CHAPTER-V
REVENUE SECTOR

CHAPTER-V

REVENUE SECTOR

5.1 General

5.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the GoN during the financial year 2023-24, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-Aid received from the GoI during the year and the corresponding figures for the preceding four years are shown in **Table 5.1.1**.

Table 5.1.1: Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
1.	**Revenue raised by the State Government**					
	• Tax Revenue	958.23	1,022.74	1,300.89	1,461.88	1,598.09
	• Non-Tax Revenue	339.29	242.60	303.58	478.41	677.85
	Total	**1,297.52**	**1,265.34**	**1,604.47**	**1,940.29**	**2,275.94**
2.	**Receipts from the GoI**					
	• Share of net proceeds of divisible Union Taxes and Duties	3,267.08	3,409.25	4,875.46	5,400.19	6,426.82
	• Grants-in-Aid	6,858.69	6,752.84	6,971.21	6,758.78	7,452.37
	Total	**10,125.77**	**10,162.09**	**11,846.67**	**12,158.97**	**13,879.19**
3.	Total revenue receipts of the State Government (Sl. No. 1 and 2)	11,423.29	11,427.43	13,451.14	14,099.26	16,155.13
4.	**Percentage of 1 to 3**	11	11	12	14	14

Source: Finance Accounts of the respective years

The above table indicates that during the year 2023-24, the revenue raised by the State Government (₹2,275.94 crore) was 14 *per cent* of its total revenue receipts. The balance 86 *per cent* of the receipts during 2023-24 was from the GoI.

The details of tax revenue raised against the Budget Estimates (BEs) during the period 2019-24 are shown in **Table 5.1.2.**

Table 5.1.2: Details of the Tax Revenue against the Budget Estimates (BEs)

(₹ in crore)

Sl. No.	Head of revenue	2019-20		2020-21		2021-22		2022-23		2023-24		Percentage of 2023-24 over 2022-23
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
1.	State Goods and Services Tax	340.37	613.22	541.25	663.81	726.72	830.34	957.65	959.09	1,075.00	1,063.04	11
2.	Other Taxes on Income and Expenditure	37.50	30.64	37.50	31.24	37.50	30.50	32.94	30.13	32.94	29.98	0
3.	Land Revenue	0.81	1.04	1.20	1.09	1.25	1.23	0.85	1.09	1.38	1.34	23
4.	Stamps and Registration Fees	2.64	2.79	3.10	2.25	3.10	3.39	3.10	3.43	3.15	4.22	23

Sl. No.	Head of revenue	2019-20		2020-21		2021-22		2022-23		2023-24		Percentage of 2023-24 over 2022-23
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
5.	State Excise	5.10	3.24	5.50	4.54	5.50	3.32	3.20	4.40	3.25	4.55	3
6.	Taxes on Sales, Trade *etc.*	252.89	175.15	265.50	205.50	325.00	261.87	280.00	246.55	290.00	265.97	8
7.	Taxes on vehicles	121.04	113.93	131.72	93.29	145.00	141.04	115.00	187.64	135.00	198.48	6
8.	Taxes on Goods and Passengers	18.91	18.09	25.00	15.62	25.00	21.43	20.00	21.58	22.00	22.62	5
9.	Taxes on Duties and Electricity	0.09	0.08	0.11	5.40	0.10	7.77	4.75	7.97	7.00	7.90	(-)1
10.	Other Taxes and Duties on Commodities and Services	0.80	0.05	0.25	0.00	2.45	0.00	0.00	0.00	0.00	0.00	0
Total (Own Tax Revenue)		**780.15**	**958.23**	**1,011.13**	**1,022.74**	**1,271.62**	**1,300.89**	**1,417.49**	**1,461.88**	**1,569.72**	**1,598.10**	**9**

Source: Budget documents and Finance Accounts of the respective years

Key insights:

- During 2023-24, Goods and Services Tax (GST) collection of the State increased by 11 *per cent* from ₹959.09 crore in 2022-23 to ₹1,063.04 crore in 2023-24.
- Both 'Land Revenue' and 'Stamps and Registration Fees' increased by 23 *per cent* from ₹1.09 crore and ₹3.43 crore in 2022-23 to ₹1.34 crore and ₹4.22 crore respectively in 2023-24.
- Tax revenue under 'State Excise', 'Taxes on vehicles', 'Taxes on Goods and Passengers' and 'Taxes on Sales and Trade', observed a growth of three *per cent,* six *per cent,* five *per cent and* eight *per cent* respectively from previous year.
- There was decrease in revenue under 'Taxes on Duties and Electricity' by one *per cent* compared to the previous year.

Thus, the trend in the State's tax revenue indicates overall growth, with GST continuing to be the single largest contributor.

Details of the Non-tax revenue against the BEs raised during the period 2019-24 are shown in **Table 5.1.3.**

Table 5.1.3: Details of Non-Tax Revenue against the BEs raised during 2019-24

(₹ in crore)

Sl. No.	Head of revenue	2019-20		2020-21		2021-22		2022-23		2023-24		Percentage of 2023-24 over 2022-23
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	Actuals
1.	Interest Receipts	7.95	5.73	8.50	4.55	7.00	5.10	3.25	7.13	5.50	15.68	120
2.	Miscellaneous General Services	23.50	22.18	21.00	21.45	24.50	19.34	11.10	28.70	2.00	31.80	11

Sl. No.	Head of revenue	2019-20		2020-21		2021-22		2022-23		2023-24		Percentage of 2023-24 over 2022-23
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	Actuals
3.	Power	160.00	159.31	175.00	171.42	185.00	211.92	225.00	286.35	310.00	282.78	(-) 1
4.	Road Transport	8.50	8.43	8.90	3.24	9.00	5.45	5.10	7.92	6.80	8.91	13
5.	Forestry and Wildlife	11.00	13.72	12.50	11.55	14.25	19.07	15.00	26.60	20.00	30.81	16
6.	Housing	6.70	6.40	6.80	7.11	7.50	7.71	6.55	13.43	10.50	15.46	15
7.	Co-operation	0.10	1.41	2.25	3.03	1.65	1.80	1.90	0.25	1.90	0.13	(-) 48
8.	Roads and Bridges	1.40	0.73	1.62	0.51	0.75	1.17	0.80	0.63	0.50	1.23	95
9.	Other Administrative Services	6.75	2.86	7.00	1.87	6.00	3.45	1.30	4.48	2.10	6.29	40
10.	Others	103.12	118.51	28.66	17.87	27.76	28.57	20.67	102.92	21.53	284.76	177
Total (Non-Tax Revenue)		**329.02**	**339.29**	**272.23**	**242.60**	**283.41**	**303.58**	**290.67**	**478.41**	**380.83**	**677.85**	**41.69**

Source: Budget documents and Finance Accounts of the respective years

Key insights:

- The revenue receipts under the head 'Interest Receipts' increased by ₹8.55 crore from ₹7.13 crore during 2022-23 to ₹15.68 crore during 2023-24 due to increase in 'Minor Heads: 800- Other receipts, 195- Interests from Co-operative Societies and 110- Interest realised on investment of Cash balances'.
- The revenue receipts under the head 'Road and Bridges' increased by 95 *per cent,* from ₹0.63 crore to ₹1.23 crore.
- Similarly, revenue receipts under the head 'Other Administrative Services' rose by 40 *per cent*, from ₹4.48 crore to ₹6.29 crore.
- The revenue receipts under the head 'Co-operation' decreased by 48 *per cent* from ₹0.25 crore to ₹0.13 crore due to decrease in 'Minor Head: 800-Other Receipts'.

Non-Tax Revenue exhibited an increasing trend from the year 2020-21 onwards. The power sector continuing to remain the single largest contributor.

5.1.2 Goods and Services Tax

Goods and Services Tax (GST) was implemented with effect from 01 July 2017 on supply of goods or services or both. GST is concurrently administered by the Union (Central GST) and the States (State GST) on supply within the State while Integrated Goods and Services Tax (IGST) is levied on inter-State supply of goods or services or both.

The Central Goods and Services Tax (CGST) Act 2017, the Nagaland State Goods and Services Tax (NGST) Act 2017 and the Integrated Goods and Services Tax (IGST) Act 2017 and allied Rules of all the three Acts are applicable in the State of Nagaland.

Goods and Services Tax Network (GSTN), a non-Government Company set up by

Government of India provides both front-end and back-end services to Nagaland being a Model-II State. Front-end services provided to taxpayers include registration, return filing, and payment of tax, while back-end services include approval of registration, taxpayer detail viewer, refund processing and MIS reports.

Implementation of GST necessitated smooth transitional provisions which enable migration of all existing businesses to the new regime. The transitional provisions have been specifically incorporated in all the three GST Acts/Rules.

5.1.2.1 GST Registrations

As per Section 22 of the GST Act 2017 every supplier is liable to be registered under GST if their aggregate turnover exceeds ₹10[1] lakh in any financial year. This threshold was enhanced[2] (01 April 2019) to ₹20 lakh in respect of dealers dealing with sale of goods. The category wise registrations under GST as on March 2024 is shown in **Table 5.1.4.**

Table 5.1.4: Registered taxpayers under GST

Types of Taxpayers	Number of dealers	Percentage of total
Normal Taxpayers	8,202	77
Composition Taxpayers	1,961	18
Tax Deductors at Source (TDS)	361	3
Tax Collectors at Source (TCS)	110	1
Input Service Distributors (ISD)	3	0.03
Others (Casual, NRTP, OIDAR)	0	0
Total Registrants	**10,637**	**-**

Source: Information provided by State Taxation Department

The total registrations under GST in Nagaland as on March 2024 was 10,637 of which, normal taxpayers accounted for 77 *per cent*, TDS accounted for three *per cent* and others (including TCS, composition taxpayers and ISD) accounted for 19.03 *per cent*.

