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The intersection of tax compliance and commercial lending: A forensic analysis of GST-enabled bank fraud and regulatory blind spots

Nachiketa Bagh [1]

[1] Assistant Professor, Department of Corporate Secretaryship, Andaman College, Sri Vijaya Puram, Andaman and Nicobar Islands, India and Research Scholar, Department of Commerce & Business Management, Ranchi University, Ranchi, Jharkhand
Correspondence email: nachiketabagh14@gmail.com

Abstract---The transformation of India's tax system into a digital one under the Goods and Services Tax (GST) and the growth of MSME credit schemes have created new pathways for advanced financial crime. The introduction of the Goods and Services Tax (GST) to the Indian tax system, coupled with the expansion of MSME credit schemes, has created new avenues for sophisticated financial crime. This article uncovers some areas for potential systemwide regulatory failures where state tax compliance and commercial loan underwriting intersect. The study points out serious administrative lapses, including the use of aggregate mismatch seeking algorithms and the inability to get granular taxpayer data records, in the Comptroller and Auditor General (CAG) Compliance Audit Report (Jharkhand, Report No.2 of 2024). These vulnerabilities are illustrated with the real time scenario of Vikash Techsec Private Limited, which can be used to artificially inflate turnover without any red flag for tax compliance and how criminal syndicates do it with means of perfectly symmetrical circular trading. This artificial turnaround is then used to attract huge working capital loans by the MPBF model, often shifting the risk of default to the public exchequer through such schemes as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). Conventional statutory tax audits are structurally adequate to combat credit-harvesting fraud but auditors may have client bias. The study recommends the use of real-time inter-agency data triangulation, AI driven network analysis and modernisation of due diligence conducted by banks to reduce Non-Performing Assets (NPAs).

Keywords---Goods and Services Tax (GST), Circular Trading, Bank Fraud, Maximum Permissible Bank Finance (MPBF), Non-Performing Assets (NPA), Tax Compliance,

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Statutory Audit, Comptroller and Auditor General (CAG), Financial Forensics, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

Introduction

The economy structure of India has undergone a massive transformation in recent years, with a significant move towards digitalisation in tax compliance and growth in commercial lender transactions. Goods and Services Tax (GST) implemented on 1 July 2017 as a destination based consumption tax meant to replace multiple indirect tax imposed by Centre and States and make the economy formal and facilitate smooth flow of Input Tax Credit (ITC). At the same time, the financial sector has been heavily focused on providing credit facilities with a higher loan-to-loss ratio to Micro, Small and Medium Enterprises (MSMEs) to boost economic growth by tapping government schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

In theory, these digitized frameworks raise transparency and access to credit, but they have inadvertently created extremely complex financial crime vectors. Digitalizing tax returns turned in a new paradigm, in which the act of fiscal oversight and crucial data analysis are increasingly at the macro level, where algorithmic approaches take the place of thorough manual review. As a result, new methods of fraud have emerged in the banking sector, especially in relation to corporate turnover numbers. It is not about avoiding taxes but about being able to obtain huge working capital loans which are not in line with their legit financial strength, companies artificially inflate their turnover through trading and inventing fake invoices.

An analysis of statutory tax audits against real banking frauds best illustrates the systemic vulnerability of this ecosystem. Comptroller and Auditor General (CAG) of Jharkhand, India, in its Subject Based Compliance Audit (SSCA) Report No. 2 of 2024, conducted an audit of the commercial taxes department's monitoring of the filing of GST returns and payment of taxes, for the period 01 January 2021 to 31 March 2022. The CAG report throws up several glaring issues that exist at the system level in the tax administration, including the fact that considerable amount deposits in the tax department remained unmatched to the revenue and there is a generalized lack of access to granular taxpayer information in the system. At first glance however, even through the lens of a more strong tax audit, one might wonder why perfectly symmetrical circular arrangements that are specifically created to fool banks and not the state exchequer would evade detection. But as this article will show in the real-world case-study of Vikash Techsec Private Limited, tax audits are essentially blind to such business arrangements because of familiarity bias.

Conceptual and Theoretical Background

The theoretical groundwork has to be laid first with respect to working capital financing and the existing tax system for the purpose of being able to understand the mechanism of the modern turnover-based bank fraud.

