

### Chapter III: Implementation of functionalities

Audit examined the mapping of business processes flowing from the GST Acts/Rules in the CBIC ACES-GST Application and sought to ascertain if they had been correctly implemented or not. There were 11 modules envisaged in the application which were at various stages of development at the time of Audit. Four modules (Export, Taxpayer at Glance, Mobile Application and Audit) were in the initial stage of development and the remaining seven modules have been developed and rolled out to the production environment.

In the registration module, certain deficiencies pertaining to validations in respect of functionalities relating to the approval process and adherence to timelines of New Registration/suspension/ cancellation of registration were noticed.

Apart from delay in implementation/deployment of forms like CMP forms, GSTR-4 etc. in the Returns module, functionalities like Scrutiny of Returns & Risk Assessment Engine, Provisional Assessment, best Judgement Assessment, etc. were under development.

In the Refund module, various functionalities like processing of refund to the notified person, adjustment of outstanding demand in Provisional Refund order, recovery of interest on adjustment of outstanding demand or withholding of refund were not developed.

In the Dispute Settlement and Resolution (DSR) module, while appeals on refund order were being filed manually, the Dispute Lifecycle Register and mechanism for monitoring due dates were absent.

It was further observed that Digital Signatures have not been incorporated and adopted in any of the modules, logs of individual changes made in the forms at various levels of hierarchy in the draft stage were not being recorded and absence of functionality for automated calculation of interest was also noticed.

### 3.1 Registration Module

Registration of a business with the tax authorities implies obtaining a GST Identification Number (GSTIN) from the concerned tax authorities so that all operations and data relating to the business can be agglomerated and correlated. This is the fundamental requirement for identification of business for tax purposes or for having any compliance verification program. In the GST Regime, registration is fully electronic and any legal person wishing to register has to access the GSTN portal. The applicant will fill up all the required fields of the New Taxpayer Registration form in the GSTN Portal and submit the same for approval. The transactions and records submitted in the GSTN Portal are to be integrated smoothly in the CBIC ACES-GST application so that the records are available on the dashboard of the officers completely and on a timely basis.

**Table 3.1 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
To check whether alert / monitoring mechanisms is effective in critical areas of operations having revenue impact	Tested (38)	Passed (10)	Compulsory registration, Separate Registration (SEZ Unit or developer), Provisions relating to casual taxable person and non-resident taxable person, Effective date of registration, Provisions relating to place and period of registration	-
		Failed (28)	Deemed registration Aadhaar Authentication and conduct of Physical Verification related issues  Suspension functionality Aggregate turnover Flagging mechanism Timely deployment of Composition Forms Effective date of registration in case of amalgamation	3.1.1.1 3.1.1.2 3.1.1.3 3.1.1.4  3.1.1.6 3.1.2.1 3.1.2.2 3.1.2.3  3.1.2.4

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
			Cancellation issues Mapping Issues Amendment of registration GSTP issues Mismatch between RFP and SRS Suo moto Registration	3.1.2.5 3.1.2.6 3.1.2.7 3.1.2.9 4.1.3 3.1.3 3.1.4 4.1.2
	Not tested (2)	Scope restriction (2)	Estimation of tax liability, Amendment relating to change in principal place of business	-
To assess if the functionalities offers ease of doing business	Tested	Failed (1)	Adherence of time limit in case of new registration	3.1.1.5
	Could not be checked	Scope restriction (1)	MIS reports	MIS Reports could not be checked due to non-facilitation of Testing environment.
	Tested	Passed	Adherence of time limit in respect of development of functionalities in respect of Registration	-
	Not tested	Scope restriction (1)	Erroneous cancellation of registration	-
To check effectiveness of integration with other modules	Tested (3)	Passed (1)	Integration issues of GST portal	-
		Failed (2)	System alerts	3.1.2.8

The Department developed 22 functionalities, covering the aspects of verification and approval process that was envisaged in the SRS signed off in 2016. Later, nine additional functionalities were developed through Change Requests (CRs) due to changes in the provisions of the law

necessitating these modifications/additions. These changes were intimated in the form of advisories to all the stakeholders. The Department in a walkthrough stated (December 2020) that 24 Registration Forms were in production and four Forms were pending for development.

During test-check of registration processes mapped in the Application, Audit noticed that functionalities like validity of registration in case of Casual Taxable Person or Non-Resident Taxable person (NRTP), effective date of registration, dates and timelines for various stages of new registration, trigger alerts in the tax-officer's dashboard for new registration etc., were found in order. However, the following audit observations were noticed as a result of examination of SRS, output of data queries and functionalities which tested negative:

### **3.1.1 Inadequate validations in respect of functionalities developed and deployed in production relating to the Approval process of New Registration**

Notifications 18/2020 and 19/2020-Central Tax dated 23 March 2020, introduced Aadhaar authentication with effect from 01 April 2020, in respect of the following persons associated with an entity seeking GST registration:

- Individual,
- Authorized signatory of all types,
- Managing and authorized partners of a partnership firm, and
- Karta of HUF

#### **3.1.1.1 Mandatory physical verification of business premises was not conducted for unauthenticated Aadhaar Cases**

Sub-rule (4A)<sup>12</sup> of Rule 8 of CGST Rules 2017 read with Advisory No. 19/2020/August 2020, Rule 9(1) and Rule 9(5) of CGST Rules, 2017 together provide that where a person, other than those notified under sub-section (6D) of Section 25, fails to undergo authentication of Aadhaar number or does not opt for authentication of Aadhaar number, then with effect from 01 April 2020, the registration<sup>13</sup> shall be granted only after physical verification of the principal place of business in the presence of the said person, not later than sixty days from the date of application, in the manner provided under rule 25 and the provisions of deemed approval stated in Rule 9(5) *ibid* shall not be applicable in such cases.

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<sup>12</sup> Inserted vide Notification No. 16/2020-Central Tax

<sup>13</sup> Inserted vide Notification No.16/2020-Central Tax dt. 23.03.2020 and was substituted vide Notification No.62/2020-Central Tax dt. 20.08.2020 w.e.f 01.04.2020.

Audit analysed data of 2,78,732 registration applications from CBIC database for the period 01 April 2020 to 20 August 2020 and found 34,227 cases which have been deemed approved. Out of these 34,227 cases, 225 randomly selected cases<sup>14</sup> were cross verified with the data in the GSTN Portal for the Aadhaar Verification Status and it was observed that in 208 cases, the GSTN Portal showed Aadhaar Verification Status as 'N' implying that the Aadhaar was not verified and the tax officer was to mandatorily conduct the physical verification of the premises prior to grant of GSTIN and the application should not have been deemed approved for the said period. For these 208 records, the CBIC database also showed the 'Mandatory Physical Verification' field as 'N' reconfirming that these applications were deemed approved without conduct of physical verification of business premise, thereby deviating from the provisions of law for the said period. This means that the System allows the tax officers to grant registration without or prior to mandatory physical verification of premises in respect of taxpayers with unverified Aadhaar status. Not conducting PV in such cases means enhanced risk of registration obtained with intention to conduct fraudulent transactions.

***Recommendation 9: 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.***

***Recommendation 10: 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.***

In response to the Audit observation (November 2021), the Ministry while accepting the para stated (August 2022) that Aadhaar authentication was activated by GSTN from August 2020 and the same was implemented by CBIC from 5<sup>th</sup> October 2020 and Audit's recommendation to conduct post physical verification for the cases where Aadhaar has not been authenticated and the applications have been deemed approved is communicated to the Policy Wing.

The fact remains that the legal provision of physical verification in place of Aadhaar authentication was effective from 1<sup>st</sup> April 2020.

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<sup>14</sup> Verified through the SSOID credentials of Chennai Zone provided to Audit team.

### **3.1.1.2 Incomplete exchange of information between the approving CPC officers and the jurisdictional officers impacting the decision on conduct of PV**

Where the registering taxpayers opt for Aadhaar authentication, the GSTN Portal forwards the link for Aadhaar verification via email. Based on the outcome of this process, the GSTN Portal will set the Aadhaar Status against each such person as 'Verified'/'Unsuccessful'. If all the persons validate their Aadhaar successfully, then there is no requirement for Physical verification. If any of them fails the Aadhaar verification, then Application Reference Number (ARN) is marked for PV by GSTN. Where the person does not opt for Aadhaar verification, PV becomes mandatory before granting Registration and in such cases too, ARN is marked for PV by GSTN. All cases which are marked for PV are pushed by the CPC of CBIC to the Jurisdictional Officers for conducting PV.

The proper officer may, for reasons to be recorded in writing and with the approval of an officer not below the rank of Joint Commissioner, in lieu of the physical verification of the place of business, carry out the verification of such documents as he may deem fit in lieu of PV<sup>15</sup>. This facility of granting approval on verification of documents without conducting Physical Verification was subsequently withdrawn<sup>16</sup>. Also, by Advisory 19/2020 dated 24 August 2020, the Department specified timelines (only indicative) to complete the whole process within the given 21 days; these timelines are only indicative to help the officers to complete the work without any delay at their end.

