

Executive Summary

The main objectives of this IT Audit of CBIC ACES-GST Application were to seek assurance whether:

- (i) IT governance and IT security is adequate and effective;
- (ii) The functionalities of the CBIC ACES-GST Application have been developed as envisaged and the intended benefits have been achieved including ease of tax administration; and
- (iii) The application has effective interfaces with other IT Applications.

The audit covered the period from August 2015 to March 2021. The scope of audit covered development of various modules and their functionalities, GSTN Interface and other Interfaces, acquisition of the CBIC ACES-GST Application, IT Governance, Change Management and Compliance with SLA Parameters.

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. Thus indicated lack of adequate competition from prospective bidders. ***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.*** The Ministry accepted the observation.

IT Governance and Management

Due to limited production of records, Audit could not comment as to whether the Project Management office and Steering Committee were functioning as envisaged. ***The Department should ensure that the PMO and steering committee are functioning as envisaged, to monitor the progress of implementation of the project.*** The Ministry during the exit conference stated that all available office records were furnished before the audit team and also stated to share the same with Audit again; however, the same was awaited (December 2022).

There were certain statutory requirements in the Investigation and Registration modules which were not included in the SRS. ***The Department***

should conduct a review to ensure that all the provisions laid down in Act/Rules/notifications, including the changes introduced at different times are accurately mapped and updated in the SRS for development of functionalities. The Ministry accepted the recommendation and stated that the suggested functionalities in these modules will be developed.

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.* The Ministry stated that the audit module has been rolled out on 1st April 2022 and all efforts were being made to accelerate the development and deployment of the remaining modules.

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.* The Ministry accepted the observation.

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.* The Ministry accepted the recommendation and stated that the Department has deducted the maximum LD of 20% in all the quarterly payments made up to July-September 2021.

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.*** The Ministry, while accepting the para, stated that Aadhaar authentication was activated by GSTN from August 2020 and the same was implemented by CBIC from 5th October 2020 and the recommendation was being communicated to Policy wing. The fact remains that provision of physical verification in place of Aadhaar authentication should have been effective from 1st April 2020.

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.*** The Ministry noted the recommendation for compliance.

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.*** The Ministry noted the recommendation for compliance and stated that the decision as to whether physical verification is required or not for a given application is indicated and communicated by the GSTN system. The fact remains that a mechanism is required to avoid deemed registrations in case of registration applications through MCA portal.

Certain applications for registration were neither approved nor rejected by the tax officer and approval of registration either by the tax officer or deemed approval in cases where no response is received to the queries raised by the tax officer through REG-03 were observed. The Ministry stated that Rule 9 does not provide any timeline for cases where the taxpayer has not responded and hence auto-rejection option is not built in the system. ***The Department may consider proposing an amendment to the provisions of Rule 9 of the CGST Rules, 2017 for clearly specifying a timeline for rejection***

of applications for registration where the applicant fails to respond to Form GST REG-03 within seven days.

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.** The Ministry accepted the para and stated that the effective date of suspension was to be communicated by GSTN through API and the same would be taken up for integration. In case of suo-moto cancellation, the enhancement would be taken up for implementation.

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.** The Ministry, while accepting the para, stated that the Department had already prioritised the GSTN CR of restricting composition option to taxpayers exceeding the threshold turnover.

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.** The Ministry, while accepting the para, noted the recommendation for compliance and stated that a reconciliation exercise of all the registration data base with the GSTN data base is undertaken for rectification.

The delay in implementation of certain crucial forms relevant to Composition taxpayers and inadequate checks to validate the eligibility conditions to pay tax under Composition Levy scheme was noticed. This resulted in non-identification of ineligible taxpayers such as same PAN taxpayers existing as Composition and Normal Taxpayers. **The Department should ensure early development of CMP-5, CMP-6 and CMP-7 forms and**

validation check alert enabling the proper officer to initiate the prescribed action against the taxpayers who no longer fulfil the eligibility conditions relevant to the CLS. The Ministry noted the recommendation for compliance and stated that the Department has prioritised to implement the same.

Regular taxpayers where the last filed GSTR 3B return was before January 2020 or where even a single GSTR 3B return has not been filed before January 2020 were found active. Suo-moto cancellation functionality is not effectively used resulting in many non-filers registrations remaining active. The Ministry stated that GSTN has implemented Centralised Bulk suspension (cancellation) of non-filers functionality. **The Department should ensure that the Centralised Bulk suspension (cancellation) of non-filers functionality is being used effectively by GSTN.**

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.** The Ministry stated that it will be implemented on priority basis.

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.** The Ministry accepted the para and stated that the taxpayers are provided with an opportunity to respond to the notice and hence if they had filed, it can very well be informed to the proper officer.

Due to absence of provision in the Act to amend the enrolment of GST Practitioner (GSTP), Form REG-14 meant for normal registrations, is being used for core amendment in the GST Practitioner registration. The Ministry stated that the feature is only a facilitative/enabling mechanism having no revenue implication. **The Department should initiate necessary action to obtain the approval of the GST Council/GSTN Law Committee for the procedure for GSTP Amendments.**

Returns Module

Form GSTR-4 was still not deployed in production even though the Board had notified the same in April 2019. ***The Department should ensure the availability of the amended Form GSTR-4.*** The Ministry accepted that the development of the functionality had been delayed and stated that an addendum to the existing Contract has been signed with the Vendor on 17 February 2022 as per which all the pending tasks would be undertaken on T&M (Time and Materials) basis under AGILE mode.