5.1.2.2 State GST Revenue

The comparison of budget estimates and the corresponding actual collection of GST during the period from 2018-19 to 2023-24 are shown in **Table 5.1.5.**

Table 5.1.5: Revenue from GST during 2018-19 to 2023-24

(₹ in crore)

Year	Budget Estimate (BE)	Revised Estimate (RE)	Actuals
	State GST	State GST	State GST
2018-19	250.00	301.21	469.64
2019-20	340.37	491.36	613.22
2020-21	541.25	462.94	663.81
2021-22	726.72	895.00	830.34
2022-23	957.65	975.00	959.09
2023-24	1,075.00	1,112.54	1,063.04

Source: Budget documents and Finance Accounts of the respective years

It could be seen from the above table that the actual collection of revenue from State GST during 2018-19 to 2020-21 was more than the target as projected in the revised

[1] Special category States

[2] Vide Notification No.10/2019-Central Tax dated 7 March 2019

estimates whereas State GST collection during 2021-22 to 2023-24 was short of the target as projected in the revised estimates for the respective years.

5.1.2.3 Trends of Integrated GST apportionment to the State

IGST collected will be apportioned between the Centre and the State where the goods or services are consumed. The revenue will be apportioned to the Centre at the CGST rate, and the remaining amount will be apportioned to the consuming State. The trends of IGST apportionment to the State are shown in **Table 5.1.6.**

Table 5.1.6: Integrated Goods and Services Tax

(₹ in crore)

IGST component	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
IGST apportioned to the State as per Section 17 of IGST Act, 2017	331.41	457.98	451.65	617.57	720.50	751.90
IGST provisionally/*ad-hoc* apportioned to the State	41.78	10.56	24.33	25.30	15.71	11.30

Source: Information provided by the Department

5.1.2.4 GST Return filing pattern

The filing of GSTR-1 and GSTR-3B returns is mandated under Section 37 and 39(1) of the NGST Act. The system envisages that both the returns are linked to enable the assessing officer to accurately assess the tax dues of the dealer, for a particular month.

The trends of filing of GSTR-1 and GSTR-3B as on 31 March 2024 for the period from April 2023 to March 2024, as compiled from the information furnished by the Department, is depicted in the following **Table 5.1.7.**

Table 5.1.7: Filing pattern of GSTR-1 and GSTR-3B

Return Type	GSTR-1			GSTR-3B				
Month	Due for filing	Return filed	Return filing *per cent*	Due for filing	Returns filed as on the last day of the report period	Return filing *per cent*	Returns filed by due date	*Per cent* filed by due date
April 2023	6,830	6,107	89	6,830	6,098	89	Data not available	Data not available
May 2023	6,915	6,185	89	6,915	6,173	89		
June 2023 (Monthly & Quarterly)	8,244	7,437	90	8,244	7,416	90		
July 2023	6,984	6,208	89	6,984	6,204	89		
August 2023	7,036	6,268	89	7,036	6,264	89		
September 2023 (Monthly & Quarterly)	8,335	7,439	89	8,335	7,459	89		
October 2023	7,047	6,246	87	7,047	6,226	88		
November 2023	7,108	6,246	88	7,108	6,227	88		
December 2023 (Monthly & Quarterly)	8,450	7,432	88	8,450	7,423	88		
January 2024	7,125	6,124	86	7,125	6,087	85		
February 2024	7,108	5,994	84	7,108	5,936	84		
March 2024 (Monthly & Quarterly)	8,509	6,394	75	8,509	6,143	72		

Source: Information provided by Department

Here are some key insights from **Table 5.1.7**:

1. Overall Filing Trends

- Filing percentages for both GSTR-1 and GSTR-3B mostly stayed in the 84-90 *per cent* range throughout April 2023 to February 2024, indicating high compliance. However, there was a significant drop in March 2024, when GSTR-1 compliance fell to 75 *per cent* and GSTR-3B compliance fell to 72 *per cent*.
- The filing patterns for GSTR-1 and GSTR-3B were closely linked, as both return types showed similar monthly filing percentages across the year.

2. Notable Monthly Observations

- The highest filing compliance was recorded in June 2023, when both GSTR-1 and GSTR-3B achieved 90 *per cent* filing rates.
- The lowest filing compliance occurred in March 2024, which saw a sharp drop of about 15 percentage points from the June 2023 peak.
- Filing rates gradually declined from October 2023, when compliance was in the 87 - 88 *per cent* range, to February 2024, when compliance had reduced to 84 *per cent*.

3. Filing by Due Date

- Data on returns filed by the due date was generally unavailable for most months, with only partial data available for GSTR-3B.
- The available GSTR-3B data shows that on-time compliance was slightly lower than total compliance, indicating that some taxpayers filed after the due date.
- The lack of comprehensive data on timely filing makes it difficult to analyse patterns of delayed filing behaviour.

4. Compliance Gaps and Risk Areas

- In most months, 10–16 *per cent* of registered taxpayers did not file returns at all.
- The sharp decline in March 2024 filing rates could indicate seasonal compliance lapses, taxpayer fatigue, or gaps in enforcement measures.
- Without timely filing data for most months, it is not possible to fully assess the risk of revenue leakage or the extent of penalties from late return filing.

5.1.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2024 on some principal heads of revenue amounted to ₹5.45 crore out of which ₹2.52 crore was outstanding for more than five years as shown in **Table 5.1.8.**

Table 5.1.8: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2024	Amount outstanding for more than five years as on 31 March 2024
1.	Nagaland Value Added Tax	0.91	0.61
2.	Petroleum Tax	3.87	1.24
3.	Central Sales Tax	0.41	0.41
4.	Purchase Tax	0.00	0.00
5.	Professional Tax	0.03	0.03
6.	Nagaland Sales Tax	0.23	0.23
7.	GST	0.00	0.00
Total		**5.45**	**2.52**

Source: Departmental figures

As on 31 March 2024, arrears of ₹5.45 crore were pending with the departmental authorities of which recovery of ₹2.52 crore was pending for more than five years.

Recommendation:

The Department should review the arrears and take action for recovery in accordance with the law.

5.1.4 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the State Taxes Department in respect of Sales Tax/VAT on Sales, Trades, *etc.* as shown in **Table 5.1.9.**

Table 5.1.9: Arrears in assessments

Head of Revenue	Opening Balance of arrears in assessment as on 01 April 2023	New cases due for assessment during 2023-24	Total assessment due	Cases disposed-off during 2023-24	Balance at the end of 31 March 2024	Percentage of cases disposed to the total assessment due
	(in number)					(in *per cent*)
1	2	3	4	5	6	7 (5 to 4)
Taxes/VAT on Sales, Trades, *etc.*	548	110	658	555	103	84

Source: Departmental figures

The arrears in assessment decreased by 81 *per cent* from 548 to 103 cases with the addition of 110 cases, which became due for assessment during 2023-24 and 555 cases were disposed-off (84 *per cent* of the total assessment due) during the year.

5.1.5 Pendency of Refund Cases

The number of refund cases under Sales Tax/NVAT and State GST pending at the beginning of the year 2023-24, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2023-24 as reported by the Department as shown in **Table 5.1.10**.

Table 5.1.10: Details of pendency of refund cases

Sl. No.	Particulars	Sales Tax/VAT		State GST	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
1.	Claims outstanding at the beginning of the year	-	-	44	4.65
2.	Claims received during the year	-	-	46	7.01
3.	Refunds made during the year	-	-	75	7.54
4.	Refunds rejected during the year	-	-	03	1.02
5.	Balance outstanding at the end of the year	-	-	12	3.10

Source: Information furnished by the Department

As can be seen from **Table 5.1.10** above, out of the total 90 pending refund cases valued at ₹11.66 crore under the State GST, 75 cases valued at ₹7.54 crore (65 *per cent*) were refunded and three cases valued at ₹1.02 crore were rejected. Out of the 75 refund cases settled during the year, the Department made an interest payment of ₹15.00 for one case. The balance 12 cases involving ₹3.10 crore (27 *per cent*) under the State GST were yet to be refunded as of March 2024.

Under Section 56 of the NGST Act, the Taxation Department is liable to pay interest at the rate of six *per cent* per annum, if any tax ordered to be refunded to the applicant is not refunded within 60 days from the date of receipt of application.

Recommendation:

The Department may expedite the pendency of refund cases to avoid the interest payment.

5.1.6 Cases of evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Department, cases finalised and the demands for additional tax raised were requisitioned (July 2024) from the Commissioner of State Taxes, Nagaland, Dimapur. The Commissioner of State Taxes, Nagaland, Dimapur replied (August 2024) that no evasion of tax was detected.

5.1.7 Response of the Government/Departments towards Audit

The Accountant General (Audit), Nagaland conducts periodical inspection of the Government departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and which are not settled on the spot, 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/Departments are required to promptly comply with the observations contained in the IRs, rectify the defects, omissions and report compliance through initial reply to the Accountant General (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Department and the Government for response. If replies to such serious and important audit observations are not found acceptable/convincing, these are included in the Report of the Comptroller and Auditor General (C&AG) of India.