An analysis of data of 28,775 cases from the CBIC database<sup>17</sup> for the period from August 2020 to March 2021 where Aadhaar status is 'N' and Mandatory Field Visit is 'Y' revealed that in 13,665 cases, the date on which it was forwarded by the CPC officer to the Jurisdictional Officer for Physical Verification was blank and the date of submission of PV Report by the Jurisdictional Officer was also blank. In the absence of critical information on the conduct of Physical Verification by the Jurisdictional Officer, the premise on which the CPC Tax Officer has approved the Registrations was not known. Blank value in the fields 'Forwarded to PV on' and the 'Date of conduct of PV' shows that there are issues in the flow of data from CPC to the Jurisdictional Officer and vice versa as a result of which audit could not gain an assurance on whether the PV was conducted for the cases highlighted.

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<sup>15</sup> as per Notification 62/2020 dated: 20.08.2020

<sup>16</sup> vide Notification 94/2020 dated 22.12.2020

<sup>17</sup> Data was shared by CBIC in a link to Antarang dated: 10.09.2021

It is also pertinent to mention that the CBIC ACES-GST application did not provide a workflow to obtain approval of the Joint Commissioner in cases where the documents have been verified in lieu of physical verification and it could not be ascertained from the IT System whether documents were verified in lieu of Physical Verification for the period from 20.08.2020 to 31.12.2020. On test-check of randomly selected 15 cases of the registrations approved by the tax officer, it was observed, that in 6 cases<sup>18</sup> the tax officer had approved the registrations without conducting Physical Verification.

Absence of crucial information viz. 'Forwarded to PV on \_\_\_' and 'Date of conduct of PV\_\_\_\_\_' impacts the approval of Registration by the CPC officer.

In response to audit observation (November 2021), the Ministry noted (August 2022) the observation for compliance and stated that in absence of the workflow the officer can obtain the approval offline and upload the remarks in the system and take action as deemed fit.

Audit is of the view that transparency and accountability of decisions can be best maintained when the trail is built in the system and not offline.

### **3.1.1.3 Irregular grant of Registrations which were recommended for rejection in the Physical Verification (PV) Report**

Audit noticed that in 883 cases (Pan India) where the Jurisdictional Range Officer had conducted the PV and specifically recommended for rejection in the PV report, the CBIC ACES-GST application had permitted approval of their registration as taxpayers and GSTINs were also generated. Audit further cross verified eight cases out of these 883 cases with the CBIC ACES-GST application using Audit SSOID credentials pertaining to Chennai Zone. It was noticed that the Range Officer indeed had recommended for rejection of registration application in his comments in the PV Report.

In this connection, the procedures and processes detailed in the Advisory No. 26/2020 dated 12 October 2020 for processing of the Application Reference Numbers (ARNs) marked for PV in the CBIC ACES-GST application were perused. On submission of a PV Report by the Range Officer /Superintendent, a 'PV Report Received' task is created on the dashboard of the Assistant Commissioner (AC)/Deputy Commissioner (DC) for verification of the PV Reports submitted. These officers, however, are provided with only the 'Forward Report' option and must necessarily forward the report to the CPC officer irrespective of their

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<sup>18</sup> Verified through the Audit SSOID credentials of Chennai Zone.

agreement/disagreement with the PV report after entering remarks in the 'Comments' column. Further, these applications would be deemed approved if the CPC officer fails to act on these ARNs within the stipulated 21 calendar days.

Thus, lack of provision in CBIC application to alert the CPC Officer about adverse remarks in the PV Report has been resulting in approval of registration even in cases where the PV reports seek rejections of the registration application. The CPC seems to be allowing approval of registration without verifying adverse comments in the PV report as Audit could not verify the source of approval of the registrations which have been specifically recommended for rejection. Such overruling of rejections may lead to risk of creation of taxpayers not entitled to be registered.

***Recommendation 11: 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.***

In response to the audit observation (November 2021), the Ministry noted (August 2022) the recommendation for compliance and stated that the Department was already considering to implement alert about the PV remarks to the CPC officers.

#### **3.1.1.4 Incorrect approval of Registrations without Aadhaar authentication/ physical verification in absence of relevant rule/provisions**

As per the Ministry of Corporate Affairs Notification, G.S.R 275 E dated 29 March 2019, Rule 38(A) has been inserted in the Companies (Incorporation) Rules, 2014 enabling a company seeking incorporation in the MCA portal to simultaneously opt for GSTIN registration from the MCA portal through SPICE-AGILE form. This provision has been implemented by GSTN from 21 June 2019. After successful processing of the GST application at the MCA portal, the CIN (Corporate Identification Number), DIN (Director Identification Number) and PAN are transmitted to the GST Portal for further processing.

There is no specific exemption from Aadhaar authentication and Physical verification available in the CGST Act for ARNs filed through the MCA portal. On a cross verification of 19 cases randomly selected in Chennai Zone with the GSTN Portal, it was seen that in 15 cases, Aadhaar has not been authenticated and the CBIC ACES-GST application has allowed approval of the same in contradiction of the rule *ibid*.

Further, on perusal of the minutes of the Change Advisory Board (CAB) meeting (09/2021) dated 15 March 2021, it was noticed that for the



Applications filed by taxpayers (ARNs) through MCA portal, the Aadhaar flag and Physical Verification (PV) flag was transmitted as null in the json file. Since Aadhaar authentication for such ARNs is not implemented in GSTN, the Aadhaar details are blank and not allocated to the proper officer resulting in the ARNs getting deemed approved. To address the issue, a fix was put in place by Wipro on 21 December 2020 through a 'Change Request (CR) 282- REG\_01 ARNs - Aadhaar Exempted Cases (MCA)', whereby all such ARNs filed through the MCA portal having the Aadhaar and PV details as blank were allotted to the proper officer for processing.

In order to gain assurance on the effective implementation of Rule 9(1) of CGST Rules, 2017 which requires physical verification to be carried out for ARNs if Aadhaar is not opted for or Aadhaar authentication had failed, a pan-India extraction was made from the CBIC database of the ARNs filed between 21 August 2020 (Aadhaar functionality implementation date in CBIC ACES-GST application) and 31 March 2021, where the mandatory 'Aadhaar Verification status' field is either 'Blank ' or 'Unsuccessful' but the registrations have been approved by CBIC ACES-GST application without any Aadhaar authentication or Physical verification. Audit identified 1,130 such MCA generated ARNs. Out of these, 152 ARNs were filed after the implementation of the fix dated 21 December 2020. This means that despite the system fix enabling allotment of cases to the proper officer, the proper officer approved the cases without mandatory physical verification where the taxpayers either opt out of Aadhaar Authentication or opted but Aadhaar authentication had failed.

The Department has been addressed to examine and initiate action on the cases highlighted under intimation to audit. Further, clarifications have also been sought from the Department as to how post implementation of the fix, 152 ARNs having the Aadhaar Verification status' as either 'Blank' or 'Unsuccessful' were approved by the CBIC ACES-GST application.

***Recommendation 12: 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.***

In response to the audit observation (November 2021), the Ministry noted (August 2022) 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. As far as CR-282 is concerned it was implemented to allocate the ARNs filed through the MCA portal to the proper officer for processing and to prevent deemed approval.

The fact remains that a mechanism is required to avoid deemed registrations in case of registration applications through the MCA portal.

### **3.1.1.5 Inadequate validations resulting in non-adherence to time limits in processing of Registration applications**

As per Rule 9(2) of the CGST Rules, 2017, where an application submitted under Rule 8 is found to be deficient, either in terms of any information or any document required to be furnished under the said rule, or where the proper officer requires any clarification with regard to any information provided in the application or documents furnished therewith, the proper officer may issue a notice to the applicant electronically in Form GST REG-03 within a period of seven working days from the date of submission of the application and the applicant shall furnish such clarification, information or documents electronically, in Form GST REG-04, within a period of seven working days from the date of the receipt of such notice.

Further, Rule 9(3) stipulates that if the proper officer is satisfied with the clarification, information or documents furnished, the application for registration is required to be approved within a period of seven working days from the date of the receipt of such clarification or information or documents and Registration Certificate issued in Form GST REG-06. In case, the proper officer does not take any decision within seven days, registration of such cases shall be deemed to have been approved.

However, where no reply is furnished by the applicant within the prescribed time limit of seven days in response to the notice issued under sub-rule (2), Rule 9(4)<sup>19</sup> requires the proper officer to reject such application after recording the reasons in writing and inform the applicant electronically in FORM GST REG-05. Further, the SRS version 1.3 on Registration also clearly specifies that the CBIC ACES-GST application will be enabled with a functionality to auto reject the registration application if the taxpayer fails to respond within seven working days from the date of the receipt of notice.

Data extracted on a pan-India basis from CBIC database revealed the following:

- (i) In 7,67,328 cases (SATQ\_REG\_SQ02, Period: 01.07.2017 to 31.03.2021), the applications for registration have neither been approved nor rejected by the tax officer which is in contravention to the provisions of Rule 9 of the CGST Rules and indicates the

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<sup>19</sup> Rule 9(4) specifies that the proper officer has to reject the application, if a reply is not received to the notice issued or the officer is not satisfied by the reply, after recording the reasons in writing and inform the applicant electronically in FORM GST REG-05. The rule *ibid* is, however, silent on the timeline within which the proper officer has to reject the application.

absence of an effective validation mechanism in the CBIC ACES-GST application.

