods worth ₹ 24.38 crore having tax effect of ₹ 3.53 crore (**Appendix 3.1.3**). Thus, the taxpayers made supplies as evident from EWBs but filed ‘NIL’ returns which resulted in non-payment of tax of ₹ 3.53 crore which was recoverable with applicable interest.

On being pointed out (July 2023 to September 2023), the Department replied (August 2023 to April 2024) that in one case DRC 07 was issued and in another case best judgment assessment was done and DRC 14 was issued. In the remaining three cases, it was stated that since cancellation was made effective from retrospective date, no ITC was passed. However, no information was provided in these cases on action taken for recovery of tax and interest from these taxpayers.

One case is illustrated below:

The registration of a taxpayer (GSTIN no. 27XXXXXXXXXX1ZE) under Ghansoli-501 charge in Raigad Division was cancelled on 8 December 2020 *suo moto* from 15 February 2020 as the taxpayer was not available at the place of business. Audit observed that the taxpayer had generated 12 EWBs in April 2022 for movement of goods valued ₹ 12.02 crore with tax effect of ₹ 1.44 crore. As per the taxpayer’s profile on the GST portal, the taxpayer had filed GSTR 1 for the period April to August 2020 and GSTR 3B for the months from April to September 2020, but these returns could not be downloaded from BO portal of the Department, as the same were not available on BO portal. It was also observed that while issuing cancellation order, proper officer did not take cognizance of the EWBs generated and the sales shown in GSTR 1 and did not make demand of tax arrears from the taxpayer.

On being pointed out (August 2023), JC, Raigad stated (August 2023) that generation of EWBs by the taxpayer might have been done for passing of ITC, but as the registration was cancelled *ab initio*, ITC will not flow to the vendor. It was also stated that GSTR 1 and GSTR 3B could not be downloaded from BO portal.

Reply is not acceptable as *ab initio* cancellation of registration does not prevent flow of ITC to the recipients and the Department needs to take action to recover ITC from the recipients of supplies from the taxpayer.

### **3.1.10.3 Generation of EWBs and non-filing of GST Returns**

Section 37 of the MGST Act, 2017, read with Rule 59(1) of MGST Rules, 2017, envisages that the details of all outward supplies in form GSTR 1 shall be furnished. Rule 138E of MGST Rules, 2017 restricts the generation of EWB in respect of a registered person who has not filed relevant GST Returns for prescribed consecutive period<sup>16</sup>. The auto-check functionality in this regard was enabled in EWB common portal with effect from December 2019.

<sup>16</sup> Form GST-CMP-08 for 2 consecutive quarters in respect of persons paying tax under Section 10 of the MGST Act, *ibid*, and GSTR 3B for normal taxpayers for 2 consecutive tax periods as applicable.

Audit observed that nine taxpayers did not file returns for several months during the audit period despite generating EWBs during these months. These taxpayers generated 97 EWBs for transportation of goods worth ₹ 4.90 crore having tax effect of ₹ 0.72 crore though they did not file the requisite returns under MGST Act (*Appendix 3.1.4*).

On being pointed out (July 2023 to September 2023), the Department replied (July 2023 to April 2024) that in three cases DRC 07 was issued and in one case show cause notice under Section 63 was issued.

In five cases it was stated that the taxpayers had not filed GST returns and therefore no ITC was passed. Reply is not entirely relevant to the audit observation as the issue raised is about not filing GST returns and not discharging the tax liability on supplies made through EWBs.

Government stated (July 2024) that policy guidelines for follow up of return defaulters were in place for non-filer taxpayers with direction to pass non-filer assessment orders.

One case is illustrated below:

The registration of a taxpayer (GSTIN no.27XXXXXXXXXXXXXZ) in Bhayander East-702 charge under Thane Rural Division was cancelled on 25 November 2019 *suo moto* with effect from 1 August 2018 for not filing returns. Audit observed that as per the taxpayer's profile on GST portal, the taxpayer did not file GSTR 1 and GSTR 3B during the months from September 2018 to June 2019, though, the taxpayer had generated 38 EWBs for movement of goods valued ₹ 1.50 crore with tax effect of ₹ 0.18 crore, during these months.

However, the proper officer did not take cognizance of EWBs generated during September 2018 to June 2019 and did not demand tax arrears while issuing order of cancellation. Also, no action was taken for recovery of ITC from the recipients of the supplies from the taxpayer.

On being pointed out (August 2023), JC, Thane Rural stated (September 2023) that as the registration was cancelled retrospectively, the taxpayer generated EWBs up to the initiation of cancellation. However, the taxpayer has not filed GSTR 1 and GSTR 3B, hence, ITC was not available to the recipients. The reply was silent on demanding of tax arrears up to the date of cancellation.

#### **3.1.10.4 Generation of multiple EWBs on the strength of same invoice**

As per Rule 46 (b) of MGST Rules, 2017, a tax invoice shall be issued by the registered person containing consecutive serial number, not exceeding 16 characters, unique for a financial year.

As per Para 5-1 of the User Manual issued by the NIC, the taxpayer while generating the EWB is required to enter the Document Number relating to the consignment and should be unique. Invoice Number is the Document Number in respect of consignments relating to supplies. Hence, only one EWB is required to be generated based on each invoice.

Audit observed that seven taxpayers used same invoice to generate multiple EWBs for movement of goods. The number of multiple EWBs ranged from

two to three EWBs on a single invoice. A total of 35 EWBs with assessable value of ₹ 1.01 crore with tax of ₹ 0.14 crore were generated using same invoices (*Appendix 3.1.5*).

This indicated lack of validation controls in the EWB Common Portal to restrict generation of multiple EWBs using single invoice numbers.

On being pointed out (June 2023 to September 2023), the Department replied (June 2023 to October 2023) that in two cases DRC 07 was issued, in one case notice under Section 63 was issued while in one case it was stated that due to system glitch, EWB was not visible on the system, hence, the taxpayer generated another bill. In one case it was stated that there is no mechanism to detect generation of multiple EWB.

Government stated (July 2024) that during initial period, very few validations were built in the system which is improving gradually. The same has been confirmed by NIC. The validation of multiple EWB is available now. Also, in the initial period, data entry errors happened as the taxpayers instead of selecting multi-vehicle mode of EWB opted normal mode while generating EWBs against single invoice but added that whenever any incidence of evasion of tax found, adjudication process would be initiated.

#### **3.1.10.5 Generation of EWBs for the transactions effected through invalid vehicles**

As per Rule 138(2) of the MGST Rules, where the goods are transported by the registered person as a consignor, whether in his own conveyance or a hired one or a public conveyance, by road, the said person shall generate the EWB in Form GST EWB 01 electronically on the common portal after furnishing information in Part-B of Form GST EWB 01. Where the goods are handed over to a transporter for transportation by road, the registered person shall furnish the information relating to the transporter on the common portal and the EWB shall be generated by the transporter on the said portal based on the information furnished by the registered person in Part-A of Form GST EWB 01. Vehicle number is required to be provided in Part-B of EWB 01.

Audit matched the vehicle details mentioned in Part-B of EWBs with VAHAN database of Ministry of Road Transport and Highways and observed that four taxpayers used two wheelers/surrendered vehicles to generate EWBs. The details are given in **Table-2**.

**Table-2: EWB transactions effected through invalid vehicles**

SI. No.	Division	GSTIN of the taxpayer	Nature of risky vehicle	No. of EWBs generated	Value of goods transported (₹ in lakh)	Tax effect (₹ in lakh)
1	Thane City	27XXXXXXXXXX1ZZ	Two-wheeler vehicle	1	12.15	1.85
2	Raigad	27XXXXXXXXXX 2ZF	Two-wheeler vehicles	2	345.96	75.68
3	Thane City	27XXXXXXXXXX 1ZH	Vehicle details not found in VAHAN database	1	1,034.55	157.81
4	Nashik	27XXXXXXXXXX 1ZL	Auto Rickshaw RC Surrendered	1	3.30	0.35
<b>Total</b>				<b>5</b>	<b>1,395.96</b>	<b>235.69</b>

On being pointed out (July 2023 to September 2023), the Department replied as follows:

- JC, Thane City stated (August 2023) that the taxpayer (GSTIN no. 27XXXXXXXXXX1ZZ) was indulged in bill trading without any supply of goods and services. Regarding other taxpayer (GSTIN no. 27XXXXXXXXXX1ZH), it was replied that the taxpayer showed sales to six taxpayers in 2018-19 of which four taxpayers were declared NGTP and ASMT 10 was issued for remaining two taxpayers intimating discrepancies in GST returns filed by taxpayers.
- JC Raigad stated (August 2023) that registration of the taxpayer (GSTIN no. 27XXXXXXXXXX2ZF) was cancelled *ab initio* hence no action was taken.
- JC, Nashik stated (September 2023) that there is no mechanism on portal to identify what type of vehicle is being mentioned for generating EWB and whether RC surrendered vehicle is being used for generating EWB. Hence, no action was taken.

Government in reply (July 2024) stated that three of the four taxpayers mentioned in table above were declared NGTP and that in case of one taxpayer (GSTIN 27XXXXXXXXXX1ZL) DRC 07 for recovery of dues of ₹ 6.01 lakh was issued in April 2024. It was also stated that earlier there was no linkage of EWB portal with VAHAN portal. Now, EWB system is linked with VAHAN portal and validation message about vehicle is displayed to the taxpayer when he enters invalid vehicle details.

Reply indicates that validation messages are displayed to the taxpayers only and the taxpayer may avoid the alert message and continue using invalid vehicles and therefore the benefit of such linkage between the VAHAN portal and EWB portal should be available to the proper officer as well.

***Recommendation 3: Government may take action to flag messages/report for tax officers about use of invalid vehicles to generate EWBs.***

#### **3.1.10.6 Abnormally high value EWBs generated by the taxpayers**

Through data analysis, Audit identified that six taxpayers who generated EWBs with abnormally very high assessable value *i.e.* value exceeding ₹ 10,000 crore (**Appendix 3.1.6**). In all cases, the value of EWB was more than the total supply for the month, as reported in GSTR 1 by the taxpayers.

One case is illustrated below:

A taxpayer (GSTIN 27XXXXXXXXXX1ZP) under Charge Bandra-West-506 in LTU-2, Mumbai Division (new Division- Bandra), generated one high value EWB for an amount of ₹ 39100.10 crore during November 2020, whereas, as per GSTR 1, sales during the month of November 2020 was only ₹ 119.10 crore.

On being pointed out by Audit (July 2023), the Government stated (July 2024) that in five cases, generation of high value EWBs was due to data entry mistakes while in one case, high value E-way bill was generated for testing

purpose of E-way Bill software. These data entry mistakes do not have revenue implications. It was also stated that now there is a validation on system to avoid such mistakes. However, details of validation controls introduced were not provided.

Audit is of the view that notwithstanding that there may be no revenue implication, abnormally high values will result in incorrect reporting of statistical data of supplies made and leading to unreliable data for planning and management of the EWB system.

**3.1.10.7 Non-receipt of goods by the consignee having same PAN number as consigner**

As per Sections 22 read with Section 24 and Section 25(6) of the MGST Act, 2017, a person liable for GST registration in multiple states can obtain multiple GST registrations with the same Permanent Account Number (PAN) in a state or union territory. As per Schedule I(2) of MGST Act, 2017, and Section 25 of the Act, *ibid*, any supply between different GST registrations having the same PAN should be treated as supply and be treated as distinct persons even when made without consideration.

Audit examined 18 EWBs generated by 18 taxpayers from outside Maharashtra state where supplies were made to the consignees in Maharashtra state having same PAN numbers and observed that out of these 18 cases, in seven cases, goods worth ₹ 10.59 crore having tax effect of ₹ 1.56 crore were not received in Maharashtra as seen from the consignee's GST return GSTR 2A (*Appendix 3.1.7*). Thus, genuineness of these seven EWBs could not be authenticated and discharge of tax liability of ₹ 1.56 crore could not be confirmed.

On being pointed out (July 2023), the Department in one case replied (December 2023) that the taxpayer made stock transfer from Odisha to Maharashtra. In another case it was stated (May 2024) that the material was transported from Kashmir to Maharashtra workshop, but ITC was not claimed while in one case it was stated (May 2024) that ASMT 10 had been issued to the taxpayer for scrutiny of returns. Replies for five cases were awaited (January 2025).

Government stated (July 2024) that all transactions of EWBs could not be directly linked to GSTR 1 and GSTR 2A. Many a times, taxpayer undertakes movement of machinery for repair job, from one factory to another, reported wrong GSTIN, taxpayer showing B2C transaction instead of B2B transaction, *etc.* and such EWBs need not be reported in GSTR 1.

