

Chapter I
Revenue Sector

Chapter-I

Revenue Sector

1.1 Introduction

1.1.1 Trend of revenue receipts

The Tax and Non-Tax Revenue raised by the Government of National Capital Territory of Delhi (GNCTD) during the year 2021-22, Grants-in-Aid received from the Government of India (GoI) during the year and the corresponding figures for the preceding four years are depicted in **Table-1.1.1**.

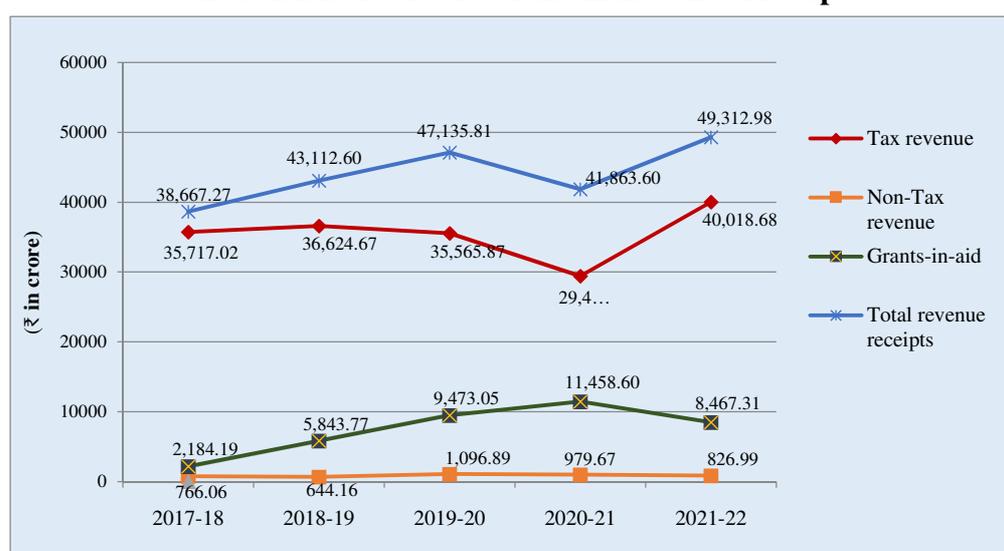
Table-1.1.1: Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Revenue raised by GNCTD					
	Tax revenue	35,717.02	36,624.67	36,565.87	29,425.33	40,018.68
	Non-tax revenue	766.06	644.16	1,096.89	979.67	826.99
	Total	36,483.08	37,268.83	37,662.76	30,405.00	40,845.67
2	Receipts from the Government of India					
	Grants-in-aid	2,184.19	5,843.77	9,473.05	11,458.60	8,467.31
3	Total revenue receipts of the GNCTD (1 and 2)	38,667.27	43,112.60	47,135.81	41,863.60	49,312.98
4	Percentage of 1 to 3	94	86	80	73	83

Source: Finance Accounts of GNCTD

The year-wise trend in Revenue Receipts during 2017-18 to 2021-22 is depicted in **Chart-1.1.1**.

Chart-1.1.1: Year-wise trend in Revenue Receipts



Revenue Receipts increased by 27.53 per cent from ₹ 38,667 crore in 2017-18 to ₹ 49,313 crore in 2021-22 at an average annual growth rate of eight per cent

out of which GNCTD's Revenue Receipts (Tax and Non-Tax) increased by ₹ 10,440.67 crore (34.34 per cent) in 2021-22 in comparison to the previous year.

During 2021-22, Revenue Receipts increased by 17.79 per cent over the previous year, mainly due to increase in Own Tax Revenue by ₹ 10,594 crore (36 per cent).

The share of GNCTD's Tax Revenue Receipts to total Revenue Receipts decreased from 92.37 per cent in 2017-18 to 81.15 per cent in 2021-22. During 2017-18, about 94.35 per cent of Revenue Receipts came from GNCTD's own resources while Grants-in-Aid contributed 5.65 per cent. In the year 2021-22, about 82.83 per cent of Revenue Receipts came from GNCTD's own resources while Grants-in-Aid contributed 17.17 per cent.

• **Analysis of Tax revenue**

The details of Tax Revenue raised during the period 2017-18 to 2021-22 are given in **Table-1.1.2**.

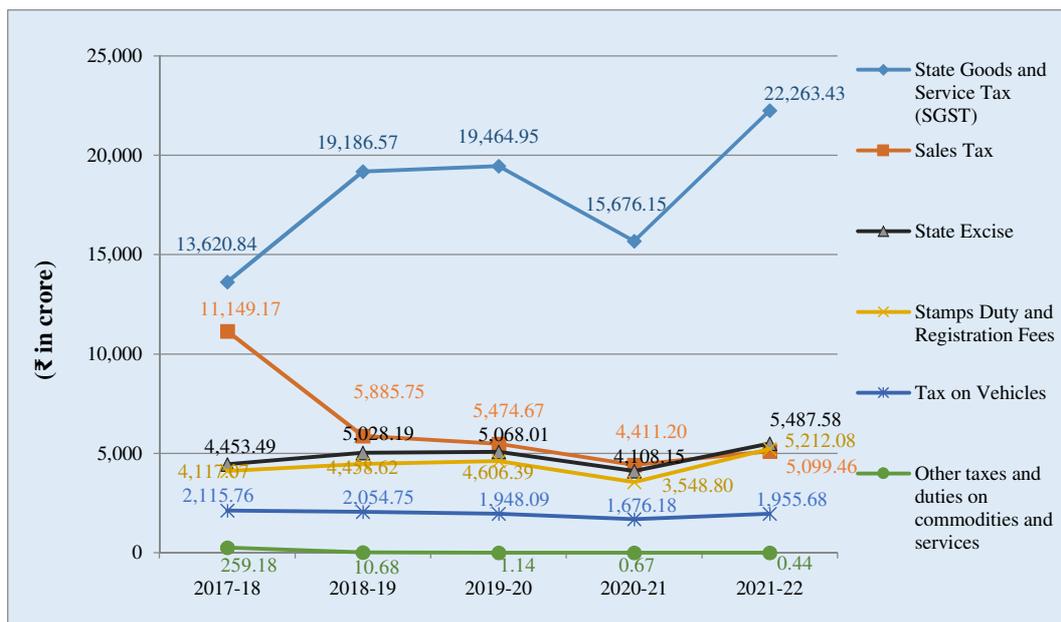
Table-1.1.2: Details of Tax Revenue raised

(₹ in crore)							
Sl. No.	Head of revenue	2017-18 (percentage of total tax revenue)	2018-19 (percentage of total tax revenue)	2019-20 (percentage of total tax revenue)	2020-21 (percentage of total tax revenue)	2021-22 (percentage of total tax revenue)	Percentage of increase (+) or decrease (-) in actual of 2021-22 over 2020-21
1	State Goods and Service Tax (SGST)	13,620.84 (38.14)	19,186.57 (52.39)	19,464.95 (53.23)	15,676.15 (53.27)	22,263.43 (55.63)	42.02
2	Sales Tax	11,149.17 (31.22)	5,885.75 (16.07)	5,474.67 (14.97)	4,411.20 (14.99)	5,099.46 (12.74)	15.60
3	State Excise	4,453.49 (12.47)	5,028.19 (13.73)	5,068.01 (13.86)	4,108.15 (13.96)	5,487.58 (13.71)	33.58
4	Stamps and Registration Fees	4,117.07 (11.53)	4,458.62 (12.17)	4,606.39 (12.60)	3,548.80 (12.06)	5,212.08 (13.02)	46.87
5	Tax on Vehicles	2,115.76 (5.92)	2,054.75 (5.61)	1,948.09 (5.33)	1,676.18 (5.70)	1,955.68 (4.89)	16.67
6	Other taxes and duties on commodities and services	259.18 (0.73)	10.68 (0.03)	1.14 (0.003)	0.67 (0.002)	0.44 (0.001)	-34.33
7	Land Revenue	1.51 (0.004)	0.11 (0.0003)	2.62 (0.007)	4.18 (0.014)	0.01 (0.00002)	-99.76
Total Tax Revenue		35,717.02	36,624.67	36,565.87	29,425.33	40,018.68	

Source: Finance Accounts of GNCTD

Year-wise trend of various Tax Revenues is depicted in **Chart-1.1.2**.

Chart-1.1.2: Year-wise trend of Tax Revenues



The major contribution to Revenue Receipts was from State Goods and Service Tax (SGST) which increased by ₹ 6,587.28 crore (42.02 per cent) in 2021-22 over the previous year. The actual receipts for the year 2021-22 under the heads ‘State Excise’, ‘Stamps and Registration Fees’ and ‘Tax on Vehicles’ increased by ₹ 1,379.43 crore (33.58 per cent), ₹ 1,663.28 crore (46.87 per cent) and ₹ 279.50 crore (16.67 per cent) respectively while receipts under the heads ‘Land Revenue’ decreased by ₹ 4.17 crore (99.76 per cent) over the previous year. After subsuming of Betting, Luxury and Entertainment Tax in GST, tax receipts under the head ‘Other taxes and duties on commodities and services’ reduced to ₹ 0.44 crore in 2021-22 from ₹ 259.18 crore in 2017-18.

The respective Departments reported the following reasons for variation during the year 2021-22:

SGST/ Sales Tax

The Department stated that the revenue has increased as most of the restrictions imposed due to the Covid-19 pandemic were lifted.

State Excise

The Department stated that collection of revenue during the year 2021-22 increased significantly (33.58 per cent) over the previous year primarily due to lifting of restrictions on account of Covid-19 pandemic.

Tax on Vehicles

The Department stated that increase in revenue collection was primarily due to increase in registration of new vehicles in Delhi.

Land Revenue

Land and Building Department is not a regular collector of land revenue. However, as per the directions of Hon'ble Court, this Department receives money on account of land revenue.

Stamp Duty and Registration Fees

The Department did not furnish the reasons for increase/decrease of revenue.

- **Analysis of Non-tax revenue:**

The details of Non-Tax Revenue raised during the period 2017-18 to 2021-22 are indicated in **Table-1.1.3**.

Table-1.1.3: Details of Non-tax Revenue raised

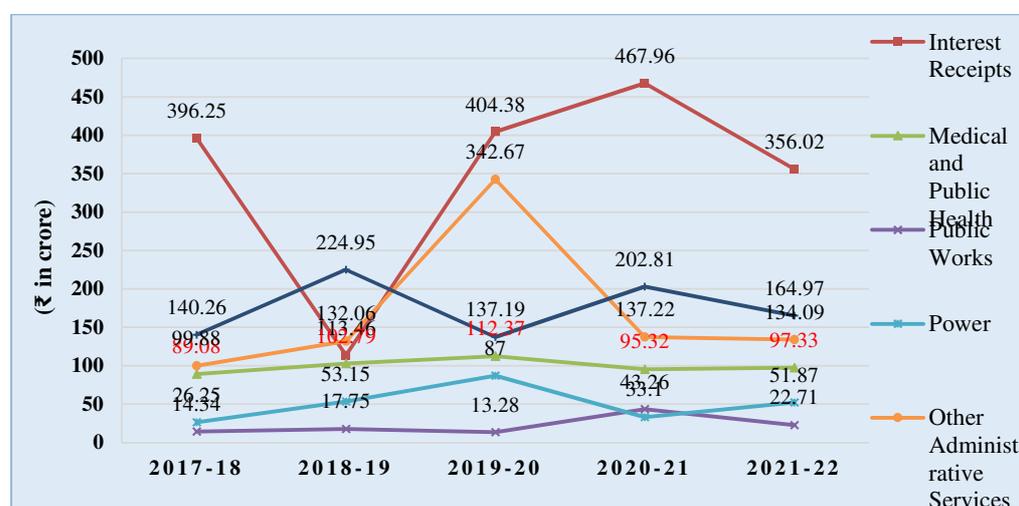
(₹ in crore)

Sl. No	Head of Revenue	2017-18	2018-19	2019-20	2020-21	2021-22	Percentage of increase (+) or decrease (-) in Actual of 2021-22 over 2020-21
1	Interest Receipts	396.25	113.46	404.38	467.96	356.02	-23.92
2	Medical and Public Health	89.08	102.79	112.37	95.32	97.33	2.11
3	Public Works	14.34	17.75	13.28	43.26	22.71	-47.50
4	Power	26.25	53.15	87.00	33.10	51.87	56.71
5	Other Administrative Services	99.88	132.06	342.67	137.22	134.09	-2.28
6	Other Non-tax Receipts	140.26	224.95	137.19	202.81	164.97	-18.66
Total		766.06	644.16	1096.89	979.67	826.99	

Source: Finance Accounts of GNCTD

Year-wise trend of various Non-Tax Revenues is depicted in **Chart-1.1.3**.