- (ii) In 72,955 cases (SATQ\_REG\_SQ05, period: 01.07.2017 to 30.06.2021), where queries had been raised through Form REG-03 but for which replies had not been furnished by the taxpayer (Form REG-04), the CBIC ACES-GST application had permitted the registration to be approved by the tax officer in 15,727 cases and deemed approved in 57,228 cases and certificate of registration (REG-06) was issued, which is not in accordance with the provisions of Rule 9 ibid. In all such cases where no reply has been received within the prescribed period, the CBIC ACES-GST application instead of rejecting the application had permitted issuance of Registration certificate.

This clearly indicates ineffectiveness of the validation feature envisaged in SRS 1.3 to auto reject the registration application if the taxpayer fails to respond within seven working days from the date of the receipt of notice. The Department needs to examine the reasons for the failure of the aforementioned functionality. Also, the reasons as to how an ARN is neither approved or rejected needs to be examined and suitable action initiated.

In response to the Audit observation (November 2021), Ministry partly accepted the para and stated (August 2022) 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. It also stated that the 57,228 cases were deemed approved because of integration failure with GSTN due to alert code failure. The technical team is working upon this issue.

***Recommendation 13: 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.***

#### **3.1.1.6 Delay in implementation of Suspension functionality resulting in ineffective monitoring**

As per Rule 21(A)(1) of CGST Rules, 2017, where a registered person has applied for cancellation of registration under Rule 20, the registration shall be deemed to be suspended from the date of submission of the application or the date from which the cancellation is sought, whichever is later, pending the completion of proceedings for cancellation of

registration. Rule 21(A)(2) *ibid* provides that where the proper officer has reasons to believe that the registration of a person is liable to be cancelled, he may, after affording the said person a reasonable opportunity of being heard, suspend the registration of such person with effect from a date to be determined by him, pending the completion of the proceedings for cancellation. Further, Rule 21(A)(3) *ibid* specifies that a registered person, whose registration has been suspended under Rule 21(A)(1) or Rule 21(A)(2) *ibid*, shall not make any taxable supply during the period of suspension and shall not be required to furnish any return under Section 39. All the above rule provisions are effective from 01 Feb 2019 vide the CBIC Notification No. 03/2019-Central Tax dated 29 January 2019.

On examination of the SRS documents, Departmental Advisories and based on the discussions held with the departmental officials, Audit noticed that the functionalities aligning with the above rules had not been fully implemented and the 'Effective Date of Suspension' was not captured in the CBIC ACES-GST application. Moreover, in the absence of a provision to capture the 'Effective Date of Suspension' in the CBIC ACES-GST application, it was observed that there was no mechanism to enforce the conditions stipulated under Rule 21(A)(3) *ibid*, restricting the registered persons from making any taxable supplies and consequent passing on of credit during the period of suspension.

The Ministry accepted the para and stated (August 2022) that in case of cancellation applied by registered person, the effective date of suspension is to be communicated by GSTN through API and the same will be taken up for integration. In case of suo-moto cancellation, the date of suspension will be captured in the CBIC System. This enhancement will be taken up for implementation.

***Recommendation 14: The Department should ensure that the suspension functionality is implemented in the CBIC ACES-GST application in line with the CGST Rules.***

### **3.1.2 Inadequacies in certain validation controls resulting in contravention of provisions relating to Registration approvals and cancellations**

#### **3.1.2.1 Absence of mechanism to compute aggregate Turnover under a single PAN in case of Registered Persons opting under the Composition Levy Scheme**

Section 10 of the CGST Act, 2017 read with Notification No. 14/2019-Central Tax dated 07 March 2019 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed one

crore and fifty lakh rupees<sup>20</sup> may opt to pay under the Composition Levy Scheme (CLS). Where the aggregate turnover under single PAN of the taxpayer in the preceding financial year exceeds the threshold, then the registered person is not eligible to continue to pay tax under the Composition Levy Scheme and he should have been moved to normal taxpayer for charging GST.

The SRS signed off in 2016 based on the draft Model Law did not validate the aggregate turnover from the tax return values in the Returns Module and trigger an alert to the jurisdictional proper officer when the registered person's turnover crosses the prescribed threshold limits so as to enable the tax officer to initiate action accordingly. Also, the application did not determine the turnover in the state to validate the rate of composition levy. As the tax regime for the normal taxpayers is different from that for the CLS taxpayers, such deficiency in the IT systems will have revenue implication to the exchequer and needs to be attended urgently.

***Recommendation 15: 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 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.***

In response to the audit observation (November 2021), the Ministry, while accepting the para, stated (August 2022) that the Department had already prioritised the GSTN CR of restricting composition option to taxpayers exceeding the threshold turnover.

### **3.1.2.2 Failure to validate same 'PAN taxpayer type' resulting in taxpayer with the same PAN existing as Composition and Normal Taxpayer**

The Proviso under Section 10(2) of CGST Act, 2017 provides that where more than one registered person is having the same Permanent Account Number, the registered person shall not be eligible to opt for the CLS unless all such registered persons opt to pay tax under the CLS. Also Rule 6(1) of CGST Rules, 2017 provides that the option exercised by a registered person to pay tax under Section 10 ibid shall remain valid only as long as he satisfies all the conditions mentioned under the Section and Rules.

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<sup>20</sup> Aggregate Annual Turnover of preceding financial year limit prescribed for States specifically mentioned in Notification No. 14/2019-Central Tax dated 07.03.2019 is Rupees Seventy-Five lakhs (₹75 lakhs).

Where the proper Officer has reasons to believe that the registered person is not eligible to pay tax under Section 10, then he should issue a Notice for denial of option to pay tax under Section 10 ibid (CMP-5).

Data extracted from the CBIC database for Composition approved taxpayers revealed that multiple registrations with the same PAN were found to be registered under CLS as well as Normal Taxpayers. Also, cases were identified where a Taxpayer had an existing Normal Registration and approval was granted by the Tax Officer, on a later date, for a Registration with the same PAN under the CLS, thereby deviating from the provisions of law (17 such instances out of 169 are observed).

While approving a registration application, the tax officer is provided with a facility to 'View Earlier Registration'. Under this tab the tax officer can view GSTIN, Registration Type (New Registration/Existing Registration), Legal Name, Jurisdiction, Registration Status (Active/Inactive), Cancellation Status (Cancelled/Proposed/Initiated), Cancellation Type (Suo-moto/by Taxpayer), Revocation raised, Supervision (Centre/State) and Reason for cancellation. This tab however did not provide information on whether the other registration with the same PAN has opted for CLS or normal status. As tax regime for the normal taxpayers is different from that for the CLS taxpayers, such deficiency in the IT systems will have revenue implication to the exchequer and needs to be attended urgently.

***Recommendation 16: 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.***

In response to the audit observation (November 2021), the Ministry while accepting the para noted (August 2022) 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, if any.

### **3.1.2.3 Delay in implementation of Composition (CMP) Forms**

Section 10 (2) of the CGST Act, 2017 read with Rule 6 of the CGST Rules, 2017 provides that the option exercised by a registered person to pay tax under Section 10 shall remain valid only as long as he satisfies all the prescribed conditions. As per Rule 6(4), where the proper officer has reasons to believe that the registered person was not eligible to pay tax under section 10, he may issue a notice to such person in CMP-05 to show cause as to why the option to pay tax under section 10 shall not be denied.

Upon receipt of the reply (CMP-06) to the show cause notice, the proper officer should issue an order in CMP-07 within a period of thirty days of the receipt of such reply either accepting the reply or denying the option to pay tax under CLS from the date of event concerning such contravention.

Audit noticed that the relevant CMP forms by which the proper officer can deny the option to pay tax under Section 10 were not implemented, thereby limiting the scope of action that can be initiated by the tax officer under the provisions. Moreover, there are no validation checks to alert the proper officer to identify the taxpayers who no longer fulfil the eligibility conditions relevant to the CLS.

The delay in implementation of the crucial forms relevant to Composition taxpayers and inadequate checks to validate the eligibility conditions resulted in non-identification of ineligible taxpayers such as same PAN taxpayers existing as both Composition and Normal Taxpayers and failure on the part of the proper officers to initiate action for denial of option under the Scheme.

***Recommendation 17: 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.***

In response to the audit observation (November 2021), the Ministry noted (August 2022) the recommendation for compliance and stated that the Department has prioritised to implement the same.

#### **3.1.2.4 Inadequate validations to ascertain effective date of liability in case of registrations obtained as a result of transfer on account of Succession/Demerger/ Amalgamation**

Section 25 (1) of the CGST Act, 2017 read with rule 10 (2) and 10(3) of the CGST Rules, 2017 prescribes that a person shall apply for registration within thirty days from the date on which he becomes liable to registration and the registration shall be effective from the date on which the person becomes liable to registration and where the registration has been submitted after the expiry of thirty days from the date of his becoming liable to registration then the effective date of registration shall be the date of grant of registration.

As per Section 22 (3) of the CGST Act, 2017 where a registration is obtained on account of succession or otherwise to another person then the transferee or the successor shall be liable to be registered with effect from the date of such transfer or succession. In case of

demerger/amalgamation of two or more companies pursuant to an order of the High Court the transferee shall be liable to be registered from the date on which the Certificate of Incorporation is issued by the Registrar of companies (Section 22 (4)).