The reply is not acceptable as in four cases, assessable value and tax liability was reported in EWBs while in three cases, assessable value was shown but tax liability was not shown, indicating that these were supplies made by distinct persons from one state to another. Department needs to examine these cases in detail to take suitable action for protection of revenue.

**3.1.10.8 Discrepancies identified through analysis of data of EWBs**

Audit analysed data on EWBs generated during the period April 2018 to March 2022 based on KPAs and observed that discrepancies in tax compliance by the taxpayers could be ascertained directly from certain KPAs. In addition

to the issues discussed in previous paragraphs, the data extracted under these KPAs were forwarded to the department for considering further course of remedial action and summary report on action taken was called for.

The details of these observations shared with the Department are shown in **Table-3** below:

**Table-3: Details of Observations identified through data analysis**

S. No.	Nature of observation	No. of taxpayers	No. of EWBs generated
1.	Generation of EWBs by Cancelled taxpayers	6078	130784
2.	Generation of EWBs by Non-filers of GST Returns	2976	28512
3.	Generation of duplicate EWBs using same Invoice	19259	88322
4.	Generation of Inter-State EWBs by Composition taxpayers	346	922
<b>Total</b>		<b>28659</b>	<b>248540</b>

On being pointed out (August 2023), the Department intimated that 880 cases were sent to jurisdictional authorities for verification. Out of these, replies were submitted (December 2023 to May 2024) in 290 cases. In 158 cases, notices under section 61 or 63 were issued. In 16 cases, DRC 07 were issued. In 17 cases, recovery amounting to ₹ 25.35 lakh was made. In 14 cases, it was stated that cancellation of the taxpayers' registrations were revoked and they filed all returns. In 85 cases, it was stated that the cases were closed due to being related to purchase return. In 590 cases, reply was awaited (**Appendix 3.1.8**).

In respect of the remaining cases, information on the appropriate action by the department was awaited (January 2025).

### **3.1.11 Audit Objective 2 — Effectiveness of the Preventive/ Enforcement activities of the Department in enforcing EWB provisions**

Audit Objective 2 has been framed by evaluating the problems associated with enforcement/preventive activities – Operational Preparedness, Effectiveness of Anti-Evasion measures and Intra-Department and Inter-Department coordination. For this purpose, Audit selected a sample of 196 interception cases falling under six<sup>17</sup> Joint Commissioner Offices. Audit noticed deficiencies and shortcomings in the interception activities relating to EWBs which are detailed in the following paragraphs:

#### **3.1.11.1 Interception conducted by the Department**

Maharashtra continues to report the highest GST collection in the country. The State's EWB generations are also the highest in the country. The State's position for EWB generation and its verification in interception drives from 2018-19 to 2021-22 is given in **Table-4**.

<sup>17</sup> Mumbai Nodal-1, Mumbai Nodal-10, Thane City, Nasik, Pune-3 and Aurangabad.

Table-4: Information of EWB generation and interception of vehicles

Financial year	GST collection in Maharashtra (₹ in crore)	No. of EWBs generated (in crore)	No. Of Interception Drives conducted	No. of vehicles intercepted	No. of vehicles detained and penalised	Amount recovered (₹ in crore)
1	2	3	4	5	6	7
2018-19	1,70,292	6.44	6	38,450	530	12.12
2019-20	1,85,919	7.88	8	97,506	661	9.30
2020-21	1,65,197	7.47	3	2,75,018	294	4.35
2021-22	2,17,993	10.05	6	8,97,078	541	8.36
	<b>7,39,402</b>	<b>31.84</b>	<b>23</b>	<b>13,08,052</b>	<b>2026</b>	<b>34.14</b>

Source: (col. 2) - [gst.gov.in/download/gst\\_statistics](http://gst.gov.in/download/gst_statistics); (col. 3) - [ewaybillgst.gov.in](http://ewaybillgst.gov.in); (col 4 to 7): Data provided by the Department

### 3.1.11.2 Lack of Dedicated setup for enforcement activities

There is no dedicated preventive establishment within the GST Department under Government of Maharashtra for enforcement activities relating to EWB verification and supply of goods. JC, BCP under the CST is responsible for planning of interception drives in Maharashtra and the work of interception is carried out by engaging the available staff in the respective field JC. Audit further observed that a Committee was formed (June 2018) for re-organisation/ formation of branches/sections from the existing/new staff in GST Department in Maharashtra. The Committee submitted its report in November 2018 to Finance Department, Government of Maharashtra wherein it was recommended to form a new division for verification of EWBs. However, no action was taken to form the dedicated unit for EWB verification.

Government in exit conference stated (June 2024) that the Committee's recommendation was for overall increase in cadre. The drives are undertaken on the basis of leads of analysis or local inputs. The policy was changed recently which increased the number of interceptions by jurisdictional Divisions which will increase deterrence as well as collection of penalties.

### 3.1.11.3 Lack of dedicated patrol vehicles

Audit observed (February 2023) that there is no sanction for patrol/roving vehicles for use during the interception drive. Department intimated (March 2023) that the verifications were generally conducted using the vehicles hired at the JC at field level. During 2018-22, 92 vehicles were hired / requisitioned for interception on which an expenditure of ₹ 20.98 lakh was incurred.

Permanent dedicated vehicles for interception purposes may improve the effectiveness to surprise checks and interception based on intelligence information.

**Recommendation 4: Government may consider maintaining dedicated vehicles for interception activities.**

### 3.1.11.4 Usage of Analytical Reports and MIS Reports

NIC generates 102 types of Analytical Reports on EWB transactions and shares with the GST Department under Centre and State formations. From 1 January 2019, these analytical reports were accessible to GST authorities.

These reports assist them in increasing the efficiency and effectiveness of Officers by providing real time data for selected parameters and preventing them from doing mundane paper-based verification work, helps in checking tax evasion cases, provides information on rejected and cancelled EWBs, compare the non-filer list to catch the taxpayers, provides an outlook to the total number of inward/outward EWBs generated by any selected transporter within the chosen duration, *etc.*

Audit enquired (February 2023) about the utilization of these analytical reports for planning the interception drives.

The JC, BCP stated (March 2023) that analytical reports were not used for planning EWB interception drives. Government stated (July 2024) that MIS reports are used for identifying the potential defaulter for carrying out investigation at their premises. However, no documentary records were provided for use of MIS reports.

MIS reports are an important source of information giving potential cases of tax evasion. Using these reports can help the Proper Officers to get information on unregistered taxpayers, non-filers, tax evaders, rejected and cancelled EWBs, identify risky vehicles *etc.* and thereby increase their efficiency during interception drive.

***Recommendation 5: Government needs to issue suitable instructions to Departmental officers for effective use of analytical reports of NIC on EWBs.***

**3.1.11.5 Scope limitation due to non-production of documents**

Section 16 read with Section 18 (2) of the CAG's (Duties, Power and Conditions of Service) Act, 1971 imposes a statutory duty on Offices/Departments to comply with the requests for information in as complete as possible and with all reasonable expedition for audit of receipts.

In this regard, the Chairman, CBIC has also issued instructions vide Board's DO letter F. No. 232/Misc DAP/2018-CX-7 dated 26 April 2018 regarding cooperation with the CAG during audit by procuring and providing complete and comprehensive information.

As mentioned in paragraph 1.8, Audit selected 196 interception cases booked by the Department. Out of 196 cases, the Department did not produce records<sup>18</sup> relating to interception of vehicles in 22 cases (*Appendix 3.1.9*). Due to non-production of records, Audit was not able to draw assurance on the effectiveness of the interception mechanism in these 22 cases.

The jurisdiction wise non-production of records is detailed in **Table-5**:

**Table-5: Non production of records / No signature cases**

Division	Total number of interception cases	Selected intercepted cases <sup>19</sup>	Non-production of record of interception
Aurangabad	534	50	07
Thane city	150	50	07

<sup>18</sup> MOV forms - These are different forms used by the intercepting officer to record statement of driver, for physical inspection of vehicle, detention, reporting, release of vehicle, etc.

<sup>19</sup> In case of JCs, Nodal-1, Mumbai; Nodal-10, Mumbai and Pune-3 all intercepted cases were selected as the number was less than 50.

Division	Total number of interception cases	Selected intercepted cases <sup>19</sup>	Non-production of record of interception
Nasik	177	50	03
Nodal-1, Mumbai	15	15	01
Nodal-10, Mumbai	05	05	02
Pune-3	26	26	02
<b>Total</b>	<b>907</b>	<b>196</b>	<b>22</b>

Due to non-production of some cases, Audit called for (December 2023) 17 additional cases from three Divisions, Aurangabad (seven cases), Thane City (seven cases) and Nashik (three cases) out of which seven cases relating to, Thane City Division were not produced.

Government stated (July 2024) that remaining records will be submitted in due course of time. However, records pertaining to remaining cases were not provided to audit till date (August 2025).

#### 3.1.11.6 Non/Short creation of demand for tax and penalty during EWB verification

As per section 129 and 130 of MGST Act, 2017 where any person transports any goods in contravention of the provisions of this Act or the rules made thereunder, all such goods and conveyance used shall be liable to detention or seizure and shall be released, on payment of the applicable tax and penalty equal to one hundred *per cent* of the tax payable on such goods (*w.e.f.* 1 January 2022) on payment of penalty equal to two hundred *per cent* of the tax payable on such goods).

CST, Mumbai issued Trade Circular No. 14T of 2018 dated 23 April 2018 describing the procedure for interception of conveyance. Form GST MOV-01 is issued during interception, if the conveyance user fails to produce the prescribed documents. Form GST MOV-02 is issued by the Proper Officer for physical verification of vehicle and reported in Form GST MOV-04. Where no discrepancies are found after inspection of goods and conveyance or the user pays the government tax and penalty, the Proper Officer shall issue release order in Form GST MOV-05. Further, the order in Form GST MOV-09 shall be uploaded in the common portal and the demand accrued from the proceedings shall be added in the electronic liability register. The payment made shall be adjusted by debiting the cash register and crediting liability register.

Audit scrutinised 184<sup>20</sup> booked cases under six Divisions and observed that in 21 cases, vehicles were released on payment of tax and penalty of ₹ 17.03 lakh, however, no action was taken by the proper officer to raise demand on common portal (**Appendix 3.1.10**). Thus, amount paid during interception was credited to cash ledger of the taxpayers but same was not paid to Government due to non-creating of demand and adjusting the same from the cash ledger.

Further, in six cases there was short determination of tax and penalty due to incorrect application of tax rate or not demanding either tax or penalty by the

<sup>20</sup> 184(Total cases scrutinised)=196(selected cases) -22 (records not produced) + 10 (additional cases).

proper officer, amounting to ₹ 2.96 lakh (*Appendix 3.1.11*). The cases of non/short demand are detailed in **Table-6** below:

**Table-6: Non creation of demand in liability register/Short demand**

Division	No. of cases where demand was not created	No. of cases where short demand of tax/penalty was made	Total No. of cases	Amount (₹ in lakh)		
				Tax	Penalty	Total
Aurangabad	15	0	15	6.02	6.02	12.04
Pune-3	0	1	01	0.22	0	0.22
Nasik	4	2	06	2.22	2.22	4.44
Nodal-1, Mumbai	2	2	04	1.51	1.51	3.02
Thane City	0	1	01	0.27	0.00	0.27
<b>Total</b>	<b>21</b>	<b>6</b>	<b>27</b>	<b>10.24</b>	<b>9.75</b>	<b>19.99</b>

One case is illustrated below:

A vehicle no. MH13-AX-#### was intercepted on 12 June 2019 by the proper officer of Aurangabad Division. The case was booked for not carrying EWB for the supply of metal scrap. The taxpayer was penalised with tax of ₹ 1.01 lakh, and equal penalty of ₹ 1.01 lakh. The taxpayer deposited the amount which was credited in electronic cash ledger but demand for the same was not created which resulted in non-payment of ₹ 2.02 lakh to the Government.

On being pointed out (August 2023), AC, Aurangabad replied (November 2023) that at the time of interception drive, the taxpayer submitted payment receipt (Challan), hence, vehicle was released.

The reply is not acceptable, as the proper officer should have created the demand and adjusted the same.

The Government stated (July 2024) that out of 27 cases, in 21 cases recovery of tax and penalty was made by concerned field officers while explanation in case of remaining cases was called for.