Chart-1.1.3: Year-wise trend of various Non-Tax Revenue



The Non-Tax Receipts of the GNCTD fluctuated over the period 2017-18 to 2021-22. It decreased by 15.58 *per cent* in 2021-22 over the revenue received in 2020-21. The major contribution in Non-Tax Revenue receipts was from 'Interest Receipts' and 'Other Administrative Services' which decreased by ₹ 111.94 crore (23.92 *per cent*) and ₹ 3.13 crore (2.28 *per cent*) respectively during the current year over the previous year.

Revenue Receipts under the head 'Medical and Public Health' and 'Power' for the year 2021-22 increased by ₹ 2.01 crore (2.11 *per cent*), ₹ 18.77 crore (56.71 *per cent*) respectively over the previous year while receipts under the head 'Public works' decreased by ₹ 20.55 crore (47.50 *per cent*).

The respective Departments reported the following reasons for variation during the year 2021-22:

Interest Receipts

Department of Power stated that the Department on behalf of GNCTD had provided loan to Delhi Transco Limited (DTL), Indraprastha Power Generation Company Limited (IPGCL) and Pragati Power Corporation Limited (PPCL) for functional requirements. The Department further stated that DTL has informed that all principal due and interest thereon was paid upto 2020-21. PPCL made payment of arrears of interest in the year 2020-21, however, it was facing shortage of funds in finance year 2021-22.

Power

Revenue Receipts increased due to receipt of license fee of financial year 2020-21 in 2021-22.

Other Administrative services

The variation in Receipts is mainly due to less realisation of receipts on account of other services pertaining to Home Guards and other receipts pertaining to Courts/Election.

Remaining Departments had not furnished the reasons of increase/decrease of Non-Tax Revenue.

1.1.2 Arrears of revenue

Arrears of revenue indicate delayed realisation of revenue due/payable to the Government. The details of arrears of revenue as on 31 March 2022 under the Major Head '0040-Taxes on Sales, Trade', etc., as per information furnished by the Department of Trade and Taxes, GNCTD amounted to ₹ 71,475 crore, of which ₹ 25,248 crore was outstanding for more than five years.

1.1.3 Response of the Government/Departments to Audit

The Principal Accountant General (Audit), Delhi (PAG) conducts periodical inspection of the Government Departments to test-check transactions and verify maintenance of accounts and other records as prescribed in the rules and procedures. These inspections are followed up through Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance to the PAG within four weeks from the date of receipt of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

The summarised position of the IRs issued during the last 10 years, paragraphs included in these Reports and their status as on 31 March 2022 is depicted in **Annexure 1.1**.

The number of pending paras increased from 10,144 (427 IRs) involving an amount of ₹ 9,858.65 crore in 2012-13 to 10,148 (999 IRs) involving money value of ₹ 7,840.36 crore at the end of the year 2021-22 which indicates that the Departments did not take adequate steps to settle the outstanding paragraphs.

This large pendency of paras due to non-receipt of replies is indicative of the fact that the Heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Audit in the IRs. Lack of executive action on Audit Observations weakens accountability and raises the risk of avoidable loss of revenue. The large number of pending audit paragraphs merits the attention of the Government to ensure effective mechanisms to regularly monitor and review the compliance and settlement of audit observations.

- **Departmental Audit Committee Meetings**

The Government sets up Audit Committees to monitor and expedite the progress of settlement of Audit Paragraphs in the IRs. However, no Audit Committee Meeting was held by the Departments during the year 2021-22.

- **Non-production of records to Audit for scrutiny**

As per Section 18 (1) (b) of CAG's DPC Act, 1971, any accounts, books, papers and other documents which deal with or form basis or are otherwise relevant to the transactions to which his duties in respect of audit extended, shall be sent to such place as he may appoint for his inspection. The programme of local audit of Tax Revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the Departments to enable them to keep the relevant records ready for audit scrutiny.

Primary records of the dealers were available in the DVAT system of the Department of Trade and Taxes, however, in some cases these records were not considered sufficient for any audit conclusion. Audit requisitioned physical records of 124 dealers during the year 2021-22 for intensive scrutiny but the Department did not provide these records (100 per cent) which is a violation of CAG's powers provided under Section 18 (1) (b) of DPC Act, 1971. Consequently, the revenue involved in these cases could not be ascertained. Department of Revenue provided records of 100 per cent cases requisitioned whereas Transport Department provided records of 129 out of 160 requisitioned cases (81 per cent) during the year 2021-22.

- **Follow up on Audit Reports – summarised position**

To ensure accountability of the executives to the issues dealt with in various Audit Reports, the Administrative Departments are to issue *suo-motu* Action Taken Notes (ATNs) on all Audit Paragraphs and Performance Audits featuring in the Audit Reports irrespective of the fact whether these are taken up for discussion by the Public Accounts Committee (PAC) or not. These ATNs are to be submitted to the PAC duly vetted by the Principal Accountant General (Audit), Delhi within a period of four months from the date of presentation of Audit Reports in the Legislative Assembly of Delhi.

However, ATNs on the Reports were delayed in respect of 30 paragraphs included in the Reports of the CAG of India on the Revenue Sector of the GNCTD for the years ended 31 March 2017, 2018 and 2019 placed before the State Legislative Assembly between April 2018 and July 2022. Report for the years ended 31 March 2020 and 2021 has not been laid before the State Legislative Assembly till September 2024. The ATNs from the concerned Departments were received late with an average delay of six months in respect of each of these Audit Reports. ATNs in respect of 13 paragraphs of the Audit Reports for the year ended 31 March 2017, 2018, 2019, 2020 and 2021 had not been received from the Departments as depicted in **Table-1.1.4**.

Table-1.1.4: Details of Paragraphs, Performance Audits and the ATNs

Sl. No.	Year of Report ending 31 March	Number of Paragraphs and Performance Audits printed in Report	Number of Paragraphs and Performance Audits for which ATNs were awaited
1.	2017	7+0 (PA)	0+0 (PA)
2.	2018	8+0 (PA)	0+0 (PA)
3.	2019	7+0 (PA)	5+0(PA)
4.	2020	8+0 (PA)	8+0(PA)
5.	2021		
Total		30+0(PA)	13+0 (PA)

PAC did not discuss paragraphs/PA pertaining to Revenue Sector of the Audit Reports for the period 2016-17 to 2020-21.

1.1.4 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Departments and the amount recovered are depicted in **Annexure 1.2**.

The reports for the year 2011-12 to 2020-21 contained audit findings involving ₹ 4,920.71 crore, out of which, observations involving money value of ₹ 706.89 crore were accepted by the Departments. However, only an amount of ₹ 1.53 crore (0.22 per cent) was recovered by the Department as of 31 March 2022 which was negligible. The meagre amount of recovery depicts lackadaisical approach of the Department and poor monitoring.

Recommendation: Departments may consider fixing responsibility of all the Officers who have failed to effect recovery in accepted cases.

1.1.5 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The Annual Audit Plan is prepared on the basis of a risk analysis which takes into account matters highlighted in the budget speech, White paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during the past five years.

There were 165 auditable units¹ of which 14 units² were audited during the year 2021-22

1.1.6 Results of Audit

Position of local audits conducted during the year 2021-22

Audit of 14 units out of 165 auditable units involving tax revenue receipts of ₹ 8,149.12 crore was conducted during the year 2021-22. Test-check of records revealed non/short levy of tax/fees and other irregularities involving ₹ 1,930.11 crore in 93 paragraphs as categorised in **Table-1.1.5**. The concerned Departments accepted under-assessment and other deficiencies of ₹ 95.62 crore.

¹ GST/VAT-126, Stamp Duty and Registration Fees-22, Motor Vehicles Tax-16, State Excise-1

² GST/VAT-2, State Excise-1, Stamp Duty and Registration Fees-5, Motor Vehicles Tax-6

Table-1.1.5: Category-wise audit observations

Sl. No.	Categories	No. of paragraphs/cases	Amount (₹ in crore)
Department of Excise, Entertainment and Luxury Tax			
1	Short levy of license fee amounting to ₹ 43.41 lakh for grant of L1 License	1	0.43
Total			0.43
Department of Trade and Taxes			
1	Compliance Audit on Department's Oversight on GST Payments and Returns Filing	1	1,866.35
2	Irregular claim of Input Tax Credit	4	6.50
3	Other irregularities	17	19.82
Total			1,892.67
Stamp Duty and Registration Fees			
1	Other irregularities	40	9.62
Total			9.62
Transport Department			
1	Other irregularities	30	27.39
Total			27.39
Grand Total		93	1,930.11

1.1.7 Coverage of the Revenue Chapter

This Chapter on Revenue Sector contains Compliance Audit on “Department’s Oversight on GST Payments and Returns Filing” and two other compliance audit paragraphs involving financial effect of ₹ 1,873.28 crore. The concerned Departments has accepted audit observations involving ₹ 95.62 crore. These are discussed in the succeeding paragraphs.

Compliance Audit Paragraphs

Department of Excise

1.2 Short levy of license fee amounting to ₹ 43.41 lakh for grant of L1 License

The license fee of ₹ 56.00 lakh instead of ₹ 99.41 lakh for the registered brands of Wine/Liquor/Alcopop/ Mixed Alcoholic Beverages was levied on M/s Bacardi India Pvt. Ltd. resulting in short levy of license fee amounting to ₹ 43.41 lakh.

Rule 34 of the Delhi Excise Rules, 2010 stipulates that wholesale and retail licenses of liquor shall be granted by the Deputy Commissioner in accordance with the terms and conditions, approved by the Government for each year. As per clause 1.1 of the Terms and Conditions for Grant of wholesale license (L1 license) under Rule 34 *ibid*, in the case of Wine/Liqueur/Alcopop/Mixed Alcoholic Beverages (MAB), the license fee payable was ₹ two lakh per brand or one *per cent* of the total wholesale value of that brand, whichever is higher subject to a maximum of ₹ 14 lakh.

This clause clearly specifies that this is applicable for any unique brand of Wine/Liqueur/MAB/Alcopop that is registered and that the maximum amount of license fee of ₹ 14 lakh is applicable to a single brand. Thus, registration of any additional brand would entail a license fee of ₹ two lakh.

Scrutiny of records of Excise Department in the month of May 2022 revealed that L1 licensee M/s Bacardi India Pvt. Ltd., Kashipur got registered 10 to 13 brands (for Excise Years 2017-18 to 2020-21) of Wine/Liqueur/Alcopop/MAB initially for Excise Years 2017-18 to 2020-21 for which a total upfront license fee of only ₹ 14 lakh was charged (for one Excise Year) instead of ₹ two lakh per brand. Further some additional brands were registered mid-year at no extra license fee citing that the fee had already been paid. The Department levied the license fee of ₹ 56.00 lakh on the licensee for all registered brands of Wine/Liqueur/Alcopop/MAB for the period 2017-18 to 2020-21, however, license fee of ₹ 99.41 lakh was leviable. This resulted in short levy of license fee amounting to ₹ 43.41 lakh, as detailed in **(Annexure 1.3)**.

The Department stated (February 2023) that the License fee of Wine/Liqueur/Alcopop/MAB is charged @ ₹ two lakh per brand upto seven brands only or one *per cent* of wholesale value of brand subject to a maximum of ₹ 14 lakh and no license fee to be charged on account of registration of furthermore brands. The reply was not acceptable as the clause 1.1 regarding license fee in Terms and conditions for Grant of L-1 License in pursuance of Rule 34 of Delhi Excise Rules, 2010 is unambiguous in stating that license fee payable was ₹ Two Lakh per brand or one *per cent* of the total wholesale value of that brand, whichever is higher subject to a maximum of ₹ 14 lakh. There is

no reason to assume that this limit of maximum of ₹ 14 lakh applies to more than one brand taken together. Although the Department was asked (August 2023) to provide its rationale for applying the limit to the category of alcohol as a whole and not to one brand along with supporting documents, no response was received from the Department in this regard.

Department of Trade and Taxes

1.3 Compliance Audit on Department's Oversight on GST Payments and Returns Filing

Compliance Audit on Department Oversight on GST Payments and Return Filing was conducted predominantly based on data analysis, which highlighted risk areas, red flags and rule-based deviations and logical inconsistencies in GST returns filed for 2017-18. Audit entailed assessing the oversight functions of Department at two levels – at the data level through global data queries and at the functional level with a deeper detailed audit both of the Wards and of the GST returns, which involved accessing taxpayer records.

The Department did not formulate a Manual/Standard Operating Procedure (SOP) for scrutiny of returns by the Proper Officers under Section 61 of the Act during the period from July 2017 to March 2021. The Department issued SOP for scrutiny of returns for the financial years 2017-18 and 2018-19 in April 2022. The Department had not initiated timely action on late-filers and non-filers of return and there was inadequate follow up on non-filing of GSTR 10. There was lack of action on reports given by Business Intelligence Unit/MIS reports.