Analysis of data from CBIC database extracted for the period 01 April 2020 to 31 March 2021 revealed that Normal Registrations are approved as per Rule ibid. Further analysis of registration data revealed that 3,290 cases were registered for reasons of Transfer/Demerger/Amalgamation. The Effective Date of Registration in all the cases was seen to fulfil the conditions provided in the Rule ibid and not as provided in Section 22 (3) or Section 22 (4) ibid. Random check of 10 cases in Chennai Zone revealed that in 5 cases, the Effective Date of Registration was not the same as the date mentioned in Certificate of Incorporation/Partnership Deed. In the absence of provision in the CBIC application to capture the Date of Incorporation, department is not in a position to ascertain the effective date of liability/Registration of the transferee company.

In this regard, audit observation (November 2021) was issued, and the Ministry stated that (August 2022) it would require integration from GSTN end with the Ministry of Corporate Affairs and hence was out of the scope for ACES-GST application.

***Recommendation 18: The Department may request GSTN to pursue the matter with Ministry of Corporate Affairs to capture the date of incorporation of the transferor company as a data element.***

#### **3.1.2.5 Absence of validation to alert the tax officer in respect of cancellation of registration requested by the taxpayer**

Rule 22(3) of the CGST Rules, 2017 provides that where a person who has submitted an application for cancellation of his registration is no longer liable to be registered, the proper officer shall issue an order in FORM GST REG-19, within a period of thirty days from the date of application or, as the case may be, the date of the reply to any show cause issued, cancel the registration with effect from a date to be determined by him and notify the taxable person, directing him to pay arrears of any tax, interest or penalty including the amount liable to be paid under sub-section (5) of section 29 of the CGST ACT, 2017.

Rule 20 of the CGST Rules, 2017 read with Circular No. 69/43/2018-GST provides that the taxpayer applying for cancellation of registration shall submit the application in Form GST REG-16 on the common portal within a period of 30 days of the "occurrence of the event warranting the cancellation". However, in view of the difficulty to exactly identify the day



on which such an event occurs, the application may not be rejected because of the possible violation of the deadline. The proper officer should accept all such applications within a period of 30 days from the date of filing the application, except in those cases where the applications are incomplete or where the cancellation is applied by the taxpayer for reasons of transfer/succession or amalgamation and the successor entity had not obtained a new registration prior to cancellation of existing registration. The circular specifies that the application for cancellation of registration should be immediately accepted by the proper officer and the order for cancellation should be issued in FORM GST REG-19 with the effective date of cancellation being the same as the date from which the applicant has sought cancellation in FORM GST REG-16. In any case, the effective date cannot be a date earlier to the date of application for the same. Further, the SRS v.1.3 para 2.1.6 provided the business process for surrender of GST Registration by the taxpayer (Approval, Raise Query, Response to Query Action by the Tax Officer).

Data analysis of 2,27,327 taxpayers who applied for voluntary cancellations during the period from 01 January 2020 to 31 March 2021 revealed the following deviations indicating inadequate validation checks while processing the application.

**(i) Ineffective alert system resulting in delayed approval of cancellations**

The validations/business rules in respect of Registration Dashboard laid down in SRS v1.3 provided that all the transactions should show Alert indicators based on the severity of the transactions. Module-wise, transaction-wise alert timelines should be defined for each Alert Category (Low, Medium and High).

Analysis of extracted data showed that 51,561 requests for cancellation were approved after 30 days of receipt of the application despite the fact that the tax officer did not raise any queries. However, it is observed that the alerts on the timelines are not effectively implemented and that may have contributed to delays in cancellations.

On this being pointed out by Audit (November 2021), the Ministry stated (August 2022) that the law does not provide a timeline for approval of cancellation applications. The Ministry will however, examine the suggestion for implementation of an alert system.

The reply of the Ministry is not acceptable as Rule 22(3) *ibid* clearly states that the proper officer shall issue an order in FORM GST REG-19, within a

period of thirty days from the date of application or, as the case may be, the date of reply to any show cause noticed issued.

**(ii) Issues in the process flow of various stages of approval**

Data was extracted for the period from 01 January 2020 to 31 March 2021 to review the process flow of various stages of Application Reference Numbers (ARNs) in respect of voluntary cancellation applications which have neither been approved nor rejected. The data output of 13,536 records revealed that in 10,302 cases, the application status showed pending for approval. Further, as specified in the RFP and SRS, the stage-wise pendency and age-wise pendency Reports for view by the Jurisdictional officer and higher officers to initiate timely rectification process were not developed, leading to an ineffective monitoring mechanism. In 2,883 cases, queries were raised but replies had not been received which indicated that auto rejection option is not implemented. In 297 cases, though the taxpayers responded to the queries, the tax officer neither approved the cancellation nor rejected the same even after a median delay of 74 days.

On this being pointed out by Audit (November 2021), the Ministry stated that the application for cancellation remains pending for action as automatic rejection functionality was not developed because there is no timeline fixed for rejection in respect of surrender application.

**(iii) Cancellation Order with effect from a retrospective date not in accordance with Circular instructions**

In 81,495 cases, registrations were cancelled by the tax officer with effect from dates requested by the taxpayers instead of application dates despite the facts that the requested dates were prior to the application date. This was not in accordance with the Rule 20 of the CGST Rules, 2017 read with Circular No. 69/43/2018-GST.

On this being pointed out by Audit (November 2021), the Ministry stated that they will examine the suggestion for providing a validation to restrict cancellation prior to the date of surrender application.

***Recommendation 19: The Department should ensure that the necessary validations, alerts and effective dates of cancellation be deployed in the CBIC ACES-GST System as per the provisions of the Act and Rules. The MIS Reports envisaged in the SRS may be developed to enable an effective monitoring mechanism. The Ministry may also consider specifying a timeline for rejection of application for cancellation in case the applicant fails to respond to the SCN within seven working days.***

**3.1.2.6 Suo-moto cancellation functionality is not effectively used, resulting in many non-filers registrations remaining un-cancelled**

In terms of Registration Advisory No.38/2019 dated 20 December 2019, a new functionality "Bulk Suo-Moto Cancellation" was developed and deployed in production on 19 December 2019 to initiate bulk suo-moto cancellation against all non-filers of GSTR-3B returns for the period up to September 2019. Further, as per Section 29(2)(c) of the CGST Act, 2017, the proper officer may cancel the registration from such date, including any retrospective date, as he may deem fit, of any registered person, other than a person paying tax under Section 10, if returns are not furnished for a continuous period of six months.

Audit extracted (September 2021) pan-India data of 2,70,536 cases from the CBIC database of all 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 and found them still active. As per the ibid Rules, all these registrations should have been cancelled by carrying out the bulk suo-moto cancellation. Further analysis of these data revealed the following:

- (i) Out of 2,70,536 cases, in 2,34,486 cases not even a single GSTR-3B return was filed before January 2020 and in 36,050 cases the last GSTR-3B return filed was before January 2020. All these registrations were active as of 27 September 2021.
- (ii) On a random test check of 40 cases<sup>21</sup> pertaining to Tamil Nadu, it was observed that in 11 cases, GSTR-1 returns were being filed by the taxpayer for tax periods subsequent to the last filed GSTR-3B period. Hence, the filing of GSTR-1 returns which indicates Outward Taxable Supply, without filing the GSTR-3B returns raises potential concerns over the possibility of passing on ineligible Input Tax Credit.

On this being pointed out by Audit (November 2021), the Ministry stated (August 2022) that GSTN has implemented Centralised Bulk suspension of non-filers and it covers the period pointed out by Audit.

***Recommendation 20: The Department should ensure that the Centralised Bulk suspension (cancellation) of non-filers functionality is being used effectively by GSTN.***

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<sup>21</sup> Verified through the Audit SSOID credentials of Chennai Zone.

### **3.1.2.7 Absence of alert mechanism to identify Taxpayers who have not furnished bank details after obtaining GSTIN**

Rule 10 and 10A of the CGST Rules, 2017 read with Rule 21 and 21A ibid provides that the registered taxpayer shall furnish the Bank Account details within forty-five days from the grant of registration or the due date of furnishing the return under section 39 of CGST Act, 2017 whichever is earlier, failing which the registration is liable to be cancelled.

Data on new registrations extracted for the period from 01 April 2020 to 30 June 2020 revealed that 5.22 lakh registrants had not filed their bank account details. However, the tax officers had not issued show cause notices or suspended the Registration as required under the Rule. Audit noticed that there was no alert mechanism in the CBIC ACES-GST Application/Dashboard to enable the tax officers to identify the taxpayers who have not furnished the bank details and to initiate cancellation proceedings under Section 29(2) ibid.

***Recommendation 21: 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.***

In response to the audit observation (November 2021), the Ministry, while accepting the para, stated (August 2022) that it will be implemented on priority basis.

### **3.1.2.8 Inadequate validations in the suo-moto cancellation proceedings**

As per Rule 22(1) of the CGST Rules, 2017 where the proper officer has reasons to believe that the registration of a person is liable to be cancelled under Section 29, he shall issue a notice to such person, requiring him to show cause, within a period of seven working days from the date of the service of such notice, as to why his registration shall not be cancelled. Section 29(2)(b) and (c) states that if a person paying tax under Section 10 has not furnished returns for three consecutive tax periods, or any registered person, other than a composition dealer, has not furnished returns for a continuous period of six months then the registration is liable to be cancelled.

The reply to the show cause notice issued under Rule 22(1) should be furnished in FORM REG-18 within the period specified. The Proviso under Rule 22(4) states that where the person instead of replying to the notice, furnishes all the pending returns and makes full payment of the tax dues

along with applicable interest and late fee, the proper officer shall drop the proceedings and pass an order in FORM GST-REG 20.