IRs issued upto March 2024 revealed that 329 paragraphs involving ₹2,320.25 crore relating to 60 IRs remained outstanding. Such details along with the corresponding figures for the preceding two years are shown in **Table 5.1.11.**

Table 5.1.11: Details of outstanding audit observations

Particulars	March 2022	March 2023	March 2024
Number of outstanding IRs	91	94	60
Number of outstanding audit observations	392	402	329
Amount involved (₹ in crore)	408.93	411.36	2,320.25

Source: IRs of Revenue Sector

5.1.7.1 Outstanding Inspection Reports and Audit Observations

The Department-wise details of the IRs and audit observations outstanding as on 31 March 2024 and the amount involved are shown in **Table 5.1.12.**

Table 5.1.12: Department-wise details of IRs and audit observations outstanding

Sl. No.	Name of Department	Name of Receipts	No. of outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade, *etc.*	26	219	168.23
2.		Miscellaneous General Services/Lottery	04	22	2,140.49
3.	Transport	Taxes on Vehicles/Taxes on Goods & Passengers	28	70	11.51
4.	Forests & Environment	Forest & Wildlife	02	18	0.02
Total			**60**	**329**	**2,320.25**

Source: IRs of Revenue Sector

The pendency of IR due to non-receipt of replies was indicative of the fact that the Heads of Offices/Departments had not initiated action to rectify the defects, omissions and irregularities pointed out by the Accountant General (Audit) in the IRs.

Recommendation:

The State Government may consider putting in place an effective system for prompt and appropriate response to audit observations.

5.1.7.2 Departmental Audit Committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees are constituted by the State Government. These Committees are chaired by the Secretaries of the Administrative Departments concerned and attended by the officers concerned of the State Government and officers of the Accountant General (Audit), Nagaland. The Audit Committees need to meet regularly in order to expedite clearance of the outstanding audit observations.

During 2023-24, no Audit Committee meeting was convened during the period to clear the outstanding audit observations.

Recommendation:

The State Government may ensure holding of regular meetings of the Audit Committees for ensuring effective remedial action on the audit observations.

5.1.7.3 Follow up on the Audit Reports-summarised position

The internal working system of the Public Accounts Committee (PAC), notified in December 2002, laid down that after the presentation of the Report of the C&AG in the Legislative Assembly, the departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately.

Nineteen paragraphs[3], two Performance Audits[4] and one Subject Specific Compliance Audit[5] (SSCA) included in the Reports of the C&AG on the Revenue Sector of the GoN for the years 31 March 2016 to 31 March 2022 were placed before the State Legislative Assembly between March 2017 and September 2023.

PAC discussed (during June 2023 to December 2023) eight paragraphs[6] pertaining to the Reports of the years March 2019 and March 2020. Of these, two paragraphs were dropped following the Department's reply. The PAC recommended two paragraphs for dropping and gave recommendations for the remaining four paragraphs which are pending presentation in the State Legislative Assembly. The Departments did not furnish *suo-moto* explanatory notes to the Principal Accountant General (Audit) through the Nagaland Legislative Assembly Secretariat in respect of paragraphs/reviews which appeared in the Audit Reports.

During 2023-24, seven PAC meetings were held, however, no Action Taken Note was received.

5.1.8 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the Departments/Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for Taxation Department was evaluated. The succeeding **Paragraphs 5.1.8.1 and 5.1.9** discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted and also the cases included in the Audit Reports for the years 2018-19 to 2023-24.

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3 Three paragraphs of Audit Report 2015-16, three paragraphs of Audit Report 2016-17, three paragraphs of Audit Report 2017-18, two paragraphs of Audit Report 2018-19, five paragraphs of Audit Report 2019-20 and three paragraphs of Audit Report 2020-22.

4 Two Performance Audits in Audit Report 2015-16 *viz.* Nagaland State Lotteries and Computerisation of Motor Vehicle Department.

5 One SSCA in Audit Report 2019-20 *viz.* Processing of refund claims under Goods and Service Tax.

6 Two paragraphs from Audit Report of 2018-19 and six paragraphs from Audit Report 2019-20.

5.1.8.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years and their status as on 31 March 2024 are shown in **Table 5.1.13.**

Table 5.1.13: Position of Inspection Reports

(₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value
2019-20	78	318	376.96	12	65	40.83	6	21	12.73	84	362	405.06
2020-21	84	362	405.06	2	11	3.03	2	20	11.17	84	353	396.92
2021-22	84	353	396.92	7	46	17.78	0	7	5.77	91	392	408.93
2022-23	91	392	408.93	3	15	3.92	0	5	1.48	94	402	411.37
2023-24	117	402	411.36	10	61	2,144.12	67	134	235.23	60	329	2,320.25

Source: IRs of Revenue Sector

It is evident from the above table that against 78 outstanding IRs with 318 paragraphs as on 01 April 2019, the number of outstanding IRs decreased to 60 with 329 paragraphs at the end of March 2024.

> ***Recommendation:***
>
> ***The Department needs to take adequate steps to settle the outstanding IRs to avoid accumulation of the IRs and paragraphs.***

5.1.9 Recovery in cases accepted by the Departments

The position of paragraphs included in the C&AG's Audit Reports of the last three years, those accepted by the Departments and the amounts recovered are shown in **Table 5.1.14.**

Table 5.1.14: Position of recovery of accepted cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year
2018-19	2	21.02	0	0.00	0.00
2019-20	5	31.42	0	0.00	0.00
2020-22	3	25.61	1	7.47	2.48
Total				**7.47**	**2.48**

Source: Previous C&AG Reports

Note: Audit Report for 2022-23 and 2023-24 not yet presented in the State Legislative Assembly.

From the above table, it may be seen that during the last three years, the Department accepted paragraphs with an amount of ₹7.47 crore, against which ₹2.48 crore (33 *per cent*) was recovered. Thus, it is evident that recovery progress, even in accepted cases, remained slow over the past three years.

> ***Recommendation:***
>
> ***The State Government may direct the Department to expedite the recovery of the dues involved in the accepted cases.***

5.1.9.1 Action taken on recommendations accepted by Government

The draft Reports of the Performance Audits (PAs) conducted by the Accountant General (Audit) are forwarded to the departments concerned/Government to furnish their replies. These PAs are also discussed during the exit conference and views of departments/Government are taken into account while finalising PAs for inclusion in C&AG Audit Reports. Besides, audit also makes recommendations against some specific issues brought out in the paragraphs wherever felt appropriate.

No PA on Revenue Sector was conducted during 2016-17 to 2022-24.

5.1.10 Audit Planning

The offices under various departments are, for the purpose of audit, categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* include critical issues in Government revenues and tax administration *i.e.*, budget speech, white paper on State Finances, Reports of the Finance Commission (State & Central), recommendations of the Taxation Reforms Committee, statistical analysis of revenue earnings during the past five years, factors of tax administration, audit coverage and its impact during past five-years.

Out of 22 auditable units, 12 auditee units were planned for audit during 2023-24. Out of which, a Subject Specific Compliance Audit on Departments' oversight on GST payments and Return filing (Phase-II) in Nagaland was conducted during 2023-24.

5.1.11 Coverage of this chapter

This chapter contains a Subject Specific Compliance Audit Paragraph on Departments' oversight on GST payments and Return filing (Phase-II) in Nagaland.

Subject Specific Compliance Audit

FINANCE (TAXATION) DEPARTMENT

5.2 Departments' oversight on GST payments and Return filing (Phase-II) in Nagaland

5.2.1 Introduction

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

Section 59 of the Nagaland GST (NGST) 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 with the taxpayer.

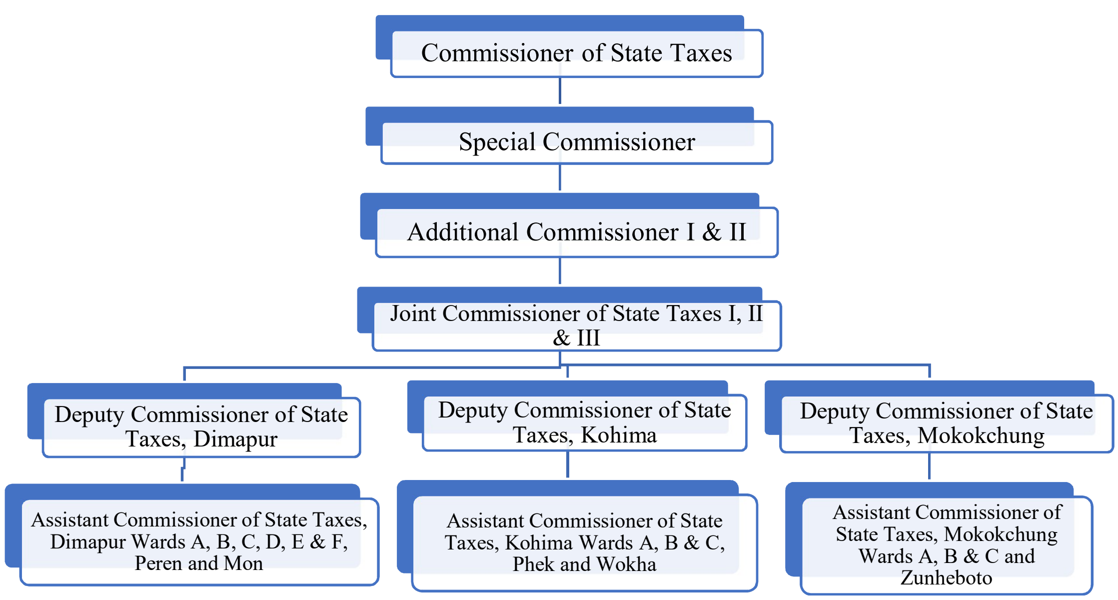
The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has had no tax liability during a particular tax period, it must file a 'Nil' return mandatorily. Further, Section 61 of the NGST Act read with Rule 99 of the Nagaland Goods and Service Tax Rules (NGST Rules), 2017 stipulate that the proper officer may scrutinise the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Commissioner of Taxes (Department), Government of Nagaland in this new tax regime.