Out of the 308 high value cases selected for Audit, the Department responded in 267 cases. Of these, 85 cases had compliance deficiencies with revenue implication of ₹ 1,702.53 crore. A relatively higher rate of deficiencies were noticed in unsettled liabilities, Input Tax Credit (ITC) mismatch, short/non-payment of interest, excess Reverse Charge Mechanism (RCM) ITC availed, mismatch in turnover declared etc.

There were 97 compliance deficiencies with a revenue implication of ₹ 163.82 crore in 47 cases. Out of these, the Department reported ITC reversal of ₹ 92.25 crore in one case and recovery of ₹ 0.16 crore in two cases. The main causative factors were availing of excess ITC due to mismatch in returns, non-payment of interest, non-reversal of ITC shown reversed in annual return (GSTR-9), non-reversal of ITC as per Section 17(2) of DGST Act 2017 read with Rule 42 of DGST Rules, 2017, wrong apportionment of credit, short discharge of Tax liability, incorrect discharge of tax under RCM etc.

1.3.1 Introduction

Introduction of Goods and Service Tax (GST) has replaced multiple taxes levied and collected by the Centre and States. GST, which came into effect from

1 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. The Delhi GST (DGST) Act was notified on 14 June 2017.

Section 59 of the DGST Act, 2017 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 had no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the DGST Act, 2017 read with Rule 99 of DGST Rules, 2017 stipulate that the proper officer may scrutinize the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

The Compliance Audit was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Department of Trade and Taxes (Department) GNCT of Delhi in this new tax regime.

1.3.2 Audit objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the Department with respect to tax compliance under GST regime. Audit of 'Department's oversight on GST Payments and Return filing' 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 Wards were adequate and effective.

1.3.3 Audit methodology and scope

This audit was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period July 2017 to March 2018. Through data analysis, a set of 14 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 (Limited) audit³, whereby these deviations were communicated to the relevant Wards of the Department without involving field visits and action taken by the Ward concerned on the identified deviations was ascertained. The centralized

³ Centralised Audit did not involve seeking taxpayer's granular records such as financial statements, related ledger accounts, invoices, agreements etc.

(Limited) audit was supplemented by a detailed audit involving field visits for verification of records available with the jurisdictional Ward. Returns and related attachments and information were accessed through backend web portal-the back-end system of the 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 through the Department such as invoices through the respective Wards. This apart, compliance functions of the departmental formation such as scrutiny of returns were also reviewed in selected Wards.

The review of the scrutiny of returns by the Department and verification of taxpayer's records covered the period from July 2017 to March 2018, while the audit of the compliance functions of selected Wards covered the period 2017-21. The audit covered only the State administered taxpayers. The field audit was conducted from February 2022 to January 2023.

Entry conference of this audit was held in February 2022 with Special Commissioner (Audit) in which the audit objectives, sample selection, audit scope and methodology were discussed. The Exit Conference was held in April 2023 with Additional Commissioner (Audit), in which the audit findings were discussed. Audit also pointed out that replies from the Department were awaited and Audit was assured by the Department that it would arrange to send the replies at the earliest possible. However, same are still awaited (September 2024).

1.3.4 Audit sample

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

There were *three* distinct parts of this audit as under:

(i) Part I- Audit of Wards

10 Wards (12, 45, 58, 61, 62, 63, 65, 202, 205 and 206) with jurisdiction over more than one selected sample of cases for Detailed Audit were considered as the sample of Wards for evaluation of their oversight functions.

(ii) Part II – Centralised Audit/Limited 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, 308 taxpayers were selected for Centralised Audit under this audit.

(iii) Part III-Detailed audit

It was conducted by accessing taxpayers’ records through Wards for evaluation of the extent of tax compliance by taxpayers. The sample of taxpayers for Detailed Audit was selected on the basis of risk parameters such as Excess ITC, Tax Liability mismatch, Disproportionate exempted turnover to total turnover and Irregular ITC reversal. The 47 taxpayers⁴ selected for Detailed Audit comprised of Large, Medium and Small strata taxpayers as well as taxpayers selected randomly.

The details of sample for centralised audit, detailed audit and audit of Wards selected for this audit are brought out in **Annexures 1.4** and **Annexure 1.5**.

1.3.5 Audit criteria

The source of audit criteria comprised the provisions contained in the DGST Act, 2017, IGST Act, 2017 and Rules made thereunder. The significant provisions are given in **Table-1.3.1**.

Table-1.3.1: Source of criteria

Sl. No.	Subject	Act and Rules
1	Levy and collection	Section 9 of DGST Act, 2017
2	Reverse Charge Mechanism	Section 9(3) of DGST Act, 2017 and Section 5 (3) of IGST Act, 2017
3	Availing and utilizing ITC	Sections 16 to 21 under Chapter V of DGST Act 2017; Rules 36 to 45 under Chapter V of DGST Rules, 2017.
4	Registrations	Sections 22 to 25 of DGST Act, 2017; Rules 8 to 26 of DGST Rules, 2017
5	Supplies	Sections 7 and 8 DGST Act, 2017; Schedule I, II and III of the DGST Act, 2017
6	Place of supply	Section 10 to 13 of IGST Act, 2017
7	Time of Supply	Section 12 to 14 of DGST Act, 2017
8	Valuation of supplies	Section 15 of DGST Act, 2017; Rules 27 to 34 of DGST Rules, 2017
9	Payment of Tax	Sections 49 to 53 under Chapter X of DGST Act, 2017; Rules 85 to 88A under Chapter IX of DGST Rules, 2017
10	Filing of GST Returns	Sections 37 to 47 under Chapter IX of DGST Act, 2017; Rules 59 to 68 and 80 to 81 under Chapter VIII of DGST Rules, 2017. Part B of DGST Rules, 2017 prescribes format of returns
11	Zero-rated supplies	Section 16 of IGST Act, 2017
12	Assessment and Audit functions	Sections 61, 62, 65 and 66 under Chapter XII & XIII; Rules 99 to 102 under Chapter XI of DGST Act, 2017

In addition, the notifications and circulars issued by Department relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services,

⁴ The sample comprised 28 large, 14 medium and 5 small taxpayers.

payment of tax, availing and utilizing ITC, scrutiny of returns and oversight of tax compliance formed part of the audit criteria.

Audit findings

The audit findings were categorized into the following three categories:

- a. Audit of Wards
- b. Centralised (Limited) audit
- c. Detailed audit

1.3.6 Audit of Wards

A return is a statement of specified particulars relating to the business activity undertaken by taxpayers during a prescribed period. Every taxpayer is legally obligated to furnish a complete and correct return duly declaring the tax liability for a given period and taxes paid within the stipulated time. In a self-assessment regime, the significance of monitoring return filing by taxpayers acquires greater significance as the returns are the first mode of information about taxpayers and their respective business activities.

1.3.6.1 Slow pace of scrutiny of returns /Non-initiation of scrutiny of returns

As per Section 61 of the DGST Act, 2017, 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. The Proper Officer designated for this purpose is the Wards Officer. Further, Rule 99 of the DGST Rules, 2017 mandates that “*the discrepancies, if any noticed, shall be communicated to the taxpayer to seek his explanation.*”

Audit observed that the Department did not formulate a Manual/SoP for scrutiny of returns by the Proper Officers under Section 61 of the Act during the period from July 2017 to March 2021, thus non-prioritised the returns to be scrutinised based on the risk parameters. The Department, however, issued Standard Operating Procedures (SoP) for scrutiny of returns for FY 2017-18 and 2018-19 in April 2022.

(i) Out of ten Wards selected for audit, seven⁵ Wards did not furnish the information related to scrutiny of returns. However, Audit, from the information available on backend portal of the Department related to seven Wards and based on the information provided by the remaining three⁶ Wards, noticed that in these ten Wards, there were 1,18,875, 1,49,350, 1,59,120, and 1,91,135 registered taxpayers during the years 2017-18 to 2020-21 respectively whereas, scrutiny of returns was conducted only in 14,996 cases which indicates that scrutiny of

⁵ Wards- 12, 45, 58, 61, 62, 63 and 65

⁶ Wards- 202, 205 and 206

very few returns was undertaken when compared with number of registered taxpayers.

Further, out of total 14,996 scrutinized cases, 4,749 cases were pending for taking action as of October, 2022. The delay ranged between 541 and 1,397 days which indicates that discrepancies noticed during scrutiny of returns were not being dealt with in the manner prescribed under Section 61 of the DGST Act, 2017. In Wards 205 and 206, no case was pending for taking action.

(ii) In three Wards (202, 205 and 206), which provided the information, it was noticed that in 1628 cases, notice in ASMT-10 was issued during 2017-18 to 2020-21. Out of these 1628 case, in 240 cases, taxpayers neither filed their reply in ASMT-11 nor did the Department take any further action. In 809 cases where taxpayers filed their reply in ASMT-11, the Department did not take any action i.e. issuing ASMT-12 in cases of satisfactory reply or issuing of DRC-01 in cases of unsatisfactory reply. Also, in 116 cases where taxpayers did not submit any reply in response to DRC-01, the Department did not take any action against those taxpayers (DRC-07). Further, in 198 cases, the Department completed proceedings and generated a final demand of ₹ 604.84 crore, out of which ₹ 581.91 crore was still pending. However, no action has been initiated by the Department for recovery of the amount. In 235 cases, satisfactory reply was received in DRC-06 and in 30 cases, taxpayers accepted the discrepancies and paid the demand as per information provided by the three Wards.

Recommendation: The Department may pace up scrutiny of returns as per SoP and initiate action against cases whose scrutiny was completed but still pending for taking action and recovery may be initiated for pending demand.

1.3.6.2 Delay in audit by the Department

As per the Section 65 of the DGST Act, 2017, 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 DGST Act, 2017 defines “Audit” as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the Rules made thereunder or under any other law for the time being in force to verify the correctness 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 there under.

List of taxpayers who were selected for Internal Audit was sought along with Audit Report thereof from the Wards selected for audit. However, no such information/reports were furnished by the Ward Officers (April 2023). Further, information, related to whether any procedures/guidelines were envisaged by the Department for carrying out audit under Section 65 of DGST Act 2017, was also not furnished.

However, Audit branch of the Department, in its reply (December 2022) submitted that a total 251 taxpayers of financial years 2017-18 and 2018-19 were identified from the list provided by DGARM and assigned these cases to various Proper Officers and out of selected taxpayers, only 18 taxpayers were audited. As the list of the taxpayers who were selected and marked for audit by the Department under Section 65 of DGST Act, 2017 was not provided to Audit by the Wards, Audit could not examine whether the Department conducted audit of taxpayers under Section 65 of DGST Act, 2017 or not.

Recommendation: Department may initiate audit of taxpayers under Section 65 and may envisage Manual/procedures also to carry out the audit.

1.3.6.3 Lack of action on late-filers and non-filers

Section 46 of the DGST Act, 2017 read with Rule 68 of DGST Rules, 2017 stipulates issue of a notice in Form GSTR-3A requiring filing of return within fifteen days if the taxpayer had failed to file the return within the due date. In case the taxpayer fails to file the returns even after such notice, the proper officers may proceed to assess the tax liability of the said person to the best of their judgment, taking into account all the relevant material which is available or gathered and issue an assessment order in Form ASMT-13.

Filing of returns is related to payment of tax as the due date for both the actions are the same, which implies risk of non-payment of tax/penalty in the case of non-filers.

- (i) Out of ten Wards selected for audit, only three Wards (202, 205 and 206) furnished the information. Based on information, it was noticed that in 620 cases, GSTR 3A issued to non-filers of three Wards during 2018-19 to 2020-21. Out of these 620 cases, in 561 cases, taxpayers filed their returns in response to GSTR-3A whereas 59 filed their return after issuing of ASMT-13.
- (ii) Ward Officers of remaining seven Wards⁷ did not provide any information related to late filers/non-filers i.e., list of non-filers and late filers against whom GSTR-3A notices issued, ASMT-13 (best judgment assessment initiated or withdrawn), cases where ASMT-13 proceeding pending and number of cases where provisional attachment was resorted to.

Audit, however, from the information available on the GST backend portal, noticed that in 47,967 cases GSTR-3A were issued for the returns pertaining to July-2017 to March-2021. Further, it couldn't be ascertained, how many taxpayers complied and filed returns after receiving GSTR-3A notices, and what actions were initiated against those who did not comply even after receiving such notices in the above mentioned cases under the provisions in DGST Act,

⁷ Wards- 12, 45, 58, 61, 62, 63 and 65

2017, due to not furnishing of relevant records/information by Ward Officers and non-availability of such information on GST portal of the Department.

Recommendation: Department may take prompt action against late/non filer of returns.

1.3.6.4 Inadequate follow up on non-filing of GSTR 10

As per Section 45 of the DGST Act, 2017, GSTR-10 – the final return, has to be filed within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The last date for furnishing of GSTR-10 by those taxpayers whose registration has been cancelled on or before 30 September 2018 was extended till 31 December 2018 vide notification No. 58/2018 – Central Tax dated the 26 October 2018.