As per the business rule stated in SRS - suo-moto Cancellation New Registration v0.6, registration cannot be cancelled without issuing a Show Cause Notice (SCN) to the taxpayer. The taxpayer will be informed and provided seven working days to reply to the SCN. In case of failure to furnish the reply within the prescribed time, the officer has only the option to cancel the registration.

The functionality to cancel the registration suo-moto is in production with effect from 18 August 2018 (Advisory on suo-moto cancellation). As a facilitation measure, a feature was developed through a Change Request, wherein the officer can take up Bulk suo-moto cancellation for 20 taxpayers in one go and the functionality was deployed in production on 19 December 2020 (Advisory No 38/2019). This was a one-time approach to issue suo-Moto bulk notices to all GSTR 3B Non-Filers till the August 2019 tax period. The SRS (V.06) has been signed off (July 2020) as per the actual functionality in production along with certain improvisation. The following is the workflow for suo-moto cancellation:

- (i) Individual GSTIN suo-moto Cancellation Initiated: Tax Officer will navigate to Registration and under Active Registrations, the officer will select particular GSTIN for initiating the cancellation.
- (ii) Bulk GSTIN suo-moto Cancellation Initiation: Tax officer will navigate to "View Non-Filers", wherein the click of the Toggle Button named 'View GSTR-3A/suo-moto' will produce the list of taxpayers against whom the GSTR 3A notices have been issued and from which the taxpayers liable for cancellation of registration can be selected. Once the taxpayers (maximum 20 at a time) are selected for cancellation, "Initiate Cancellation" button can be used for bulk suo-moto cancellation initiation.
- (iii) Once the Cancellation is initiated (for both individual and bulk initiation), the respective record will be moved to "Response Awaited" stage, after GSTIN response for the show cause notice, the record will be moved to "Response Query /SCN" stage in which the officer can perform Cancel Registration/Drop Proceedings.
- (iv) If the Reply is not received, the respective record will move to "Response Not Received" Stage, in which the officer can perform only "Cancel Registration".

Audit noticed that where a taxpayer has been issued a SCN in REG-17 for non-filing of Returns and he files the due Returns and makes full payment

of taxes instead of replying to the show cause notice (SCN) as provided under proviso to Rule 22(4), there is no provision in the CBIC ACES-GST application to alert the tax officer that the Returns have been filed. Due to absence of link between the Returns and Registration Module, an appropriate notification message that 'The Return has been filed in response to the SCN', is not available to ensure that he does not proceed with the cancellation without taking into account the subsequent filing of the required returns and payment of taxes/interest/tax under Rule 22 (4).

Further, the walkthrough of the dashboard of the Tax Officers and the helpdesk tickets revealed that wherever the SCN has been issued, the validation in respect of timelines is not effective. This is also evident from the data extracted from CBIC Database that in 10,246 cases, even where the reply has not been received in REG-18 and Returns have not been filed within seven working days and response to SCN was awaited for 33 days to 1,003 days, the Dashboard of the Tax Officer continued to show the status as 'Response Awaited' when the registration in such delayed cases should have been cancelled by the tax officers.

In response to the Audit observation (November 2021), the Ministry while accepting the para stated (August 2022) that (i) The taxpayers are provided with opportunity to respond to the notice and hence if they had filed, it can very well be informed to the proper officer and (ii) for the issue raised by Audit that in certain cases where the reply has not been received in REG-18 and returns not filed, the dashboard of the tax officer continued to show as 'response awaited', the matter was examined and it is seen that the discrepancy occurred due to a BPM error and is taken up on priority.

***Recommendation 22: 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.***

#### **3.1.2.9 Non-mapping of registrations of taxpayers (GSTINs) with any jurisdictional authority**

As per RFP (Clause 1.2(c)(iv)), the application for registration along with attached scanned documents is to be filed by the applicant on the GSTN portal and after validation of PAN, CIN, DIN etc. by GSTN, the same is to be sent by the GSTN System to the CBIC ACES-GST application. Thereafter, it is made available on the dashboard of the jurisdictional proper officer of CBIC, as defined under the GST Law. The GSTN System determines the

provisional jurisdiction of the applicant for the levies administered by CBIC based on the principal place of business stated by the applicant in the registration application and the Jurisdiction Master and the allocation logic.

Data extraction of 5,004 cases from the CBIC database in respect of Regular and Composition Taxpayers, however, showed that GSTINs were generated in these cases but the same were not allocated to any Jurisdiction. Out of the 5,004 cases, 4,933 cases were deemed approved and the remaining 71 cases were approved by the officer.

Audit verified randomly selected 20 such GSTINs pertaining to Chennai Zone with the GSTN Portal and noticed that the GSTINs were available in the GSTN portal with all the relevant jurisdictional details and for all the 20 cases, GSTR-1 and GSTR-3B Returns are being filed regularly. However, these 20 GSTINs<sup>22</sup> have not been mapped in the CBIC ACES-GST application to any Jurisdictional authority till date.

Non-mapping of GSTINs with the jurisdictional authority in the CBIC ACES-GST application even though the jurisdictional details were available in the GSTN portal means that the CBIC IT application is not aligned to the extant requirements, thus inhibiting mapping of GSTINs with jurisdictional authority for proper tax administration.

On this being pointed out by Audit (November 2021), the Ministry stated (August 2022) that when the automatic allocation logic is unable to allocate jurisdiction, the GSTIN is assigned to the Central Processing Centre of the zone to allocate jurisdiction manually based on the trade notices issued. GSTINs referred by Audit were verified, and it was found that all these GSTINs were assigned to CPC officers for manual allocation of jurisdiction.

The reply of the Ministry is not acceptable as the details of some of the GSTINs are still not available in some modules of the application.

***Recommendation 23: The Department should examine the cases and initiate suitable action to ensure that the GSTINs are correctly mapped in all the modules with the jurisdictions as available in the GSTN portal.***

### **3.1.3 Designing of CBIC ACES-GST Application in respect of GST Tax Practitioners (GSTP) Amendment without adequate provisions in the Act**

Rule 19 of the CGST Rules, 2017 provides for amendments to any of the particulars furnished at the time of registration or as amended from time

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<sup>22</sup> Verified through the Audit SSOID credentials of Chennai Zone.

to time. The category of persons who have obtained registration by making an application in the following forms and seeking amendment should submit, duly signed or verified through electronic verification code, the changes proposed to be made, in FORM GST REG-14, within a period of fifteen days of such change:

- Form GST REG-01 (Normal Taxpayers)
- Form GST REG-07 (TDS TCS)
- Form GST REG-09 (Non-Resident Taxable Person) or
- Form GST REG-10 (OIDAR)

The Proviso under Rule 19 states that in case where the change relates to (i) legal name of business; (ii) address of the principal place of business or any additional place(s) of business; or (iii) addition, deletion or retirement of partners or directors, Karta, Managing Committee, Board of Trustees, Chief Executive Officer or equivalent, responsible for the day to day affairs of the business, then the Proper Officer after due verification, approve the amendment within a period of fifteen working days from the date of the receipt of the application in FORM GST REG-14 and issue an order in FORM GST REG-15. Where the change relates to any particular other than those specified above, the certificate of registration shall stand amended upon submission of the application in FORM GST REG- 14 on the common portal.

Section 48 of the CGST Act, 2017 provides for authorization of an eligible person to act as approved GST practitioners. A registered person may authorize an approved GST practitioner to furnish information, on his behalf, to the Government. The manner of approval of GSTP, their eligibility conditions, duties and obligations, manner of removal and other conditions relevant for their functioning have been prescribed in Rule 83 of the CGST Rules, 2017. Standardized formats, GST PCT-1 to GST PCT-5, have been prescribed for making application for enrolment as GST practitioner, certificate of enrolment, show cause notice for disqualification, order of rejection of application of enrolment, authorization letter and withdrawal of authorization. The CGST Rules does not contain any provision for amendment of the particulars furnished in PCT-01 nor have they prescribed a Form to apply for such Amendment.

A review of the Minutes of the Change Advisory Board (CAB) meeting (06/08/2019) and related correspondences for granting approval for the Change Request revealed that the Department had approved change order in respect of GSTP Non-core Amendment and Core Amendment and the same was deployed in June 2020 and June 2021 respectively. In the PMU



vetting comments in the minutes of the CAB, it was stated that when there are changes relating to the application viz. PCT-01 submitted at the time of obtaining registration number, the GST Practitioner submits the core amendment application vide form REG-14 with necessary supporting documents and such amendment applications filed at the common Portal are pulled through an API at the backend and pushed to the designated Ranges for necessary verification and action to approve/reject as deemed fit by the concerned officer. The SRS in this respect is under preparation and has not been signed off.

In light of the facts above, Audit observed that the rules for amendment of details in respect of GSTP enrolment data furnished in Form PCT-01, have not been provided in the GST Act/Rules and the tax officer does not have a formal mandate to approve the Core Amendments. Form REG-14 is a prescribed form to be submitted by only those categories of taxpayers, who want to make changes to the particulars furnished in REG-01, REG-07, REG-09 and REG-10. To permit the GST Practitioner to apply for an amendment to the details in Form REG-14 which is not relevant to such amendments does not appear logical.