Maximum Permissible Bank Finance (MPBF): Businesses in operation have to cope with short-term expenses such as inventory, wages, and receivables and in this scenario, working capital loans come in handy. Such loans in India are historically recent loans, which are underwritten by the Maximum Permissible Bank Finance (MPBF) model. It originally developed out of the recommendations of a 1975 Tandon Committee on the determination of an acceptable level of working capital extension for various commercial banks in terms of the availability of financial health of the borrower. This is later amended by the Nayak Committee in 1991 to better fit the changing needs of expanding business. According to the Nayak Committee approach, the working capital of the committed borrower is fixed at 20 percent of the borrower's minimum annual turnover. The mathematical foundation of the MPBF is directly tied with top line revenue, which provides an immediate financial advantage to the bad boys: cheaply and quickly, there is an incentive for the bad guys—artificial revenue inflation to render the maximum credit the bank can grant larger.

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been created by the Ministry of MSME and Small Industries Development Bank of India (SIDBI) to encourage the flow of credit without the need for collateral to MSMEs. In this scheme, default interest amount for micro enterprises is settled on their behalf by the government up to 85% of the loan amount, and for small enterprises up to 75% (limited of ₹5 crore only). The power of CGTMSE to make credit available to a large number of people comes with a significant burden of moral hazard. They use this "safety" as a sort of shield to take out loans where they overvalue the turnover, knowing that the actual company will not be on the hook for a financial loss if they universally default on those loans—only the government guarantee—and hence reduce the bank's "defensive due diligence.

Circular Trading and Financial Fraud Theory: Circular trading refers to a series of related trading transactions being carried out by a set of interconnected and related-party entities that trade entities with each other. These transactions are paper (or digital book) only transactions where the goods or services actually exchanged are not of intrinsic value. In the GST regime, the syndicate can easily avail Input Tax Credit (ITC) at each entity that participates in the triangular transaction with ease. In the closed loop, the tax payable is the "input tax" that was already paid by the importer of goods, therefore, the net amount of tax-based transaction that is conducted in cash with the government is minimized. The fraud triangle theory – of fraudsters having the opportunity to harvest creditworthiness and rationalize the sweet, low-risk deal – is made easy by the culture of fraudulent access and automation across the GST portal, as well as underwriting of bank loans.

Statement of the Problem

In this article, the key problem that is examined is the lack of structural and analytical connection between tax compliance oversight at the state level and commercial bank risk assessments.

Statutory auditors such as the CAG and the Comptroller of State Commercial Taxes have limited mandates to uncover situations in which a taxpayer tolls a greater amount of credit that could not be substantiated or hides items supplied outward in order to evade taxation. They follow a data-based and risk-based model to track mathematical inconsistencies in and across tax returns (between GSTR-1 and GSTR-3B). Modern financial syndicates that execute bank frauds, however, do not intend to evade taxes, but to bully the revenue. They diligently prepare flawless mathematically balanced GST return of their circular deals.

Commercial banks designate these filled (although economic empty) perfectly filled GST returns as business dynamism's fact and find MPBF of these businesses through systematic over lending. Make matters worse, the existence or lack of cross-agency data integration; tax authorities aren't a keen eye for related-party loan harvests and banks don't have enough visibility to identify circular GST loops. Tax compliance agents are extremely susceptible to complex structures where tax compliance is turned into a tool for a tax-compliance fraud as well as eventually causing the creation of the large-scale Non-Performing Assets (NPAs).

Objectives

The following specific aims are an attempt to achieve the goals of this article:

To review the shortfall in laws, steps & processes of the Commercial Taxes Department regarding the collection of tax and ensuring compliance with it by way of filing of returns, as reflected in the report of the CAG under No.1 No. 2 of 2024.

To Forensically deconstruct the case of Vikash Techsec Private Limited which is a real case study where a circular trade within related companies has been shown to be successful in employing MPBF to gain fraudulent bank loans.

3. To assess the methodological constraints of existing tax and statutory audits in the identification of the symmetrical financial frauds aimed at harvesting credit.
To suggest integration of policy and technology solutions, and creating regulatory structures to address the problem of tax compliance and commercial loans underwriting to reduce NPAs.