5.2.2 Organisational set up

The Commissioner of State Taxes is the head of the State Taxes Department. He exercises overall control and supervision of the entire tax administration in the State. The Commissioner is assisted by one Special Commissioner, two Additional Commissioner and three Joint Commissioners in the Directorate. For efficient tax administration, the State is also divided into three Zones each headed by a Deputy Commissioner of State Taxes. The organogram of the State Taxes Department, Nagaland under GST regime is shown in **Chart 5.2.1**.

Chart 5.2.1: Organogram



Source: Departmental records

5.2.3 Audit objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the State Taxes Department with respect to tax compliance under GST regime 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 Departmental field formations were adequate and effective.

5.2.4 Audit methodology and scope

This SSCA was conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period from April 2018 to March 2021. Through data analysis, a set of 16 deviations were identified across the domains of input tax credit (ITC), discharge of tax liability, registration and return filing. Such deviations were followed up through a Centralised Audit (Limited Audit)[7], whereby these deviations were communicated to the relevant State departmental field formations and action taken by the jurisdictional formations on the identified deviations was ascertained without involving field visits. The Centralised Audit was supplemented by a Detailed Audit involving field visits for verification of records available with the jurisdictional field formations. Returns and related attachments and information were accessed through the State GST Portal as much as feasible to examine data/documents relating to taxpayers (*viz*. registration, tax payment, returns and other departmental functions). The Detailed Audit also involved accessing relevant granular records from the taxpayers such as invoices through the respective field formations. Besides, compliance functions of the departmental formations such as scrutiny of returns, action on late-filers and non-filers, cancellation of registration and internal audit were also reviewed in selected charges.

The review of the scrutiny of returns by the Department and verification of taxpayers' records covered the period from April 2018 to March 2021, while the audit of the functions of four selected Wards covered the period 2020-21. The SSCA covered only the State administered taxpayers. The field audit was conducted from July 2023 to November 2023.

The entry conference of this SSCA was held on 14 July 2023 with the Department in which the audit objectives, sample selection, audit scope and methodology were discussed. The exit conference was held on 10 July 2024 with the Department in which the audit findings were discussed. The replies received from the Department have been suitably incorporated in the relevant paragraphs.

5.2.5 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 SSCA comprised a set of deviations identified through data analysis for Centralised Audit that did not involve field visits; a sample of taxpayers for Detailed Audit that involved field visits and scrutiny of taxpayer's records at Departmental premises; and a sample of Wards for evaluating the compliance functions of the Wards.

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

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

(i) Part I- Audit of Wards

For the purpose of evaluation of oversight functions, four Wards[8] with jurisdiction over highest number of selected samples for Detailed Audit excluding those Wards which were covered for audit during Phase -I Audit were considered as the sample for audit of Wards.

(ii) Part II- Centralised Audit

The sample for Centralised Audit was selected by identification of high-value or high-risk deviations from rules and inconsistencies between returns through data analysis for evaluation of the adequacy and effectiveness of the scrutiny procedure of the State Taxes Department. Accordingly, a sample of 88 taxpayers pertaining to 13 Wards were selected for Centralised Audit under this SSCA.

(iii) Part III- Detailed Audit

Audit 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 15 taxpayers selected for Detailed Audit comprised of Large (L1[9] and L2[10]), Medium[11] and Small[12] strata taxpayers as well as taxpayers selected randomly. The details of audit sample for Centralised Audit, Detailed Audit and Audit of Wards are brought out in ***Appendix-5.2.1.***

5.2.6 Audit criteria

The source of audit criteria comprised the provisions contained in the NGST Act, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by the State Taxes Department relating to filing of returns, rates of tax on goods and services, payment of tax, availing and utilising ITC, scrutiny of returns and oversight of tax compliance also formed part of the audit criteria.

5.2.7 Audit findings

The audit findings are categorised into the following three categories:

- Oversight on Wards functions (Audit of Wards)
- Centralised Audit (Limited Audit)
- Detailed Audit

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8 Kohima Ward A, Wokha, Dimapur Ward C and Dimapur Ward D
9 Top 0.25 *per cent* of taxpayers based on turnover.
10 Next 0.25 *per cent* of taxpayers based on turnover
11 Taxpayers with a minimum turnover of ₹7.50 crore
12 remaining taxpayers with a minimum turnover of ₹2.50 crore

5.2.8 Oversight on Ward functions– Audit of Wards

The role of Wards is to provide oversight for ensuring compliance by taxpayers in respect of accuracy of the taxable value declared, calculation and payment of tax liabilities, filing of returns, ensuring compliance of GST Act. For evaluating the functions of the charges, the audit areas include (i) effectiveness of scrutiny of returns, (ii) effectiveness of internal audit, (iii) action on late-filers and non-filers and (iv) cancellation of registration. The detailed findings are portrayed in the following paragraphs.

5.2.8.1 Effectiveness of scrutiny of returns

Section 61 of the NGST Act, 2017, read with Rule 99, stipulates that the Proper Officer may scrutinise the return and related particulars furnished by the taxpayers to verify the correctness of the returns and information. Discrepancies noticed, if any, are to be communicated to the taxpayer for seeking their explanation. If the explanation offered is found acceptable by the Proper Officer, the proceeding shall be dropped, the taxpayer shall be informed accordingly and no further action in the matter shall be taken. However, if the taxpayer does not furnish a satisfactory explanation within 30 days of being informed (extendable by the Proper Officer) or does not take any corrective measures, the Proper Officer may initiate appropriate action, including the issue of demand notices under Section 73 or Section 74 of the Act. With a view to assessing whether due process was followed in the scrutiny of returns, Audit examined all the **106 cases** of scrutiny conducted by the four selected Wards and observed the following irregularities:

- **Deficiencies noticed in closed cases:** Out of 106 cases where returns were scrutinised by the Proper Officers in the four selected Wards, there were 24 cases which were closed by the Department. Audit scrutiny of these 24 closed cases revealed that in two cases, the tax liability was partially discharged by the taxpayers and in eight other cases, interest was not paid or partly paid as shown in ***Appendix-5.2.2***. The observation was communicated (October 2023) to the Department. No reply was provided to the Audit observation (October 2024).
- **Deficiencies in non-finalised cases:** During 2020-21, the Proper Officers scrutinised 106 cases and issued ASMT-10[13] in the four selected Wards. It was noticed that 82 cases were not finalised by the Department. Audit scrutiny of these non-finalised cases revealed that 13 cases had no discrepancies and that replies in 69 other cases had not been submitted by the taxpayers even after a lapse of 1,126 to 1,273 days from the date of issue of ASMT-10. Audit further observed that the Proper Officers had, however, not determined the tax and other dues under Section 73 or Section 74 of the Act. The tax/ITC implication in these cases was ₹7.75 crore as

[13] Conveying discrepancies in Returns filed by Taxpayers and seeking explanations to be submitted on the date specified in the notice

shown in ***Appendix-5.2.3***. On this being pointed out (October 2023), the Department stated (July 2024) that the Proper Officers had recovered ₹0.17 crore in seven cases. The Department may take necessary steps to ascertain and recover the tax and other dues on the remaining cases.

> ***Recommendation:***
>
> ***The Department may ensure a time-bound compliance to the detailed procedures for scrutiny of returns.***

5.2.8.2 Effectiveness of Internal Audit

Section 65 of the NGST Act, 2017, stipulates that the Commissioner or any officer authorised 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. Further, Section 2 (13) of the NGST Act defines "Audit" as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the Rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the Rules made thereunder.

Information regarding conduct of internal audit, guidelines and mechanism devised by the State Taxes Department for internal audit during the period 2020-21 was sought for by Audit (August 2023). In reply (September 2023), the Department stated that internal audit has not commenced. The reply was despite the issue being highlighted during GST Phase-I audit where the Department stated that the process of commencement of internal audit was underway. Since audit of registered person is a core compliance function of the Department in the era of self-assessment, there is a need for strict compliance to the provision of Section 65 of the NGST Act.

> ***Recommendation:***
>
> ***The Department may take prompt steps to conduct internal audit under Section 65 of the NGST Act so that action could be initiated against the defaulters before time-barring of cases.***

5.2.8.3 Action on late-filers and non-filers

Section 46 of the NGST Act, 2017, read with Rule 68 of the NGST Rules, 2017 requires issuance of a notice in Form GSTR-3A to taxpayers who fail to furnish returns (GSTR-1, GSTR-3B). Taxpayers who have been served notice under the above Act/Rules are required to furnish their returns within fifteen days of receipt of the notice. Further, Section 62 of the NGST Act stipulates that where a registered person fails to furnish his return even after the service of notice, the Proper Officer may proceed to assess the tax liability of the said person to the best of his judgement in ASMT-13 (best judgement assessment order). Audit accessed the profile of taxpayers and returns filed by taxpayers of the four selected Wards during 2020-21 from the GST portal. There were 10,638 GSTR-3B returns filed by due date, 3,141 GSTR-3B returns not filed and 8,659 GSTR-3B returns filed after due date. The irregularities observed by Audit during examination are given below:

(i) Notice in GSTR-3As was issued in 1,376[14] out of 3,141 cases of GSTR-3B non-filers. The Proper Officers had, however, not assessed the tax liability of the non-filers by invoking the best judgement assessment procedure. On this being pointed out, the Department replied (September 2023) that GSTR-3A notice was system generated[15] and sent directly to taxpayers through their portals. However, despite this automated intimation, Audit observed that returns were not filed (upto May 2024) even after a lapse of 485 to 683 days.