To an Audit query, the Department replied (October 2021) that in the absence of any provisions or procedures to amend the enrolment of GST Practitioner (GSTP), the API released by GSTN was consumed and due to urgency to make it available to the users, Form REG-14 used for normal registrations, has been used for this purpose. The functionality was developed in accordance with Form REG-14 used for normal registrations. The reply is not acceptable since the API was released by GSTN in January 2019 but the functionality without preparing SRS was deployed in June 2021.

On this being pointed out by Audit (November 2021), the Ministry stated (August 2022) that the feature is only a facilitative/enabling mechanism having no revenue implication and as GSTN had already rolled out the feature, the same is implemented by CBIC.

***Recommendation 24: The Department should initiate necessary action to obtain the approval of the GST Council/GSTN Law Committee for the procedure for GSTP Amendments.***

**3.1.4 Requirements in the RFP not adequately traced to the signed off version of SRS and inadequacies were noted in certain functionalities developed by way of Change Request which were initially part of the original work under the RFP.**

As per the RFP (Clause 1.2(d) (iii)), the CBIC ACES-GST application will maintain PAN-based data of persons/entities, who were black-listed earlier or whose applications were rejected or registrations cancelled. When any application with such PAN is received by the CBIC ACES-GST application, this information should be made available to the jurisdictional proper officer as an alert while processing the application.

The provisions in respect of the Change Order stipulate that the Change Order will be initiated only in case (i) the purchaser directs in writing the Vendor to include any addition to the scope of work covered under the Agreement or deletes any part of the scope of the work under the Agreement.

SRS (V 1.3) did not provide the process flow for 'View Earlier Registrations' However, the Traceability Matrix in the SRS mentioned that the above requirement has been complied with in REG\_Approve\_01. The functionality to "View earlier Registrations" with the same PAN was, however, developed as a Change Request 177, at a cost of ₹ 13.72 lakh in July 2019 (PAN Validation) and the functionality was deployed in production with effect from 12 November 2019 (Advisory: 34 Dated 04 December 2019).

The delayed development of the functionality as a Change Request (December 2019) at an additional cost of ₹13.72 lakh even when the same has been mentioned in the scope of the RFP, is not proper.

The Ministry stated (August 2022) that the Department is in the process of issuing demand notice(s) for recovery of the said amount.

Based on the walkthrough of the approval process of a new registration application, where the earlier cancelled registration existed and also on perusal of the SRS document on PAN Validation, the following inadequacies were noticed in the functionality:

- (i) The approval process flow in SRS provided that in case of cancelled Registrations, there should be "View Returns" link enabled to verify Returns filed details of the earlier registrations. However, while observing the approval process in the walkthrough of the Central Processing Cell (CPC), the 'View Returns' tab is not enabled for the tax officer. Random check in the GSTN Portal for Inactive and Active registrations existing for the same PAN extracted from the

CBIC database (SATQ\_NewREG\_GQ\_10), showed that in nine cases, the taxpayers, while keeping the liability undischarged in respect of a cancelled GSTIN (suo-moto cancellation for non-filing of Returns), obtained a new registration to continue the business. Such new applications might have been made as the person may not have furnished requisite returns and not paid tax for the tax periods covered under the old/cancelled registration. In some cases, it was also observed that the inactive GSTIN has filed GSTR-1 but not filed GSTR-3B. The information on the discrepancies in the tax filing periods of GSTR-1 and GSTR-3B is not available as an alert to the tax officer.

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that the facility to view returns under 'View Returns Tab' was deployed after due testing and the same was functional. However, non-functioning of the tab was being taken up for rectification. As regards discrepancy between GSTR-1 and GSTR-3B, possibility of alert would be examined and suitably acted upon.

- (ii) The "View Return" tab which makes available the Returns filed details of the earlier registrations is a critical information based on which the tax officer approves or rejects the new application in respect of registrations where the earlier registration is cancelled for non-filing of returns. It is pertinent to mention that the jurisdictional proper officer who has cancelled the registration may be different from the tax officer who is approving the new registration with the same PAN. Hence, the approving officer should be provided with the complete Return filing data, to enable him to take a decision while approving or rejecting or raising a query on the new registration application. The Returns and Registration modules should be linked in such a way that the complete information on GSTR-1 filing tax periods and date of filing vis-a vis GSTR-3B filing details is grouped on the same PAN and the black listing details are available for view at a click of a button so that the approving officer (CPC officer) takes an informed decision prior to grant/reject of a new registration application.

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that technical issues with the 'View Returns' tab would be fixed to enable the tax officer to view the complete return filing data. Linking of Returns and Registration module would be examined, as advised by Audit.

- (iii) The information provided under the 'View Earlier Registration' is limited to Cancelled Registration. The application does not alert the approving tax officer when cancellation proceedings has been initiated against a defaulting GSTIN and it is suspended under Rule 21A of the CGST Rules, 2017 and the same PAN holder applies for a new registration. On a random check of active and inactive cases, it was identified that a taxpayer with a suspended status has applied for a new registration and the same has been approved.

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that 'View Earlier Registration' was deployed to production during 2019 whereas suspension of GSTIN was implemented by GSTN during November 2020. Necessary modifications would be carried out to reflect suspended status.

- (iv) Where the Cancellation has been effected by the State Tax Authority, the Reasons for cancellation cannot be viewed by the tax officer. Due to lack of integration with the State Tax Authorities the non-filing of Returns/black listing details are not readily available impacting effective monitoring mechanism.

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that the issue would be taken up for integration.

- (v) The RFP (Clause 1.2(d) (iv)) has prescribed that the application should provide for maintaining a PAN-based data for offence cases for using the same as a risk parameter in various business processes. Despite being part of contractual obligation under RFP, this functionality had not been developed.

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that this functionality could not be taken up so far due to prioritisation of other urgent functionalities as also due to non-readiness of the DSR module. Relevance of this feature would be examined and shall be taken up for development, if found necessary.

- (vi) The Department did not develop integration between modules and built-in validations to aid the tax officer in taking informed decisions.

On this being pointed out by Audit, the Ministry stated (August 2022) that going forward the same would be examined and taken up.

Audit also could not check the process of advance tax paid by the Casual Taxable Person or NRTP and if the same is equal to the estimated tax liability; change in Principal Place of business is implemented; and erroneous cancellation of registration due to non-provision of a testing environment.

### 3.2 Returns Module

A return is a statement of specified information relating to business activities undertaken by a taxable person during a prescribed period. A taxable person has certain legal obligations e.g.:

- to declare his/her tax liability for a given period in the return by furnishing details of supply of goods and services including exports, description of goods/services, value, and rate of tax etc.,
- to furnish the details of input and input services received and the credit taken by them on these inputs and services,
- to furnish details about the taxes paid, and
- to furnish correct information, file the complete return within the stipulated time frame.

Every registered person is required to file a return in electronic mode only for the prescribed tax period on the common portal. A return is to be filed even if there is no business activity i.e., Nil return during the period of the return. The submitted returns with fully paid tax liability are accepted by GSTN as Valid and forwarded to the tax authorities for further scrutiny. The return along with annexures, filed by the seller/purchaser is sent by the GSTN system to the CBIC ACES-GST application for subsequent processing by proper officers as per the business rules set by CBIC in this regard.

**Table 3.2 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
To review the monitoring mechanism with respect to compliance of Return Filing Procedures	Tested (12)	Passed (9)	Return filing timelines, Identification of invalid returns, Non-filer issues, Consideration of extended data while generating non-filer report, Data consistency, Return filing issues	-
		Failed (3)	Timely deployment of GSTR Forms, Correct filing of returns, Flagging mechanism	3.2.1.1, 3.2.1.2, 3.2.1.3
	Not Tested (1)	Scope Restriction (1)	Availability of correct and complete Return Data for the Tax Officer	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
To ensure the correctness of Payment of Tax	Not Tested (2)	Scope Restriction (2)	Interest calculation, Late fee calculation	-
To review the working of the interfaces between modules	Not Tested (3)	Scope Restriction (3)	Comparative mechanism between filing of GSTR-1 and GSTR-3B, Flag mechanism in context of refund, System testing and integration testing as per test plan	-
To Review the timelines of implementation of the module	Not Tested (2)	Scope Restriction (2)	Implementation of timelines of SRS and RFP in context of Returns, Assessment and Scrutiny of Returns module into live environment, Implementation of risk assessment engine	3.2.2

The functionalities like tracking of return filing timelines, identification of invalid returns, validation of periodicity of return, updation of pending task for non-filed return, population of non-filers report for normal taxpayers filing GSTR-3B returns etc., were found functional and in order. Audit, however, noticed the following inadequacies:

### 3.2.1 Inadequacies in Returns Module

#### 3.2.1.1 Non-deployment of GSTR-4 return

The Board vide Notification No. 20/2019-Central Tax dated 23 April 2019 had introduced the following amendments to the First proviso to Rule 62 of the CGST Rules, 2017:

- Form GSTR CMP-08 was introduced for furnishing a statement every quarter or, as the case may be, part thereof, containing the details of payment of self-assessed tax, till the 18th day of the month succeeding such quarter;
- A new Form GSTR-4 was introduced for every registered person paying tax under Section 10 to furnish a return for every financial year or, as the case may be, part thereof till the 30<sup>th</sup> of April following the end of such financial year.