**3.1.11.7 Delayed payment of tax and penalty to the Government account**

Trade Circular No. 14T of 2018 dated 23 April 2018 states that the proper officer, after payment of tax and penalty, shall release the vehicle and shall upload the MOV-09 form on the portal. The demand accruing from the proceeding shall be added to liability register and then adjusted by debiting cash ledger and crediting liability ledger.

Audit observed that out of 184 cases, in five cases, intercepted vehicles were released on deposit of amount by the taxpayers without ensuring payment of the tax/penalty to the Government account. In these cases (*Appendix 3.1.12*), amount of tax/penalty was paid to Government account (on filing of DRC 03 by the taxpayers) with delay ranging 10 to 372 days, as detailed in **Table-7** below:

**Table-7: Delayed payment of tax and penalty to Government account**

Name of Division	No. of intercepted cases	Range of delay in days	Tax and penalty demanded (in lakh)
Pune-03	3	10 to 327	3.89
Aurangabad	2	26 to 27	1.06
<b>Total</b>	<b>5</b>		<b>4.95</b>

One case is illustrated below:

A vehicle number MH-7-AJ-##### was intercepted on 30 January 2021 by the proper officer of Pune-3 Division for not carrying EWB. The vehicle was released on the same day on payment of tax of ₹ 0.59 lakh and equal penalty of ₹ 0.59 lakh. However, the amount was only credited to electronic cash ledger<sup>21</sup> of the taxpayer on 30 January 2021 but the same was paid to the Government account on 23 December 2021 with delay of 327 days, when DRC 03 was filed by the taxpayer.

The matter was pointed out in August 2023. Reply of the Department was awaited (January 2025).

Government stated (July 2024) that in most of the cases, deposit of penalty amount in cash ledger was confirmed before release of vehicles and that debit to Cash Ledger by DRC 03 remained a technical matter.

The reply is not acceptable as credit to cash ledger results in amount paid to taxpayers account and not to the Government account. Unless the demand is created by debiting liability ledger and adjusting the same from cash ledger, amount is not credited to Government account.

***Recommendation 6: Government may consider training for the departmental officers and reiterating instructions about the proper procedure of creating demand of tax and penalty during interception and payment of the same to government account by adjustment of liability and cash ledgers.***

### **3.1.12 Conclusion**

During the audit of EWB System under GST, Audit observed deficiencies in effectiveness of EWB system and noticed instances of taxpayers generating EWB after the cancellation of registration, taxpayers generating EWBs but filing nil returns, EWBs generated but returns not filed by the taxpayers, taxpayers using single invoice for generating multiple EWBs, Generation of EWBs using invalid vehicles and abnormal high value EWBs generated by the taxpayers.

In respect of preventive functions of the Department, Audit observed administrative deficiencies such as not having dedicated setup for verification of EWBs, insufficient patrolling vehicles, and insufficient use of analytical reports of NIC on EWBs. Audit also observed deficiencies in interception of

<sup>21</sup> Electronic Cash Ledger is an account of the taxpayer maintained by GST system reflecting the cash deposits in recognized Banks and payments of taxes and other dues made by the taxpayer. The Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) are also accounted for in the Electronic Cash Ledger as cash deposits of the taxpayer.

vehicles by the Department, involving non/short creation of demand and delayed payment of tax and penalty to the Government account.

### **3.1.13 Summary of Recommendations**

- 1) Government may issue suitable instruction to the Departmental officer to take cognizance of supplies made by the taxpayers in case of retrospective cancellation and determine tax arrears and interest and demand the same in order of cancellation.*
- 2) Government needs to issue suitable instructions to departmental officers for taking appropriate action to recover ITC from the recipients. Also, issue of non-availability of NGTP data on BO portal may be examined and suitable action taken.*
- 3) Government may consider to flag messages/report for tax officers about use of invalid vehicles to generate EWBs.*
- 4) Government may consider maintaining dedicated vehicles for interception activities.*
- 5) Government needs to issue suitable instructions to Departmental officers for effective use of MIS reports.*
- 6) Government may consider training for the departmental officers and reiterating instructions about the proper procedure of creating demand of tax and penalty during interception and payment of the same to government account by adjustment of liability and cash ledgers.*

## **3.2 Department's Oversight on GST Payments and Returns Filing for the Year 2018-19 to 2020-21**

### **3.2.1 Introduction**

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

Section 59 of the Maharashtra Goods and Services Tax Act, 2017 (MGST Act) stipulates GST as a self-assessment-based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has no tax liability during a particular tax period, it must file a 'nil' return mandatorily. Further, Section 61 of the Act read with Rule 99 of MGST Rules stipulate that the Proper Officer may scrutinize the returns and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Goods and Services Tax Department (Department), Maharashtra in this new tax regime.

### **3.2.2 Audit objectives**

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

- i. Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- ii. Whether the scrutiny procedures, internal audit and other compliance functions of the Proper Officer<sup>21</sup> were adequate and effective.

### **3.2.3 Audit scope and methodology**

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period April 2018 to March 2021. Through data analysis, a set of 15 deviations were identified across the domains of Input Tax Credit, Discharge of tax liability, Registration and Return filing. Such deviations were followed up through a centralized

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<sup>21</sup> Proper Officer in relation to any function to be performed under MGST Act means the Commissioner or the officer of the State Tax who is assigned that function by the Commissioner.

audit<sup>22</sup>, whereby these deviations were communicated to the relevant jurisdictional Proper Officers and action taken by the jurisdictional Proper Officer on the identified deviations was ascertained without involving field visits. The centralised audit was supplemented by a detailed audit involving field visits for verification of records available with the jurisdictional field formations. Returns and related attached records and information were accessed through the Back End Services application - the back-end system of the State taxes department application, as much as feasible to examine data/documents relating to taxpayers (*viz.* registration, tax payment, returns and other departmental functions). The detailed audit also involved accessing relevant granular records from the taxpayers such as invoices through the respective field formations. Besides this, oversight functions of the departmental formation such as scrutiny of returns were also reviewed in selected charge<sup>23</sup> offices.

The scrutiny of returns by the Department and verification of taxpayers' records covered the period from April 2018 to March 2021 and the audit of the functions of selected charge offices covered the period 2020-21. The SSCA covered only the state administered taxpayers. The field audit was conducted from September 2023 to January 2024.

Entry conference of this SSCA was held on 28 August 2023 with the Secretary, Financial Reforms, Finance Department, Government of Maharashtra in which the audit objectives, sample selection, audit scope and methodology were discussed.

The Exit conference was held on 6 June 2025 wherein the audit observations were discussed with the Government. The replies of the Government have been incorporated in the Audit Report.

#### **3.2.4 Audit sampling**

A data-driven approach was adopted for planning, to determine the nature and extent of substantive audit. The sample for this SSCA comprised:

- (i) a sample of Charge offices for evaluating the oversight functions;
- (ii) a set of deviations identified through data analysis for centralised audit that did not involve field visits; and
- (iii) a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayers' records at departmental premises.

Therefore, there were three distinct parts of this SSCA as detailed below:

#### **Part I:- Audit of Charge Offices**

Ten Charge offices<sup>24</sup>, out of 77 charge offices, having jurisdiction over selected cases for detailed audit were considered as the sample for evaluation of their oversight functions.

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<sup>22</sup> Centralised Audit did not involve seeking taxpayer's granular records such as financial statements related ledger accounts, invoices, agreements etc.

<sup>23</sup> Charge office is the lowest level of department headed by Deputy Commissioner of State Tax/Assistant Commissioner of State Tax/State Tax Officer.

<sup>24</sup> Mumbai LTU-514, Mumbai LTU-520, Mumbai LTU-519, Marol-501, Mumbai LTU-537, Mumbai LTU-543, Mumbai LTU-512, Mumbai LTU-501, PEN-501 and Pune LTU-502.

**Part II:- Centralised Audit**

The sample for centralised audit was selected by identification of high-value or high-risk deviations from rules and inconsistencies between returns through data analysis for evaluation of the adequacy and effectiveness of the scrutiny procedure of the Department. Accordingly, a sample of 718 deviations pertaining to 362 taxpayers was selected for centralised audit.

**Part III:- Detailed Audit**

It was conducted by accessing taxpayers' records through charge offices for evaluation of the extent of tax compliance by the taxpayers. The sample of the taxpayers for detailed audit was selected based on risk parameters such as excess Input tax credit (ITC), tax liability mismatch, disproportionate exempted turnover to total turnover and irregular ITC reversal. The 100 taxpayers selected for detailed audit comprised large<sup>25</sup>, medium<sup>26</sup> and small<sup>27</sup> strata taxpayers as well as taxpayers selected randomly.

**3.2.5 Audit criteria**

The sources of audit criteria comprised the provisions contained in the MGST Act, IGST Act and Rules made thereunder. The significant provisions are given in **Table 8**:

**Table 8: Sources of audit criteria**

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

Source: MGST Act 2017, (MGST Act), MGST Rules, 2017 (MGST Rules), IGST Act, 2017 (IGST Act), IGST Rules, 2017 (IGST Rules)

<sup>25</sup> First category strata comprising large taxpayers: top 0.25 per cent of taxpayers based on turnover (L1 category) and second category comprising 0.25 per cent of next set of large taxpayers based on turnover (L2 category).

<sup>26</sup> Second category strata comprising medium taxpayers: taxpayers with a turnover of ₹ 10 crore or more.

<sup>27</sup> Third category strata comprising small taxpayers: taxpayers with a turnover between ₹ 5 crore and ₹ 10 crore.

### 3.2.6 Audit findings

The audit findings are categorized into the following three categories:

- a. Audit of Charges
- b. Centralised Audit
- c. Detailed Audit

### 3.2.7 Audit of Charge Offices

#### 3.2.7.1 Non-conduct of scrutiny of returns

As per Section 61 of the MGST Act, various returns filed by taxpayers have to be scrutinized by the Proper Officer to verify the correctness of the returns, and suitable action has to be taken on any discrepancies or inconsistencies reflected in the returns. Further, Rule 99 of MGST Rules mandates that the discrepancies, if any, noticed shall be communicated to the taxpayer to seek his explanation.

As per Section 73(10) of MGST Act, the proper officer shall issue the order for determining the tax not paid or short paid or input tax credit wrongly availed or utilised within three years from the due date for furnishing of annual return for the financial year.

Department issued an internal circular<sup>28</sup> for scrutiny in June 2021 which envisages that cases shall be selected by Economic Intelligence Unit (EIU) based on risk parameters and will be circulated to Divisions who will circulate the cases to nodal officer for scrutiny.

Audit observed, from the information furnished by selected 10 charges, that in nine<sup>29</sup> charges, no scrutiny of taxpayers' returns was carried out during 2020-21 and in one<sup>30</sup> charge, scrutiny of only one taxpayer was done (*Appendix 3.2.1*).

Regarding not conducting scrutiny, Mumbai LTU-514 Charge stated (January 2024) that it was the initial period of the implementation of GST Act and the department was new to GST laws. Department was busy in disposing of pending works related to VAT and list of selected taxpayers for scrutiny was received from EIU in April 2021 for assessment year 2017-18. Marol-501 charge stated (June 2024) that EIU allotted cases for scrutiny for the period 2017-18 to 2021-22 after FY 2021-22 only hence no scrutiny was conducted during 2020-21. Remaining seven charges stated (January 2024 and July 2024) that no cases were received from EIU for scrutiny in 2020-21.

The information was also requested from the Commissioner, but no information was received.

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<sup>28</sup> Internal circular no.6A of 2021 issued by Commissioner dated 11 June 2021.

<sup>29</sup> Marol-501, Mumbai LTU-519, Mumbai LTU-512, Mumbai LTU-501, PEN-501, PUN LTU-502, Mumbai LTU-514, Mumbai LTU-20 and Mumbai LTU-537.

<sup>30</sup> Mumbai LTU-543.

On being pointed out to the Government (February 2025), the Commissioner stated (June 2025) that cases are selected for scrutiny based on analysis of annual returns. The dates of filing annual returns for the years 2017-18 to 2019-20 were 7 February 2020, 31 December 2020 and 31 March 2021 respectively. Analysis of cases for scrutiny was started centrally. In 10 charges, 1384 cases have been taken up for scrutiny covering all financial years from 2017-18 to 2021-22 and adjudication, if any, required in these cases had also been completed within statutory time frame. The scrutiny might not have been done in the year 2020-21 but was done subsequently as per the norms decided by the Department.

### 3.2.7.2 Non-conduct of Audit by Charge Offices

As per Section 65 of MGST Act, the Commissioner or any officer authorized by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. Section 2(13) of the Act, defines “Audit” as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the Rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the Rules made thereunder.