As per the DGST Rules, 2017, and as prescribed in Circular No. 09/2020-GST dated 27 July 2020, GSTR-3A has to be issued to the taxpayer, where GSTR 10 has not been filed. If the taxpayer still fails to file the final return within 15 days of the receipt of notice, then an Assessment Order in Form ASMT-13 under Section 62 of the DGST Act, 2017 read with Rule 100 of the DGST Rules, 2017 shall have to be issued to the taxpayer to inform about unpaid tax liability determined under sub-section (5) of Section 29 (i.e. debit ITC equivalent to inputs, and inputs contained in semi-finished and finished goods held in stock or capital goods or the output tax payable on such goods whichever is higher). If the taxpayer files the final return within 30 days from the issue of order ASMT-13, then the said order shall be deemed to have been withdrawn. However, the liability for payment of interest and late fee shall continue. If the said return remains unfurnished within the statutory period of 30 days from the issue of order ASMT-13, then the proper officer may initiate proceedings under Section 78 and recovery under Section 79 of the DGST Act.

Audit could not verify how many taxpayers out of total cancelled registrations filed the final return in compliance to aforesaid section of DGST Act, 2017, as information, related to action taken on non-filer of GSTR-10, Section 62 assessment in cases of cancellation, number of cases where cancelled registrations have been revoked, number of cases where new registrations have been taken in lieu of cancelled registrations, were not furnished by the Ward Officer of Wards 45, 61, 62, 63 and 65.

Furthermore, under limited audit in dimensions unsettled liabilities, GSTR 1 filed but GSTR 3B not filed, ITC mismatch between GSTR 2A and GSTR 3B, ITC mismatch between returns, ITC availed under RCM etc., the Department was issued audit queries, in its reply Department stated that it had already cancelled the registration certificates of 39 taxpayers. Audit noticed that in these 39 cancelled cases, the Department, however, did not take any action to initiate recovery etc., till the Audit issued queries in these cases. Out of these 39 cases, Department issued DRC 07/01 and ASMT-10 amounting to ₹ 699 crore and

₹ 2.01 crore in 15 cases and 5 cases respectively. In 19 cases, the Department did not initiate any action to recover the amount of ₹ 172.31 crore even after issuance of audit queries. Details of these cases are shown in **Annexure 1.6**.

Audit observed compliance deficiencies in the form of non-filing of GSTR-10 return in 3,446 cases across five Wards, where related information was provided, as detailed in **Annexure 1.7**.

An Illustrative case is provided below:

Under jurisdiction of Ward-58, out of 2,470 cases of cancellation for the years 2017-18 to 2020-21, GSTR-10 was filed only in 241 cases (in ten *per cent* cases only). In the remaining 90 *per cent* cases, GSTR-10 was not filed. Action taken by the Department was not furnished to Audit. Reply of the Department, sought in October 2022 and March 2023 was awaited (June 2023).

Recommendation: The Department may strengthen the follow up action on non-filers of GSTR-10.

1.3.6.5 Lack of action on Business Intelligence Unit/MIS reports

There is a Business Intelligence Unit (BIU) in the Department, which provides various reports, to different Wards, received from Directorate General of GST Intelligence (DGGI), CGST Directorate Delhi, Directorate General of Analytics and Risk Management (DGARM) etc. to take necessary action or verify the reports. BIU was requested to provide the list of cases pertaining to the period 2017-21 forwarded to selected Wards for necessary action.

However, no such list was furnished by the BIU. Further, Ward Officers of the selected Wards were also requested to furnish the reports received from other statutory authorities as mentioned above for the period 2017-2021. However, Ward Officers of selected Wards did not furnish reports received from BIU/other statutory authorities i.e. Central Board of Indirect Taxes & Customs (CBIC), DGGI, DGARM, other state GST departments, etc. along with action taken thereof, resultantly Audit could not verify the action taken by the Department and its units on these reports.

1.3.7 Inconsistencies in GST returns -Centralized audit/Limited Audit

Audit analyzed GST returns data pertaining to 2017-18 as made available by GSTN. Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 14 parameters, which can be broadly categorized into two domains – Input Tax Credit and Tax payments. Out of the 13 prescribed GST returns⁸, the following basic returns that apply to

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

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

The pan India analysis of data pertaining to Delhi state jurisdiction on the 14 identified parameters and extent of deviations/inconsistencies observed (sample for centralised audit) are summarised in **Table-1.3.2**.

Table-1.3.2: Summary of 14 audit dimensions/parameters in Limited audit

Sl. No.	Parameter/Dimension	Algorithm used	Number of deviations	Amount (₹ in crore)
1	ITC mismatch between GSTR 2A and GSTR 3B	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B {Table 4A (5)} (accrued on domestic supplies) considering the reversal in Table 4(B)(2) but including the ITC availed in subsequent year 2018-19 from Table 8(C) of GSTR 9.	24	442.02
2	ITC availed under RCM Vs. payment of tax in GSTR 3B/GSTR 9	RCM payments in GSTR3B Table 3.1 (d) was compared with ITC availed in GSTR-9 Table (6C+ 6D+6F). In cases where GSTR-9 was not available, check was restricted within GSTR 3B, RCM payments in Table 3.1(d) vis-a-vis ITC availed in Table {4A(2) + 4A(3)}.	25	110.99
3	Short payment of tax under RCM Vs. ITC availed in GSTR 3B/GSTR 9	RCM liability declared in GSTR9 Table 4G was compared with ITC availed in GSTR-9 Table (6C+6D+6F). In cases where GSTR 9 was not available, RCM liability in GSTR-3B Table 3.1(d) was compared with GSTR-3B Table {4(A)(2) + 4(A) (3)}.	08	9.14
4	Incorrect availment of ISD credit	ISD received in GSTR-9 Table 6G or GSTR 3B Table 4(A)(4) of the recipients was compared with ITC transferred in GSTR 6 of the distributor.	25	18.17
5	Incorrect ISD credit reversal	GSTR9 Table 7B/7H of the recipients was compared with the sum of Table 8A (negative figures only) and Table 9A (negative figures only) of their GSTR 6.	4	0.01
6	Mismatch of ITC availed between Annual returns and Books of accounts	Positive figure in GSTR 9C Table 12F.	24	227.25
7	Reconciliation between ITC availed in Annual returns with expenses in financial statements	Positive figure in GSTR 9C Table 14T.	24	1,680.92
8	Mismatch in turnover declared in GSTR 9C (Table- 5R)	Negative figure in GSTR 9C Table 5R.	20	1,39,983.30
9	Mismatch in taxable turnover declared in GSTR 9C (Table-7G)	Negative figure in GSTR 9C Table 7G.	17	1,389.04
10	Mismatch in tax paid between books of accounts and returns	Negative figure in GSTR 9C Table 9R.	25	82.29
11	Unsettled liabilities	Greater of tax liability between GSTR-1 (Table 4 to 11) and GSTR-9 (Table 4N, 10 & 11) was compared with tax paid details in GSTR 3B Table {3.1 (a) + 3.1 (b)}. In cases where GSTR-9 was not available, tax paid in GSTR-3B was compared with GSTR-1 liability. The amendments and advance adjustments declared in GSTR-1 and GSTR-9 were duly considered.	25	558.50
12	Composition taxpayer also availing e-commerce facility	E-commerce GSTR-8 became effective from 01.01.2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are also filing GSTR-4 under composition scheme.	38	Nil
13	GSTR 3B was not filed but GSTR 1 is available	Taxpayers who had not filed GSTR-3B but filed GSTR-1 or where GSTR-2A available, indicating taxpayers had carried the business without discharging tax.	24	7.21
14	Short payment of interest	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 Table 6.1.	25	19.12
		Total	308	1,44,527.96

Non-submission of reply by the Department

Audit selected a sample of 308 cases from amongst the top deviations/inconsistencies in each of the 14 parameters for the year 2017-18. Audit Queries were issued to the respective Wards between March 2022 and April 2022 without further scrutiny of taxpayer's records. Audit check in these

cases was limited to verifying the Department's action on the identified deviations/mismatches.

Initial responses were yet to be received, as of March 2023, for 41 inconsistencies (including 08 inconsistencies pertaining to mismatch in turnover) communicated to the Department, which might represent cases having mismatch in tax payable or mismatch in ITC availed and may pose a risk exposure of ₹ 38.06 crore and ₹ 142.34 crore (on account of mismatch of turnover of ₹ 790.80 crore in table 5R and 7G of GSTR 9C related to eight inconsistencies related to mismatch in turnover and same is calculated by assuming 18 per cent tax on mismatch amount of turnover).

Table-1.3.3: Cases in which reply not received

(₹ in crore)

Sl. No.	Audit Dimension	Sample		Department Reply not received		Percentage	
		Number	Amount of mismatch	Number	Amount	Number	Amount
	1	2	3	4	5	6	7
1	ITC mismatch between GSTR 2A and GSTR 3B	24	442.02	0	0	0	0
2	ITC availed under RCM Vs. payment of tax in GSTR 3B/ GSTR 9	25	110.99	4	7.27	16	6.55
3	Short payment of tax under RCM Vs. ITC availed in GSTR 3B/GSTR 9	8	9.14	1	1.00	12	10.93
4	Incorrect availment of ISD credit	25	18.17	8	3.62	32	19.92
5	Incorrect ISD credit reversal	4	0.01	0	0	0	0
6	Mismatch of ITC availed between Annual returns and Books of accounts	24	227.25	3	11.53	12	5.06
7	Reconciliation between ITC availed in Annual returns with expenses in financial statements	24	1,680.92	0	0	0	0
8	Mismatch in turnover declared in GSTR 9C (Table- 5R)	20	1,39,983.30	2	191.84	10	0.01
9	Mismatch in taxable turnover declared in GSTR 9C (Table- 7G)	17	1,389.04	6	598.98	35	43
10	Mismatch in tax paid between books of accounts and returns	25	82.29	6	14.24	24	17.81
11	Unsettled liabilities	25	558.50	0	0	0	0
12	Composition taxpayer also availing e-commerce facility	38	0	10	0	26	0
13	GSTR 3B was not filed but GSTR 1 is available	24	7.21	1	0.39	4	5.40
14	Short payment of interest	25	19.12	0	0	0	0
	Total	308	1,44,527.96	41	828.87	13.31	0.57

Considering that the overall rate of conversion of inconsistencies into compliance deviations is significant as brought out in the next paragraph, the Department was required to expedite verification of these cases on priority. Details of these cases are listed in **Annexure 1.8**.

Table-1.3.4: Top ten cases in terms of money value where response is yet to be received

Sl. No.	GSTIN	Ward/Zone	Mismatch amount (₹ in crore)
1	07XXXXXXXXXXXX1Z4	107/12	4.84
2	07XXXXXXXXXXXX1ZN	94	4.51
3	07XXXXXXXXXXXX1ZT	112/12	3.37
4	07XXXXXXXXXXXX1ZF	70/4	3.30
5	07XXXXXXXXXXXX1ZR	201	3.26
6	07XXXXXXXXXXXX1ZX	85/9	2.29
7	07XXXXXXXXXXXX1Z0	62	1.88
8	07XXXXXXXXXXXX1ZS	4/1	1.79
9	07XXXXXXXXXXXX1Z0	61/05	1.73
10	07XXXXXXXXXXXX1ZK	95/08	1.56

Recommendation: Department may urgently pursue the 41 cases of inconsistencies and deviations pointed out by Audit, for which responses have not been provided and intimate the results to Audit.

1.3.7.1 Results of centralized audit

Based on responses received from the Department to the Audit Queries, the extent to which each of the 14 parameters translated into compliance deviations is summarized in **Table-1.3.5**.

Table-1.3.5: Summary of deficiencies

(₹ in crore)

Audit Dimension	Cases where reply received		Department reply accepted by Audit					
			Data entry errors		Action taken before query		Other valid explanations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9
ITC mismatch between GSTR 2A and GSTR 3B	24	442.02	8	184.65	3	27.86	0	0
ITC availed under RCM Vs payment of tax in GSTR 3B/GSTR 9	21	103.72	6	29.95	0	0	0	0
Short payment of tax under RCM Vs. ITC availed in GSTR 3B/GSTR 9	7	8.14	2	2.31	0	0	0	0
Incorrect availment of ISD credit	17	14.55	9	10.12	0	0	1	1.12
Incorrect ISD credit reversal	4	0.01	0	0	0	0	0	0
Mismatch of ITC availed between Annual returns and Books of accounts	21	215.73	2	42.3	5	36.31	6	39.61
Reconciliation between ITC availed in Annual returns with expenses in financial statements	24	1680.92	1	37.12	0	0	22	1598.63
Mismatch in turnover declared in GSTR 9C (Table- 5R)	18	139791.47	0	0	0	0	11	135850.34
Mismatch in taxable turnover declared in GSTR 9C (Table- 7G)	11	790.07	0	0	0	0	6	469.66
Mismatch in tax paid between books of accounts and returns	19	68.06	3	18.04	0	0	10	35.46
Unsettled liabilities	25	558.50	1	23.90	3	117.06	0	0
Composition taxpayer also availing e-commerce facility	28	0	0	0	3	0	13	0.00
GSTR 3B was not filed but GSTR 1 is available	23	6.82	0	0	10	3.33	0	0.00
Short payment of interest	25	19.12	0	0	1	0.67	0	0.00
Total	267	143699.13	32	348.39	25	185.23	69	137995.03

(Continued...)