During audit, it was observed that the new Form GSTR-4 has still not been deployed in production even though the Board had notified the same in April 2019.

In response to the Audit observation (November 2021), the Ministry stated (August 2022) that GSTR-4 Annual Return Form was not part of the RFP and was introduced with effect from April 2019. Hence, the development of the functionality had been delayed, due to resource crunch at the Vendor's end.

The Ministry further stated that to address the delay in development of the various functionalities in the ACES-GST application, an addendum to the existing Contract has been signed with the Vendor on 17/02/2022 as per which all the pending tasks would be undertaken on T&M (Time and Materials) basis under AGILE mode. Accordingly, the development and deployment of GSTR-4 Annual Return has been taken up on priority basis and is expected to be completed by October 2022.

***Recommendation 25: The Department should ensure the availability of the amended Form GSTR-4.***

### **3.2.1.2 Incorrect mapping of the 'Type of Return filed' with the 'Type of Registration'**

As per Rule 61(1) of CGST Rules 2017, every registered person other than the under mentioned persons shall furnish a return in Form GSTR-3B:

- Person covered under Section 14 of the IGST Act, 2017 (person who is the representative of the overseas supplier in the taxable territory)
- Input Service Distributor
- Non-Resident Taxable Person
- Person paying tax under section 10 (Composition Levy Scheme)
- Person paying tax under Section 51 (Persons who deduct tax at Source)
- Person paying tax under Section 52 (Tax Collection at Source by e-commerce operator).

Further, Rule 62 of the CGST Rules, 2017 provides that every registered person paying tax under Section 10 should furnish a statement every quarter containing the details of payment of self-assessed tax in Form GST CMP-08 and furnish a return in Form GSTR-4 for every financial year.

A random check in the Return Module ('View Returns') of the CBIC ACES-GST application pertaining to three Ranges in Chennai showed that in 8 cases<sup>23</sup>, persons who have opted for Composition Levy Scheme were filing GSTR-3B. When cross verified with the details in GSTN Portal, it was found that in 4 cases there was a mismatch of the Taxpayer Type as they were shown as normal taxpayers in the GSTN portal. The incorrect mapping of the 'Type of Return filed' with the 'Type of Registration' in the Return Module affects the reliability of the CBIC database.

***Recommendation 26: 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.***

In response to the audit observation (November 2021), Ministry accepted the recommendation (August 2022) and stated that in some cases, the type of taxpayer is shown incorrectly as "Composition" in the CBIC backend Registration Database. 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.

### **3.2.1.3 Functionality to 'View Non-filer List' not enabled for Composition Non-filers**

Section 46 of the CGST Act, 2017 read with Rule 68 of the CGST Rules, 2017 requires issuance of a notice in FORM GSTR-3A to a registered person who fails to furnish return under Section 39 or Section 44 or Section 45 (hereinafter referred to as the "defaulter") requiring him to furnish such returns within fifteen days. Further, Section 62 provides for assessment of non-filers of return of registered persons who fails to furnish return under Section 39 or Section 45 even after service of notice under Section 46.

An Advisory 28/2019 dated 18 November 2019 introduced a new functionality "View Non-Filers", wherein the Range Officer can issue notices to the non-filers of Returns. Further, the officers at the higher formation can view the list of non-filers and GSTR-3A notices are sent to such taxpayers.

Audit noticed that the "View Non-Filers" functionality had been enabled only to view non-filers of GSTR-1, GSTR-3B, GSTR-5, GSTR-5A, GSTR-6, GSTR-7, GSTR-8 returns. The functionality did not provide for viewing non-filers of the quarterly returns filed by Composition taxpayers viz., GSTR-4 (until March 2019) and CMP-08 (from April 2019) returns. Even the Bulk Suo-moto cancellation functionality was also made applicable only to non-

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<sup>23</sup> Verified through the Audit SSOID credentials of Chennai Zone.



filers of GSTR-3B returns and not to the non-filers of GSTR-4 and CMP-08 returns. As a result, the Range Officers have not initiated effective action against non-filers of GSTR-4 and CMP-08 returns as required under Section 29(2)(b).

In response to the audit observation (November 2021), the Ministry accepted the recommendation (August 2022) and stated that this was due to delay in implementation of the functionality, in the front-end by GSTN, to issue notice in Form GSTR-3A electronically, to a registered person who fails to furnish return. The functionality to “View Non-Filers” was developed by DG (Systems), Chennai as an interim measure to issue notices by the jurisdictional officers, directly to the taxpayer through email through the CBIC backend. However, GSTN implemented the said functionality and started issuing GSTR-3A notices directly to the taxpayers through the Common Portal to non-filers of GSTR-3B returns.

Further, GSTN was requested vide mail dated 12/04/2022 to develop and deploy the functionality to issue GSTR-3A notices through the common portal to non-filers of all types of Returns, including for Composition Non-filers at an early date.

***Recommendation 27: 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.***

### **3.2.2 Status of Forms functionalities proposed to be developed through SRS and Change Requests (CRs)**

The Returns Module SRS v 1.9 was signed off on 12 January 2017. Audit was also provided with SRS v 9.2 which was a draft version of the updated first version of Returns. This version had undergone many iterations and is yet to be signed off. Audit comments in this respect are as under:

- (i) On a perusal of the functionalities envisaged in signed off SRS V1.9 vis-à-vis the status report on their implementation (December 2021), the following is observed:
- Three functionalities viz. View Functionality of the Forms, Tran-1 and Tran-2 have been deployed as per the agreed timelines.
  - Three functionalities viz., View Non-Filers, Issue Notice to Non-Filers (3A Notice) and MIS Reports have been partially deployed.
  - Nine functionalities viz., Defaulters and Non-Filers Workflow, Provisional Assessment, Summary Assessment, Assessment of Non-Registered users, Risk based Scrutiny, Cross verification of TDS/TCS, Filing of final Return and link up with REG-Cancellation

Processes, Invoice matching<sup>24</sup> and Ledger Maintenance for cross verification (Cash, ITC, and Liability) have not been deployed in production.

(ii) SRS on GST>Returns\_New\_Requirements\_V0.6 (signed off on 7/7/2020), SRS - Return Assessment V.7.0 (signed off on 15/04/2020), Scrutiny of Returns V1.2 (signed off on 25.03.2019) and Provisional Assessment V0.5 (signed off on 25.03.2019) made available to Audit had not been taken up for development. It is pertinent to point out that these functionalities were already included in SRS V1.9 and were subsequently descope.

(iii) The Department developed 54 functionalities by issuing standalone Change Requests, out of which 52 are completed and two are Work in progress.

As testing environment was not made available, the functionalities deployed in production through SRS and CRs could not be tested.

Audit observed that certain important functionalities such as Scrutiny of Returns, Summary and Provisional Assessment, Risk Assessment Engine, Ledger Maintenance etc., had not been developed and the timelines for development had not been frozen.

In response to the audit observation (April 2022), the Ministry stated (August 2022) that the functionalities are under development or will be taken up shortly under AGILE mode.

***Recommendation 28: 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.***

### **3.3 Payment Module**

Under the GST regime, tax payments are accounted under the respective heads - CGST, SGST and IGST. Salient features of the payment system under GST regime are fully electronic, anytime anywhere mode of payment, logical tax collection data format, faster remittance, paperless transactions, speedy accounting, electronic reconciliation, simplified

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<sup>24</sup> The legal provisions (under Sections 42, 43 and 43A) relating to the development of a functionality for Invoice matching have been omitted from the CGST Act, 2017 by Section 107 of the Finance Act, 2022 (notified vide Notification No.18/2022-Central Tax dated 28 September 2022)

procedure for banks and warehousing of digital challan. The three modes of payments are:

- Payment by taxpayers through internet banking through authorized banks and through credit and debit cards.
- Over the counter (OTC) payment through authorized banks up to Rupees Ten Thousand only by challan.
- Payment through RTGS/NEFT from any bank.

**Table 3.3 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
To assess the adequacy and efficacy of data transfer and data processing	Tested (4)	Passed (2)	Issues in appropriate user privileges, Data consistency in details of transactions	-
		Failed (2)	Discrepancies noticed, Mismatches noticed	To be covered separately in the IT Audit of ARPIT System
	Not tested (1)	Scope restriction (1)	Data transmitted on real time basis	Audit could not verify whether the raw payment data is flowing through API
To see whether the MIS reports are accurate and can be relied upon	Not Tested (2)	Scope restriction (2)	Relevance of MIS reports, Authentication of reports generated	MIS Reports could not be checked due to non-facilitation of Testing environment
To ensure that functionalities and validations are in accordance with the provisions of law.	Tested (1)	Failed (1)	Validations as per the provisions of Law	3.3.1

As per Payment SRS Version 4.4a, a total of 12 functionalities were to be deployed. Audit found that the Department had not deployed certain major functionalities in production. Further, it was noticed that the Department (August 2018) had initially deployed the functionality only to view the Ledgers and subsequently it provided (November 2018) an additional functionality (Advisory No. 3 dated 13 November 2018) "Sync

with GSTN” as the existing functionality to view Ledgers was not getting updated, resulting in data gaps in the Ledgers. Through the “Sync with GSTN” functionality, the user would fetch the updated ledger details on real time basis from GSTN; as and when “Sync with GSTN” function is invoked as a result of which the Ledger details would be permanently updated and made available to the field formations. The working of the view and sync functionality were randomly checked through Audit SSOID and no deviations were noticed. Barring the above two, the remaining functionalities were not developed.