Department issued an internal circular<sup>31</sup> detailing the process and function for conducting audit. The circular envisages the process on receipt of cases for audit from EIU through the respective locational or nodal Joint Commissioners office.

Audit noticed from the information furnished by the selected 10 charges that nine charges did not conduct any audit in the year 2020-21 and only one charge (Mumbai LTU-543) conducts audit of one taxpayer (*Appendix 3.2.2*).

In this context, Mumbai LTU-514 Charge stated (January 2024) that it was the initial period of the implementation of GST Act, and the department was new to GST laws. Department was busy in disposing of pending works related to VAT and list of selected taxpayers for audit was received from EIU in April 2021 for assessment year 2017-18. Marol-501 Charge stated (June 2024) that EIU allotted cases for GST audit for the period 2017-18 to 2021-22 after FY 2021-22 only hence no audit was conducted during 2020-21. Mumbai LTU-520 Charge stated (January 2024) that cases for audit were received in July 2022 onwards for the assessment years 2018-19 to 2020-21; and remaining six Charges stated (January and July 2024) that no cases were received for audit from EIU.

On being pointed out (February 2025), the Commissioner stated (June 2025) that in audit also, the same process as that of scrutiny is being followed. Cases are selected for Audit by way of data analysis after filing of annual returns. As per guidelines, up to one *per cent* of cases or of the total taxpayer base, should be selected for audit, which has been adhered to. The 10 charge offices have taken up audit of 622 cases covering all financial years from 2017-18 to 2021-22.

<sup>31</sup> Internal circular no. 20A of 2020 issued by Commissioner dated 10 December 2020.

### 3.2.7.3 Delay in cancellation of registration

Section 29 of the MGST Act read with Rule 20 of the MGST Rules allows for cancellation of registration by the taxpayer in certain situations like closure of business, turnover falling below threshold for registration. The taxpayer applying for cancellation of registration should apply in the Form REG 16 on the GST common portal within a period of 30 days of the ‘occurrence of the event warranting the cancellation’.

Section 29 (2) of the MGST Act allows for *suo moto* cancellation of the registration of taxpayers by tax officers on the grounds of contravention of the provisions of Acts or Rules by the taxpayer.

Further, as per Rule 22(3) of MGST Rules, the cancellation order in the Form REG 19 has to be issued by the Proper Officer within 30 days from the date of taxpayer’s request and in case of *suo moto* cancellation from the date of reply to the Form REG 17, also notifying the taxable person to pay arrears of any tax, interest or penalty.

Audit observed that out of 10 selected Charge offices, in eight<sup>32</sup> offices, 33<sup>33</sup> registrations were cancelled in 2020-21. Out of 33 cancellations, in 11 cases pertaining to five<sup>34</sup> charge offices, the cancellation was done with delay ranging from nine to 292 days as detailed in **Appendix 3.2.3**.

Audit also observed that in cancellation orders examined by Audit, tax arrears were not demanded in any of the cancellation orders.

On being pointed out (between October 2023 and January 2024), charge Pen-501 stated that due to covid situation, office was not working in full, hence there was delay of one month. Remaining charges did not give any reasons for the delay.

On being pointed out (February 2025), the Commissioner stated (June 2025) that in most cases of voluntary cancellation of Registration, the compliance from taxpayer’s side is very poor. Department also issued (February 2025) detailed guidelines on the procedure to be followed for cancellation and the manner of ascertainable liabilities to be included in the orders of cancellation.

One case is illustrated below:

Audit observed that in Marol-501 Charge under Andheri Division, the registration of a taxpayer, (GSTIN 27XXXXXXXXXX1ZA), who was registered under GST on 14 February 2020, was cancelled by the Charge office *suo moto* on 07 October 2021 with effect from 1 April 2020 as the taxpayer did not furnish returns for a continuous tax period of six months. Though notice should have been issued in August 2020, the show cause notice was issued after a delay of three months on 12 November 2020. No reply was submitted by the taxpayer. Hence, Charge officer should have cancelled the registration within one month from 12 November 2020. But the

<sup>32</sup> Mumbai-LTU-514, Mumbai-LTU-520, Mumbai-LTU-519, Marol-501, Mumbai-LTU-537, Mumbai-LTU-543, Mumbai-LTU-501 and PEN-501.

<sup>33</sup> On application 27 cases and *suo moto* 6 cases. 26 cases were cancelled in 2020-21 while in 7 cases, applications for cancellation were received or notice for *suo moto* cancellation were issued in 2020-21 but cancellation was done in 2021-22.

<sup>34</sup> Mumbai-LTU-519, Marol-501, Mumbai-LTU-543, Mumbai-LTU-501 and PEN-501.

registration was cancelled on 07 October 2021 after a delay of more than nine months. Further, the Charge officer did not make any demand of tax arrears in the cancellation order. In the absence of details of the supplies made and tax paid, Audit could not verify the tax arrears recoverable from the taxpayer.

#### **3.2.7.4 Inadequate follow up on non-filing of GSTR 10**

As per Section 45 of the MGST Act, after cancellation of registration, every taxpayer has to file GSTR 10<sup>35</sup>, the final return within three months of the effective date of cancellation or the date of order of cancellation, whichever is later.

As per Rule 68 of MGST Rules, a notice in Form GSTR 3A has to be issued to the taxpayers, where GSTR 10 has not been filed. If the taxpayer still fails to file the final return within 15 days of the receipt of notice, then the Charge Officer has to carry out best judgment assessments and an assessment order in ASMT 13 under Section 62 of the MGST Act shall be issued to the taxpayer.

Audit observed that in eight<sup>36</sup> out of 10 selected Charges, 26 cancellation orders were issued during 2020-21. Out of these, 15 taxpayers did not file GSTR 10 till January 2024. Out of the remaining 11 taxpayers filing GSTR 10, three taxpayers filed the return with delay ranging from 340 to 813 days (*Appendix 3.2.4*). However, the Charge Officers neither issued notice nor conducted best judgment assessments, resulting in non-recovery of revenue.

On being pointed out (between October 2023 and January 2024), Mumbai LTU-514 Charge stated (January 2024) that GSTR 3A was not issued as the taxpayer had filed the return after the prescribed date by paying the late fee and there was no need to issue notice as the taxpayer had declared in its application for cancellation of registration, the closing stock and details of reversal of ITC on stock at the time of closure of business. The reply is not acceptable as the taxpayer filed GSTR 10 after 340 days of the due date and the Department should have initiated action after prescribed period of three months.

Mumbai LTU-520 Charge stated (January 2024) that the taxpayer has filed GSTR 3B and GSTR 1 for the tax period October 2020 on 10 December 2020. The reply, however, does not address the non-filing of GSTR 10 and follow up of the same.

Mumbai LTU-543 Charge stated (April 2025) that in one case (out of three cancellations pertaining to the charge office), GSTR 3A was issued on 15 April 2025. Reply indicated that GSTR 3A was issued not only after more than four years from the due date but also after more than one year and four months from the date of issue being pointed out by Audit. In respect of two cases, no reply was given.

<sup>35</sup> GSTR 10 is the final return containing details of inputs held in stocks, inputs contained in semi finished or finished goods and goods on which ITC is required to be reversed and amount to tax payable and paid.

<sup>36</sup> Mumbai-LTU-514, Mumbai-LTU-520, Mumbai LTU-519, Marol-501, Mumbai LTU-537, Mumbai LTU-543, Mumbai-LTU-501 and PEN-501.

Four Charge offices<sup>37</sup> did not give reasons for not issuing GSTR 3A and best judgement assessment. Reply from Mumbai LTU-501 charge was awaited.

On being pointed out (February 2025), the Commissioner stated (June 2025) that in cases of cancellation on application, the taxpayer discharges such liability in REG 16 whereas in case of *suo moto* cancellations, there would not be liability in every cancelled taxpayer. Therefore, action is to be taken only in potentially risky cases. Department issued (February 2025) detailed guidelines on the procedure to be followed in cases of cancellation and the manner of determination of liabilities to be included in the orders of cancellation. The taxpayers have paid applicable late fees in cases where GSTR 10 was filed after due date. In rest of the cases, there is no potential liability on account of goods held in stock as the balance in Electronic Credit Ledger (ECL) is nil and there is no immediate financial implication.

Reply is not acceptable as ECL only indicates balance ITC and does not indicate the position of available stock. The circular (February 2025) also stipulates verification of stock before cancellation. Therefore, Department needs to verify stock in these cases and take action to recover ITC involved, if any.

One case is illustrated below:

Audit observed that in Marol-501 Charge under Andheri Division, the registration of a taxpayer (GSTIN 27XXXXXXXXXX1Z5), who was registered under GST on 31 October 2019, was cancelled by the charge office on 09 October 2020 with effect from 01 February 2020 on the request (13 September 2020) of the taxpayer. After cancellation of registration taxpayer was required to file GSTR 10 within three months *i.e.* by 07 January 2021. But the taxpayer did not file GSTR 10 till date and no action to issue notice and best judgement assessment was taken by the Charge officer.

The matter was pointed out in October 2023, the reply was awaited (July 2025).

### **3.2.8 Centralised Audit**

Audit analyzed GST returns data pertaining to 2018-19 to 2020-21 as made available by GSTN. Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 15 parameters, which can be broadly categorized into two domains - ITC and Tax payments.

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<sup>37</sup> Mumbai LTU-519, Marol-501, Mumbai LTU-537 and PEN-501.

Out of the 15 prescribed GST returns<sup>38</sup>, the following basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data:

- GSTR 1: Monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR 3B: Monthly summary return of outward supplies and ITC claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credits and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR 6: Monthly return for Input Service Distributors providing the details of their distributed ITC and inward supplies.
- GSTR 8: Monthly return to be filed by the E-commerce operators who are required to deduct TCS under GST, introduced in October 2018.
- GSTR 9: Annual return to be filed by all registered persons other than an ISD, TDS/TCS deductors, Casual Taxable Person and Non-Resident taxpayer (NRTP). This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- GSTR 9C: Annual audit form for all taxpayers having a turnover above rupees five crore in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR 9 and the taxpayer's audited Annual Financial Statements (AFS).
- GSTR 2A: A system-generated statement of inward supplies for a recipient. It contains the details of all business to business (B2B) transactions of suppliers declared in their Form GSTR 1/5, ISD details from GSTR 6, details from GSTR 7 and GSTR 8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from Indian Customs Electronic Gateway (ICEGATE) Portal of Indian Customs.
- GSTR 2B: A month-wise auto-drafted statement for regular taxpayers (whether or not opted into the quarterly return and monthly payment (QRMP) scheme) introduced on the GST portal providing eligible and ineligible ITC for each month, similar to GSTR 2A but remains constant or unchanged for a period. The statement was launched from the August 2020 tax period onwards.

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<sup>38</sup> GSTR 1, GSTR 2A, GSTR 2B, GSTR 3B, GSTR 4 (taxpayers under the Composition scheme), GSTR 5 (non-resident taxable person), GSTR 5A (Non-resident online information and data base access or retrieval (OIDAR) service providers), GSTR 6 (ISD), GSTR 7 (taxpayers deducting TDS), GSTR 8 (E-commerce operator), GSTR 9 (Annual Return), GSTR 10 (Final return), GSTR 11 (person having Unique Identification Number(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).

The details of data analysis undertaken on the 15 identified parameters and impact thereon are given in **Table-9(a)** and **9(b)**.

