Office of the
Commissioner of State Tax
Maharashtra. 8Th Floor, GST Bhavan, Mazgaon, Mumbai -10.

INSTRUCTIONS

No. CST/ACST/HQR-05/GST-Audit/2023-24/Guidelines/B. 85 Mumbai Date:30/10/2026.

Subject : Selection of GST Audit Cases for FY 2023-24– reg.

Ref. : (1) Internal Circular 09A of 2023, dated 22/12/2023.
(2) Internal Circular 04A of 2024, dated 24/05/2024.
(3) Internal Circular 10A of 2024 dated 29/11/2024.
(4) Internal Circular No. 7A of 2025 dated 03/11/2025

1. Background:-

1.1 You are aware that the detailed guidelines and instructions governing the conduct of GST Audit by the State Tax authorities have been issued vide the aforesaid Internal Circulars cited at Ref. above. These guidelines provide a framework for a two-tier mechanism for selection of cases for the Audit as envisaged under section 65 of the GST Act. The selection process monitored centrally comprises the use of data analytics to identify the risk involved. Additionally, for Audit the cases are also selected on the basis of the intelligence at the level of the field formations covered under Local Importance category. The cases under Local Importance category are to be examined and recommended through the concerned Joint Commissioner and Additional Commissioner.

1.2 The guidelines, as aforesaid, comprehensively cover all the stages of the Audit process, commencing from the recommendation of cases under the Local Importance category, desk review and preparation of the Audit Plan, issuance of Notice in FORM-GST-ADT-01, conduct of visits for the purpose of ascertainment of risk so identified and further verification of records to streamline and strengthen the same with a aim to issue Audit Report in FORM-GST-ADT-02.

1.3 Further, in order to evaluate and assess the Audit performance and desired

output, a structured scoring mechanism based on 360-degree parameters has been formulated. The said scoring mechanism considers varied factors such as the time taken for completion of audit, detection of risk, revenue, and recovery therefor. The above system also considers the new, novel, and innovative ideas that translate into actual recovery and sets the benchmark for other cases leading to the significant findings.

1.4 Despite the availability of detailed guidelines and a well-defined audit framework, a review of audit work for FY 2022–23 vis-à-vis conduct, and supervision of audits, reveals lack of prescribed protocols, non-uniformity in approach, coupled with significant deficiencies. Needless to say, that the said deficiencies adversely affect efficiency, effectiveness, and quality of outcome of Audit proceedings which has a direct impact on revenue.

1.5 In the light of the facts and circumstances as narrated above, the major shortcomings in this behalf which have a direct bearing on audit performance are outlined as follows:

(1) **Deficiencies in desk review and preparation of Audit Plan:-**

(a) In large number of cases, desk review and audit plan prepared were not upto the mark and were prepared without the requisite diligence. Further, Audit issues were not identified well in advance. No efforts were made to undertake broad sectoral analysis of similar taxpayers. Even past audit cases in that sector were not examined. Such an exercise gives important leads in regard to probable audit issues which can be covered.

(b) It is also noticed that in many audit proceedings, the Audit officers lost track of already identified issues. As a result, these issues were not dealt in subsequent actions and got overlooked.

(2) **Non-focused verification and unnecessary requisition of records: -**

(a) Also, in several cases, specific audit issues of prominence have not been identified, and the records requisitioned for verification had little or no relation to the issues whenever they were identified.

(b) It is also seen that the taxpayers were generally asked to submit all records and books of account in routine manner without any

linkage to the issues that are expected to be identified. It is to be kept in mind that the record/evidence or data that has a direct linkage, relevance and effect on revenue should only be called for from the concerned taxpayer.

(c) The aforesaid approach, resulted into unnecessary requisition of records that may have been avoided in the first place. Such an approach facilitates smooth, hassle-free and effective utilization of time and helps in improving efficiency. The above exercise of requisition of record/data/documents should have a clear, intelligible, and well thought linkage with the previous audit cases. Audit Officer is expected to have a focused and well thought out plan, and avoid selected issues that are related to Scrutiny, or Issue Based Audit parameters.

(d) Further, in certain cases, it was seen that officers delegated the responsibility to taxpayers for undertaking verifications, such as ITC utilisation form and HSN/SAC verification form. Such an important activity is expected to be completed by the concerned Audit Officer on the basis of verification and analysis done by him/her.