Compliance deviations															
Accepted by Dept. including cases where action is yet to be initiated								Department's reply not acceptable to Audit (Rebuttal)		Total		Deptt. reply not furnished with appropriate documentary evidence		Deptt. stated they are examining the AQ	
Recovered		SCN issued		ASMT-10		Under correspondence with taxpayer									
No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
0	0	5	271.91	2	24.47	0	0	6	63.22	13	359.60	0	0	0	0
0	0	3	36.68	2	14.36	0	0	9	46.54	14	97.58	1	1.36	0	0
0	0	1	3.36	1	1.21	0	0	1	1.31	3	5.88	1	1.14	0	0
0	0	4	5.33	2	1.43	0	0	1	0.72	7	7.48	1	0.37	0	0
1	0.00002	0	0	1	0.004	0	0	2	0.014	4	0.018	0	0	0	0
0	0.00	1	8.67	6	81.82	1	11.14	0	0	8	101.63	0	0	0	0
0	0	0	0	1	45.17	0	0	0	0	1	45.17	0	0	0	0
0	0	1	309.26	6	2801.18	0	0	0	0	7	3110.44	0	0	0	0
0	0	0	0	4	254.49	0	0	0	0	4	254.49	1	65.92	0	0
1	0.16	0	0	5	12.96	0	0	0	0	6	13.12	0	0	0	0
0	0	10	767.43	2	99.75	0	0	9	165.17	21	1032.35	0	0	0	0
0	0	0	0	6	0	6	0	0	0	12	0	0	0	0	0
0	0	5	3.31	7	2.55	0	0	1	0.16	13	6.02	0	0	0	0
1	0.73	10	7.00	7	4.97	5	4.66	1	0.52	24	17.88	0	0	0	0
3	0.89	40	1412.95	52	3344.36	12	15.80	30	277.66	137	5051.66	4	68.79	0.00	0.00

The amount in above table under 'Recovered' and 'SCN issued' category is as per recoveries made and amount of SCN issued by the Department irrespective of the amount pointed out by Audit

Summary of Central Audit/Limited Audit

Audit noticed deviations from the provisions of the Act in 137 cases (Col. No.10, 12, 14, 16, 18 of Table-1.3.5) which include 127 cases of short levy of tax of ₹ 1,995.99 crore and 10 cases of mismatch of turnover of ₹ 3,055.67 crore (Col. No. 11, 13, 15, 17 and 19 of Table-1.3.5) constituting 51 per cent of the 267 inconsistencies/mismatches in data, for which the Department provided responses. Relatively higher rates of deviations were noticed in risk parameters such as short/non-payment of interest, ITC mismatch, excess RCM ITC availed, incorrect turnover declarations and short tax payments etc.

In 126 cases (Col. No.4, 6 and 8 of Table-1.3.5), constituting 47 per cent, where the Department's reply was acceptable to Audit, data entry errors by taxpayers comprised 32 cases (Col. No.4), Department had proactively taken action in 25 cases (Col. No. 6) and had valid explanations in 69 cases (Col. No. 8).

In 4 cases (Col. No. 22), Department did not provide the appropriate documentary evidence to Audit and was thus not amenable to verification.

Table-1.3.6: Top case for each dimension of Limited audit (for compliance deviation pertaining to cases of recovery, ASMT-10, SCN issued and under correspondence with taxpayer)

Sl. No.	Dimension	GSTIN	Ward	Zone	Mismatch (₹ in crore)	Action taken
1	ITC mismatch between GSTR 2A and GSTR 3B	07XXXXXXX XXXX1ZO	74	7	132.55	FORM GST DRC-07 dated 12.09.2022 raising demand of tax dues issued.
2	ITC availed under RCM vs. payment of tax in GSTR 3B/ GSTR 9	07XXXXXXX XXXX1ZM	41	3	10.06	DRC-01 dated 07.07.2022 and DRC-07 dated 26.07.2022 and bank attachment.
3	Short payment of tax under RCM vs. ITC availed in GSTR 3B/GSTR 9	07XXXXXXX XXXX1ZQ	93	8	2.31	DRC 01 dated 01.09.2022 issued.
4	Incorrect availment of ISD credit	07XXXXXXX XXXX1Z5	75	7	2.65	DRC-01A dated 01.08.2022 issued.
5	Incorrect ISD credit reversal	07XXXXXXX XXXX1ZX	2	2	0.004	ASMT-10 dated 03.08.2022 issued to taxpayer.
6	Mismatch of ITC availed between Annual returns and Books of accounts	07XXXXXXX XXXX1Z8	61	5	61.32	ASMT10 dated 14.12.2022 issued to taxpayer.
7	Reconciliation between ITC availed in Annual returns with expenses in financial statements	07XXXXXXX XXXX1Z9	71	6	45.17	ASMT10 dated 25.11.2022 issued to taxpayer.
8	Mismatch in turnover declared in GSTR 9C Table 5R	07XXXXXXX XXXX1ZJ	84	7	309.26	DRC-01 dated 10.12.2022 was issued.
9	Mismatch in taxable turnover declared in GSTR 9C Table 7G	07XXXXXXX XXXX1Z1	76	7	84.87	ASMT 10 dated 24.11.2022 issued to taxpayer.
10	Mismatch in tax paid between books of accounts and returns	07XXXXXXX XXXX1ZH	71	6	3.52	ASMT 10 dated 25.11.2022 issued to taxpayer.
11	Unsettled liabilities	07XXXXXXX XXXX1Z3	32	1	205.06	DRC 01 dated 08.07.2022 and DRC 07 dated 03.10.2022 issued.
12	Composition taxpayer also availing e-commerce facility	07XXXXXXX XXXX1Z7	78	7	NA	ASMT-10 dated 25.11.2022 issued to taxpayer.
13	GSTR 3B was not filed but GSTR 1 is available	07XXXXXXX XXXX 1ZZ	12	2	1.54	DRC-07 dated 31.10.2022 issued to taxpayer.
14	Short payment of interest	07XXXXXXX XXXX 1Z3	88	8	1.16	DRC-01 dated 04.08.2022 issued to taxpayer.

Illustrative cases are discussed below:

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

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

To analyze the veracity of ITC utilization, relevant data were extracted from GSTR 3B and GSTR 2A for the year 2017-18, and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR 2A with all its amendments and the ITC availed in GSTR 3B in Table 4A(5)⁹ considering the reversals in Table 4B(2)¹⁰ but including the ITC availed in the subsequent year 2018-19 from Table 8C of GSTR 9 of 2017-18.

Audit observed that in case of taxpayer (GSTIN-07XXXXXXXXXX1ZO) under Ward 74, the ITC available as per GSTR 2A was ₹ Nil and the ITC availed in table 4A (5) of GSTR 3B was ₹ 23.15 crore (including the ITC ₹ Nil availed in the subsequent year 2018-19 from Table 8C of GSTR 9). This resulted in mismatch of ITC availed amounting to ₹ 23.15 crore which was communicated to the Department (March 2022).

In response, the Department stated (December 2022) that DRC-07 (September 2022) determining the demand of ₹ 132.55 crore was issued to the taxpayer. Further progress in this regard was awaited (June 2023).

(ii) Dimension - ITC availed under RCM vs. payment of tax in GSTR 3B/ GSTR 9

In Reverse Charge Mechanism 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 DGST Act, 2017 and under sub-section (3) or sub-section (4) of Section 5 of the IGST Act, 2017.

GSTR-9 is an annual return to be filed once for each financial year, by the registered taxpayers who were regular taxpayers, including SEZ units and SEZ developers. The taxpayers are required to furnish details of purchases, sales, input tax credit or refund claimed or demand created etc.

To analyse the veracity of ITC availed on tax paid under Reverse Charge Mechanism (RCM) for the year 2017-18, the datasets pertaining to GSTR 3B and annual return GSTR 9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. The methodology adopted was to

⁹ All other eligible ITC

¹⁰ Other ITC reversed.

compare the RCM payments in GSTR 3B Table 3.1(d)¹¹ with ITC availed in GSTR 9 Table 6C¹², 6D¹³ and 6F¹⁴. In cases where GSTR 9 was not available, the check was restricted within GSTR 3B where the tax discharged part in R3B Table 3.1(d) was compared with the ITC availing part of R3B 4A (2)¹⁵ and 4A (3)¹⁶.

Audit observed that in case of taxpayer (GSTIN-07XXXXXXXXXXXX1ZM) under Ward 41, the ITC available in table 3.1(d) of GSTR 3B was Nil and the ITC availed in table 4A (2) and (3) of GSTR 3B was ₹ 3.77 crore resulting in mismatch of ITC availed amounting to ₹ 3.77 crore which was communicated to the Department (March 2022).

In response, the Department stated (August 2022) that DRC-07 (July 2022) determining the demand of ₹ 10.06 crore was issued to the taxpayer. Further progress in this regard was awaited (June 2023).

(iii) Dimension - Short payment of tax under RCM vs ITC availed in GSTR 3B/GSTR 9

The extent of availing of ITC under RCM for the year 2017-18 without discharging equivalent tax liability or, in other words, short payment of tax under RCM was analysed by comparing the datasets pertaining to GSTR 3B and annual return GSTR 9 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 4G¹⁷ was compared with ITC availed in Table 6C, 6D and 6F. In cases where GSTR 9 was not available, RCM payments in GSTR 3B Table 3.1(d)¹⁸ was compared with GSTR 3B 4(A) (2)¹⁹ and 4A (3)²⁰.

Audit observed that in case of taxpayer (GSTIN- 07XXXXXXXXXXXX1ZQ) under Ward 93, the RCM payments in table 4G of GSTR 9 was ₹ 0.03 crore (GSTR 3B also shows RCM payment of ₹ 0.03 crore) and the ITC availed in table (6C+6D+6F) of GSTR 9 was ₹ 1.08 crore. This resulted in excess availment of ITC on RCM without payment of tax amounting to ₹ 1.05 crore which was communicated to the Department (April 2022).

In response, the Department stated (September 2022) that DRC-01 (September 2022) determining the demand of ₹ 2.31 crore was issued to taxpayers. Further progress in this regard was awaited (June 2023).

¹¹ Inward supplies (liable to reverse charge)

¹² Inward supplies receive from unregistered persons liable to reverse charge.

¹³ Inward supplies received from registered persons liable to reverse charge.

¹⁴ Import of services.

¹⁵ Import of services.

¹⁶ Inward supplies (liable to reverse charge).

¹⁷ Inward supplies on which tax is to be paid on reverse charge basis.

¹⁸ Inward supplies (liable to be reverse charge).

¹⁹ Import of services.

²⁰ Inward supplies liable to be reverse charge other than Import of Goods and Services.

(iv) Dimension - Incorrect availment of ISD credit

To analyse whether the ITC availed by the taxpayer is in excess of that transferred by the Input Service Distributor (ISD), ITC availed as declared in the returns of the taxpayer is compared with the ITC transferred by the ISD in their GSTR 6. The methodology adopted was to compare Table 6G²¹ of GSTR-9 or Table 4(A)(4)²² of GSTR-3B of the recipient taxpayers under the jurisdiction of this State with the sum of Table 5A²³, Table 8A²⁴, and Table 9A²⁵ of GSTR 6 of the respective ISD.

In case of taxpayer (GSTIN-07XXXXXXXXXX1Z5) under Ward 75, audit observed that the ITC availed in table 6G of GSTR 9 was ₹ 0.89 crore and the ITC transferred by the ISD in table (5A+8A+9A) of GSTR 6 was NIL. This resulted in excess availment of ITC transferred by the ISD amounting to ₹ 0.89 crore which was communicated to the Department in (May 2022).

In response, the Department stated (November 2022) that DRC-01A (August 2022) determining the demand of ₹ 2.65 crore was issued to taxpayers. Further progress in this regard was awaited (June 2023).

(v) Dimension - Mismatch of ITC availed between Annual returns and Books of accounts

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

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of DGST Rules, 2017 in form GSTR 9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

Un-reconciled ITC of ₹ 61.32 crore declared in Table 12F of GSTR 9C, being ITC availed in GST returns in excess of eligible ITC based on financial statements, in case of taxpayer (GSTIN-07XXXXXXXXXX1Z8) under Ward 61, was noticed and communicated to the Department (March 2022).

In response, the Department stated (December 2022) that ASMT-10 (December 2022) was issued. Further progress in this regard was awaited (June 2023).

²¹ ITC received from ISD.

²² Inward supplies from ISD.