Methodology

The qualitative, forensic and comparative, documentary analysis method is used in this research study to explore the link between oversight of taxation and banking fraud.
Technique of research: A Double Pronged methodology of case study is the method adopted for the research. First, it reviews one of the macro level institutional case studies, based on the results of a statutory compliance audit. Second, it delves into a micro level corporate case study to demonstrate the execution of the fraud typologies that were not covered through institutional oversight.
There are main variables which is analyzed in this study:
Independent Variables: Departmental scrutiny protocols, granular taxpayer records, inter-agency data integration and the use of MPBF formula.
• Independent Variables: Dependent Input Tax Credit (ITC), Rate of Undetected tax circularization and banking Non-Performing Assets (NPAs).

Tools Employed:
Statutory Reports: In-depth extraction and analysis of data from CAG of India's Compliance Audit Report of the department of Jharkhand 2024 (Report No. 2), Section 2.3 of chapter II pertaining to 'Department's monitoring of GST payments and return filing'.
Regulatory Frameworks: An overview of the Reserve Bank of India's (RBI) Master Direction on Frauds and Early Warning Signal (EWS) mandates.
Forensic Case Study Analysis: Corporate Structure Deconstruction and Financial Transactions and Loan Purchase from Vikash Techsec Private Limited & its associate Company with reference to Loans Unclaimed in missing Branch/Incomplete Records.
Comparative Analysis: Algorithmic mismatch queries used by GST Network (GSTN) & CAG when compared with the symmetrical data pattern generated by circular trading.

Data Analysis and Findings

1. Macro-Level Findings: The Subject Specific Compliance Audit (SSCA) report the audit findings from the CAG audit conducted on the oversight of GST in 2017-18 was highly data driven with the objective to unearth risks, red flags and logical inconsistencies, across the four areas namely, ITC, tax liability discharge, registration and return filing. A check on the 10 selected Commercial Taxes Circles (CTCs) in Jharkhand revealed that the departmental monitoring on return filing was very weak.
The audit was based on global data queries and uncovered 472 high volume data inconsistencies. The Department's response to 445 cases laid bare a huge extent of compliance problems. Out of these 445 responses, 255 responses (that is 50,56 percent) were registered as clear compliance deficiency with an extremely huge amount of ₹7,272.59 crore. This implication is reflected as a turnover mismatch of ₹7,056.79 crore in 46 cases and tax mismatch/ITC mismatch of ₹215.80 crore in 209 cases.
Particular high valued rebuttals reveal the inability of the department to enforce reconciling. For example, the difference in turnover of ₹206.37 crore has been noticed on the unreconciled figures reported by Steel Authority of India Ltd under Bokaro CTC in Table 5R of GSTR-9C form. The Department initiated the proceedings on its own without supportive evidence, which was countered by CAG's reply. Likewise, Dayal Steels Limited (Ramgarh CTC) had ₹89.41 crore of unreconciled turnover. While insisting that the turnover should be consolidated of the three companies owing to them being registered under the same PAN number, the Department never required the taxpayer to submit cross verification of the relevant individual GSTR-9 issued by the other companies.The taxpayer submitted the turnover on the basis of it being consolidated of three companies registered under the

same Permanent Account Number (PAN) without the Department even seeking cross verification of individual GSTR-9 returns of other companies.
The audit on ITC utilization (Table 1 in the report) identified 136 instances of mismatches in ITC usage with a financial implication of ₹895.28 crore. The most striking out of the total cases was unreconciled ITC noticed in Table 14T of GSTR-9C (reconciling ITC declared in the annual return with expenses in audited financial statements) accounting for 23 cases and a value of ₹ 708.10 crore. Further, mismatch in the discharge of tax liability of 141 units worth of ₹ 638.20 crore (Table 2) have been noted.