(3) **Inadequate formulation of issues and scrutiny of audit proposals under the Local Importance category:-**

(a) It is seen that in several cases, the proposals for cases under local importance category, lacked proper due diligence qua identification of risk and identification of associated issues.

(b) Additionally, in certain cases, the proposals were based merely on discrepancies in reported return figures, which could have appropriately been covered through return scrutiny rather than a comprehensive audit.

(4) **Selection of cases involving insignificant revenue risk:-** Many cases under the Local Importance Category were recommended on the basis of minor revenue risks, predominately GSTR-1/GSTR-3B based mismatches with a revenue less than Rs. 5 lakh.

(5) **Delay in commencement of audits and last-minute committee proceedings:-**

(a) In several cases, the commencement of audit was delayed, resulting in consequential delays at subsequent stages of the audit process.

(b) This also led to a last-minute rush to place the cases before the Audit Monitoring Committees and did not provide appropriate time for consideration of the issues involved. AMC proceedings, in most cases, appeared to be a mere formality rather than undertaking a thorough and meaningful examination of audit findings.

(6) **Inadequate involvement of Deputy Commissioners in charge of Audit Units:-**

(a) It was seen that Deputy Commissioner in charge of the Audit Unit failed to demonstrate adequate involvement in the entire audit process. Despite specific directions, cases were presented before the Audit Monitoring Committee by State Tax Officers or Assistant Commissioners, instead of being adequately supervised and presented by the concerned Deputy Commissioner.

(b) This reflects deficiencies in supervisory oversight, ownership and accountability at the Audit Unit level.

1.6 In order to address the above deficiencies and improve the quality, effectiveness and efficiency of GST audits, it has been decided to shift from risk based selection of cases for audit to risk assessment based selection of cases. The detailed guidelines in respect to selection of cases for audit under this modified approach are as follows.

2. Selection of Audit Cases under new framework:-

2.1 In order to ensure that the desk review forms an integral part of the audit process even in centrally selected cases, such cases shall not be directly assigned to the specific desks for conduct of audit. Instead, a pool of centrally selected cases with a verifiable potential risk shall be made available to each Audit Division.

2.2 The Audit Division, in turn shall examine the cases provided through the pool, undertake a detailed desk review, identify specific audit issues and risk areas, and assess the revenue risk involved in each such area. Based on this exercise, a proposal for recommendation of the case for audit shall be prepared.

2.3 Such a pool of cases shall be assigned to Audit Units and before recommending a case for audit, the Audit Units shall undertake a preliminary analysis of the available information and risk indicators. Audit units undertaking the desk review shall thoroughly examine the sectorial trend, past audit cases, intelligence inputs, data patterns and risk indicators, if provided by the Economic Intelligence Unit (EIU) to identify specific audit issues and key focus areas. The analysis shall also include verification of the risk analysis available on BIFA, E-Way Bill (EWB) MIS portal, show cause notices (SCNs) and cases booked for earlier periods, including supply chain analysis, wherever relevant, and other relevant open-source information. The findings of this analysis shall form the basis for identifying specific audit issues, assessing the revenue risk involved and formulating the proposal for recommendation of the case for audit.

2.4 The recommendation of audit cases shall follow a procedure similar to the existing system for recommendation of enforcement cases. Based on the proposals of audit unit, the Joint Commissioner (Audit) will recommend cases to the Central Selection Committee. All such recommendations shall be prepared and submitted by the Joint Commissioner (Audit) through PRAISE. The format for recommendation of cases is attached at Annexure-B. Finally, the concerned Audit Division, for the approval of the cases for Audit, shall make a presentation with respect to issues involved, associated risk, documents to be verified, data/evidence to be relied before the Central Selection Committee. The Central Selection Committee after due diligence and deliberation may decide to accord the approval.

2.5 The Case selection shall be based on risk parameters other than used for scrutiny of returns. Cases shall not be recommended solely on the basis of routine issues or parameters prescribed for return scrutiny. A list of such

routine parameters is enclosed as Annexure-A for reference. However, discrepancies and risks associated with these parameters may be included as additional issues in the audit proposal, wherever relevant, along with other specific audit issues that warrant comprehensive verification. Any such risk identified during the Desk Review that remains unaddressed and if the case is not finally selected for audit shall be referred to the concerned jurisdictional officer for appropriate action.