(ii) The Department did not initiate any action on the remaining 1,765 non-filers by issuing GSTR-3A and best judgement orders in ASMT-13[16]. The Department accepted (September 2023) the Audit observation. Subsequently, while reiterating acceptance (July 2024), the Department stated that those dealers who had not filed their returns even after notice being served and suspension/cancellation of registration, were non-functional taxpayers. The reply is not acceptable as the Department, did not furnish any documentary evidence to substantiate that the dealers were non-functional taxpayers.

Recommendation:

The Department may initiate action against late-filers and non-filers by assessing the tax liability through invoking of the ASMT-13 best judgment assessment order.

5.2.8.4 Cancellation of Registration

In the four Wards selected for audit, there were 76 cases of cancellation during 2020-21 of which 31 cases were *suo-moto* cancellations and 45 cases were cancelled on request by the taxpayers. Audit observations regarding cancellation of taxpayer registrations are as follows:

- **Date of cancellation prior to date of application:** Rule 20 of the NGST Rules, 2017 read with Circular No. 04/2018-GST dated 26 October 2018 provides that the taxpayer applying for cancellation of registration shall submit the application in Form GST REG-16 on the GST portal within a period of 30 days of the "occurrence of the event warranting the cancellation". The circular also specifies that the order for cancellation should be issued in Form GST REG-19 with the effective date of cancellation being the same as the date from which the applicant has sought cancellation in Form GST REG-16. In any case the effective date should not be a date earlier than the date of application for the same. Scrutiny of records revealed that 26 out of 45 cases of cancellation on taxpayers' request was

[14] Notices issued since November 2020

[15] Commenced since November 2020

[16] Order in best judgement assessment initiated by the Department if a tax payer (GST registered entities) fails to file returns within prescribed time limit.

cancelled with effect from dates prior to the date of application of the taxpayer as shown in ***Appendix-5.2.4.*** While accepting the Audit observation, the Department stated (July 2024) that the effective date of cancellation was mistakenly approved from dates prior to the date of application of the taxpayer.

- **Delay in issuance of cancellation order:** Rule 22 of the NGST Rules, 2017 states that cancellation order in Form REG-19 is to be issued within 30 days from the date of application made by the taxpayers or date of reply to REG-17 in case of *suo-moto* cancellation. Rule 22(3) of the NGST Rules, 2017 provides that where a person who has submitted an application for cancellation of his registration is no longer liable to be registered, the Department shall issue an order in Form GST REG-19, within a period of thirty days from the date of application or, as the case may be, the date of the reply to any show cause issued, cancel the registration with effect from a date to be determined by Department and notify the taxable person, directing him to pay arrears of any tax, interest or penalty including the amount liable to be paid under sub-section (5) of Section 29. Audit observed that in 27 out of 76 cases of cancellation, there were delays in issuance of Form REG-19[17] ranging from 01 to 833 days as shown in ***Appendix-5.2.5***. Audit further observed that the reason for delay in cancellation was because the Department did not monitor the cancellation process. While accepting the Audit observation, the Department stated (July 2024) that the Proper Officers overlooked the given timeframe since the notices were system generated leading to delays in cancellation.

- **Reason for dropping of proceedings for cancellation not in GSTN Portal:** The provisions of Rule 22(4) of the NGST Rules, 2017 regulate the issuance of orders in Form GST REG-20 for dropping the proceedings of GST registration cancellation process. Audit observed that in 31 *suo-moto* cases under four Wards, four cases of proceedings for cancellation of Registration were revoked after issue of Form REG-17 on the basis of the reply given by the taxpayers. Audit could, however, not examine whether the dropping of proceedings was done as per the relevant provisions of the NGST Rules as Form REG-20 was not available in the GST portal. In reply, the Department stated (July 2024) that the dealers' registration was revoked or proceedings dropped only after the dealer filed his GST returns along with an application for revocation. The reply is not acceptable as the Department should issue orders in Form GST REG-20 to drop the proceedings of the GST registration cancellation process.

- **Follow-up action on non-filing of GSTR-10:** As per Section 45 of the NGST Act, 2017, GSTR-10 has to be filed by the taxpayer within three months of the effective date of cancellation or the date of order of

[17] Order of cancellation

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[18] till 31 December 2018. Further, as per Section 46 of the NGST Act, 2017, 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, an assessment order in Form ASMT-13 under Section 62 of the NGST Act read with Rule 100 of the NGST Rules shall have to be issued to determine the liability of the taxpayer 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 of the date of service of the 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 issuance of order ASMT-13, then the Department may initiate proceedings under Section 78 and recovery under Section 79 of the NGST Act.

As mentioned in **Paragraph 5.2.8.4** above, there were 76 cases of cancellation of registration during 2020-21. Audit observed that GSTR-10 was filed in only 12 out of these 76 cases as shown in ***Appendix-5.2.6.*** Audit also observed that the Department had no information/reports to track the filing of GSTR-10 by the taxpayers and thus recovery proceedings of tax liability could not be initiated by the Wards. Audit further observed that best judgement orders in ASMT-13 were also not issued by the Department as a result of which tax liability, if any, could not be recovered. The observation was communicated to the Department in October 2023. In reply, the Department stated (December 2023) that most of the taxpayers were yet to file their final return in GSTR-10 as they were unaware that it must be filed within three months from the date of cancellation. The reply is not acceptable as the Department should have issued notices and initiate proceeding under Section 46 of the NGST Act for recovery of the tax due.

Recommendation:

The Department may adhere to the rules regarding the cancellation process to ensure that final returns in GSTR-10 are filed and the tax liability is discharged.

5.2.9 Centralised Audit

Audit analysed GST returns pertaining to April 2018 to March 2021 as made available by GSTN. Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 16 risk parameters, which can be broadly categorised into two domains - ITC and tax payments. Out of the

[18] Notification No F.NO.FIN/REV-3/GST/1/08(Pt-1)(Vol-1)/297 dated 26 October 2018.

13 prescribed GST returns[19], the following basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data:

- **GSTR-1**: Monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- **GSTR-3B**: Monthly summary return of outward supplies and 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-9**: Annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source/Tax Collector at Source, Casual Taxable Person and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- **GSTR-9C**: Annual audit form for all taxpayers having a turnover above ₹Five crore in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.
- **GSTR-2A**: A system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1/5, ISD details from GSTR-6, details from GSTR-7 and GSTR-8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

5.2.9.1 Audit findings based on Data Analysis

The data analysis pertaining to State jurisdiction on the 16 identified parameters and extent of deviations/inconsistencies observed are summarised in **Tables – 5.2.1A and 5.2.1B.**

Table –5.2.1A: Details of Data Analysis undertaken

Sl. No.	Algorithm used	Impact
	Domain: ITC	
1.	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A (5) (accrued on domestic supplies) excluding the reversals in Table 4B(2) but including the ITC availed in the subsequent year from Table 8C of GSTR-9 and blocked credits.	ITC mismatch between GSTR-2A and GSTR-3B

[19] 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)

Sl. No.	Algorithm used	Impact
2.	ITC available from GSTR-2A was compared with Table 8A of GSTR-9 which captures ITC available from GSTR-2A (as an auto-populated non-editable field) but excludes those entries in GSTR-2A where the supplier has not filed GSTR-1 by due date of its filing and also excludes the ITC for the period during which the recipient taxpayer was under composition scheme.	ITC passed on without supplier remitting tax
3.	ITC availed through Table 4 of GSTR-3Bs pertaining to period 2018-19 to 2020-21 filed after October of the following year	ITC availed in GSTR-3B filed after the cut-off period.
4.	ISD ITC availed in GSTR-9 Table 6G or GSTR-3B Table 4(A)(4) of recipient was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR-6 of distributor GSTINs	Incorrect availing of ISD credit
Domain: Annual Return and financial statements (FS)		
5.	Positive figure in GSTR-9C Table 12F and examination of reasons provided in Table 13 for mismatch	Mismatch of ITC availed between Annual returns and Books of accounts
6.	Positive figure in GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch	Reconciliation between ITC availed in Annual returns with expenses in financial statements
7.	Negative figure in GSTR-9C Table 9R and examination of reasons provided in Table 10 for mismatch	Mismatch in tax paid between books of accounts and returns
Domain: Tax and Interest payment		
8.	RCM payments in GSTR-9 Table 4G (tax payable) were compared with ITC availed in GSTR-9 Table 6C, 6D and 6F (ITC availed). In cases where GSTR-9 was not available, RCM payment in GSTR-3B Table 3.1(d) was compared with GSTR-3B 4(A)(2) and 4A(3). Greater of difference in GSTR-9 and GSTR-3B considered where both were available	Short payment of tax under RCM versus ITC availed in GSTR-3B/GSTR-9
9.	The greater of tax liability between GSTR-1 (Tables 4 to 11), considering advances and amendments, and GSTR-9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR-3B Tables 3.1(a) and 3.1(b). In cases where GSTR-9 was not available, GSTR-3B tax paid was compared with GSTR-1 liability.	Unsettled liabilities
10.	GSTR-3B Table 3.1(a)+(b) was compared with tax liability declared in the e-way bills and cases where GSTR-3B are less than e-way bills are identified.	Suppression of tax liability based on E-way bill verification
11.	The composition taxpayers whose turnover on all India basis (Central and State jurisdiction) under all GSTINs of the same PAN have crossed the turnover limit of ₹1.00 crore in 2018-19 and ₹1.50 crore in 2019-20 were identified.	Ineligible composition levy
12.	Taxpayers who have not filed GSTR-3B but have filed GSTR-1 or where GSTR-2A available, indicating taxpayers carrying on the business without discharging tax	GSTR-3B was not filed but GSTR-1 is available
13.	Interest calculated at the rate of 18 per cent on cash portion of tax payment on delayed filing of GSTR-3B *vis-à-vis* interest declared in GSTR-3B	Short payment of interest

Table-5.2.1B: Details of Data Analysis undertaken (Turnover mismatch)

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

Audit selected a sample of 88 cases from amongst top deviations/inconsistencies in each of the 16 parameters for the year 2018-19 to 2020-21. Audit observations were issued to the respective wards between July 2023 and August 2023 without further scrutiny of taxpayers' records. The audit check in these cases was limited to verifying the Department's action on the identified deviations/mismatches.