Table 1: Mismatch in ITC claimed by taxpayers

Nature of Mismatch	Number of Cases	Number of Circles	Amount of Mismatch (₹ in crore)
ITC mismatch between GSTR-2A and GSTR-3B/GSTR-9	50	16	109.46
Unreconciled ITC as per Table 12F of GSTR-9C	7	5	24.6
Mismatches pertaining to ITC noticed in GSTR-9C (Table 14 T)	23	8	708.1
Reversal of ITC	17	7	52.2
Mismatch in availing of ITC under Input Service Distributor (ISD) credit	1	1	0.71
Mismatch in ITC availed under Reverse Charge Mechanism (RCM)	2	1	0.21
Non-reversal of ITC on payment of consideration within 180 days and purchase return	36	14	Not specified
Total	**136**		**895.28**

Source: Compliance Audit Report for the year ended 31 March 2022. GOJ

Table 2: Mismatch related to discharge of tax liability

Parameter	Number of Cases	Number of Circles	Amount of Mismatch (₹ in crore)
Tax liability mismatch between GSTR-1, GSTR-9 and GSTR-3B	36	12	289.34
Mismatch in turnover/taxable turnover declared in GSTR-9C	5	3	190.9
Mismatch in tax paid between books of accounts and returns captured in Table 9R of GSTR-9C	18	10	33.18
Availing of exemption but documents not produced	34	13	113.07
Mismatch in turnover between profit and loss accounts and GST returns	40	7	Not specified
Non-discharge of tax liability under the Reverse Charge Mechanism (RCM)	8	4	11.71
Total	**141**		**638.2**

Source: Compliance Audit Report for the year ended 31 March 2022. GOJ

2. Scope Limitation: The Failure of Granular Scrutiny The most critical finding regarding the department's capacity to detect sophisticated fraud was a catastrophic scope limitation. To understand the causative factors behind the portal data mismatches, the CAG selected a risk-based sample of 55 taxpayers for a detailed field audit, requisitioning granular records such as supplementary financial ledgers, purchase invoices, and agreement copies.

In all 55 cases, the Department failed to produce the requested granular records. The jurisdiction-wise partial production of records summarized in Table 3 shows that Ranchi West alone accounted for 25 taxpayers with unexamined deviations. Consequently, identified risks regarding mismatch, excess, or irregular availing of ITC and undischarged liability amounting to ₹356.61 crore could not be examined by the CAG.

Table 3: Partial production of records

Name of the CTC	Sample (Number of taxpayers)	Mismatch of ITC/tax liability (Number of taxpayers)	Amount of deviation (₹ in crore)
Adityapur	01	01	0.97
Bokaro	01	01	1.14
Dhanbad	02	02	3.99
Dhanbad Urban	01	01	0.65
Dumka	02	02	3.17
Hazaribag	02	02	1.00
Jamshedpur	02	02	0.48
Jamshedpur Urban	03	03	16.60
Katras	01	01	0.52
Palamu	02	02	3.12
Ramgarh	02	02	2.26
Ranchi East	01	01	0.72
Ranchi South	07	07	25.19
Ranchi Special	02	02	2.63

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Name of the CTC	Sample (Number of taxpayers)	Mismatch of ITC/tax liability (Number of taxpayers)	Amount of deviation (₹ in crore)
Ranchi West	25	25	294.16
Singhbhum	01	01	0.01
Total	**55**	**55**	**356.61**

Source: Compliance Audit Report for the year ended 31 March 2022. GOJ

3. Micro-Level Findings: The Vikash Techsec Private Limited Fraud The real-world manifestation of turnover inflation bypassing these exact administrative blind spots is the case of Vikash Techsec Private Limited (CIN: U72900JH2019PTC012371), incorporated in 2019 in Ranchi, Jharkhand. The corporate structure of this syndicate was intimately connected. The company shared its registered physical address (H.No.262, Saluja Mansion, 1st Floor, P.P. Compound, Hindpiri, Ranchi) with two sister firms: Ekaakshara Jewellers Private Limited (CIN: U52190JH2018PTC011955) and Somsuraj Infrastructures Private Limited (CIN: U45309JH2019PTC012351). Furthermore, these entities were controlled by individuals featuring overlapping Director Identification Numbers (DINs: 08288002, 07316351, 07067514).

The syndicate utilized circular trading to inflate Vikash Techsec's turnover from an actual, legitimate base of approximately ₹4 crore to a fabricated figure of ₹112 crore. They achieved this by reporting approximately ₹100 crore worth of fake transactions with their related parties through the GST portal, passing ITC fraudulently to neutralize tax liabilities while generating state-sanctioned proof of massive revenue.