²³ Distribution of the amounts of eligible ITC for the tax period.

²⁴ Mismatch of ITC reclaimed and distributed.

²⁵ Redistribution of ITC distributed to a wrong recipient.

(vi) Dimension - Reconciliation between ITC availed in Annual returns with expenses in financial statements

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

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of DGST Rules in form GSTR 9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the expenses reported in the Financial Statements.

Un-reconciled ITC of ₹ 45.17 crore declared in Table 14T of GSTR 9C, being ITC availed in GST returns in excess of eligible ITC based on expenses reported in Financial Statements, in case of taxpayer (GSTIN-07XXXXXXXXXX1Z9) under Ward 71, was noticed and communicated to the Department (March 2022).

In response, the Department stated (November 2022) that ASMT-10 (November 2022) was issued. Further progress in this regard was awaited (June 2023).

(vii) Dimension - Mismatch in turnover declared in GSTR 9C (Table 5R)

Table 5 of GSTR 9C is the reconciliation of turnover declared in audited Annual Financial Statement with turnover declared in annual turnover (GSTR 9). Column 5R of this table captures the un-reconciled turnover between the annual return GSTR 9, and that declared in the Financial Statement for the year after the requisite adjustments.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of DGST Rules, 2017 in form GSTR 9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The un-reconciled amount in cases where the turnover declared in GSTR 9 is less than the Financial Statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of supplies leading to evasion or short payment of tax. It could also be a case of non-reporting of both taxable and exempted supplies.

Audit query on un-reconciled turnover in Table 5R of GSTR-9C, amounting to ₹ 1,139.75 crore was issued in respect of taxpayer (GSTIN-07XXXXXXXXXX1ZJ) under Ward 84 and communicated to the Department (March 2022).

In response, the Department stated (December 2022) that DRC-01 (December 2022) determining the demand of ₹ 309.26 crore was issued to taxpayer. Further progress in this regard was awaited (June 2023).

**(viii) Dimension - Mismatch in taxable turnover declared in GSTR 9C
(Table 7G)**

Table 7 of GSTR 9C is the reconciliation of taxable turnover. Column 7G of this table captures the un-reconciled taxable turnover between the Annual Return GSTR 9 and that declared in the Financial Statement for the year after the requisite adjustments.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of DGST Rules, 2017 in Form GSTR 9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in taxable turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The un-reconciled amount in cases where the turnover in GSTR 9 is less than the Financial Statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of taxable supplies. It could also be on account of non-reporting of both taxable and exempted supplies

An Audit query on Un-discharged taxable turnover in Table 7G of GSTR-9C, amounting to ₹ 84.87 crore was issued in respect of taxpayer (GSTIN-07XXXXXXXXXX1Z1) under Ward 76 was communicated to the Department (March 2022).

In response, the Department stated (November 2022) that ASMT 10 (November 2022) was issued. Further progress in this regard was awaited (June 2023).

(ix) Dimension - Mismatch in tax paid between books of accounts and returns

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of DGST Rules, 2017 in form GSTR 9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in tax paid between the Annual Return and the books of Accounts. Table 9 of form 9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return GSTR 9. The un-reconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or *vice versa* or incorrect levy of CGST/DGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) in respect of the 2017-18 transactions carried out in the subsequent year from April to September 2018. Consequential interest payments - both short payments and payments under incorrect heads - also need to be examined in this regard.

Un-reconciled payment of tax declared in Table 9R of GSTR 9C, amounting to ₹ 3.52 crore in case of taxpayer (GSTIN-07XXXXXXXXXX1ZH) under Ward 71 was communicated to the Department (April 2022).

In response, the Department stated (November 2022) that ASMT 10 (November 2022) was issued. Further progress in this regard was awaited (June 2023).

(x) Dimension - Unsettled liabilities.

GSTR 1 depicts the monthly details of outward supplies of Goods or Services. This detail also assessed by the taxpayer and mentioned in annual return GSTR 9 in the relevant columns. Further, taxable value and tax paid thereof are also shown in GSTR 3B.

To analyse the un-discharged tax liability, relevant data were extracted from GSTR 1 and GSTR 9 for the year 2017-18 and the tax payable in these returns was compared with the tax paid as declared in GSTR 9. Where GSTR 9 was not available, a comparison of tax payable between GSTR 1 and GSTR 3B was resorted to. The amendments and advance adjustments declared in GSTR 1 and 9 were also considered for this purpose.

For the algorithm, Tables 4 to 11 of GSTR 1 and Tables 4N, 10 and 11 of GSTR 9 were considered. The greater of the tax liability between GSTR 1 and GSTR 9 was compared with the tax paid declared in tables 9 and 14 of GSTR 9 to identify short payment of tax. In the case of GSTR 3B, tables 3.1(a)²⁶ and 3.1(b)²⁷ were taken into account.

In case of taxpayer (GSTIN-07XXXXXXXXXX1Z3) under Ward 32, the tax payable in Table 4 to 11 of GSTR 1 was ₹ 42.81 crore and the liability shown as per GSTR 9 was ₹ nil. This resulted in mismatch of tax liability amounting to ₹ 42.81 crore which was communicated to the Department (April 2022).

In response, the Department stated (October 2022) that DRC-07 (October 2022) determining the demand of ₹ 205.06 crore was issued to taxpayers. Further progress in this regard was awaited (June 2023).

(xi) Dimension - GSTR 3B was not filed but GSTR 1 is available

At the data level, it has been identified that those taxpayers who have not filed GSTR 3B but have filed GSTR 1 or whose GSTR 2A was available for the year 2017-18. GSTR 3B return is the only instrument through which the liability is offset and ITC is availed. The very availability of GSTR 1 and GSTR2A and non-filing of GSTR3B indicates that the taxpayers had undertaken/carried on business during the period but have not discharged their tax liability.

The datasets pertaining to relevant fields in the GSTR 1, GSTR 2A and GSTR 3B were analysed, and those cases where GSTR 3B is null (return not filed) were extracted. These taxpayers did not file even a single GSTR 3B return in year 2017-18.

Audit query on liability mismatch between GSTR 1 and GSTR 3B amounting to ₹ 0.13 crore in case of taxpayer (GSTIN-07XXXXXXXXXX1ZZ), under Ward 12, was communicated (March 2022) to the Department. The liability declared by the taxpayer in GSTR 1 including the amendments carried out in

²⁶ Outward taxable supplies (other than zero rated, nil rated and exempted).

²⁷ Outward taxable supplies (Zero rated).

the subsequent years pertaining to invoices issued in 2017-18 works out ₹ 0.13 crore.

In response, the Department stated (October 2022) that DRC-07 (October 2022) determining the demand of ₹ 1.54 crore was issued to taxpayer. Further progress in this regard was awaited (June 2023).

(xii) Dimension - Short payment of interest

Section 50 of the DGST Act, 2017 stipulates that every person liable to pay tax in accordance with the provisions of this Act or rules made there under but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during 2017-18 was identified using the tax paid details in GSTR 3B and the date of filing of the GSTR 3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

In case of taxpayer (GSTIN-07XXXXXXXXXX1Z3) under Ward 88, there was short payment of interest due to late filing of GSTR 3B amounting to ₹ 1.16 crore which was communicated to the Department (April 2022).

In response, the Department stated (August 2022) that DRC-01 was issued. Further progress in this regard was awaited (June 2023).

1.3.7.2 Analysis of causative factors

Considering the Department's response to 267 cases out of the sample of 308 data deviations/inconsistencies, the factors that caused the data deviations/inconsistencies are as follows:

A. Deviations from GST law and rules

(I) Cases where Department accepted objection

Out of the 267 deviations summarized in Table-1.3.5, the Department has accepted the audit queries and initiated examination in (Col 10 to 15) 85 cases with tax effect of ₹ 1702.53 crore and in 10 cases pertaining to mismatch in Turnover of ₹ 3055.67 crore. Out of these cases, the Department has recovered ₹ 0.89 crore in 3 cases (**Annexure 1.9**), issued SCN in 40 cases (**Annexure 1.10**) for ₹ 1412.98 crore, issued notice conveying discrepancies to the taxpayer in Form ASMT-10 in 42 cases (**Annexure 1.11**) for ₹ 288.69 crore and in 10 cases having mismatch in turnover of ₹ 3055.67 crore respectively. Further, Department was in correspondence with 12 taxpayers (**Annexure 1.12**) involving tax effect of ₹ 15.80 crore.

The top five accepted cases are illustrated in **Table-1.3.7**.

Table-1.3.7: Top five cases accepted or action initiated by the Department

Sl. No.	GSTIN	Ward	Dimension	Tax (₹ in crore)	Action taken
1	07XXXXXXXXXX1ZJ	84	8	309.26	DRC-01 dated 10.12.2022 was issued.
2	07XXXXXXXXXX1Z3	32	11	205.06	DRC 07 dated 03.10.2022 issued to taxpayer.
3	07XXXXXXXXXX1ZO	74	1	132.55	FORM GST DRC-07 dated 12-09-2022 raising demand of tax dues issued.
4	07XXXXXXXXXX1Z3	32	11	125.00	DRC 07 dated 03.10.2022 was issued.
5	07XXXXXXXXXX1Z8	16	11	80.41	DRC 07 dated 22.09.2022 issued.

(i) Un-reconciled turnover in Table 5R of GSTR-9C, amounting to ₹ 1,139.75 crore was noticed in respect of taxpayer (GSTIN-07XXXXXXXXXX1ZJ) under Ward 84 and communicated to the Department (March 2022). In response, the Department stated (December 2022) that SCN (DRC-01) dated 10.12.2022 determining the demand of ₹ 309.26 crore was issued to taxpayer. Further progress in this regard was awaited (June 2023).

(ii) Short Payment on un-discharged tax liability arising out of comparison between GSTR 1 and GSTR 9 amounting to ₹ 42.81 crore was noticed in respect of taxpayer (GSTIN 07XXXXXXXXXX1Z3) under Ward 32 and communicated to the Department (September 2022). In reply, the Department stated that DRC 07 (October 2022) amounting to ₹ 205.06 crore was issued. Further progress in this regard was awaited (June 2023).

(iii) Mismatch of ITC availed amounting to ₹ 23.15 crore was noticed in respect of taxpayer (GSTIN-07XXXXXXXXXX1ZO) under Ward 74 and communicated to the Department (September 2022). In reply, the Department stated (December 2022) that DRC-07 (September 2022) determining the demand of ₹ 132.55 crore was issued to the taxpayer. Further progress in this regard was awaited (June 2023).

(iv) Short Payment on un-discharged tax liability arising out of comparison between GSTR 1 and GSTR 9 amounting to ₹ 26.16 crore was noticed in respect of taxpayer (GSTIN 07XXXXXXXXXX1Z3) under Ward 32 and communicated to the Department (September 2022). In reply, the Department stated that DRC 07 (October 2022) amounting to ₹ 125 crore was issued. Further progress in this regard was awaited (June 2023).

(v) Short Payment on un-discharged tax liability arising out of comparison between GSTR 1 and GSTR 9 amounting to ₹ 12.35 crore was noticed in respect of taxpayer (GSTIN 07XXXXXXXXXX1Z8) under Ward 16 and communicated to the Department (September 2022). In reply, the Department stated that DRC 07 (September 2022) amounting to ₹ 80.41 crore was issued. Further progress in this regard was awaited (June 2023).

(II) Cases where Department’s reply is not acceptable to Audit

Out of the 308 non-compliance cases, Department did not accept objections in 30 cases amounting to ₹ 277.66 crore. In these cases, the Department only forwarded explanations of the taxpayers without explicitly commenting on the audit queries. Details of these cases along with the Audit comments are given in **Annexure 1.13**.

The five cases with illustrations are featured below:

Table-1.3.8: Top five cases in terms of money value where Department’s response was rebutted

Sl. No.	GSTIN	Ward	Zone	Dimension	Mismatch amount (₹ in crore)
1	07XXXXXXXXXXXX1Z7	97	9	11	31.41
2	07XXXXXXXXXXXX1ZQ	97	9	11	24.64
3	07XXXXXXXXXXXX1Z5	10	2	11	21.64
4	07XXXXXXXXXXXX1ZX	29	1	11	17.81
5	07XXXXXXXXXXXX1Z2	28	1	11	15.36

- i. A tax liability mismatch between GSTR 1 and GSTR 3B of ₹ 31.41 crore was noticed in the case of taxpayer (GSTIN- 07XXXXXXXXXXXX1Z7) under Ward 97, which was communicated to the Department (September 2022). The reply furnished (May 2022) by the Department was not acceptable as it did not pertain to the tax liability mismatch. On this being pointed out again (March 2023), further progress in this regard was awaited (June 2023).
- ii. A tax liability mismatch between GSTR 1 and GSTR 3B of ₹ 24.64 crore was noticed in the case of taxpayer (GSTIN- 07XXXXXXXXXXXX1ZQ) under Ward 97, which was communicated to the Department (September 2022). The reply furnished (May 2022) by the Department was not acceptable as it did not pertain to the tax liability mismatch. On this being pointed out again (March 2023), further progress in this regard was awaited (June 2023).
- iii. A tax liability mismatch between GSTR 1 and GSTR 3B of ₹ 21.64 crore was noticed in the case of taxpayer (GSTIN- 07XXXXXXXXXXXX1Z5) under Ward 10, which was communicated to the Department (September 2022). The reply furnished (December 2022) by the Department was not acceptable as it did not pertain to the tax liability mismatch. On this being pointed out again (March 2023), further progress in this regard was awaited (June 2023).
- iv. A tax liability mismatch between GSTR 1 and GSTR 3B of ₹ 17.81 crore was noticed in the case of taxpayer (GSTIN-07XXXXXXXXXXXX1ZX) under Ward 29, which was communicated to the Department (September 2022). The reply furnished (September 2022) by the Department was not acceptable as it did not pertain to the tax liability mismatch. On this being

pointed out again (March 2023), further progress in this regard was awaited (June 2023).