5.2.9.2 Summary of deficiencies noticed during Centralised Audit

Based on responses received in 88 cases of audit queries, the extent of compliance deviations in respect of the 16 parameters is summarised in ***Appendix-5.2.7.***

Audit observed deviations from the provisions of NGST Act in 88 cases involving mismatch amounting to ₹84.61[20] crore comprising of tax amount mismatches in 82 cases (93.18 *per cent*) and turnover mismatches in six cases (6.82 *per cent*). The Department provided responses in all the 88 cases.

The Department made recovery in five cases of tax mismatch involving ₹0.16 crore and ASMT-10 notices were issued in 53[21] cases involving ₹56.53 crore. The Department reply in 11[22] cases involving ₹ 20.55 crore was not acceptable to audit.

The reply of the Department in 19 cases, constituting 21.59 *per cent* of the audit sample of 88 cases, amounting to ₹20.98 crore was acceptable to Audit. Out of these 19 cases, five[23] cases amounting to ₹3.03 crore were due to data entry errors by the taxpayers, five cases amounting to ₹3.10 crore involved proactive action taken by the Department and the remaining nine[24] cases amounting to ₹14.85 crore had valid explanations for the deviations.

A few high value illustrative are given below:

(A) ITC Mismatch

(i) 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 in which summary of outward

[20] excluding six cases of turnover mismatch amounting to ₹16.11 crore
[21] including one case of turnover mismatch amounting to ₹3.07 crore
[22] Including three cases of turnover mismatch amounting to ₹9.90 crore
[23] Including one case of turnover mismatch amounting to ₹1.77 crore
[24] Including two cases of turnover mismatch amounting to ₹3.14 crore

supplies along with ITC declared and payment of tax are self-declared by the taxpayer.

To analyse the veracity of ITC utilisation, relevant data were extracted from GSTR-3B and GSTR-2A for the period 2018-19 to 2020-21, 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)[25], 4D (1) and Table 8C of GSTR-9.

A taxpayer (1XXXXXXXXXXXXXV) under Ward D, Dimapur availed ITC of ₹20.53 crore in GSTR-3Bs during 2018-19 to 2020-21, against the available ITC of ₹15.36 crore as per GSTR-2A. This resulted in mismatch of ITC of ₹5.17 crore. On this being pointed out (October 2023), the Department replied (July 2024) that the amount shown under Table 8C of GSTR-9 was the amount booked for availing ITC in the preceding year and not for the current year. The reply of the Department is not acceptable as the amount of mismatch is arrived at by Audit after considering the amount under Table 8C of GSTR-9. Further reply is awaited (October 2024).

(ii) ITC passed on without supplier remitting tax: In order to analyse the extent of compliance of ITC availment under Section 16(4) of the NGST Act, 2017 an attempt has been made to identify likely cases where the ITC would have been passed on by the taxpayer without the actual remitting the tax. For this purpose, the relevant data from GSTR-9 particularly pertaining to Table 8A of GSTR-9 was compared with the ITC data reflected in GSTR-2As.

A taxpayer (1XXXXXXXXXXXXX7) under Ward C, Dimapur availed ITC of ₹6.97 crore under GSTR-2A against the admissible ITC of ₹5.64 crore shown under Table 8A of GSTR-9 for 2018-21. This resulted in availing of ineligible ITC of ₹1.33 crore.

On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(iii) ITC availed in GSTR-3B filed after the cut-off period: As per Section 16(4) of the NGST Act, 2017 a registered person shall not be entitled to take ITC in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing GSTR-3B for the month of September following the end of the financial year to which such ITC pertains or furnishing of relevant Annual Return, whichever is earlier. Accordingly, if any GSTR-3B is furnished after such time, ITC availed therein becomes inadmissible. In order to review the extent of excess/ irregular ITC availed on this account, the ITC availed through Table 4 of GSTR-3Bs pertaining to 2018-19 to 2020-21 filed by the taxpayer beyond the due dates of September GSTR-3B return of the following year, were identified at data level.

[25] All other eligible ITC

A taxpayer (1XXXXXXXXXXXXU) under Ward E, Dimapur availed ₹10.52 crore as ITC in GSTR-3Bs filed after the limitation period for 11 months during 2018-19, which was inadmissible. On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(iv) Incorrect availing 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 was compared with the ITC transferred by the ISD in their GSTR-6. The methodology adopted was to compare Table 6G[26] of GSTR-9 or Table 4(A)(4)[27] of STR-3B of the recipient taxpayers under the jurisdiction of this State with the sum of Table 5A[28], Table 8A[29] and Table 9A[30] of GSTR-6 of the respective ISD.

A taxpayer (1XXXXXXXXXXXXX2), under Mon Unit availed ITC under ISD mechanism amounting to ₹44.77 lakh as per Table 6G and 7H of GSTR-9 against the actual amount of ₹20.32 lakh distributed by the ISD distributor as per tables 5(A) and 8(A) of GSTR 6. This resulted in excess availing of ITC under ISD mechanism of ₹0.24 crore. On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(B) Annual Return and Financial Statements

(v) **Mismatch of ITC availed between Annual returns and Books of accounts:** Table 12 of GSTR-9C reconciles ITC declared in Annual Return (GSTR-9) with ITC availed as per audited Annual Financial Statement or Books of Accounts. Table 12 (F) deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of the NGST Rules in form GSTR-9C for the years 2018-19 to 2020-21 were analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

A tax payer (1XXXXXXXXXXXXXY) under Ward F, Dimapur had availed ITC of ₹1.70 crore as per Table 12 (E) of GSTR-9C against ITC of ₹1.56 crore available as per Table 12 (D) of GSTR-9C. As such, there was mismatch in availment of ITC amounting to ₹0.14 crore between Annual Return and Financial Statements (as mentioned in Table 12F [31] of form GSTR-9C). Reconciliation statement in respect of

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[26] ITC received from ISD.
[27] Inward supplies from ISD.
[28] Distribution of the amounts of eligible ITC for the tax period.
[29] Distribution of input tax credit (Plus/Minus).
[30] Redistribution of ITC distributed to a wrong recipient.
[31] Taxpayer in table 12F of GSTR 9C for the year 2019-20 showed reason as follow:- The amount reflecting in table 12f is on account of input of FY 2019-20 reversed in FY 2020-21 and FY 2019-20 input availed in FY 20-21.

Table 12F was not found uploaded, though the taxpayer had mentioned in the remarks column under **Table 5.2.3**.

On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(vi) Reconciliation between ITC availed in Annual Returns with expenses in Financial Statements: Table 14 of GSTR-9C reconciles ITC declared in Annual Return (GSTR-9) with ITC availed on expenses as per audited Annual Financial Statement or Books of Accounts. Table 14T of GSTR-9C deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of NGST Rules in form GSTR-9C for the years 2018-19 and 2020-21 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.

In case of a taxpayer (1XXXXXXXXXXXXXB), under Wokha unit, Audit observed that during the years 2018-19 and 2020-21, there was unreconciled ITC of ₹ 0.23 crore between the Annual Return and Books of Account as per certified reconciliation statement submitted by tax payer in Table 14T of form GSTR-9C. There was no clarity in the reason for unreconciled ITC given at Table 15A of GSTR 9C.

On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(C) Tax and Interest payment

(vii) Short payment of tax under RCM versus ITC availed in GSTR-3B/ GSTR-9: 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. RCM payments in Table 3.1(d) of GSTR-3B/Table 4G of GSTR-9 was compared with ITC availed in Table no. 6C, 6D and 6F of GSTR-9. A top case is discussed below:

A taxpayer**(**1XXXXXXXXXXXXX1**)** under Ward C, Dimapur paid only ₹0.03 core in Table 4G of GSTR-9 against ₹1.08 crore availed in Table 6C and 6D during 2019-20 as RCM ITC. This resulted in short payment of tax under RCM- ITC amounting to ₹1.05 crore. On this being pointed out (October 2023), the Department stated (February 2024) that notice had been issued. Further reply is awaited (October 2024).

(viii) Unsettled liabilities: GSTR-1 depicts the monthly details of outward supplies of Goods or Services. Outward supply is also assessed by the taxpayer and mentioned in Annual Return GSTR-9 in the relevant columns. Further, taxable value and tax paid thereof is also shown in GSTR-3B.

To analyse the undischarged tax liability, the greater of tax liability between GSTR-1 (Tables 4 to 11), considering advances and amendments, and GSTR-9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR-3B Tables 3.1(a) and 3.1(b). In cases where GSTR-9 was not available, GSTR-3B tax paid was compared with GSTR-1 liability.

A taxpayer (1XXXXXXXXXXXXXC) under Ward E, Dimapur discharged a tax liability of ₹9.60 crore through GSTR-3B against a tax liability of ₹11.10 crore declared in GSTR-1/GSTR-9 during 2018-20, resulting in short payment of tax of ₹1.50 crore. On this being pointed out (October 2023), the Department stated (February 2024) that notice had been issued. Further reply is awaited (October 2024).

(ix) Suppression of tax liability based on E-way bill verification: To analyse the extent of short payment of tax, relevant data on tax liability declared in Tables 3.1(a) and 3.1(b) of GSTR-3B for the period 2018-19 to 2020-21 were compared with the disclosures made in E-Waybills.