2.6 Selection of cases shall be guided by the magnitude of revenue risk involved. Cases involving a revenue risk exceeding Rs. 2 crore in the Mumbai Metropolitan Region (MMR) and Pune Metropolitan Region (PMR), and exceeding Rs. 1 crore in the rest of Maharashtra, shall be recommended for audit. This revenue risk should be for risk parameters other than routine scrutiny parameters.

2.7 To ensure balanced sectoral representation and prevent disproportionate selection of cases from a single sector or a limited number of sectors, the pool of cases shall indicate the sector-wise distribution of cases, including the total number of cases available in each sector and the proportionate number of cases to be recommended from that sector. The prescribed proportionate allocation may be applied with reasonable flexibility, wherever warranted.

2.8 The initial pool of cases for selection shall be allocated among Audit Divisions on a cross-zone (criss-cross) basis, whereby each Audit Division shall receive cases pertaining to another Zone, as per the allocation arrangement prescribed in Annexure C. This arrangement is intended to ensure an objective and balanced selection of audit cases. Such arrangement would be applicable to MMR and PMR region only.

2.9 Joint Commissioner (Audit) shall ensure that recommendations are submitted on PRAISE within 15 days from the date on which the pool of cases is made available on PRAISE. The Audit Divisions shall complete the exercise of Desk Review and submit their recommendations within 15 days from the date of issuance of these instructions. Each Audit Unit shall present its proposals before the Central Selection Committee for

consideration. Presentation before Central Selection Committee shall be made by the concerned Deputy Commissioner only.

2.10 Proposals submitted by the Joint Commissioner (Audit) shall be scrutinised by a Committee at the central level. The Central Selection Committee shall meet every Tuesday and Friday to examine the proposals submitted by the Audit Units. After due consideration of the merits of each proposal, the Committee shall approve or reject the proposed selection of cases for audit. Only those proposals that are complete, identify specific and clearly articulated audit issues, and substantiate the revenue risk through supporting analysis shall be approved by the Committee.

2.11 Upon approval by the central-level Committee, the case shall be finally allocated to the concerned Deputy Commissioner (Audit Unit) for further conduct of audit. The issues and risk areas forming the basis of the approved audit proposal shall necessarily be incorporated into the audit plan and duly examined during subsequent audit proceedings. Each Audit Division shall recommend approximately 10% of the cases from the first lot for selection for audit, based on the findings of the Desk Review and merit of the identified risk areas. Joint Commissioner (Audit) shall ensure that a draft FORM GST ADT-01 is prepared and submitted along with the proposal for selection of the case for audit, specifying the records and documents specifically required for verification of the identified risk areas. The documents so specified shall be directly relevant to the audit issues identified during the Desk Review and set out in the selection proposal, and their scope shall be commensurate with the proposed audit objectives.

2.12 Accordingly, this first lot of 3258 cases forming the pool for Desk Review are hereby distributed to the respective Audit Divisions/Units. This lot shall comprise cases identified on the basis of specified risk parameters. The details of such risk parameters and the corresponding audit objectives are provided in Annexure-D. Audit cases selection proposals considering these guidelines shall be submitted on PRAISE.

2.13 Upon receipt of record called for under FORM-GST-ADT-01, audit team shall undertake verification, record the details of issues in Audit Plan,

determine the need for further verification and mode of verification (by calling record or by visit to premises). It shall be kept in mind that in case, it is required, Zonal Additional Commissioner concerned is authorized to approve audit visits up to 30 % of total cases selected for audit of that Zone. Proposal for audit visits in cases exceeding this 30% shall be submitted to Central Committee for approval. No audit visit in such cases shall be done without approval of Central Committee. Joint commissioner concerned may issue authorization of visit only upon requisite approval of visit as above.

3. The aforesaid instructions shall be followed scrupulously and difficulties if any shall be brought to the notice of this office.

(This issues with approval of Hon'ble Commissioner of State Tax, Maharashtra).

(Appasaheb Gorde)
Additional Commissioner of
State Tax (HQR)-5,
Maharashtra State, Mumbai.