

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

**NEW DELHI
28th MARCH, 2023**

CAG'S REPORT ON IT AUDIT OF CBIC ACES-GST APPLICATION ON GOODS AND SERVICES TAX, CENTRAL EXCISE AND SERVICE TAX PRESENTED IN PARLIAMENT

Audit Report of the Comptroller and Auditor General of India on 'IT Audit of CBIC ACES-GST Application' (Report No. 3 of 2023) on Goods and Services Tax, Central Excise and Service Tax was presented in Parliament here today.

A summary of the major audit findings is listed below:

Acquisition & Procurement

A total of 12 prospective bidders purchased the RFP, but only one bidder participated in the bidding process for selection of Implementation Agency for development and maintenance of CBIC's Indirect Tax Application (GST and ACES) and provision of Training and Helpdesk Services. *In future, the Department should ensure adequate competition and minimize vendor lock-in by ensuring that more bidders participate in the bid for tendering for the next contract. This may be done by devising appropriate procedures to ensure a more level playing field between the prospective bidders and the existing System Integrator (SI). Also, this tender may be initiated well in time so that in the event of receipt of only one bid, the Department has sufficient time to retender, if felt necessary.*

Development and utilisation of modules

Modules like Mobile Application, Export, Audit and Taxpayer at Glance were yet to be developed at the time of Audit. Functionalities of the modules for Adjudication, Investigation and Appeal were being used only to a limited extent. *The Department should strengthen the IT Governance and Management mechanism to ensure that the project timelines are adhered to and rolled out modules are effectively used as envisaged.*

Service Level Agreement (SLA) and Liquidated Damages (LD)

Out of 32 parameters relating to five SLAs, the Department provided SLA records for only 14 parameters. Further, one important SLA parameter stated that the response time of 95% of business transactions was to be within the limit of two seconds at the Data Centre. Despite the System Integrator (SI) Vendor regularly informing the department regarding the same, it was not implemented as application baselining was pending on the part of the Application Vendor. In the absence of such baselining, neither Vendor is held accountable for failure to reach the targeted performance. *The Department should actively coordinate with both the Vendors (SI and Application Vendors) for baselining of application performance of the CBIC ACES-GST application, at the earliest.*

In respect of the other SLA parameters for which records were provided, there were issues in handholding resource deployment and delay in submission of Helpdesk Operational Plan (Level-1) by the Vendor. Further, refund grievances data revealed that incidents were resolved after the respective prescribed time limits and many incidents remained unresolved. ***The Department should ensure that implementation of all aspects of SLA are effectively monitored; the Department and the Vendor perform their respective roles in accordance with the contractual provisions and non/late performance is effectively reviewed and resolved within the agreed time limit.***

Registration Module

Instances of deemed approval of registrations without mandatory Physical Verification (PV) of business premises where taxpayers did not authenticate their Aadhaar were observed in Audit. ***The Department should conduct post-physical verification of the premises for the cases where Aadhaar has not been authenticated. The CBIC ACES-GST system should have provision to not allow grant of registration without mandatory physical verification of taxpayers with unverified Aadhaar Status. The Department should make provision for generating exception reports for cases where Aadhaar Verification and Mandatory Physical Verification status of a taxpayer is flagged as 'N' for monitoring and taking appropriate action.***

Registrations were approved even in cases where the PV reports sought rejections of the registration applications. ***The Department should develop an alert by which the CPC officer can identify the Adverse/Negative remarks. It should also consider developing a MIS report of such cases.***

Registrations were approved in the case of applications filed through the MCA portal (SPICE-AGILE form) without mandatory physical verification where the taxpayers either opt out of Aadhaar Authentication or opted but Aadhaar authentication had failed. ***The Department should ensure that GST registration through MCA portal is not approved in the CBIC ACES-GST application unless the same is Aadhaar authenticated, or the physical verification is completed.***

Suspension functionality in cases of application for cancellation of registration or suo-moto cancellation by the tax officer was not implemented. There was no mechanism to restrict such registered persons from making any taxable supplies and consequent passing on of credit during the period of suspension. ***The Department should ensure that the suspension functionality is implemented in the CBIC ACES-GST application in line with the CGST Rules.***

Absence of mechanism to compute aggregate turnover under a single PAN in the case of Registered Persons opting under Composition Levy Scheme (CLS) was noticed. ***The Department should pursue the matter with GSTN to enforce the validation to compute the aggregate turnover from returns and to move such persons registered under the Composition Levy Scheme to normal taxpayer status after they cross the prescribed turnover threshold. An alert for the tax officer can also be included for such cases where the taxpayers cross the turnover threshold meant for the Composition Levy Scheme. The Department should identify all such past cases to bring them into the normal taxpayer category.***

Validations for identifying multiple registrations with the same PAN registered under the Composite Levy Scheme (CLS) as well as Normal Taxpayers were not built in the application. ***The Department should ensure that a validation is in place in the system so that the taxpayer***

under Normal Registration is not allowed for a Registration with the same PAN under the Composition Levy Scheme at the same time and vice versa. The Department should identify all such past cases to bring them into the normal taxpayer category.

No action was taken against taxpayers who have not furnished bank account details within forty five days after obtaining GSTIN. Further, there was no alert mechanism to enable tax officers to identify such taxpayers or to initiate cancellation proceedings in such cases. *The Department should ensure compliance with Rule 10 and 10A of the CGST Rules, 2017 read with Rule 21 and 21A and consider providing an alert functionality at the Tax Officers Dashboard in the case of non-filing of Bank account details within the prescribed time limits.*

Where a taxpayer files returns in response to a Show Cause Notice (SCN) issued in REG-17 for non-filing of Returns, there is no provision in the CBIC ACES-GST application to alert the tax officer that the Returns have been filed. Linkage between the Registration and the Returns Module was not provided. *The Department should provide a linkage between the Registration and the Returns Module so that a Tax Officer is alerted when Returns are filed and taxes are paid in response to a notice in REG-17. Action may also be initiated to provide effective validation/alert in respect of the timelines as per the provisions of the CGST Rules.*

Returns Module

Functionalities such as Scrutiny of Returns, Summary and Provisional Assessment, Risk Assessment Engine, Ledger Maintenance etc., have not been developed and the timelines for development had not been frozen.

Refund Module

The functionality for adjustment of outstanding demand under the Act or under any existing law in the Provisional Refund order (RFD-04) was neither included in the SRS nor developed though the Act provides for the same. Due to this there were risks to government revenue. *The Department should pursue the matter with GSTN to develop the functionality for either adjustment of outstanding demand or at least an alert about such outstanding demand to the Proper Officer at the time of sanctioning the provisional refund.*

Dispute Settlement and Resolution (DSR) module

There was no in-built mechanism for modifying/updating due dates for filing of returns, including revision/extension mandated by law/GST Council. *The Department should discuss the technical feasibility of development of a mechanism to modify/update the dates in integration with Returns module and develop a mechanism for same in the module.*

Cross-cutting issues

The digital signature/e-Verification code of the proper officer mandated by the Rules were not available on the Registration Certificates. Such Digital Signature/e-signature has not been incorporated and adopted in any of the modules. *The Department should ensure the digital signature functionality incorporated and adopted in all modules proper for authentication of statutory documents by an individual officer in a non-repudiable manner.*

BSC/SS/TT/