**Table-9(a): Data analysis summary of sampled cases of Maharashtra State (ITC and Tax payment mismatches)**

Sr. No.	Algorithm used	Risk pursued
<b>Mismatch in availing of ITC/ Tax payment</b>		
1	ITC available as per GSTR 2A with all its amendments was compared with the ITC availed in GSTR 3B in Table 4A (5) (accrued on domestic supplies) excluding the reversals in Table 4B (2) but including the ITC availed in the subsequent year from Table 8C of GSTR 9 and blocked credits.	ITC mismatch between GSTR 2A and GSTR 3B.
2	ITC available from GSTR 2A was compared with Table 8A of GSTR 9 which captures ITC available from GSTR 2A (as an auto-populated non-editable field) but excludes those entries in GSTR 2A where the supplier has not filed GSTR 1 by due date of its filing and also excludes the ITC for the period during which the recipient taxpayer was under composition scheme.	ITC passed on without supplier remitting tax.
3	ITC availed through Table 4 of GSTR 3Bs pertaining to period 2018-19 to 2020-21 filed after October of the following year.	ITC availed in GSTR 3B filed after the cut-off period.
4	RCM payments in GSTR 9 Table 4G (tax payable) were compared with ITC availed in GSTR 9 Table 6C, 6D and 6F (ITC availed). In cases where GSTR 9 was not available, RCM payment in GSTR 3B Table 3.1(d) was compared with GSTR 3B 4(A)(2) and 4A(3). Greater differences in GSTR 9 and GSTR 3B considered where both were available.	Short payment of tax under RCM versus ITC availed in GSTR 3B/ GSTR 9.
5	Negative figure in GSTR 9C Table 9R and examination of reasons provided in Table 10 for mismatch.	Mismatch in tax paid between books of accounts and returns.
6	Positive figure in GSTR 9C Table 12F and examination of reasons provided in Table 13 for mismatch.	Mismatch of ITC availed between Annual returns and Books of accounts.
7	Positive figure in GSTR 9C Table 14T and examination of reasons provided in Table 15 for mismatch.	Reconciliation between ITC availed in Annual returns with expenses in financial statements.
8	The greater of tax liability between GSTR 1 (Tables 4 to 11), considering advances and amendments, and GSTR 9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR 3B Tables 3.1(a) and 3.1(b). In cases where GSTR 9 was not	Unsettled liabilities (Mismatch in tax liability and tax

Sr. No.	Algorithm used	Risk pursued
	available, GSTR 3B tax paid was compared with GSTR 1 liability.	payment).
9	Taxpayers who have not filed GSTR 3B but have filed GSTR 1 or where GSTR 2A available, indicating taxpayers carrying on the business without discharging tax.	GSTR 3B was not filed but GSTR 1 was available.
10	Interest calculated at the rate of 18 per cent on cash portion of tax payment on delayed filing of GSTR 3B vis-a-vis interest declared in GSTR 3B.	Non/Short payment of interest.
11	The composition taxpayers whose turnover on all India basis (Central and State jurisdiction) under all GSTINs of the same PAN have crossed the turnover limit of ₹ 1 crore in 2018-19 and ₹ 1.5 crore in 2019-20 were identified.	Ineligible composition levy scheme tax payer.
12	Taxpayers who have cancelled their registrations and re-registered with same PAN again under composition, whenever their turnover was close to or just crossed the thresholds of one crore in 2018-19 and 1.5 crore in 2019-20.	Composition levy scheme taxpayers not migrating to normal levy (canceling and re-registering).

**Table-9(b): Data analysis summary of sampled cases of Maharashtra State (Turnover mismatch)**

Sr. No.	Algorithm used	Risk pursued
<b>Turnover mismatch in Annual Return and Financial Statements</b>		
1	Negative figure in GSTR 9C Table 7G and examination of reasons provided in Table 8 for mismatch.	Mismatch in taxable turnover declared in Table 7G of GSTR 9C.
2	Table 3.1(a) of GSTR 3B was compared with Column 6 of Table 9 of GSTR 2A. Cases where GSTR 3B values are less than that of GSTR 2A are identified.	Under-declaration of taxable supplies by comparing TDS returns.
3	Unbilled revenue at the beginning of the year in GSTR 9C Table 5B should tally with the unbilled revenue of the previous GSTR 9C shown in Table 5H. Any mismatch indicates suppression of taxable turnover.	Suppression of taxable value based on unbilled revenue declared in GSTR 9C.

### 3.2.8.1 Non-submission of reply by the department

Audit selected a sample of 718 deviations which pertained to 362 taxpayers from amongst the top deviations/ inconsistencies in each of the 15 parameters for the year 2018-19 to 2020-21. The audit queries were issued to the respective Charges during July - September 2023 without further scrutiny of taxpayers' records. The audit checks in these cases were limited to verifying the Department's action on the identified deviations/mismatches.

Initial responses were yet to be received (July 2025), for 95 deviations out of 718 deviations communicated to the Department, which represents a potential risk exposure of ₹ 3,296.51 crore.

Considering that the overall rate of conversion of inconsistencies into compliance deviations is significant as brought out in the next paragraph, the department is required to expedite verification of these cases on priority.

On being pointed out (February 2025), the Government stated (June 2025) that replies have already been sent and only 61 cases are pending for which replies would be sent.

#### **3.2.8.2 Result of Centralized Audit**

Audit selected a sample of 718 cases from amongst the top deviations/inconsistencies in each of the 15 parameters for the period 2018-19 to 2020-21. The audit queries were issued to the respective charge offices between July 2023 and September 2023 without further scrutiny of taxpayer's records. The audit check in these cases was limited to verifying the Department's action on the identified deviations/mismatches. The Department provided responses in 623 cases.

Based on the responses received from the department to the audit queries, the extent to which each of the 15 parameters translated into compliance deviations are summarized in **Table-10(a)** and **10(b)**.

Table-10(a): Dimension-wise summary of deficiencies (ITC and Tax payment mismatches)

Dimension	Sample		Cases where reply received		Compliance deviations						Total		Department reply accepted by Audit						Deptt. furnished reply without appropriate documentary evidence		Deptt. Stated they are examining the Audit query			
	No.	Amt.	No.	Amt.	Accepted by Deptt. including cases where action is yet to be initiated		SCN (DRC 01) issued	ASMT 10/Action initiated	No.	Amt.	No.	Amt.	Data entry errors		Action taken before Audit query		Other valid explanations		No.	Amt.	No.	Amt.		
					No.	Amt.							No.	Amt.	No.	Amt.	No.	Amt.					No.	Amt.
1	2	3	4	5	6	7	8	9	10	11	12= (6+8 +10)	13= (7+9+1)	14	15	16	17	18	19	20	21	22	23		
ITC mismatch between GSTR 2A and GSTR 3B	94	5897.86	87	4570.46	17	352.30	2	44.31	8	252.89	27	649.50	4	246.04	13	911.52	34	2177.70	8	550.04	1	35.66		
ITC passed on without supplier remitting tax	41	2855.42	33	2508.93	5	31.89	1	0.25	2	23.50	8	55.64	0	0.00	6	55.31	17	2189.70	2	208.28	0	0.00		
ITC availed in GSTR 3B filed after the cut-off period	71	304.08	59	321.06	13	90.34	3	19.77	5	11.07	21	121.18	0	0.00	31	177.85	2	7.74	5	14.29	0	0.00		
Short payment of tax under RCM versus ITC availed in GSTR 3B/GSTR 9	51	824.62	46	716.50	1	0.48	0	0.00	2	14.09	3	14.57	14	377.17	6	98.74	23	226.02	0	0.00	0	0.00		
Mismatch in tax paid between books of accounts and returns	22	338.79	17	289.90	0	0.00	0	0.00	2	11.15	2	11.15	5	183.90	1	0.09	9	94.76	0	0.00	0	0.00		
Mismatch of ITC availed between Annual returns and Books of accounts	24	417.45	17	311.37	2	39.10	0	0.00	2	19.57	4	58.67	0	0.00	0	0.00	11	246.63	2	6.07	0	0.00		
Reconciliation between ITC availed in Annual returns with expenses in financial statements	24	1019.87	23	987.29	3	0.11	1	24.94	0	0.00	4	25.05	6	798.39	0	0.00	13	163.85	0	0.00	0	0.00		
Unsettled liabilities	33	389.03	28	345.40	4	17.45	0	0.00	1	0.19	5	17.64	2	19.06	11	131.05	8	140.14	2	37.51	0	0.00		
GSTR 3B was not filed but GSTR 1 was in available	66	220.01	53	203.66	12	62.04	2	1.31	3	7.07	17	70.42	0	0.00	26	109.35	4	12.53	6	11.36	0	0.00		
Non/short payment of interest	189	144.89	170	133.48	42	28.05	8	2.40	4	1.16	54	31.61	0	0.00	104	94.87	7	3.75	5	3.25	0	0.00		
Ineligible composition levy	2	38.00	2	38.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	38.00	0	0.00	0	0.00		
Composition taxpayers not migrating to normal levy (Cancelling and re-registering)	3	NQ	3	NQ	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	3	NQ	0	0.00	0	0.00		
<b>Total</b>	<b>620</b>	<b>12450.02</b>	<b>538</b>	<b>10426.05</b>	<b>99</b>	<b>621.76</b>	<b>17</b>	<b>92.98</b>	<b>29</b>	<b>340.69</b>	<b>145</b>	<b>1055.43</b>	<b>31</b>	<b>1624.56</b>	<b>198</b>	<b>1578.78</b>	<b>133</b>	<b>5300.82</b>	<b>30</b>	<b>830.80</b>	<b>1</b>	<b>35.66</b>		

NQ: Not quantified, as turnover details could not be ascertained through data analysis

Table 10(b): Dimension-wise summary of deficiencies (Turnover mismatch)

Dimension	Sample		Cases where reply received		Compliance deviations						Total				Department reply accepted by Audit				Deptt. furnished reply without appropriate documentary evidence		Deptt. Stated they are examining the AQ	
	No.	Amt.	No.	Amt.	Accepted by Deptt. including cases where action is yet to be initiated			ASMT 10/Action initiated			No.	Amt.	Data entry errors		Action taken before Audit query		No.	Amt.	No.	Amt.	No.	Amt.
					No.	Amt.	No.	Amt.	No.	Amt.			No.	Amt.	No.	Amt.						
1	2	3	4	5	6	7	8	9	10	11	12= (6+8+10)	13= (7+9+11)	14	15	16	17	18	19	20	21	22	23
Mismatch in taxable turnover declared in Table 7G of GSTR 9C	33	19521.08	30	18505.49	1	0.01	0	0.00	5	2697.45	6	2697.46	0	0.00	0	0.00	20	15166.41	4	641.62	0	0.00
Short payment of tax (TDS/TCS)	40	1173.37	33	901.13	1	16.32	0	0.00	2	31.38	3	47.70	2	11.66	5	176.44	22	664.06	1	1.27	0	0.00
Suppression of taxable value (Unbilled Revenue)	25	9661.20	22	8611.66	0	0.00	0	0.00	2	48.46	2	48.46	7	852.04	0	0.00	11	7487.38	2	223.78	0	0.00
<b>Total</b>	<b>98</b>	<b>30355.65</b>	<b>85</b>	<b>28018.28</b>	<b>2</b>	<b>16.33</b>	<b>0</b>	<b>0.00</b>	<b>9</b>	<b>2777.29</b>	<b>11</b>	<b>2793.62</b>	<b>9</b>	<b>863.70</b>	<b>5</b>	<b>176.44</b>	<b>53</b>	<b>23317.85</b>	<b>7</b>	<b>866.67</b>	<b>0</b>	<b>0.00</b>

## Summary of Centralized Audit

### (a) ITC and Tax payment mismatches

Audit noticed deviations from the provisions of the Act/Rule in 145 cases {Col. No. 12 of Table 10(a)} involving mismatch in ITC/Tax liability of ₹ 1055.43 crore (Col. No. 13) constituting 26.95 *per cent* of the 538 inconsistencies/mismatches (Table 10a) in data for which the Department provided responses, wherein, the Department issued notices/demand orders or recovered the amount. Relatively higher rates of deviations were noticed in non/short payment of interest, mismatch between GSTR 2A and GSTR 3B, ITC availed in GSTR 3B filed after the cut-off period and non-filing of GSTR 3B.

In 362 cases (Col. No. 14, 16 and 18), constituting 67.29 *per cent*, where the replies were acceptable to Audit, data entry errors by the taxpayers comprised 31 cases (Col. No. 14), the Department had proactively taken action in 198 cases (Col. No. 16) and 133 cases (Col. No. 18) had other valid explanations.

In 30 cases (Col. No. 20), constituting 5.58 *per cent*, though the Department did not accept the deviations pointed out by Audit, their contention was not borne out by evidence, and was thus not amenable to verification by Audit. In the remaining one case (Col. No. 22) audit observation was under examination by the Department.

### (b) Turnover mismatches

Audit also noticed compliance deviations emanating from turnover related mismatches (**Table 10b**), in 11 cases {(Col. No. 12) of Table 10(b)} of the 85 mismatches where the department provided responses. Of these, in 9 cases (Col. No. 10), constituting 10.59 *per cent* the Department had initiated/taken action on the audit observations. In 67 (78.82 *per cent*) cases (Col. No. 14, 16 and Col. No. 18) replies were acceptable to Audit. In seven cases (Col. No. 20), constituting 8.24 *per cent*, the Department had not provided relevant documents in support of their contention; hence reply could not be verified.

A few high value illustrative cases from each dimension are given below:

#### (i) ITC mismatch between GSTR 2A and GSTR 3B

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

In order to analyze the veracity of ITC utilization, relevant data were extracted from GSTR 3B and GSTR 2A for the period 2018-19 to 2020-21 and the ITC available as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR 2A with all its amendments and the ITC availed in GSTR 3B in Table 4A (5) including 4 (D) blocked credits and subsequent years from Table 8C of GSTR 9.