- v. A tax liability mismatch between GSTR 1 and GSTR 3B of ₹ 15.36 crore was noticed in the case of taxpayer (GSTIN- 07XXXXXXXXXX1Z2) under Ward 28, which was communicated to the Department (September 2022). The reply furnished (May 2022) by the Department was not acceptable as it did not pertain to the tax liability mismatch. On this being pointed out again (March 2023), further progress in this regard was awaited (June 2023).

B. Data entry errors by taxpayers

Data entry errors constituted 11 *per cent* (32 cases out of 267 cases) of the total responses received and 25 *per cent* of cases where the Department's responses were accepted by Audit. These data entry errors did not have any revenue implication. Most of the data entry errors relate to RCM, ISD and tax paid (provided in GSTR 9C) as detailed in **Annexure 1.14**. An illustrative case is brought out below:

A deviation amounting to ₹ 64.92 crore was identified as tax liability mismatch between GSTR 2A and GSTR-3B return for the period 2017-18 of the taxpayer (07XXXXXXXXXX1ZO), under Ward 207 (Zone-11), and communicated to the Department (March 2022). On receipt of Department's reply, it was seen that the deviation was caused due to a typographical error. On the basis of taxpayer reply, order Reference No. ZD070722011764I dated 22 July 2022 for dropping the proceedings under Section 73/74 has been issued to taxpayer by the Department, the system allowed for such data entry errors, which could have been avoided with proper validation controls.

C. Action taken before issue of Audit Queries

As summarized in Table 1.3.5 *ibid*, the Department had already taken action in 25 cases (**Annexure 1.15**), constituting 9 *per cent* of the 267 responses received.

D. Other valid explanation

As detailed in Table 1.3.5 (column Number 8) *ibid*, in 69 cases Department had given valid explanations and cases are shown in (**Annexure 1.16**).

E. Department's reply without appropriate evidence

As detailed in column number 22 of Table 1.3.5 *ibid*, in 4 cases (**Annexure 1.17**), Department did not provide the appropriate documentary evidence to Audit and was thus not amenable to verification.

Recommendation: *Department may consider introducing validation controls in GST Returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.*

1.3.7.3 Detailed audit of GST returns

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

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-India data analysis, pertaining to Delhi state jurisdiction a detailed audit of GST returns was also conducted as part of this review. A risk-based sample of 47 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR 9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in CAG field audit office. Based on desk review results, detailed audit was conducted in field formations of state tax Department by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices etc. to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

As brought out in the previous paragraph, detailed audit involved a desk review of GST returns and other basic records to identify risks and red flags, which were followed by field audit to identify the extent of non-compliance by taxpayers and action taken by the field formations of state tax Department. Non-compliance by taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of ITC and discharge of tax payments. Out of the 47 cases that were audited either fully or partially, Audit observed 97 compliance deficiencies with a revenue implication of ₹ 163.82 crore. Out of these, the Department reported ITC reversal of ₹ 92.25 crore in one case and recovery of ₹ 0.16 crore in two cases. The audit findings are, therefore, categorized under a) Returns, b) Utilization of ITC and c) Discharge of tax liability.

Scope limitation (non-production/partial production of records)

The details of non-production of records in the following paragraphs:

- a) **Non-production of records:** Audit conducted desk review of 47 cases selected for detailed audit and identified the risks related to excess ITC and tax liability mismatches etc. for detailed examination. On the ITC dimension, the mismatches were identified by comparing GSTR 3B with GSTR 2A and GSTR 9, and the declarations made in Table 12 and 14 of

GSTR 9C. On the tax liability dimension, the mismatches were identified by comparing GSTR 3B with GSTR 1 and GSTR 9 and the declarations in Table 5, Table 7, and Table 9 of GSTR 9C. However, in 40 cases having risk exposure relating to excess/irregular ITC availment and un-discharged liability of ₹ 46.89 crore, the Department did not produce granular records such as the supplementary financial ledgers, invoices, agreement copies etc. required for examining the causative factors for mismatches of ITC and tax liability etc. based on returns only. Other risky areas like misclassification of supplies, undervaluation of supplies etc. could also not be checked by the Audit in the absence of requisite records. The case-wise listing of non-production records is given in **Annexure 1.18**.

I. Returns

Detailed audit of returns filed by a sample of 47 taxpayers disclosed that interest payments were not discharged by 16 taxpayers in the returns which are brought out below:

a) Non-payment of interest by taxpayers

Audit observed that in 18 cases, constituting 38 *per cent* of the 47 cases audited, that taxpayers had either filed their returns late, discharged liability by filing annual return i.e. GSTR-9, but interest payments amounting to ₹ 0.45 crore were not discharged. Out of these 18 cases (**Annexure 1.19** and **1.20**), the Department furnished reply (October and November 2022) in four cases, out of which in two cases, the Department recovered an amount of ₹ 0.16 crore at the instance of Audit. Reply of the Department was awaited (June 2023) in remaining 14 cases.

One illustrative cases is given below:

- i. One Taxpayer (GSTIN-07XXXXXXXXXX2ZF) had made voluntary payment of ₹ 0.38 crore for the tax liability shown in GSTR9 for the year 2017-18 in cash vide DRC 03 on 14 February 2020. However, the taxpayer did not pay interest amounting to ₹ 0.14 crore on delayed payment of tax as prescribed under Section 50(1) of DGST Act, 2017 (**Annexure 1.19**). Response of the Department was sought in September 2022 and March 2023 and reply of the Department was awaited (June 2023).

II. Utilisation of Input Tax Credit

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes paid on input supplies can be used to set-off for payment of taxes on outward supplies.

Section 16 and 17 of the DGST Act prescribe the eligibility and conditions to avail ITC. Credit of CGST cannot be used for payment of SGST/UTGST and credit of SGST/UTGST cannot be utilised for payment of CGST. Rule 36 to 45 of the DGST Rules prescribes the procedures for availing and reversal of ITC.

a) Non Reversal of ITC shown reversed in Return GSTR-9

Every registered person other than those referred to in the proviso to sub-section (5) of Section 35 of DGST Act, 2017, other than an Input Service Distributor, a person paying tax under Section 51 or Section 52, a casual taxable person and a non-resident taxable person, shall furnish an annual return.

Audit observed compliance deficiencies in 5 cases out of 47 cases where taxpayers had not reversed ITC of ₹1.72 crore and also liable to pay interest of ₹ 0.91 crore thereof. The deficiencies were mainly on account of ITC shown reversed in return GSTR-9 but same was not reversed by the taxpayers through GSTR 3B. Interest calculated under Section 50(3) of DGST Act, 2017 is detailed in **Annexure 1.21**. Reply in all cases was awaited (June 2023).

One illustrative case is given below:

- i. One Taxpayer (GSTIN- 07XXXXXXXXXX1ZU) under jurisdiction of Ward-44 had shown the ITC of ₹ 1.22 crore IGST as reversed under Table 12 of GSTR 9 of the year 2017-18. However, ITC shown as reversed was neither reversed in Electronic Credit Ledger by debiting the same nor such reversal was done through GSTR-3B of the subsequent Year by the taxpayer. Taxpayer was also liable to pay interest of ₹ 0.64 crore under Section 50(3) of DGST, Act-2017 calculated on ITC not reversed. Response of the Department was sought in October 2022 and March 2023 and reply of the Department was still awaited (June 2023)

b) Excess availing of ITC under Reverse Charge Mechanism

Rule 85(4) of DGST rules 2017 stipulates that the amount payable on reverse charge basis under the DGST Act shall be paid by debiting the electronic cash ledger and Section 16(1) of the Act provides for availing of ITC thereof. Furthermore, as per Notification No. 20/2017-Central Tax (Rate) New Delhi, dated 22 August 2017 of Ministry of Finance, GoI, a Goods Transport Agency (GTA), who opts for Reverse Charge Mechanism (RCM) and transfers the liability to pay GST at 5 *per cent* to the recipient of service, was not allowed to claim Input Tax Credit (ITC) on goods and services used in supplying the services.

Audit observed non-compliance in 4 cases out of 47 cases amounting to ₹ 0.44 crore and were also liable to pay interest of ₹ 0.23 crore thereof where taxpayers had either claimed excess ITC under RCM than paid or claimed inadmissible ITC in contravention to aforesaid notification (**Annexure 1.22**).

Reply in all cases was awaited (June 2023).

Two illustrative cases are given below:

- (i) One Taxpayer (GSTIN-07XXXXXXXXXX1ZZ0) under jurisdiction of Ward-208 paid tax of ₹ 0.63 crore as per Table 6.1B of GSTR-3B of year 2017-18 under reverse charge and claimed ITC of ₹ 0.78 crore thereof and hence, claimed excess ITC of ₹ 0.15 crore under RCM. Taxpayer was also liable to pay interest of ₹ 0.08 crore due to excess ITC claimed under RCM.

Response of the Department was sought in October 2022 and March 2023 and reply of the Department was awaited (June 2023).

- (ii) Another taxpayer (GSTN 07XXXXXXXXXX1ZL) under jurisdiction of Ward-105 during the period August 2017 to December 2017 opted for supplying services on RCM basis. Aforesaid notification no. 20/2017 clearly states that the GTA who opt for Reverse Charge Mechanism (RCM) and transfers the liability to pay GST at the rate of 5 per cent to the recipient of service, was not allowed to claim Input Tax Credit (ITC) on goods and services used in supplying the services. However, it was noticed that the taxpayer claimed inadmissible ITC amounting to ₹ 0.12 crore during the said period in contravention above said notification. In addition, the taxpayer was also liable to pay interest towards claim of inadmissible ITC under RCM which worked out to be ₹ 0.06 crore (from 05.02.2020 to 31.12.2022, 1060 days). Thus, the total amount due from taxpayer was ₹ 0.18 crore. The Department vide its letter dated 4th October 2022 forwarded reply of the taxpayer which was not relevant to the audit objection.

Further, response of the Department was sought in October 2022 and March 2023 and reply of the Department was awaited (June 2023).

- c) **All other observations relating to ITC where additional records were not provided and only mismatch details through analysis could be observed :-**

Audit observed 43 non-compliance deficiencies in 47 cases amounting to ₹ 125.84 core. The deficiencies were mainly on account of mismatch of ITC availed as per returns GSTR 3B and GSTR 9 with ITC available in GSTR 2A, Non-reversal of ITC as per Rule 42 of DGST Rules 2017, wrong apportionment of credit and excess availment of ITC on Input Service Distribution. Out of 43 deficiencies, in one case under category of non-reversal of ITC, the taxpayer (07XXXXXXXXXX1ZK) reversed (November 2022) the excess ITC of ₹ 92.25 crore pertaining to nil/exempt supply at the instance of Audit.

Department furnished reply (September-November 2022) in six cases. Reply in remaining 37 cases was awaited (June 2023).

Observations relating to mismatch in ITC are shown in **Table-1.3.9**.