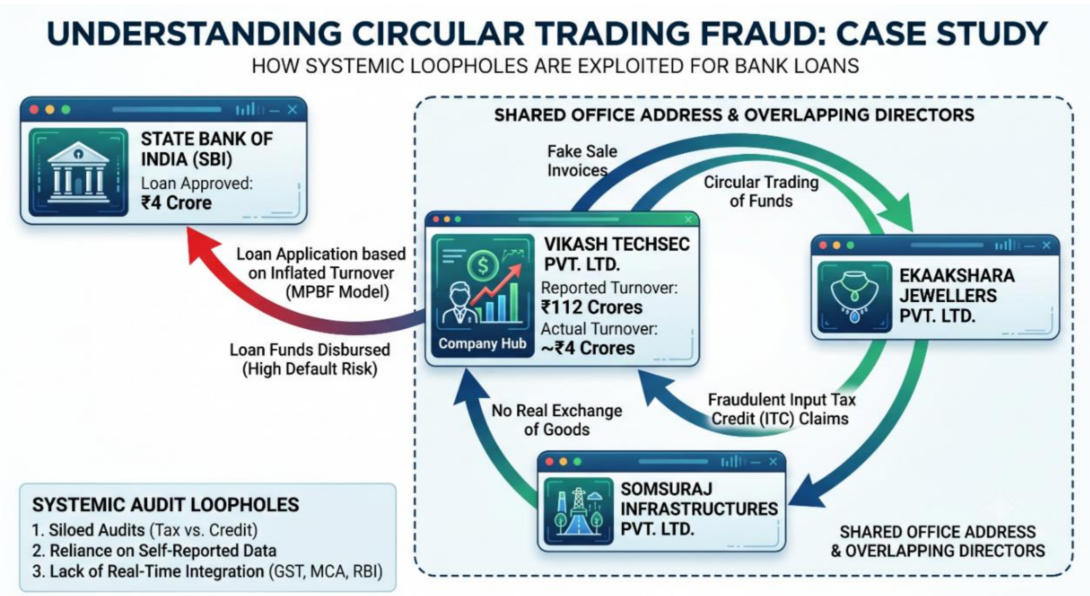

Figure 1: Understanding Circular Trading Fraud
Source: Author's Creation

Armed with this manipulated turnover, Vikash Techsec approached the State Bank of India's CMPDI Branch in Ranchi. Utilizing the standard MPBF formula, which anchors working capital limits to projected turnover, the bank sanctioned a ₹4 crore loan on 09 August 2024. During the bank's turnover verification, discrepancies between actual cash flow deposits and the massive reported turnover were dismissed as mere "accounts receivable". The bank accepted a fabricated list of receivables with aging under six months, entirely failing to realize that these massive debts were owed exclusively by sister companies operating out of the exact same office room.

4. The RBI Framework and Systemic Loopholes According to the RBI's Master Direction on Frauds, advances-related frauds (loan frauds) constitute the largest category of banking fraud by value, frequently involving the submission of fabricated financial statements, circular trading, and the diversion of funds to shell companies. The RBI mandates an Early Warning Signal (EWS) framework and requires forensic audits for accounts with an outstanding balance of ₹50 crore and above upon being classified as an NPA or fraud. However, loans below this massive threshold—such as the ₹4 crore secured by Vikash Techsec under CGTMSE backing—often bypass mandatory, rigorous forensic scrutiny, making MSME loan segments highly attractive to decentralized fraud syndicates.

Discussion

This macro-micro analysis of the two pieces of data shows a massive structural mess in the present-day financial regulatory system. It poses a fundamental question, why can't a sophisticated data driven statutory tax audit detect massive turnover fraud as was done by Vikash Techsec?
The mismatch seeking algorithm: This is the reason why the methodologies which are used for the audit by the Commercial Taxes Department and the CAG are mismatch seeking. Section 61 of CGST Act is stipulated relating to examination of returns. Section 61 of CGST Act provides for scrutiny of returns by proper officer. The audit queries would aim to detect mismatching data like – claiming more ITC in GSTR-3B when compared to auto-populated data in GSTR-2A by suppliers of goods or services and/or higher sales in the audited financial statements (GSTR-9C) as compared with the tax return.