A taxpayer (1XXXXXXXXXXXXX2) under Mon unit, declared tax liability of ₹67.42 crore in GSTR-3B against a tax liability of ₹71.10 crore shown in E-waybill during 2018-19 and 2020-21, leading to short payment of GST amounting to ₹3.68 crore.

On this being pointed out (October 2023) by Audit, the Department stated (July 2024) that notice under Section 61 (in form ASMT-10) was issued to taxpayer to explain the reasons for discrepancies. Further reply is awaited (October 2024).

(x) GSTR-3B not filed but GSTR-1 is available: As per Rule 61(2) of the NGST Rules, 2017 every registered person required to furnish return shall, subject to the provision of Section 49, discharge his liability towards tax, interest, penalty, fees or any other amount payable under the Act by debiting the electronic cash ledger or electronic credit ledger and include the details in the return in Form GSTR-3B. Effort was made through data analysis to identify those taxpayers who had not filed GSTR-3B but had filed GSTR-1 or whose GSTR-2A was available. The very availability of GSTR-1 and GSTR-2A and non-filing of GSTR-3B indicates that the taxpayers had undertaken/carried on the business during the period but have not discharged their tax liability. It may also include cases of irregular passing on of ITC.

A taxpayer (1XXXXXXXXXXXXXO) under Mon unit, did not file GSTR-3B for three months during 2019-21 despite being liable to pay tax of ₹0.33 crore as per GSTR-1. On this being pointed out (October 2023), the Department stated (July 2024) that the taxpayer discharged tax liability by filing returns for February 2020 and May 2020 on 14 September 2023. The reply was, however, silent on the return of March 2020 wherein the taxpayer had a liability of ₹0.14 crore.

(xi) Short payment of interest: As per Section 50(1) of the NGST Act, 2017, every person who is liable to pay tax in accordance with the provisions of this Act or the Rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18 *per cent*. Further, the State Government notified the rate of interest[32] on delayed payment at 18 *per cent.* The penal interest is payable only if cash ledger balance is utilised to pay taxes. The extent of short payment of interest on account of delayed remittance of tax during 2018-19 to 2020-21 was identified using the tax paid details in GSTR-3B and the date of filing of GSTR-3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

A taxpayer (1XXXXXXXXXXXXXU)**,** under Ward E, Dimapur delayed filing of GSTR-B returns for nine months during 2018-20 by 175 to 675 days. The short payment of interest of ₹1.30 crore on account of delayed tax payment of ₹4.36 crore during 2018-20 was communicated to the Department (October 2023). In reply, the Department stated (February 2024) that notice had been issued to the taxpayer. Further reply is awaited (October 2024).

(D) Turnover Mismatches

(xii) Under-declaration of taxable supplies by comparing TDS returns: Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) details are declared in GSTR-7 and GSTR-8 respectively, and communicated to the registered person in Table 9 of GSTR-2A. Cases were identified where the taxable value declared for outward taxable supplies (excluding zero rated, nil rated and exempted) in GSTR-3B were less than the net amount liable for TCS and TDS credit as per Table 9 of GSTR-2A.

A taxpayer (1XXXXXXXXXXXXXL) under Ward A, Dimapur declared a taxable value of ₹36.67 crore in GSTR-3B for 2019-20 against a taxable value of ₹55.87 crore based on TDS/TCS statement. The short declaration of taxable value of ₹36.67 crore resulted in short payment of GST amounting to ₹3.07 crore[33].

In reply, the Department stated (July 2024), that the difference was due to non-inclusion of the amount in the return for March 2019 and the deductor declaring invoice value as turnover while uploading TDS details, which included GST, instead of the taxable value. The reply of the Department is not acceptable as Audit observed that the difference was due to non-declaration TDS turnover during April and May 2019 and short declaration during June 2019 and September 2019 and the reply was not supported with invoices. Further reply is awaited (October 2024).

(xiii) Suppression of taxable value based on unbilled revenue declared in GSTR-9C: In order to review the extent of identified mismatch in taxable turnover reported in the Annual Return *vis-à-vis* the Financial Statement, the relevant data points pertaining to Table 5 of the GSTR-9C reconciliation statement pertaining to disclosures of unbilled revenue submitted by the taxpayer as required under NGST Rules, 2017 for the years 2018-19 to 2020-21 was analysed at data level.

[32] Notification No. F.NO.FIN/REV-3/GST/1/08(Pt-1)'V' dated 06 July 2017

[33] TDS is calculated at 16 per cent (18 *per cent* - 2 *per cent* (already deducted))

Table 5B figures of GSTR-9C for the years 2018-19 to 2020-21 which captures the unbilled revenue at the beginning of the financial year was compared with Table 5H of the previous GSTR-9C returns which captures the unbilled revenue of the end of the year to review the extent of identified mismatch in turnover declared in the Annual Return with the Financial Statements.

In case of a tax payer (1XXXXXXXXXXXXX9) under Ward D, Dimapur, comparison of Table 5B with Table 5H of Annual Return (GSTR 9C) for 2018-19 to 2020-21 showed a mismatch in unbilled revenue of ₹1.61 crore.

On this being pointed out (October 2023) by Audit, the Department forwarded (February 2024) reply of the taxpayer to Audit and reply is not acceptable as the mismatch turnover (unbilled revenue) was not declared in GSTR-9C Table 5(O).

5.2.9.3 Centralised Audit- Reasons for mismatches/deviations noticed

Considering the response of the Department to 88 mismatches pointed by Audit, reasons for mismatch/deviations were identified as (a) Deviation from GST law and rules, (b) Data entry errors, and (c) Action taken before issues of queries. These reasons along with relevant observations are discussed in the succeeding paragraphs:

A. Deviation from GST law and rules-accepted or action initiated by Department

Out of the 88 deviations summarised in **Paragraph 5.2.9.2**, the Department accepted the audit observations or initiated action in 58 cases involving mismatches amounting to ₹56.69[34] crore. Out of these cases, the Department has recovered ₹0.16 crore in five cases issued notice in Form ASMT-10 in 53 cases[35] for ₹56.53 crore. Details are given in ***Appendix-5.2.8.***

Illustrative case: ITC mismatch between GSTR-2A and GSTR-3B

A taxpayer (1XXXXXXXXXXXXXY) under Ward E, Dimapur availed ITC of ₹18.20 crore in GSTR-3B during 2018-20 against the available ITC of ₹15.01 crore in GSTR-2A. This resulted in excess ITC claim of ₹3.19 crore. On this being pointed out, the Department stated (February 2024) that notice had been issued. Further reply is awaited (October 2024).

B. Cases where Department's reply was not acceptable to Audit

The Department did not accept 11 out of 88 deviations pointed out by Audit. In these 11 cases, the Department's reason for not accepting the audit observations was not acceptable to Audit. Details of these cases along with the audit rebuttal are featured in ***Appendix –5.2.9***.

34 Including one case of turnover mismatch amounting to ₹3.07 crore

35 Including one case of turnover mismatch amounting to ₹3.07 crore

Illustrative case: Under-declaration of taxable supplies by comparing TDS returns

A taxpayer (1XXXXXXXXXXXXXC) under Ward D, Dimapur received a TDS amount of ₹0.13 crore in GSTR-2A against a taxable value of ₹6.71 crore during February 2019. However, the taxpayer did not file GSTR-3B, resulting in an undischarged tax liability of ₹1.07 crore[36]. On this being pointed out (October 2023), the Department replied (July 2024) that the taxpayer received payment for work executed for the Chief Engineer (R&B), Public Works Department, Nagaland on a DPR prepared based on SOR 2016, where there was no provision for GST. It was also stated that the taxpayer had requested the Chief Engineer to release the GST component, as TDS on GST was deducted by the Chief Engineer. The reply is not acceptable as the taxpayer was liable to pay tax on the taxable turnover of work done, by obtaining the GST component sanctioned by the concerned Department.

C. Cases of data entry errors by taxpayers

There were data entry errors in five cases constituting 5.68 *per cent* of the total 88 responses received from the Department. These data entry errors did not have any revenue implication. Details of these cases are given in ***Appendix-5.2.10***.

Illustrative case: **Under Reverse Charge Mechanism (RCM)**

A taxpayer (1XXXXXXXXXXXXXH) under Ward A, Kohima reported ₹0.70 crore as ITC under RCM in Table 4A(3) of GSTR-3B during May 2019 to February 2020 without discharging the tax liability in Table 3.1(d) of GSTR-3B or in Table 4(G) of GSTR-9. Thus, there was a short payment of tax of ₹0.70 crore.

On this being pointed out (October 2023), the Department stated (July 2024) that the amount was wrongly shown under Table 4(A)(3) of GSTR-3B instead of Table 4 (A)(5). Audit cross examined the entries in GSTR-2A of both the dealers and found that the reply of the Department was correct as the taxpayers were not in receipt of any RCM supplies.

D. Cases where action was taken before issue of Audit Queries

The Department had already taken action in five cases constituting 5.68 *per cent* of the 88 responses received as detailed in ***Appendix-5.2.11.*** One illustrative case is discussed below:

A tax payer (1XXXXXXXXXXXXXW) under Ward E, Dimapur availed ITC of ₹2.80 crore in GSTR-3B against the available ITC of ₹0.30 crore as per GSTR-2A during 2018-19. This resulted in excess availing of ITC of ₹2.50 crore.

On this being pointed out (October 2023), the Department replied (February 2024) that excess ITC had been reversed by the taxpayer in January 2019. The reply was found to be correct.

[36] 18 *per cent* of ₹6.71 crore = ₹1.20 crore - ₹0.13 crore (TDS)

Recommendation:

The Department may ensure taxpayers' compliance to the deviations arising from non-adherence to the NGST Act and Rules.