Audit observed that in case of a taxpayer under Mumbai-LTU-1 Division (GSTIN 27XXXXXXXXXX3ZK), the ITC available as per GSTR 2A (MIS Summary) was ₹ 458.97 crore and ₹ 437.35 crore for the year 2019-20 and 2020-21 respectively and the ITC availed in GSTR 3B (including ITC availed in subsequent year in GSTR 9) was ₹ 601.27 crore and ₹ 606.03 crore respectively. This resulted in mismatch in availing of ITC amounting to ₹ 142.30 crore and ₹ 168.68 crore respectively, which was communicated to the Department (July 2023).

The Department stated (March 2025) that for the year 2019-20, summary of order in form DRC 07 was issued (August 2024) for ₹ 21.15 crore. For the year 2020-21, Audit of the taxpayer was conducted by the department and the taxpayer paid the mismatched liability of ₹ 0.24 crore with interest of ₹ 0.21 crore and penalty of ₹ 0.02 crore vide DRC 03 (February 2025).

**(ii) ITC passed on without supplier remitting tax**

In order to analyze the extent of compliance of ITC availment under Section 16(4) of the CGST Act, the relevant data from GSTR 9 particularly pertaining to Table 8A of GSTR 9 was compared with the ITC data reflected in GSTR 2A. While GSTR 2A is generated based on the disclosures made by the suppliers in their GSTR 1, Table 8A of the GSTR 9 is auto-populated from Tables 3,4,5 and 6 of the GSTR 2A (Tables 3 and 5 of the old GSTR 2A format) and considers GSTR 2A as available on 31 October of the following financial year.

Audit observed that in case of a taxpayer under Mumbai-LTU-3 Division (GSTIN 27XXXXXXXXXX1ZL), the ITC available as per GSTR 2A (MIS Summary) was ₹ 641.08 crore and the ITC availed in Table 8A of GSTR 9 was ₹ 599.60 crore for years 2020-21. This resulted in mismatch of ITC between GSTR 2A and GSTR 9 return, amounting to ₹ 41.48 crore. This was communicated to the Department (September 2023).

The Department stated (April 2025) that DRC 07 was issued (January 2025) for ₹ 0.90 crore including interest and penalty.

**(iii) ITC availed in GSTR 3B filed after the cut-off period**

Section 39 of MGST Act provides for availment of ITC only till the due date of furnishing GSTR 3B for the month of September following the end of financial year to which such ITC pertains or furnishing of relevant annual return, whichever is earlier. Accordingly, if any GSTR 3B is furnished after such time ITC availed therein becomes inadmissible.

In order to review the extent of excess/irregular ITC availed on this account, instances of ITC availed through Table 4 of GSTR 3B pertaining to 2018-19, 2019-20 and 2020-21 filed by the taxpayer beyond the due dates of September GSTR 3B return of the following year, were identified.

Audit observed that in case of a taxpayer under Mumbai-LTU-2 Division (GSTIN 27XXXXXXXXXX1ZK), GSTR 3B for the month of March 2019, was filed belatedly in November 2019 and the ITC of ₹ 6.83 crore pertaining to year 2018-19 was availed after limitation period *i.e.* October 2019 which was communicated to the Department (July 2023).

The Department stated (February 2024) that DRC 07 of ₹ 6.83 crore was issued to the taxpayer (August 2023).

**(iv) Short payment of tax under RCM versus ITC availed in GSTR 3B/GSTR 9**

Under Reverse Charge Mechanism (RCM), the liability to pay tax is fixed on the recipient of supply of goods or services instead of the supplier or provider in respect of certain categories of goods or services or both under Section 9(3) or Section 9(4) of the MGST Act and under sub-section (3) or sub-section (4) of Section 5 of the IGST Act 2017.

In order to analyse the veracity of tax paid under RCM, the datasets in GSTR 3B and annual return GSTR 9 pertaining to RCM was compared to check whether the tax has been discharged fully on the activities/transactions under RCM. In cases where GSTR 9 was filed, the RCM payments in Table 4G was compared with ITC availed in Table 6C, 6D and 6F of GSTR 9. In cases where GSTR 9 was not available, RCM payments in GSTR 3B Table 3.1(d) were compared with GSTR 3B 4(A)(2) and 4A(3).

Audit observed that in case of a taxpayer, under Pune-LTU-2 (GSTIN 27XXXXXXXXXX1ZD), the ITC available for the year 2018-19 in the Table 4G of GSTR 9 was ₹ 12.77 crore and the ITC availed in Table 6C, 6D and 6F of GSTR 9 was ₹ 19.73 crore, resulting in mismatch of ITC of ₹ 6.96 crore which was communicated to the Department (July 2023).

The Department stated (March 2025) that DRC 07 for ₹ 0.48 crore including interest and penalty was issued to the taxpayer (March 2024). Further progress was awaited (July 2025).

**(v) Mismatch in tax paid between books of accounts and returns**

In order to review the extent of identified mismatch in tax paid reported in the Annual Return *vis-à-vis* the Financial Statements, the relevant data points pertaining to Table 9 of the GSTR 9C reconciliation statement submitted by the taxpayer as required under rule 80(3) of MGST Rules for the years 2018-19 to 2020-21 was analyzed at data level.

Table 9R of the GSTR 9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return GSTR 9. The unreconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or *vice versa* or incorrect levy of MGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) in respect of the assessment year transactions carried out in the subsequent year from April to September. In order to rule out the possibility of incorrect disclosure of the tax paid amount in GSTR 9C, the amount was also compared with actual tax payment details in GSTR 9.

Audit observed that in case of a taxpayer under Mumbai-LTU-3 Division (GSTN 27XXXXXXXXXX1Z5), unreconciled payment of tax declared in Table 9R of GSTR 9C, was ₹ 11.15 crore and ₹ 0.19 lakh respectively for unsettled liabilities for the year 2019-20 and 2020-21, which was communicated to the Department (August 2023).

The Department stated (February 2024) that ADT 01 (notice for conduct of Audit) had been issued to the taxpayer (August 2023) for year 2019-20 and verification for the year 2020-21 was under process. Further progress was awaited (July 2025).

**(vi) Mismatch of ITC availed between Annual returns and Books of accounts**

In order to review the extent of identified mismatch in ITC availed figures reported in the Annual Return *vis-à-vis* the Financial Statements, the relevant datapoints pertaining to Table 12 of the GSTR 9C, reconciliation statement submitted by the taxpayer as required under Rule 80(3) of MGST Rules for the years 2018-19 to 2020-21, was analyzed at data level.

Table 12F of form GSTR 9C captures the unreconciled ITC between the annual return GSTR 9 and that declared in the Financial Statements for the year after the requisite adjustments. Table 12 deals with three aspects of ITC, ITC accounted in the books of accounts (Booked), ITC claimed in returns/ECL (Availed) and ITC utilized for payment (Utilised). Though there is no restriction on utilizing the ITC, the GST law imposes a restriction on the time period to avail the ITC. The unreconciled amount in Table 12F where the ITC claimed in GSTR 9 is more than ITC availed in Financial Statements indicates excess availing of ITC. Since the taxpayer has been provided with an option not to fill the Table 12B to 12C of GSTR 9C, only those cases where at least there is one entry in Table 12B to 12E were considered.

Audit observed that in case of a taxpayer under Pune-LTU-1 Division (GSTIN 27XXXXXXXXXX1Z8), unreconciled ITC of ₹ 11.54 crore declared in Table 12F of GSTR 9C for the year 2019-20, being ITC availed in GST returns in excess of eligible ITC based on AFS, was noticed and communicated to the Department (July 2023).

The Department stated (February 2024) that ADT 01 had been issued (October 2023) and verification was in progress. Further progress was awaited (July 2025).

**(vii) Reconciliation between ITC availed in Annual returns with expenses in financial statements**

In order to review the extent of identified mismatch in ITC reported in the Annual Return *vis-à-vis* the Financial Statements, the relevant data points pertaining to Table 14 of the GSTR 9C for the years 2018-19 to 2020-21 was analyzed at data level. Since the taxpayer has been provided with an option not to disclose the granular details, only those cases where at least one of the expenses was declared in Table 14 had been considered.

GSTR 9C for the period 2018-19 to 2020-21 was analyzed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the expenses reported in the AFS.

Audit observed that in case of a taxpayer under Mumbai-LTU-1 Division (GSTIN 27XXXXXXXXXX1ZN), unreconciled ITC of ₹ 11.89 crore was declared in Table 14T of GSTR 9C for the year 2018-19 being the mismatch in ITC reported in the Annual Return *vis-à-vis* the AFS. This was communicated to the Department (July 2023).

The Department stated (February 2024) that the Show Cause Notice in form DRC 01 was issued (December 2023) for ₹ 24.94 crore including interest to the taxpayer. Further progress was awaited (July 2025).

**(viii) Unsettled liabilities**

In order to analyse the undischarged tax liability, relevant data were extracted from GSTR 1 and GSTR 9 for the years 2018-19 to 2020-21 and the tax payable in these returns was compared with the tax paid declared in GSTR 9. Where GSTR 9 was not available, a comparison of tax payable between GSTR 1 and GSTR 3B was resorted to. The amendments and advance adjustments declared in GSTR 1 and GSTR 9 were also considered for this purpose. For the algorithm, Tables 4 to 11 of GSTR 1 and Tables 4N, 10 and 11 of GSTR 9 were considered. The greater of tax liability between GSTR 1 and GSTR 9 was compared with the tax paid declared in Tables 9 and 14 of GSTR 9 to identify the short payment of tax. In the case of GSTR 3B, Tables 6.1 minus Table 3.1(d) were taken into account.

Audit observed that in case of a taxpayer under Nashik Division (GSTIN 27XXXXXXXXXX1ZG), for the year 2018-19 and 2019-20, tax liability as per GSTR 1 was ₹ 36.20 crore and ₹ 17.90 crore while the tax liability as per GSTR 9 was ₹ 34.85 crore and ₹ 13.98 crore for the year 2018-19 and 2019-20 respectively. The greater liability was ₹ 36.20 crore and ₹ 17.90 crore as per GSTR 9. However, tax paid as per Table 9 of GSTR 9 was ₹ 32.50 crore and ₹ 8.81 crore for the year 2018-19 and 2019-20 respectively, resulting in mismatch between tax liability and tax payment of ₹ 3.70 crore and ₹ 9.09 crore respectively, which was communicated to the Department (July 2023).

The Department stated (February 2024) that DRC 07 was issued (September 2023) for ₹ 2.93 crore to the taxpayer for the year 2018-19 and DRC 07 was issued (October 2023) for ₹ 9.68 crore to the taxpayer for the year 2019-20.

**(ix) GSTR 3B was not filed but GSTR 1 was available**

Availability of GSTR 1 and non-filing of GSTR 3B indicates that the taxpayers had undertaken/carried on the business during the period but have not discharged their tax liability.

GSTR 3B return is the instrument through which the liability can be offset and ITC is credited in the ledger. It may also include cases of irregular passing on of ITC. At the data level, attempt was made to identify those taxpayers who have not filed GSTR 3B but have filed GSTR 1.

Audit observed that in case of a taxpayer under Thane Rural Division (GSTIN 27XXXXXXXXXX1ZG), did not file GSTR 3B in 2018-19 for four months<sup>39</sup>, though GSTR 1 was filed for these months. The non-filing of the GSTR 3B and consequent non-discharge of tax liability of ₹ 11.57 crore was communicated to the Department (July 2023).

The Department stated (June 2025) that DRC 07 was issued (April 2024) for ₹ 29.05 crore to the taxpayer.

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<sup>39</sup> December 2018, January 2019, February 2019 and March 2019.

**(x) Non/Short payment of interest**

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

The extent of short payment of interest on account of delayed remittance of tax during 2018-19 to 2020-21 was identified through the tax paid details in GSTR 3B and the date of filing of the GSTR 3B. The due date of filing of GSTR 3B for the respective months (including any extension provided) and the actual date of filing of GSTR 3B was taken into account to calculate the interest liability and only the net tax liability (cash component) was considered to work out the interest payable.

All the relaxations, and reduced rate of interest extended to the taxpayer during the COVID -19 Phase I from January to April 2020 and Phase II for March 2021 returns were also considered while working out the interest component. The interest was worked out to the extent the records were made available to Audit. As for the supplies made prior to the tax period and declared in the return for the said tax period, the interest was to be discharged on the entire tax component. Due to the non-availability of such bifurcation, the interest on such supplies was also worked out on the cash component.