Circle trading, however, is an attribute of a closed loop mathematically tailor-made to be perfectly symmetrical. There was a flawless matching of the output declaration (Vikash Techsec to Ekaakshara Jewellers) and input population (Ekaakshara to Somsuraj Infrastructures), with subsequent faithful claims in GSTR-3B. Since the fake invoices are done in perfect alignment between the related parties, zero deviation is reported the GSTN portal. A mismatch-hunting algorithm completely can't see the fraud. To the department of taxation's core IT system, a well-designed circular trading syndicate is as much an efficient and totally compliant business as it is an exact replica.

Paralysis of Granular Scrutiny: An auditor must be able to differentiate from all the "portal" data and analyse the actual commercial invoices, transport e-way bills, and financial ledgers of the company. The following are indicators of circular trading: There is poor value addition – the goods are traded the same price, the trading is done from the same transport methods and there is 'high velocity trading' between same trades transmitted from the same address. The above incident clearly illustrates where the tax department went wrong in failing to establish "granular" records in 100% of the taxpayers on which it has been targeted in the CAG report (no. 55). It is a symptom of the general paralysis of the system of administration compounded by the lack of personnel. The CAG observed that there was a 37.47 percent overall vacancy in the adjudicating staff and 81.32 percent overall vacancy in supporting staff of Jharkhand CTD offices. If an administration doesn't have people to gather basic ledgers for 55 entities, it obviously cannot conduct more sophisticated graph analysis of a multi-nodal type, intended to uncover circular syndicates.

The Inability to Share Siloed Data, and the Necessity of Bank Due Diligence: Siloed Data and Bank Due Diligence: The Vikash Techsec fraud demonstrated the need for due diligence on the regulatory level, and even more so, the danger of not sharing siloed data. The bank looked at the GST returns but had not made a cross reference with the MCA database to identify any common DIN of the company's sole "customers" or physical address of the company's sole "customers". The bank accepted the debtor entities' self-reported receivables, without auditing the debtors. Moreover, the default subscribes to a point of reduced moral hazard implicit in the CGTMSE framework, which guarantees that up to 85 per cent of the default would be covered by this fund. Additionally, the implicit cushion provided by the CGTMSE framework in the form of reducing the chance of the default—that banks would not have to cover more than a 15 per cent risk—the drives banks of reducing their comparative scale of due diligence. Banks focus on the speed with which an MSME credit is disbursed and accept perfectly filed tax returns to rely on as an absolute indicator of the health of any business, without realizing that the new way to steal this credit is 'manipulation of turnover'.

Further, it was noticed that there is administrative failure in the administration of cancelled registrations by the CAG. Out of the cancelled taxpayers, 95.29 per cent of the taxpayers failed to submit final GSTR-10 return and had not taken any action for assessing any liability outstanding by them. Worse, during the audit cases have been spotted in which new, active registrations were provided for taxpayer under the same PAN, even though there was unpaid tax settlements on the cancelled PAN. For tax department that don't have the control to validate the two registrations coming from the same PAN, it is technologically unfeasible for the tax department to proactively validate MCA or RBI data from outside the department network, when compared, to find any related-party syndicates.

Table 1: Details of cancellation and filing of GSTR-10

No. of cancellation made on application of taxpayer	**No. of cancellation made suo moto**	**Total cancellation made**	**No. of GSTR-10 filed**	**No. GSTR-10 not filed**	**Per cent of cancelled taxpayers not filed GSTR-10**
10,706	21,716	32,422	1,526	30,896	95.29

Source: Compliance Audit Report for the year ended 31 March 2022. GOJ

Conclusions

Now, the Development of the Indian indirect tax and credit system has shown that digital formalization is at both Paradoxes. The GST has created a facsimile of economic scale for fraudsters, while making financial transactions for honest traders easier. GST has made the transactions itself easier to the honest traders but unfortunately, it also created a denying platform for generating artificial economic scale for fraudsters.

The CAG Audit Report No 2 of 2024 reports that the tax administration is overburdened and under-staffed to catch up on the basic aggregates and has no typical working practices and no access to granular records for the verification of ongoing compliance. At the same time, the Vikash Techsec case study shows that financial criminals are not only not seeking to avoid paying taxes, but they are playing the game perfectly in pseudo closed loop processes in order to inflate the turnover. Thus, by applying this bogus turnover to Maximum Permissible Bank Finance (MPBF) concept, the syndicates convert these huge loans into undervalued commercial loans and shift the risk onto the public exchequer through defaults of CGTMSE and banking NPA.