5.2.9.4 Detailed Audit of GST returns

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

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-State data analysis, a detailed audit of GST returns was also conducted as a part of this SSCA. A risk-based sample of 15 taxpayers was selected for this part of the SSCA. 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. Based on the results of desk review, Detailed Audit was conducted by requisitioning corresponding granular records from the Department such as financial ledgers and invoices to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

A. Scope Limitation-Non-production of records

During the desk review of taxpayers' records available in the back-end system, Audit identified the risks related to excess ITC and tax liability mismatches for detailed examination. 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 10 out of 15 sampled cases (66.67 *per cent*), the Department did not produce the corresponding granular records such as the tax invoices, financial ledgers and credit & debit notes required for examining the causative factors for mismatches of ITC and tax liability, though requisitioned by audit through the respective Wards. In the absence of these records, the audit findings were restricted to the information available in the returns filed by the taxpayer.

During the Exit Conference, the Special Commissioner of State Taxes stated that granular records are not available with the Proper Officers/Department. It was further stated that, although the Proper Officers requisitioned these records from the taxpayers, the records are yet to be produced.

The jurisdiction wise non-production of records is summarised in **Table 5.2.2**.

Table – 5.2.2: Non-Production of Records

Jurisdictional formation	Sample	Non-production	
	Number of taxpayers	Number of taxpayers	Amount of mismatch (₹ in crore)
Dimapur ward A	4	4	55.62
Dimapur ward C	2	2	0.78
Dimapur ward D	1	1	0.61
Dimapur ward E	4	2	4.08
Kohima Ward A	2	1	11.69
Mokokchung Ward A	1	-	0
Wokha	1	-	0
Total	**15**	**10**	**72.78**

Recommendation:

The Department may instruct the departmental units to ensure timely and complete production of records to Audit.

B. Detailed Audit-Audit findings

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

1. Return

(i) Non-payment of interest on delayed payment

As per Section 50(1) of the NGST Act, 2017, every person who is liable to pay tax in accordance with the provisions of this Act or the Rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18 *per cent*. Further, the State Government notified the rate of interest[37] on delayed payment at 18 *per cent.* The penal interest is payable only if cash ledger balance is utilised to pay taxes.

Scrutiny of GSTR-3B returns of 15 taxpayers for the period from 2018-19 to 2020-21 revealed that two taxpayers had filed their returns with delay of 07 to 271 days, for which these taxpayers were liable to pay ₹0.14 crore as shown in ***Appendix-5.2.12.***

[37] Notification No. F.NO.FIN/REV-3/GST/1/08(Pt-1)'V' dated 06 July 2017

On this being pointed out (October 2023), the Department stated (February 2024) that notice had been issued to the taxpayer for clearance of liabilities. Further reply is awaited (October 2024).

(ii) Non-filing of Annual Return (GSTR-9) and Reconciliation Statement (GSTR-9C)

Rule 80 of the NGST Rules, 2017, envisages that every registered person whose aggregate turnover during a financial year exceeds two crore rupees shall get his accounts audited by a Chartered Accountant and furnish a copy of the audited annual accounts and a reconciliation statement, duly certified, in Form GSTR-9C along with annual return filed in Form GSTR- 9. Further, Section 46 of the NGST Act, 2017, read with Rule 68 of the NGST Rules, 2017, stipulates issue of a notice in Form GSTR-3A followed by issue of an assessment order in Form ASMT-13, if the taxpayer fails to file return within fifteen days of notice. A summary of such order should be uploaded in the system in Form DRC-07. 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.

Audit observed that out of 15 taxpayers selected for Detailed Audit, two taxpayers filed GSTR-9 return without filing the Annual GST Reconciliation statement in GSTR-9C while one taxpayer did not file GSTR-9 and GSTR-9C even though the taxable value of outward supplies ranged from ₹6.70 crore to ₹151.19 crore during 2019-20 to 2020-21. List of these taxpayers are shown in ***Appendix 5.2.13***.

On this being pointed out, the Department stated (July 2024) that those two taxpayers had filed GSTR-9C on 16 April 2024 and 15 June 2024.

2. Mismatches related to ITC

Input Tax Credit means the Goods and Services Tax 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 NGST Act, 2017 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 NGST Rules, 2017 prescribes the procedures for availing and reversal of ITC.

Audit analysed the dataset of GSTR-2A in respect of selected taxpayers along with datasets of GSTR-3B, GSTR-9 and GSTR-9C filed by the taxpayers and noticed mismatches of input tax credit among returns. Audit could not examine mismatches in detail since relevant granular records were not produced by the Department.

Audit observed 26 instances of ITC related mismatches, amounting to ₹85.62 crore out of 15 sampled cases examined. The deficiencies were due to availing ITC irregularly, availing ineligible ITC and availing of ITC without supplier remitting tax. Hence, these cases remain as mismatches. The details of mismatches in input tax credit noticed by Audit are given in **Table 5.2.3.** Dimension-wise details are given in ***Appendix 5.2.14.***

Table No. 5.2.3 – Mismatch in Input Tax Credit claimed by taxpayers

Sl. No	Algorithm	Amount involved (₹ in crore)/ Number of mismatches	Remarks/Replies
1	GSTR-2A *vs* GSTR-3B ITC available as per GSTR-2A (with all its amendments) was compared with the ITC availed in GSTR-3B {Table 4A(5) for domestic supplies) after considering (i) reversal of ITC (Others pertaining to Table 4B(2)) and (ii) ITC availed in the subsequent year (Table 8© of GSTR-9)	33.29 (10)	On these cases being pointed out (October 2023), the Department stated (February 2024) that notice was issued to the taxpayers to explain the reason for mismatch. Further reply is awaited (October 2024).
2	ITC availed without supplier remitting tax ITC available from GSTR-2A was compared with Table 8A of GSTR-9 which captures ITC available from GSTR-2A (as an auto-populated non-editable field) but excludes those entries in GSTR-2A where the supplier has not filed GSTR-1 by due date of its filing and also excludes the ITC for the period during which the recipient taxpayer was under composition scheme.	37.45 (7)	On these cases being pointed out (October 2023), the Department stated (February 2024) that notice was issued to the taxpayers to explain the reason for mismatch. Further reply is awaited (October 2024).
3	ITC availed after cut-off period ITC availed through Table 4 of GSTR-3Bs pertaining to period 2018-19 to 2020-21 filed after October of the following year.	1.88 (1)	On this being pointed out (October 2023), the Department stated (February 2024) that notice was issued to the taxpayers to explain the reason for mismatch. Further reply is awaited (October 2024).
4	Positive figure in GSTR-9C Table 12 F Higher amount of ITC claimed than credit that is due when compared between annual return and financial statements (Table 12F of GSTR-9C)	0.16 (2)	On these cases being pointed out (October 2023), the Department stated (February 2024) that notice was issued to the taxpayers to explain the reason for mismatch. Further reply is awaited (October 2024).
Total		**72.78 (20)**	-

Recommendation:

The Department may ensure remedial action for all the compliance deviations before they get time barred.

5.2.10 Conclusion

The SSCA on Department Oversight on GST Payments and Return Filing Phase–II 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 SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed during the period 2018-19 to 2020-21. The SSCA entailed assessing the oversight functions of State Jurisdictional formation 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 four Wards, 88 high value inconsistencies across 16 parameters selected through global queries and 15 taxpayers selected on risk assessment for detailed audit of GST returns for the years 2018-19 to 2020-21.

A review of the functions of four Wards disclosed that there were deficiencies in oversight functions of Wards such as monitoring of return filing, scrutiny of returns, conduct of Internal Audit and cancellation of registration.

Further, out of the 88 high value data inconsistencies identified by Audit, the Department responded to all 88 cases with a revenue implication of ₹84.61 crore[38]. The Department reply in 19 cases amounting to ₹20.98 crore were acceptable to audit. Departmental action is pending in responses in 64 cases which has an identified risk exposure of ₹74.01[39] crore.

Detailed audit of GST returns also suggested significant non-compliance. At the outset, essential records such as financial statements, and granular records such as supplementary financial ledgers, invoices and agreement copies were not produced, which constituted a significant scope limitation. These cases represent potential risk exposure towards identified mismatches in ITC availment and tax payments. Out of the 15 cases that were audited either fully or partially, Audit observed 20 compliance deficiencies consisting of mismatches of ₹72.78 crore for which Departmental action is pending.

Considering the significant rate of compliance deficiencies, the Department must initiate remedial measures before they get time barred. From a systemic perspective, the Department needs to strengthen the institutional mechanism in the Wards to establish and maintain effective oversight on return filing, scrutiny of returns, Internal Audit and cancellation of registrations. The Department may also consider introducing additional validation controls in GST returns to improve taxpayer compliance and to facilitate scrutiny of returns.

[38] Excludes turnover mismatch of ₹16.11 crore
[39] Excludes turnover mismatch of ₹3.07 crore

***Summary of recommendations*:**

The Department may-

(i) ***ensure time-bound compliance to the detailed procedures for scrutiny of returns.***

(ii) ***take prompt steps to conduct internal audit under Section 65 of the NGST Act so that action could be initiated against the defaulters before time-barring of cases.***

(iii) ***initiate action against late-filers and non-filers by assessing the tax liability through invoking of the ASMT-13 best judgment assessment order.***

(iv) ***adhere to the rules regarding the cancellation process to ensure that final returns in GSTR-10 are filed and the tax liability is discharged.***

(v) ***ensure taxpayers' compliance to the deviations arising from non-adherence to the NGST Act and rules.***

(vi) ***instruct the departmental units to ensure timely and complete production of records to Audit.***

(vii) ***ensure remedial action for all the compliance deviations before they get time barred.***