Audit observed that in case of a taxpayer under Pune-LTU-1 Division (GSTIN 27XXXXXXXXXX1ZO), non/short payment of interest amounting to ₹ 11.72 crore on account of delayed remittance of tax of ₹ 187.08 crore during the year 2018-19<sup>40</sup> was identified using the tax paid details in GSTR 3B and the date of delayed filing of the GSTR 3B with ranging from 24 to 201 days.

This was communicated to the Department (August 2023). The Department stated (April 2025) that DRC 07 was issued (April 2024) for ₹ 11.67 crore.

**(xi) Mismatch in taxable turnover declared in Table 7G of GSTR 9C**

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

GSTR 9C for the period 2018-19 to 2020-21 was analysed at data level to review the extent of identified mismatch in taxable turnover reported in the Annual Return *vis-à-vis* the AFS. The unreconciled amount in cases where the turnover in GSTR 9 was less than the AFS, indicated non-reporting, under-reporting, short-reporting, omission, error in reporting of taxable supplies. It could also be on account of non-reporting of both taxable and exempted supplies.

Audit observed that in case of a taxpayer under Raigad Division (GSTIN 27XXXXXXXXXX1Z4), the unreconciled deviation was ₹ 2012.65 crore, ₹ 205.23 crore and ₹ 209.97 crore respectively for the years 2018-19, 2019-20 and 2020-21 in Table 7G of GSTR 9C, which was communicated to the Department (July 2023).

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<sup>40</sup> April 2018, May 2018, June 2018, July 2018, August 2018, September 2018 and October 2018.

The Department stated (August 2023) that taxpayers had been intimidated about the discrepancy and reply from the taxpayer was awaited. Further progress was awaited (July 2025).

**(xii) Under-declaration of taxable supplies by comparing TDS returns**

Section 51 of MGST Act mandates all Government agencies to deduct tax at the rate of one *per cent* from the payment made or credited to the supplier of taxable goods or services or both, where the total value of such supply, under a contract, exceeds rupees two lakh and fifty thousand Section 52 of MGST Act mandates that every electronic commerce operator shall collect an amount calculated at such rate not exceeding one *per cent*, as may be notified by the Government on the recommendations of the Council, of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator.

TDS<sup>41</sup> and TCS<sup>42</sup> details are declared in GSTR 7 and GSTR 8 by the deductors and auto-populated in GSTR 2A of the registered person towards TDS and TCS received. The cases where the taxable value declared on account of outward taxable supplies (other than zero rated, nil rated and exempted) in GSTR 3B were less than the net amount liable for TCS and TDS credit as per GSTR 2A were identified.

Audit observed that in case of a taxpayer under Aurangabad Division (GSTIN 27XXXXXXXXXX1Z2), the taxable value declared on account of outward taxable supplies (other than zero rated, nil rated and exempted) in GSTR 3B was Nil. However, the net amount liable for TDS credit received was ₹ 106.54 crore for the year 2019-20<sup>43</sup> as verified from the GSTR 2A resulting in mismatch of tax payment on value of ₹ 106.54 crore which was communicated to the Department (July 2023).

The Department stated (May 2025) that DRC 07 was issued (August 2024) for ₹ 16.32 crore including interest and penalty.

**3.2.9 Detailed Audit**

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight.

From an external audit perspective, audit is also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-Maharashtra data analysis, a detailed audit of GST returns was also conducted as a part of this SSCA. A risk-based sample of 100 taxpayers was selected for this part of the SSCA. The methodology adopted was to initially conduct a desk review of GST returns and Annual Financial Statements (AFS) filed by the taxpayers as part of the GSTR 9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags.

Based on desk review results, a detailed audit was conducted in the field formations by requisitioning corresponding granular records of taxpayers such

<sup>41</sup> TDS is the tax deducted at the source by the buyer while making payments to the supplier.

<sup>42</sup> TCS is the tax collected at the source by e-commerce operators.

<sup>43</sup> April 2019, May 2019, June 2019, August 2019, September 2019, October 2019 and March 2020.

as financial ledgers, invoices *etc.*, to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

Out of 100 sample taxpayers, in 38 taxpayers where records were produced, audit findings relating to GST returns filled by them disclosed compliance deviation in 20 cases with a revenue implication of ₹ 154.64 crore on account of non-payment of interest and misclassification of supply. This apart, mismatches in availing of ITC, discharge of tax liability and turnover were noticed in 119 cases involving mismatch of ₹ 6,666.10 crore, which are brought out below:

### **3.2.9.1 Scope limitation due to non-production of records**

During the desk review of taxpayers' records available in the back-end system, Audit identified the risks related to excess ITC and tax liability mismatches for detailed examination. However, in 62 out of 100 selected cases, the Department did not produce the corresponding granular records such as invoices, financial accounts, *etc.* required for examining the causative factors for mismatches of ITC and tax liability. Audit requisitioned these granular records of the taxpayers through the respective Charges. The jurisdiction-wise non-production of records is summarized in *Appendix 3.2.5*.

Thus, due to non-production of records, Audit was constrained in the conduct of the detailed audit of deviations relating to discharge of tax liability and availment of ITC. These deviations, noticed from the returns filed by the taxpayers, are reported as 'Mismatch', in paragraphs 6.3.4 and 6.3.5.

On being pointed out to the Government (February 2025), the Government stated (June 2025) that compliances have been made for 50 cases shown as pending.

Reply is not tenable as only in seven cases partial records were provided. These few records were also submitted only after the completion of audit. Thus, Audit could not scrutinise the records.

### **3.2.9.2 Non-payment of interest by taxpayers**

As per Section 50 (1) of MGST Act, every person, who is liable to pay tax in accordance with the provisions of this Act or the Rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall pay for the period for which the tax or any part thereof remains unpaid, on his own with interest at such rate, not exceeding eighteen *per cent*, as may be notified by the Government on the recommendations of the GST Council. As per notification<sup>44</sup> the rate of interest for delayed payment of tax is 18 *per cent*. A concession in the rate of interest was given for four months by two<sup>45</sup> notifications.

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<sup>44</sup> Notification No. MGST-1017/C.R. 103(20)/Taxation-1 dated 29 June 2017.

<sup>45</sup> As per notification No. 51/2020 - State Tax dated 1 July 2020, rate of interest for February 2020 to April 2020 was nil for first 15 days and thereafter at the rate of 9 per cent for taxpayers having an aggregate turnover of more than ₹ 5 crore in the preceding financial year. For taxpayers having an aggregate turnover upto ₹ 5 crore, rate of interest was nil and 9 *per cent* subject to condition of notifications (Notification No. 51/2020 dated 1 July 2020).

As per notification No. 08/2021 - State Tax dated 6 May 2021, rate of interest for March 2021 was 9 *per cent* for first 15 days, and thereafter 18 *per cent* for taxpayers having an aggregate turnover of more than ₹ 5 crore in the preceding financial year. For taxpayers having an aggregate turnover of upto ₹ 5 crore, the rate of interest was nil for the first 15 days from the due date, 9 per cent for the next 15 days, and 18 *per cent* thereafter (Notification No. 8/2021 dated 6 May 2021).

Audit observed that out of 38 taxpayers, 19 taxpayers had filed their monthly GSTR 3B returns belatedly but the interest amounting to ₹ 1.04 crore was not paid (**Appendix 3.2.6**).

On being pointed out (September 2023 to January 2024), the Department reported recovery of ₹ 0.11 crore in eight<sup>46</sup> cases at the instance of audit. In five<sup>47</sup> cases, department issued DRC 01/DRC 07/ASMT 10 (notice intimating discrepancies). In remaining six<sup>48</sup> cases reply was awaited (June 2025).

One case is illustrated below:

A taxpayer (GSTIN 27XXXXXXXXXX1ZF) under Charge Mulund West-502 of Mulund Division had filed the monthly returns GSTR 3B for the financial year 2018-19, 2019-20 and 2020-21 belatedly in 34 out of 36 months and paid the tax dues in these returns by debiting the cash ledger in 25 months. However, the interest amounting to ₹ 55.79 lakh was not paid by the taxpayer.

This was pointed out in October 2023, but the reply from the department was awaited (July 2025).

### 3.2.9.3 Misclassification of supply

Section 8(a) of the MGST Act provides that the tax liability on a composite supply comprising two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply and tax liability for entire supply would be same as principal supply. Section 2(30) defines “composite supply” as supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

Audit observed (September 2023) that a taxpayer (GSTIN 27XXXXXXXXXX1Z9) falling under the Charge Mumbai-LTU-512 in Mumbai LTU-1 Division is engaged in supplying services of Storage Warehousing Services, Other Support Services and Goods Transport Agency (GTA). The taxpayer provided various services to the five companies of a Group. A sample contract between the taxpayer and one<sup>49</sup> of the companies revealed that the taxpayer agreed to provide services for receiving, storing the goods at warehouse and delivering the goods. The taxpayer charged the GST at 18 *per cent* on warehousing and other support services, but charged transport services at five *per cent*, declaring the same as GTA service. As the GTA was ancillary service to the principal service *i.e.* Storage Warehousing Service, tax was required to be charged at 18 *per cent* on entire component of services. This resulted in short discharge of tax of ₹ 153.60 crore as detailed **Table-11**.

<sup>46</sup> Sr. No. 2, 5, 6, 7, 8, 9, 11 and 12 of Appendix 3.2.6.

<sup>47</sup> Sr. No. 1, 4, 10, 15 and 18 of Appendix 3.2.6.

<sup>48</sup> Sr. No. 3, 13, 14, 16, 17 and 19 of Appendix 3.2.6.

<sup>49</sup> Company A.

Table-11: Misclassification of supply

(₹ in crore)

Trade name	Period	No. of Invoice	Taxable value	GST charged 5%	GST payable 18%	Short discharge of GST
Company A	2018-19 to 2020-21	17891	1020.33	51.02	183.64	132.62
Company B	2018-19 to 2020-21	89	16.78	0.82	3.02	2.20
Company C	2018-19 to 2020-21	30507	87.94	4.40	15.84	11.44
Company D	2018-19 to 2020-21	475	55.29	2.76	9.96	7.20
Company E	2018-19 to 2020-21	556	1.07	0.06	0.20	0.14
<b>Total</b>		<b>49518</b>	<b>1181.41</b>	<b>59.06</b>	<b>212.66</b>	<b>153.60</b>

On being pointed out (between September 2023 and October 2024), the Department stated (October 2024) that the taxpayer provides various services *i.e.* GTA, storage and warehousing and other support services to various customers and has executed separate agreements for each service with its customers. It further stated that warehouse services are incidental and ancillary to GTA services and GTA was the principal service.

The reply is not acceptable as there is no separate agreement for GTA services and warehouse services. As per the sample agreement between the taxpayer and the Company A, the principal service is warehouse service. Therefore, the services rendered by the taxpayer are in the nature of composite supply and GST is required to be charged at 18 *per cent* on all the services.