From this analysis emerges the definitional premise asserted; that is, compliance is not synonymous with business legitimacy. Until the financial sector forgoes isolated auditing based on mismatches and moves towards network analysis inter-agencies, the robustness of the system will be very sensitive to turnover-inflation frauds.

Policy Suggestions

There is a vital need to change the banking due diligence regulatory technology and the paradigm of circular trading or MPBF loans fraud. Below are policy ideas that outline a broad trajectory:

1. Inter-Agency Data Integration and Triangulation: In GST Network's (GSTN) context, the problem is that the Ministry of Corporate Affairs (MCA), the Central Board of Direct Taxes (CBDT) and the Reserve Bank of India (RBI) are involved in data silos, which need to be broken. The government should ensure all of these platforms are linked with each other using the real-time Application Programming Interface (API). When a bank is acting as an underwriter on a loan, the automated system should be able to crosscheck the inward company supplies and outward supplies (GST) to match the borrower's supplies in the MCA database without any hassle. If a significant proportion of borrower's income comes from entities with common directorships (common DINs) or where there are common registered addresses, the System should issue an automatic "Related-Party Concentration Risk" alert as soon as it occurs, leading to the immediate defaulting of the normal MPBF disbursement process.

2. AI and Graph Theory Network Analysis: State Commercial Taxes Departments should move from simple validation and mismatch controls generated at the back end of the online portal to apply new tools like AI and Graph Theory Network Analysis. The GSTN needs to embrace advanced Artificial Intelligence (AI) and Machine Learning (ML) with the help of graph data bases. Using network analysis algorithms, any loop in taxation can be identified on the fly, even if the overall tax information is not perfectly balanced. AI can identify unfeasible transaction velocity or anomalies in the E-way bills, detect and flag the syndicates that deal with "paper transactions".

3. The need to overhaul the MPBF model and Bank Due Diligence: It is important that the banking sector make official the flaws in the MPBF model in a digitalized economy. Turnover verification should be replaced with a forensically audited cash flow protocol for due thoroughness. The figure of the actual cash deposits should correspond to the reported GST turnover and banks are bound to apply more sophisticated Transaction Monitoring Systems (TMS) to enforce this. Also, banks will not accept lists of accounts receivable that are self-reported. Independent, third-party audits of stocks and receivables must be required for major debtors—to determine whether they're legal, existing and not connected to the debtor.

4. Government-Backed Credit Ratings and Automated DPRs: As stressed in the financial analysis of the Vikash Techsec case it is critical for an all-encompassing, government backed credit rating system to be in place. This should be based on businesses that are filing their taxes on time, on the bottom-line stability of their financial ratios, on how they manage their debt payments and on the stability of their cash flow on the real time basis, and not only on the smoother looking top-line revenues. In parallel, the difficulty of acquiring loans needs to be shifted towards Automated Detailed Projects Reports (DPRs). DPRs created based on direct data extraction from GST and Income Tax/ MCA databases, instead of manually generating financial projections, helps to standardize risk assessment for banks.

5. Strengthening Departmental Capacity and Statutory Enforcement: Finally, the recommendations of the CAG should be adhered to at the state level for strengthening the capacity of the departments and the action to come against the rules under the act. The Commercial Taxes Department needs to immediately develop Standard Operating Procedures (SOPs) to move from a reactive tax administration to a more active scrutiny of returns process in line with Section 61 of the Act. The state government has to rectify the gross deficiency of 81.32 percent in supporting staff to effectively process cancellations and do field audit. Moreover, there need to be serious consequences to non-production of granular records in constitutional audits, as well as under other statutory requirements. Where supplementary ledgers and invoices are not provided upon demand the registration of the GST shall be deemed to be cancelled and the IT credits shall be automatically blocked.

Table 2: Position of Adjudicating Authority and Supporting Staff of CTD, Jharkhand

Name of the posts	**Number of sanctioned posts**	**Actual strength**	**Number of vacant posts**	**Percentage of vacant posts**
Adjudicating authority	443	277	166	37.47
Supporting staff	712	133	579	81.32

Source: Compliance Audit Report for the year ended 31 March 2022. GOJ

With these structural and technological changes, India can strengthen its commercial banking system while credit guarantee schemes can be used to support small legitimate MSMEs and not financial financialization clusters.

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