

## Executive Summary

### Chapter I : Implementation of Goods and Services Tax (GST)

- GST was rolled out with effect from 1 July 2017 with the objectives of reducing tax cascading, ushering in a common market for goods and services and bringing in a simplified, self-regulating and non-intrusive tax compliance regime.

**(Paragraph 1.6)**

- The roll out of GST has been a landmark achievement of the Government with respect to unifying multiple central and state taxes barring a few goods / sectors and availability of Input Tax Credit (ITC) across the entire value chain. Multiplicity of tax rates has also been eliminated to a large extent. The objective of roll out of single IT based interface for taxpayer has also been achieved to some extent.

**(Paragraph 1.6.2)**

- One significant area where the full potential of GST roll out has not been achieved is the roll out of the simplified tax compliance regime.
  - Even after two years of roll out of GST, system validated Input Tax Credit through “invoice matching” is not in place and non-intrusive e-tax system still remains elusive.
  - The complexity of return mechanism and the technical glitches resulted in roll back of invoice-matching, rendering the system prone to ITC frauds. Thus, on the whole, the envisaged GST tax compliance system is non-functional. The deficiencies in the GST system also point to a serious lack of coordination between the Executive and the developers.

**(Paragraph 1.6.3)**

### Chapter II : Revenue and return filing trends

#### Revenue analysis

- The growth of indirect taxes slowed down to 5.80 per cent in 2017-18 over 2016-17, while this growth rate was 21.33 per cent during 2016-17.

**(Paragraph 2.1.1)**

- During 2017-18, Government of India (GoI) resorted to devolution of IGST year-end balance to the States as per Finance Commission formula, which is in contravention of the provisions of the Constitution of India and the IGST Act. This also has the impact of distribution of funds to the

States on a completely different basis instead of 'Place of Supply' concept as envisaged in the IGST Act.

**(Paragraph 2.1.3)**

- Post implementation of GST, the Centre's revenue on goods and services (excluding central excise on Petroleum and Tobacco) registered a decline of 10 per cent in 2017-18 as compared to revenue of subsumed taxes in 2016-17.

**(Paragraph 2.1.4)**

- There was a short transfer of ₹ 6,466 crore of GST Compensation cess to the Public Account during 2017-18.

**(Paragraph 2.1.5)**

### **Returns filing**

- While it was expected that compliance would improve as the system would stabilise, all returns being filed showed a declining trend of filing from April 2018 to December 2018.
- The filing percentage of GSTR-1 returns (monthly returns on outward supplies) were throughout less in comparison to the corresponding filing of GSTR-3B returns (summary self-assessed return). The introduction of GSTR-3B resulted in filing of returns with ITC claims which could not be verified and it appears to have disincentivised filing of even GSTR-1. Since filing of GSTR-1 is mandatory, short-filing is an area of concern and needs to be addressed.
- GSTR-3B being only a summary return, short-filing of GSTR-1 implied that the tax departments did not have complete invoice level details as filed by the suppliers, which could be used to verify details given in GSTR-3B or to arrive at turnover.

**(Paragraph 2.3.1)**

### **Chapter III : IT audit of GSTN**

In 16 cases, the key validations / functionalities as existing in the rolled out modules were not found aligned to the applicable provisions. Of these 16 cases, the required validation was not included in the Software Requirement Specification (SRS) itself in seven cases, the validations were not built-in even though SRS was correctly framed in eight cases and the SRS provision included a condition not prescribed in the Act in one case.

**(Paragraph 3.5)**

## Registration Module

System validations were not aligned to the provisions of the GST Acts and Rules, leaving the following crucial gaps in GST Registration module:-

- System failed to validate and debar ineligible taxpayers from availing Composition Levy Scheme.

**(Paragraph 3.7.2)**

- Mandatory fields were found made optional or accepting junk values.

**(Paragraph 3.8.1)**

- TDS registrations were allowed under invalid category.

**(Paragraph 3.8.3)**

- Lack of validation of key fields in Registration (Legal Name, Type of Business and CIN) with CBDT and MCA Databases.

**(Paragraph 3.10.2)**

## Payment Module

The payment module, despite being in operation since 1 July 2017, was fraught with operational deficiencies like

- Delay in updating the Electronic Cash Ledger (ECL) even after successful payment of tax by the taxpayer.

**(Paragraph 3.13.1)**

- Lack of assurance on minimum service requirements prescribed for banks.

**(Paragraph 3.14)**

- Issues in reconciliation of GST receipts.

**(Paragraph 3.15)**

- Issues such as payment initiated before expiry of Common Portal Identification Number (CPIN) but Challan Identification Number (CIN) generated after expiry of CPIN and incorrect display of messages to taxpayers were not dealt with until pointed out by audit.

**(Paragraph 3.16)**

- Facility of payment through Debit / Credit cards could not be made available as Ministry did not decide on how to deal with the financial implications.