#### 3.2.9.4 Mismatch in availing of ITC

Audit analysed GSTR 2A returns of selected taxpayers along with GSTR 3B, GSTR 9 and GSTR 9C returns filed by the taxpayers and noticed mismatches between ITC availed and ITC available under RCM, ISD, import of goods and all other ITC claimed in the returns. However, facts and figures of the returns could not be verified due to non-production of granular records like purchase invoices, purchase register and suppliers' ledger, ISD invoices, bills of entries *etc.* The details of mismatches of ITC noticed in returns are enumerated in **Table-12:**

Table-12: Mismatch in availing of ITC

(₹ in crore)

Sl. No.	Parameter	No. of cases	No. of Divisions	Amount of mismatch
1	<b>Mismatch of ITC as per Table 8D of GSTR 9:</b> Table-8D of GSTR 9 captures the difference between ITC available as per GSTR 2A and that of availed as per GSTR 3B with subsequent period's adjustments. The negative figure in table-8D of GSTR 9 indicates that ITC is availed in excess to eligible ITC ( <i>Appendix 3.2.7</i> ).	56	20	1062.42
2	<b>Mismatch in reversal of ITC (Inputs/ Input services and Capital goods):</b> The ITC attributable to exempted/Nil supplies was worked out from GSTR 9 and compared with reversal made in GSTR 9 ( <i>Appendix 3.2.8</i> ).	14	9	120.63
3	<b>Mismatch in availment of ITC under RCM:</b> ITC availed under RCM as per Table 6C+6D+6F of GSTR 9 was compared with the tax paid under RCM as per Table 6.1B of GSTR 3B ( <i>Appendix 3.2.9</i> ).	5	5	0.95

Sl. No.	Parameter	No. of cases	No. of Divisions	Amount of mismatch
4	<b>Mismatch in availing of ITC distributed by Input Service Distributor (ISD):</b> ITC availed in respect of ISD in Table 6G of GSTR 9 was compared with the ITC available on account of ISD in GSTR 2A ( <i>Appendix 3.2.10</i> ).	2	2	71.57
5	<b>Mismatch in ITC availed between Annual returns and AFS:</b> Table 12F of GSTR 9C captures the unreconciled ITC between ITC availed in GSTR 9 and ITC availed as per the audited Financial Statement. More ITC claimed in annual return (Table 12E of GSTR 9C) indicates excess availment of ITC ( <i>Appendix 3.2.11</i> ).	3	3	67.12
	<b>Total</b>	<b>80</b>		<b>1322.69</b>

The replies (between November 2023 and June 2025) of the Department in above mismatches were as under:

**(1) Mismatch of ITC as per Table 8D of GSTR 9:**

Out of 56 cases, replies were received in 33 cases. In six<sup>50</sup> cases, an amount of ₹ 1.68 crore was recovered vide DRC 03; in 12<sup>51</sup> cases, DRC 07 was issued and in two<sup>52</sup> cases, DRC 01 was issued; in one<sup>53</sup> case, ASMT 10 was issued; in one<sup>54</sup> case, the Department stated that taxpayer was selected for audit; and in one<sup>55</sup> case, the Department stated that the case was under examination. In three<sup>56</sup> cases, the Department gave reasons for mismatches but the same could not be verified due to not providing the supporting records. In seven<sup>57</sup> cases, the Department had taken part action for different years by way of issue of DRC 03/ DRC 07/ DRC 01/DRC 01A/ ASMT 10/ reversal of ITC/ initiation of audit *etc.* In remaining 23 cases, replies were awaited.

**(2) Mismatch in reversal of ITC (Inputs/ Input services and Capital goods):**

Out of 14 cases, reply was received in three cases. In one<sup>58</sup> case, the Department stated (May 2025) that the taxpayer paid ₹ 2.00 lakh through DRC 03 (August 2024). In one<sup>59</sup> case, the Department stated (May 2025) that DRC 01A has been issued (May 2025) to the taxpayer. In one<sup>60</sup> case, the Department stated that out of the total ITC available of ₹ 4,359.78 crore, taxpayer had reversed ITC of ₹ 4,278.13 crore and remaining credit of ₹ 81.66 crore was rightly availed. The reply could not be verified as supporting

<sup>50</sup> Serial Nos. 11, 12, 19, 21, 25 and 28 of Appendix 3.2.7

<sup>51</sup> Serial Nos 1, 7, 8, 13, 15, 16, 26, 29, 37, 38, 41 and 54 of Appendix 3.2.7

<sup>52</sup> Serial Nos. 4 and 23 of Appendix 3.2.7

<sup>53</sup> Serial No 10 of Appendix 3.2.7

<sup>54</sup> Serial No 2 of Appendix 3.2.7

<sup>55</sup> Serial No 24 of Appendix 3.2.7

<sup>56</sup> Serial Nos. 17, 18 and 20 of Appendix 3.2.7

<sup>57</sup> Serial Nos. 5, 22, 46, 47, 52, 53 and 56 of Appendix 3.2.7

<sup>58</sup> Serial No. 3 of Appendix 3.2.8

<sup>59</sup> Serial No. 8 of Appendix 3.2.8

<sup>60</sup> Serial No. 6 of Appendix 3.2.8

records indicating ITC required to be reversed were not provided to Audit. In remaining 11 cases, replies were awaited.

### **(3) Mismatch in availment of ITC under RCM:**

Out of five cases, reply was received in two cases. In one case<sup>61</sup>, the excess ITC of ₹ 77.62 lakh had been paid by the taxpayer vide DRC 03 (December 2023). In the second case<sup>62</sup>, it was stated that as per reconciliation provided by the taxpayer total liability paid during the year 2018-19 to 2020-21 was ₹ 25.54 lakh whereas ITC under RCM taken was ₹ 24.49 lakh only. The reply could not be verified as year-wise figures provided by the Department did not match with figures of respective years in the returns. In remaining three cases, the replies were awaited.

### **(4) Mismatch in availing of ITC distributed by ISD:**

In one<sup>63</sup> case, the Department stated (May 2025) that the DRC 07 has been issued for excess ITC of ₹ 13.83 lakh along with interest of ₹ 12.45 lakh for the year 2019-20 while there was no excess availment of ITC for the year 2020-21. However, out of mismatch of ₹ 32.53 crore for the year 2019-20, DRC 07 was issued for ₹ 13.83 lakh. No explanation / supporting documents were provided. In other case, the Department stated (November 2024) that DRC 07 had been issued (August 2024) for an amount of ₹ 8.31 crore.

### **(5) Mismatch in ITC availed between Annual returns and AFS:**

Out of three cases, replies were received in two cases. In one case<sup>64</sup>, the Department stated (January 2024) that DRC 07 had been issued (August 2024) for ₹ 2.67 lakh including interest and penalty. In other case<sup>65</sup>, the Department stated (April 2025) that audit of the taxpayer was conducted and DRC 07 was issued (April 2024) to the taxpayer. The reply was not tenable as the DRC 07 did not cover the issue raised by Audit.

#### **3.2.9.5 Mismatch in discharge of tax liability**

The taxable event in the case of GST is the supply of goods and/or services. Section 9 of the MGST Act is the charging section authorizing levy and collection of tax called Central/State Goods and Services Tax on all intra-State supplies of goods or services or both, except on supply of alcoholic liquor for human consumption, on value determined under Section 15 of the Act *ibid* and at such rates not exceeding 20 *per cent* under each Act, *i.e.*, CGST and MGST Act. Section 5 of the IGST vests levy and collection of IGST on interstate supply of goods and services with Central Government with maximum rate of 40 *per cent*. Section 9(4) of the MGST Act and sections 5(3) and 5(4) of the IGST Act provide for reverse charge levy on certain goods or services, wherein the recipient instead of supplier becomes liable to pay tax.

<sup>61</sup> Serial No 5 of Appendix 3.2.9

<sup>62</sup> Serial No. 1 of Appendix 3.2.9

<sup>63</sup> Serial No. 1 of Appendix 3.2.10

<sup>64</sup> Serial No 1 of Appendix 3.2.11

<sup>65</sup> Serial No 2 of Appendix 3.2.11

Audit scrutinized GSTR 1, GSTR 3B and GSTR 9 returns filed by the taxpayers and noticed mismatch between tax liability and payment of tax by comparing the tax liability disclosed by the taxpayers and tax paid. However, facts and figures of the returns could not be verified due to non-production of granular records like invoices for outward supplies, debit and credit notes issued, details of supplies on which tax paid on reverse charge mechanism, documents related to export, exempted supplies *etc.* The details of mismatches of tax liability and tax payment, noticed from returns, are provided in **Table-13**.

**Table-13: Mismatch related to discharge of tax liability.**

(₹ in crore)				
Sr. No.	Parameter	No. of cases	No. of Divisions	Amount of mismatch
1	<b>Mismatch in turnover between Annual return and AFS</b> Negative figure in Table-7G of GSTR 9C captures unreconciled taxable turnover between annual return and AFS.	1 <sup>66</sup>	1	16.56
2	<b>Un-discharged tax liability:</b> Tax payable in GSTR 9 (Tables 5N + 10 -11 of GSTR 9 was compared with the tax paid declared in GSTR 9 (Tables 9 and 14) to identify the mismatch in payment of tax ( <i>Appendix 3.2.12</i> ).	14	7	32.64
3	<b>Mismatch in turnover depicted in GSTR 9 and AFS</b> Table 5A of GSTR 9C is for the turnover as per audited AFS and Table 5O of GSTR 9C is for adjustments in turnover due to reasons not listed in Tables 5B to 5N. A negative entry in table 5O indicates possible reduction in the turnover of the returns ( <i>Appendix 3.2.13</i> ).	24	11	5294.21
	<b>Total</b>	<b>39</b>		<b>5343.41</b>

The replies (between November 2023 and June 2025) of the Department in above mismatches were as under:

**(1) Mismatch in turnover between Annual return and AFS:**

In the case, DRC 07 was issued for ₹ 16.56 crore.

**(2) Un-discharged tax liability:**

Out of 14 cases, reply was received in six cases. Out of these six cases, in one<sup>67</sup> case, the Department stated (April 2025) that the taxpayer has paid ₹ 69.27 lakh through DRC 03 (December 2023); in three cases<sup>68</sup>, DRC 07 was issued; in one case<sup>69</sup>, DRC 01 was issued (December 2023) for the year 2018-19 and for the year 2019-20, reply was awaited; and in one case<sup>70</sup>, ADT 01 was issued (December 2023). In remaining eight cases, replies were awaited.

<sup>66</sup> GSTIN 27XXXXXXXXXX1ZS)

<sup>67</sup> Serial no. 3 of Appendix 3.2.12

<sup>68</sup> Serial no. 6, 9 and 10 of Appendix 3.2.12

<sup>69</sup> Serial no. 8 of Appendix 3.2.12

<sup>70</sup> Serial no. 1 of Appendix 3.2.12

### (3) Mismatch in turnover depicted in GSTR 9 and AFS:

Out of 24 cases, reply was received in four cases. In one<sup>71</sup> case, the Department stated (April 2025) that for the year 2020-21, the taxpayer paid ₹ 1.90 crore through DRC 03 (February 2025) and for the year 2019-20, reply was awaited. In one<sup>72</sup> case, the Department stated (May 2025) that DRC 07 had been issued (January 2025) for ₹ 65.59 lakh including interest. In one<sup>73</sup> case, the Department stated (April 2025) that the issue was verified during the audit of the taxpayer and after verification of taxpayers reply for the year 2019-20 and 2020-21, the issue was closed. Audit could not verify the reply as supporting documents were not furnished. In one case<sup>74</sup>, the Department stated (April 2025) that the taxpayer submitted appropriate reasons for adjustments in turnover in Table 5O of GSTR 9C for the years 2019-20 and 2020-21 alongwith its reconciliation and the same was verified. The reply of the Department could not be verified as supporting records were not furnished in support of the reply. In remaining 20 cases, replies were awaited.

#### 3.2.10 Conclusion

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2018-19 to 2020-21. The SSCA entailed assessing the oversight functions of State jurisdictional formation at two levels *viz.* at the data level through data queries and at the functional level with detailed audit of the GST returns and audit of Charges.

A review of the functions of 10 Charges for the year 2020-21 disclosed that there were deficiencies in oversight functions of Charges such as Scrutiny of returns, Audit cancellation of registration and non-filing of GSTR 10.

Further, out of the 718 high value data inconsistencies identified by Audit, the Department responded to 623 cases. Of these 145 cases relating to ITC/Tax payment and 11 cases relating to turnover mismatches turned out to be compliance deficiencies with amount of mismatches of ₹ 1055.43 crore and ₹ 2793.62 crore respectively. Relatively higher rates of deviations were noticed in non/short payment of interest, mismatch between GSTR 2A and GSTR 3B, ITC availed in GSTR 3B filed after the cut-off period and non-filing of GSTR 3B.

Detailed audit of GST returns also identified significant non-compliance. Out of 100 cases, in 62 cases, granular records such as financial statements, supplementary financial ledgers, invoices, agreement copies *etc.* were not produced, which constituted a significant scope limitation. These cases represented potential risk exposure towards identified mismatches in ITC availment and tax payments. Out of the 100 taxpayers whose records/returns were examined, Audit observed compliance deficiencies in 20 cases with a revenue implication of ₹ 154.64 crore on account of non-payment of interest and misclassification of supply. This apart, mismatches in availing ITC,

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<sup>71</sup> Serial no. 3 of Appendix 3.2.13

<sup>72</sup> Serial no. 10 of Appendix 3.2.13

<sup>73</sup> Serial no. 13 of Appendix 3.2.13

<sup>74</sup> Serial no. 8 of Appendix 3.2.13

discharge of tax liability and turnover were noticed in 119 cases involving mismatch of ₹ 6,666.10 crore.

**3.2.11 Recommendation**

The Government may expeditiously address the deviations in the Department's Oversight of GST Payments and Return Filing, as highlighted by the audit and intimate the results to audit.



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**Nagpur**  
**The 23 December 2025**

**Countersigned**



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

**New Delhi**  
**The 13 January 2026**