Table-1.3.9: Mismatch in input tax credit claimed by taxpayers

Sl. No.	Parameter	No. of cases	No. of Wards	Amount of mismatch (₹ in crore)	Remarks
1	ITC mismatch between GSTR-2A and GSTR-3B /GSTR-9: The ITC available as per GSTR-2A was compared with the ITC availed under GSTR-3B /GSTR-9 return. (Annexure-1.23)	30	21	22.21	On being pointed out, (October 2022 and March, 2023), Department replied that DRC-07 issued in one case and DRC 01 issued in four cases. The response of the Department was awaited in 25 cases (June 2023).
2	Non/short reversal of ITC availed for exempt and non-GST supplies: As per Section 17(2) of Delhi GST Act 2017, read with Rules 42 of Delhi GST Rules 2017, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies. (Annexure-1.24)	10	8	102.36	On being pointed out, (September 2022-March 2023). In one case, the Department replied that the taxpayer reversed the excess ITC of ₹ 92.25 crore. In two cases reply submitted by the Department were not satisfactory. Further response was awaited (June 2022) Replies in remaining cases were awaited (June 2023).
3	Excess ITC availed due to wrong apportionment of Credit. Section 17(4) of DGST Act-2017, a banking company or a financial institution including a non-banking financial company shall have the option to either comply with the provisions of sub section(2), or avail of every month, an amount equal to fifty per cent of the eligible ITC on inputs. However two taxpayers (Annexure 1.25) claimed ITC in excess of fifty percent in contravention to the said provisions of the aforesaid Act.	2	2	1.10	Response of the Department was sought (between September-2022, October-2022 and in March-2023) Reply of the Department was still awaited (June 2023).
4	Mismatch in availing of ITC under Input Service Distribution credit: As per Section 20(2) of Delhi GST Act 2017, ISD may distribute the credit available for distribution in the same month in which it is availed.	1	1	0.17	The Taxpayer (GSTN-07XXXXXXXXXX1ZR) claimed ITC under ISD amounting to ₹ 0.17 crore in the GSTR 9 of the year 2017-18. Scrutiny of GSTR 2A for year 2017-18 revealed that no such credit has been distributed to the taxpayer. The issue was pointed out in October 2022 and March 2023, reply of the Department was awaited (June 2023).

(III) Discharge of tax liability

The taxable event in case of GST is supply of goods and/or services. Section 9 of the DGST Act, 2017 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 DGST Act, 2017 and at such rates not exceeding 20 *per cent* under each Act i.e., CGST Act and SGST Act. Section 5 of the IGST Act, 2017 vests levy and collection of IGST on interstate supply of goods and services with Central Government with a maximum rate of 40 *per cent*.

a) Short Discharge of Tax liability

Audit observed (May-October 2022) compliance deficiencies in 13 cases out of 47 cases, amounting to ₹ 7.05 crore, due to short discharge/non-discharge of tax liability (excluding liability under RCM) based on the annual returns (GSTR-9). Taxpayers were also liable to pay interest of ₹ 3.69 crore under Section 50(1) of DGST Act, 2017 thereof. Cases along with interest are shown in **Annexure 1.26**.

Department issued DRC-01 in three cases (September-December 2022) and DRC-07 (December 2022) in one case. Reply in remaining nine cases was awaited (June 2023)

One illustrative case is given below:

- i. Taxpayer (GSTIN-07XXXXXXXXXX1Z4) under jurisdiction of Ward-33 had shown Liability (excluding liability under RCM) of ₹ 1.8 crore in annual return (GSTR-9) during 2017-18 but discharged the tax liability of ₹ 0.04 crore. Thus, taxpayer short discharged his tax liability by ₹ 1.76 crore. Taxpayer was also liable to pay interest of ₹ 0.92 on the tax not paid.

Response of the Department was sought in October 2022 and March 2023 and same was awaited (June 2023).

b) Tax payment under Reverse Charge Mechanism

As per the provisions of Section 9(3) of DGST Act, 2017 and Section 5(3) of IGST Act, 2017, the Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of DGST Act, 2017 shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

Audit observed (May-October 2022) compliance deficiencies in 3 cases out of 47 cases, amounting to ₹ 0.06 crore, due to taxpayers incorrectly discharging tax payments under the Reverse Charge Mechanism leading to short levy of tax and taxpayers were also liable to pay interest of ₹ 0.03 crore under Section 50(1) of DGST Act, 2017 thereof. Cases along with interest are shown in **Annexure 1.27**.

Reply of the Department in all cases was awaited (June 2023).

One Illustrative case is given below:

Taxpayer (GSTIN-07XXXXXXXXXX2ZF) under jurisdiction of Ward 203 had shown liability of ₹ 0.19 crore under table 4G (Reverse Charge Mechanism) in GSTR-9 but discharged liability of ₹0.16 crore as per Table 6.1B of GSTR-3B during the year 2017-18. Thereby, the taxpayer short discharged liability by ₹ 0.03 crore under RCM. Taxpayer was also liable to pay interest of ₹ 0.02 crore on the tax not paid. Response from the Department was sought in October 2022 and March 2023 and reply of the Department was awaited (June 2023).

c) All other observations relating to discharge of tax liabilities were based on data analysis as records were not provided.

i. Short Discharge of Tax liability

Audit observed (May-October 2022) compliance deficiencies in 11 cases out of 47 cases, amounting to ₹ 23.40 crore, due to short discharge/non-discharge of tax liability based on monthly returns (GSTR-1 and GSTR-3B). Cases are shown in **Annexure 1.28**. Reply of the Department was awaited in all cases (June 2023) except in one case in which the Department issued DRC-01 (September 2022).

One illustrative case is given below:

Taxpayer (GSTIN-07XXXXXXXXXX1ZP) under jurisdiction of Ward-84 had shown a liability of ₹ 17 crore in Form-GSTR-1 but discharged the tax liability of ₹ 1.24 crore only through GSTR-3B during the year 2017-18. Thereby, the taxpayer short discharged his tax liability by ₹ 15.77 crore.

Response of the Department was sought in October 2022 and March 2023, and same was awaited (June 2023).

Recommendation: *Considering the significant deficiencies, the Department may initiate remedial measures before they get time barred.*

1.3.7.4 Non furnishing of replies by the Department

Audit had issued 97 number of observations to the Department under detailed audit, out of these, the Department furnished reply in 15 cases. In 82 cases reply of the Department is still awaited despite repeated reminders (March 2023 and April 2023) and exit conference (April 2023). Further, out of 308 observations issued under limited audit, replies of 41 audit observations were also not

received (June 2023). Timely submission of replies by the Department helps to take the audit observation to logical conclusion therefore the Department needs to make more efforts to submit timely replies.

Recommendation: Department may instruct its field formations to provide timely response to audit observations.

1.3.8 Inadequacy of manpower

For efficient functioning of the Department, proper manpower planning to meet its objectives and its proper deployment is necessary.

The sanctioned and working strength of manpower in the Department in respect of adjudicating authority (Assistant Commissioner and GSTO) and other supporting staff (Inspector) during the years 2017-18 to 2020-21 is given in **Table-1.3.10**.

Table-1.3.10: Sanctioned and Working strength

Year	Name of the posts	Number of sanctioned posts	Actual strength	Number of vacant posts	Percentage of vacant posts
2017-18	Adjudicating authority	300	239	61	20.33
	Supporting staff (Inspector)	127	100	27	21.25
2018-19	Adjudicating authority	300	190	110	36.66
	Supporting staff (Inspector)	127	54	73	57.48
2019-20	Adjudicating authority	300	187	113	37.66
	Supporting staff (Inspector)	127	79	48	37.79
2020-21	Adjudicating authority	300	160	140	46.66
	Supporting staff (Inspector)	127	81	46	36.22

Source: Information provided by the Department of Trade and Taxes.

It can be seen that during 2017-18 to 2020-21, the vacant posts in respect of Adjudicating authority ranged between 20.33 per cent and 46.66 per cent. Further, the vacant posts in respect of supporting staff ranged between 21.25 to 57.48 per cent. Absence of adequate manpower has impacted the working efficiency of the Department which is evident in the slow pace of scrutiny of returns, lack of action in cases of cancellation of registrations, etc.

1.3.9 Conclusion

The Compliance Audit on “Department Oversight on GST Payments and Return Filing” was undertaken in the context of varying trend of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other Departmental oversight functions.

This audit 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 2017-18. The audit entailed assessing

the oversight functions of Department of Trade and Taxes at two levels – at the data level through global data queries and at the functional level with a deeper detailed audit both of the Wards and of the GST returns, which involved accessing taxpayer records. The audit sample, therefore, comprised 10 Wards under Ward audit for the years 2017-21, 308 high value inconsistencies across 14 parameters selected through global queries under centralised (limited) audit, and 47 taxpayers selected on risk assessment under detailed audit of GST returns for the year 2017-18.

The Department formulated a Standard operating Procedure in April 2022 for scrutiny of returns, wherein proper officers were instructed to follow the procedure mentioned therein to conduct the scrutiny of returns for the year 2017-18 and 2018-19. A review of the 10 Wards disclosed that Department was not taking timely action on late filer/non-filer, did not conduct internal audit under Section 65 of DGST Act, 2017 conducted less scrutiny of returns, etc.

Further, out of the 308 high value data inconsistencies identified by Audit the Department responded in 267 cases. Of these, 85 cases constituting 31.83 *per cent*, had compliance deficiencies with a revenue implication of ₹ 1,702.53 crore. A relatively higher rate of deficiencies were noticed in unsettled liabilities, ITC mismatch, short/non-payment of interest, excess RCM ITC availed etc. While data entry errors caused the inconsistencies in 11 *per cent* of the cases, in nine *per cent* of the cases, the Department had already taken proactive action. The Department did not respond to 41 cases of inconsistencies, which had an identified risk exposure of ₹ 38.06 crore (on account of mismatch of ITC & undischarged liabilities) and ₹ 142.34 crore (on account of mismatch of turnover of ₹ 790.80 crore).

Detailed audit of GST returns also suggested significant non-compliance. Out of a sample of 47 taxpayers, in 40 cases, the granular taxpayer records were not forthcoming, which constituted significant scope limitation. These cases represented a risk exposure of ₹ 46.89 crore towards identified mismatches in ITC availment/tax payments. Out of the 47 cases that were examined either fully or partially, Audit observed 97 compliance deficiencies with a revenue implication of ₹ 163.82 crore (including interest of ₹ 4.86 crore). Out of these, the Department reported ITC reversal of ₹ 92.25 crore in one case and recovery of ₹ 0.16 crore in two cases. The main causative factors were availing of excess ITC due to mismatch in returns, non-payment of interest, non-reversal of ITC shown reversed in annual return (GSTR-9), non-reversal of ITC as per Section 17(2) of DGST Act 2017 read with Rule 42 of DGST Rules, 2017, wrong apportionment of credit, Short discharge of Tax liability, incorrect discharge of tax under RCM etc.

1.3.10 Recommendations

1. Department should pace up scrutiny of returns as per SoP and initiate action against cases whose scrutiny was completed but still pending for taking action and recovery may be initiated for pending demand.
2. Department should initiate audit of taxpayers under Section 65 and may envisage Manual/procedures also to carry out the audit.
3. Department should take prompt action against late/non filer of returns.
4. Department should strengthen the follow up action on non-filers of GSTR-10.
5. Department should urgently pursue the 41 cases of inconsistencies and deviations pointed out by Audit, for which responses have not been provided and intimate the results to Audit.
6. Department should consider introducing validation controls in GST Returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.
7. Considering the significant deficiencies, the Department should initiate remedial measures before they get time barred.
8. Department should instruct its field formations to provide timely response to audit observations.

1.4 Irregular claim of Input Tax Credit

The Assessing Authorities failed to verify the tax deposited by the selling dealers during assessment resulting in short levy of tax of ₹ 2.34 crore. In addition, interest of ₹ 1.82 crore and penalty of ₹ 2.34 crore were also leviable.

Section 9 (2) (g) of the Delhi Value Added Tax (DVAT) Act, 2004 stipulates that no tax credit shall be allowed to a dealer or class of dealers unless the tax paid by the purchasing dealer has actually been deposited by the selling dealer with the Government or has been lawfully adjusted against output tax liability and correctly reflected in the return filed for the respective tax period. Section 86 (10) of the DVAT Act stipulates that any person who furnishes a return under this Act which is false, misleading or deceptive in a material particular shall be liable to pay by way of penalty a sum of ten thousand rupees or the amount of tax deficiency, whichever is greater. Interest shall also be liable under Section 42 (2) of the DVAT Act for default in making the payment of any amount.

During test check of records of 324 cases assessed between July 2017 and March 2021 pertaining to four Wards²⁸, Audit observed (between July 2020 to December 2021) that as per purchase summary (Annexure-2A) of 11 assesseees available on online portal of the Department of Trade and Taxes for the assessment years 2016-17 and 2017-18, these assesseees claimed Input Tax Credit (ITC) of ₹ 8.48 crore on local purchases of ₹ 79.17 crore. However, on cross-verification from sales summary (Annexure-2B), it was found that the selling dealers had shown sale of only ₹ 45.14 crore to the assesseees and output tax of ₹ 6.15 crore was paid for the respective tax periods. Therefore, the assesseees had shown irregular local purchase in the Annexure-2A and claimed inadmissible ITC.

Thus, failure of the Assessing Authorities in verifying the details of tax deposited by the selling dealers during assessment resulted in short levy of tax of ₹ 2.34 crore. In addition, interest of ₹ 1.82 crore (calculated up to May 2022) and penalty of ₹ 2.34 crore were also leviable.

The matter was reported to the Department (February 2023). Department accepted the facts and stated (April 2023) that five assesseees have been re-assessed and an additional demand of ₹ 2.32 crore including interest has been raised. Reply in remaining six cases is still awaited (July 2023).

²⁸ Ward 62, 63, 84 and 101