Instances of mismatch of the Taxpayer Type were noticed; regular taxpayers were shown as Composition Taxpayers in the application. ***The Department should initiate corrective action to reconcile the data in the CBIC with the data in GSTN and map the correct Return type with the Registration Type.*** The Ministry accepted the recommendation and stated a reconciliation exercise in respect of the Registration Database between GSTN and CBIC has been initiated and corrective action is being taken to rectify the same in the CBIC database.

“View Non-Filers” functionality was not enabled for Composition Non-filers. Even the Bulk suo-moto cancellation functionality was also not made applicable to the non-filers of GSTR-4 and CMP-08 returns. ***The Department should enable the issuance of GSTR-3A notices through the common portal to non-filers of all types of Returns including GSTR-04 and CMP-08.*** The Ministry accepted the recommendation.

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. ***The Department should prescribe definite timelines for the development and deployment of functionalities for effective monitoring. The Department should also ensure that important functionalities such as Scrutiny and Assessment, Risk Assessment Engine, Ledger Maintenance etc., are developed and deployed in a timely manner.*** The Ministry stated that the functionalities are under development or will be taken up shortly under AGILE mode.

Refund Module

The functionality to process the refund applications filed by notified persons through CBIC ACES-GST application was kept on hold with the remarks “To be taken up in future”. ***The Department should pursue the matter with GSTN to develop the functionality for processing the refund applications of the UIN category meant for Notified Persons as envisaged in the SRS.*** The Ministry, while accepting the para, stated that once GSTN

develops this functionality at the frontend, the same will be developed at the backend also.

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.*** The Ministry, while accepting the para, stated if GSTN develops any functionality in the GSTN portal, the same will be developed in the backend also.

There was no provision for recovery/adjustment of interest on payment of outstanding demand, interest from the date of demand raised (Demand ID date) to the date of amount adjusted from refund due, from the final refund. ***The Department should ensure by working with GSTN that such a functionality is developed and deployed in the system to ensure recovery of interest on outstanding demand.*** The Ministry stated that a liability under interest minor head cannot be adjusted against the amount that is sanctioned under the Tax minor head. However, this issue was taken up with GSTN for necessary action as per the statutory provisions. The contention of Ministry is not acceptable. There is a provision to adjust outstanding interest liability against refund due in the refund order. However, there is no provision in the system to adjust the interest accrued on late adjustment of the outstanding demand for the period from the date of demand raised (Demand ID date) to the date of amount adjusted from final refund due.

Dispute Settlement and Resolution (DSR) module

Adjudication Module

Non-development of Dispute Lifecycle Register envisaged as part of DSR module was observed which has an inherent risk exposure of data of cases accumulating in the system without a lifecycle view. ***The Department should ensure the development of the dispute lifecycle register under the DSR (Adjudication) module.*** The Ministry while accepting the para stated that Dispute Life Cycle Register will be developed after the development of all functionalities in various modules.

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. The Ministry accepted the para and stated that the technical feasibility for integrating DRC-01 functionality with returns module for automating the due dates will be studied.

Other Modules

Development of Export module, Taxpayer at Glance and Mobile application had either not started or was in the initial stage of development. **The Department should ensure the development and implementation of Export and Mobile modules in a timely manner.** The Ministry while noting the recommendation(s) for compliance stated that the necessity of TAG's development would be reviewed as the ADVAIT project under DG (Systems) had already implemented a similar dashboard "Know your Taxpayer".

Cross-cutting issues

The content of individual changes made in the forms at various levels of hierarchy in the draft stage are not being recorded and stored. The version control utility is found to be absent in the workflow activity. **The Department should ensure that the portal can capture all the changes/alterations or at least the significant changes carried out by each user in the workflow as part of the user activity logs.** The Ministry, while accepting the para, replied that implementation of Version Control functionality as suggested would be taken up subject to technical feasibility.

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.**

There is no provision for automating the calculation of interest with the requisite details of tax payable, period and rate of interest being provided as inputs. Calculation of interest across all modules are designed for manual calculation, exposing it to risk of computation errors. **The Department should expedite the development of functionality for automated calculation of interest as envisaged.** The Ministry accepted the para and stated that the issue was being taken up with GSTN.

Interface with GSTN

There was absence of a mechanism to link the Temporary Reference Number with the Jurisdiction. There is no provision for a tax officer to

monitor whether the suo-moto order has been complied with by the taxpayer. ***The Department should pursue the matter with GSTN and the Policy Wing, to devise a suitable mechanism to link the Jurisdiction with the TRN.*** The Ministry stated that they have noted the recommendation for compliance.

There were instances of mismatch of data between the GST common portal and the CBIC database. Also, the entries in Ledgers were not getting updated. The mismatch of data raises concern on the reliability of data which further leads to inaccurate MIS Reporting. ***The Department should implement an End of Day reconciliation mechanism (interface based) for all the modules to ensure that the data in the CBIC database is always in sync with the GSTN database.*** The Ministry stated that they have noted the recommendation for compliance.

Discrepancies were noticed between the Permanent Account Numbers (PANs) available in the CBIC ACES-GST application and GSTN Portal. In certain cases, Legal Names available in CBIC database were not matching with the GSTIN. ***The Department should take appropriate action to reconcile the cases of mismatch in PAN, existence of incorrect legal names in the RCs and the details of the correct PAN based on which RCs had been issued.*** The Ministry stated that they have noted the recommendation for compliance.

Interface with other IT applications

The CBIC ACES-GST Application was intended to interface with various applications within CBIC and external agencies like ICEGATE, ACES, ICES, CPGRAMS, NSDL, RBI, MCA 21, State level applications etc. Development of interface mechanisms with other external systems and agencies have not yet been initiated. ***The Department should initiate the development of interface of CBIC ACES-GST application with other applications.*** The Ministry stated that they have noted the recommendation for compliance.