**(Paragraph 3.18)**

In a system with automated interface between the IT applications of the banks and GST portal, there should be no scope for errors such as invalid GSTIN and expiry of CPIN leading to non-reconciliation of GST receipts.

**(Paragraph 3.15)**

### **IGST Settlement reports**

All the IGST Settlement Ledgers were not being generated due to non-implementation of corresponding GST modules, like imports and appeals. This, coupled with the inaccuracies in the settlement algorithm and limitation of the GSTR-3B return in capturing all the information required for settlement, had a bearing on the settlement of funds to the Centre and various States.

- The incomplete IGST ledgers were partly responsible for ₹ 2,11,688 crore of IGST balance remaining unsettled during 2017-18.

**(Paragraph 3.22)**

- Duplicate records were noticed in 6,748 cases in 5 Settlement ledgers, leading to inaccurate settlement of ₹ 416.07 crore IGST funds for the period from July 2017 to July 2018.

**(Paragraph 3.23)**

- Incorrect settlement of IGST amounting to ₹ 359.46 crore during the period from July 2017 to July 2018 was noticed because of erroneous entries in settlement ledgers due to the algorithm picking up entries from wrong category of taxpayers.

**(Paragraph 3.25)**

- Unrealistic erroneous claim of ITC of IGST by one taxpayer, representing 79 per cent of total ITC claim by all taxpayers for a month, was allowed by the system, exposing the vulnerability of the system to fraudulent ITC claims.

**(Paragraph 3.26)**

### **System design deficiencies**

- There were no control totals like check sums or record level totals in files shared with Accounting authorities.

**(Paragraph 3.17)**

- The IGST algorithm was found to be defective picking up entries from wrong reports in IGST module.

**(Paragraph 3.25)**

- A field like turnover limit, prone to changes, was not made configurable.

**(Paragraph 3.7.1)**

- No alert was issued when the threshold of turnover prescribed for Composition Levy Scheme was crossed.

**(Paragraph 3.7.1)**

### ***Business Continuity and Change Management***

Business Continuity Policy was not finalised and only Disaster Recovery Plan had been in place.

**(Paragraph 3.28.1)**

Lack of a systemic approach to change management, coupled with some of the deficiencies pointed by this audit remaining unaddressed even after GSTN reported corrective action, indicated the crucial risks existing in the application running on the GST portal.

**(Paragraph 3.29)**

### ***To sum up the IT Audit findings:***

While acknowledging that GST is a completely new system being developed, in view of its magnitude and Pan-India impact, it is all the more necessary that due care is taken both in development and in testing of the system before roll out. The failure to map business rules correctly and the absence of key validations in the rolled out system points to inadequacies in the functioning of GSTN.

The issues brought out in IT audit also pointed towards the need for GSTN to re-examine prioritisation of development of various functionalities, strengthen their root cause analysis and testing process to ensure that critical deficiencies in application are detected and rectified before rollout to public. The role of the executive in UAT / SRS sign off also needs to be re-examined.

The problem of accumulation of IGST balance due to unavailable IGST settlement reports should be resolved on priority to minimize the need for resorting to ad hoc apportionment of unsettled IGST, to be adjusted against future apportionments due to the States.

**(Paragraph 3.31)**

## **Chapter IV : Compliance audit of GST**

- Unhindered and full access to pan-India data is crucial for meaningful audit and to draw required assurances needed, otherwise certifying revenue receipts may become difficult.

- In absence of access to GST data, the conclusions in this chapter on compliance audit were based on limited audits carried out in the field. However, the gamut of issues brought out even in this limited audit point to serious systemic deficiencies that need to be addressed by the department.

**(Paragraph 4.1)**

- Some of the audit findings on Transition Credits indicated that data / red flags available in ACES have not been efficiently leveraged to identify and reject inadmissible credits.

**(Paragraph 4.7)**

- Non-allocation or wrong mapping of registered taxpayers carried the risk of the returns filed/ not filed by such taxpayers not being subject to any kind of scrutiny by the jurisdictional officer. In this highly IT intensive environment also, Range Offices had to physically take up problems created by an IT system for resolution.

**(Paragraph 4.9.2)**

- The instances of non-adherence to the provisions relating to Refunds, pointed towards the need for expediting automation of refund processing with proper checks and validations besides improving the system for monitoring manual processing of refunds, till automation is completed.

**(Paragraph 4.11)**

The system of payment and settlement of tax that was envisaged for GST was based on one hundred per cent invoice-matching and availment of input tax credit, as well as settlement of IGST on the basis of invoice-matching. Neither is possible as of now, as an invoice-matching system has not kicked-in. Invoice-matching is the critical requirement that would yield the full benefits of this major tax reform. It would protect the tax revenues of both the Centre and the States, it would lead to proper settlement of IGST and would minimise, if not eliminate, the tax official-assessee interface. In fact, even “assessment” in the sense understood in the manual system may no longer be necessary (returns themselves can be generated by a system that matches invoices); and cases of evasion etc., can be traced by applying analytical tools and AI to the massive data that crores of invoices generate.