The non-development of the functionalities envisaged in the SRS and an additional finding relating to validation failure in respect of Over the Counter (OTC) payments are detailed below:

### **3.3.1 Removal of validation control without amending the CGST Rules: Inconsistencies in Over the Counter (OTC) Payment mode**

As per Rule 87(3) of CGST Rules, 2017 *ibid*, OTC payments through authorised banks can be made for deposits up to ten thousand rupees per challan per tax period, by cash, cheque or demand draft. The limit of ten thousand does not apply to deposits made by:

- Government Departments or any other deposit to be made by persons as may be notified by the Commissioner in this behalf;
- Proper officer or any other officer authorised to recover outstanding dues from any person, whether registered or not, including recovery made through attachment or sale of movable or immovable properties;
- Proper officer or any other officer authorised for the amounts collected by way of cash, cheque or demand draft during any investigation or enforcement activity or any ad hoc deposit.

Audit noticed that payments exceeding Rupees Ten thousand were allowed to be made through OTC payment mode by the taxpayers other than the permitted categories, which is in contravention to the provisions of the CGST Rules. It was also noticed that the common portal is permitting generation of challans for deposits exceeding Rupees Ten Thousand through OTC Payment mode.

Based on the audit findings, GSTN has complied with the provisions of the CGST Act, 2017 by restricting the OTC payments to Rupees Ten Thousand only.

### 3.4 Data Migration from ACES

As per SRS Technical Document Version 1.1 dated 12 June 2018 on 'ACES to GST Migration', the business objective of the data migration project was to move the dataset of interest from the source system (ACES) to the target system (ACES-GST), while improving data accuracy and maintaining business continuity. The Data Migration process involved the following steps viz., Analysis of Business Impact, Information Gathering, Mapping and Designing, Plan of Migration, Provisioning, Test Migration, Migration and Validation. The following were the tasks envisaged during the Data Migration process.

- Tasks shown against the assesses under pre-GST (146 Commissionerate) to be migrated to post-GST (107 Commissionerate) setup.
- Tasks pending under ACES Application at the time of ACES-Sunset to be carried forward under the Integrated CBIC ACES-GST Application intact.
- Policy decision taken for deemed closure (i.e., backend closure) of certain pre-identified tasks (e.g., Single premises registration application pending as on 30<sup>th</sup> June 2017) to be implemented
- Policy decision for online processing and closure (i.e., frontend closure) of certain identified tasks (e.g., centralized service tax registration pending with Commissioner as on 30<sup>th</sup> June 2017)
- Scrutiny of CE and ST returns pending in respect of Pre-GST period to be carried forward and the Departmental user to be enabled to continue to attend to this task
- List of pending tasks to be generated Module-wise, CDR-wise on one-time basis as on 30 June 2017 (in respect of pre-GST formations) and as on 30 June 2018 (in respect of post-GST formations) and to be shared with all Zones/Commissionerates/Divisions/Ranges authorities for expediting processing and completion of tasks.

**Table 3.4 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/ Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
To ensure that data is migrated	Tested (7)	Passed (1)	Documents on policy decision	-

Sub-objectives	Tested/Not tested	Passed/ Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
completely		Scope Restriction (6)	Completion of data migration, Review of the table structures and Mapping of ACES and ACES - GST Table, MIS Reports, validation of the migrated data	3.4
Maintain the business continuity in ACES - CBIC GST application for the products not subsumed under GST	Not tested (3)	(Scope restriction) (3)	Provisional assessment module, Payments, refund and Claims and intimations modules.	

In order to gain assurance on the correctness and completeness of the data migration process envisaged in the Technical Document, audit had requisitioned (09/02/2021) for reports and documents pertaining to the data migration viz., Data migration plan, Test Migration Reports, Validation and Completion Reports, Details of the commencement and completion of data migration, Error logs, etc.

On an examination of the documents which were made available to audit, the following were noticed:

As per SRS Technical Document Version 1.1 dated 12 June 2018 on 'ACES to GST Migration', the business objective of the data migration project was to move the dataset of interest from the source system (ACES) to the target system (ACES-GST), while improving data accuracy and maintaining business continuity.

The Department had stated (May 2021) that 4,45,752 Central Excise (CE) and 37,12,710 Service Tax (ST) payers had been successfully migrated from ACES to ACES-GST application. The Department in its reply (March 2022) stated that the actual migration was carried out based on the detailed migration plan contained in the Technical Document which formed the basis for the work breakdown structure along with the timelines for monitoring purpose. The Department further stated that the data migration was accepted as complete, based on the data count of selected fields in the validation reports pertaining to the representative data of 4

Zones viz., Chennai, Pune, Meerut, and Guwahati, in which no deviations were noticed in the data count.

Audit observed that the four sample representative zones had been selected geographically across the field formations of CBIC. Data migration was validated to be complete relying entirely on the validation reports of these four sample representative zones. However, Audit could not independently verify the veracity of these reports as well as the business continuity in ACES-GST Application for notified, non-GST goods since the testing environment was not facilitated.

### 3.5 Refund Module

The GSTN Common Portal developed by GSTN acts as the front-end portal for the taxpayers for refund. A taxpayer/dealer/firm applies to the GSTN common portal for refund and submits the refund claim in the formats prescribed along with the supporting documents. These are made available through API in the CBIC ACES-GST Application to the departmental officers to process the refund applications which they may approve/reject/ask for query related to the refund claims.

**Table 3.5 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether the system displaying Taxpayer refund application in the Refund Module CBIC Backend and providing option to Tax Officer to process refund request and the approval of the same	Tested (35)	Passed (33)	Transmission of application data, Creation of tasks, Checking of refund application, RFD 02 and RFD 03, Colour coding flag, RFD 06, Archive of Refund application, Issuance of show cause notice, Adjustment of liabilities, Sanctioning of provisional refund, Status of recovery, RFD 05, Navigation to details screen, Uploading of supportive documents, PMT-03, Option of "Convert ARN details to PDF"	-
		Failed (2)	Availability of adequate functionalities, Adjustment of Outstanding demand, Refund withhold functionality	3.5.1 3.5.2 3.5.3 3.5.4
	Not Tested (39)	Scope Restriction	Reallocation of application, Re-credited of refund claim, Availability of RFD-09, Payment	-

Sub-objectives	Tested/Not tested	Passed/ Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
		(39)	disbursement workflow, E-signature of tax officer, Payment Advice details, Updation of Ledgers, Error task list, Functionalities in Administrator screen, Assesse master table, Consideration of Original payment advice details, Alert notifications, Sending of assesse master data by GSTN, MIS Reports	

On examination of whether the functionalities of the refund module were developed as per requirement of law, audit noticed that the forms related to the processing of Refund applications i.e., Form- GST RFD-01 Online application for refund filed by the tax payer, Form- GST RFD-02- Acknowledgment, Form- GST RFD-03- Deficiency Memo, Form- GST RFD-04 - Provisional Refund Order, Form- GST RFD-06- Refund Sanction/Rejection Order, Form GST RFD-05 Payment Order, Form- GST RFD-08- Notice for rejection of application for refund, Form- GST RFD-09-Reply to show cause notice, Form GST-PMT-03 Order for re-credit of the amount to cash or credit ledger on rejection of refund claim were mapped and were functioning in the application.

Forms filed by the taxpayers on the GSTN Portal were being successfully transmitted to the CBIC ACES-GST portal for backend processing and properly landed on the dashboard of the Refund Processing Officer (RPO). The functionalities such as issuance of acknowledgment, Deficiency Memo, Show Cause Notice (SCN), etc., required for refund processing were found to be present and functioning. The functionalities for provisional refunds for eligible refund claims, and synchronization of ITC ledger and verification by RPO were developed and functioning. However, there were some deficiencies as noticed during examination of SRS, testing in UAT and output of data queries as reported in the succeeding paragraphs.

### **3.5.1 Functionality for processing of refund to the notified person in CBIC ACES-GST Application was not developed**

As per sub-rule 1 of Rule 95 of CGST Rules, 2017 any person eligible to claim refund of tax paid by him (notified persons) on his inward supplies as per notification issued under Section 55 of the CGST Act, 2017 shall apply for refund once in every quarter electronically on the common GSTN



portal, along with a statement of the inward supplies of goods or services or both. Further, sub-rule 4 of Rule 95 provides that the provisions of Rule 92 shall, mutatis mutandis, apply for the sanction and payment of refund under this rule.

Scrutiny of SRS (Version 1.4) revealed that the CBIC made a provision to process the refund applications filed by notified persons but the same was kept on hold with the remarks "To be taken up in future".

On being pointed out by Audit (April 2022), the Ministry accepted the para and stated (August 2022) that the backend application has not been developed as GSTN is yet to share the API for online processing for this category of refund claims. Once GSTN develops this functionality at the frontend, the same will be developed at the backend also.

***Recommendation 29: 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.***

### **3.5.2 Functionality for adjustment of outstanding demand under the Act or under any existing law in the Provisional Refund order (RFD-04) was not developed**

As per sub-section 6 of Section 54 of CGST Act, 2017 notwithstanding anything contained in sub-section (5), the proper officer may refund on account of zero-rated supply of goods or services or both in case of export and on account of supplies to SEZ unit or developer on a provisional basis ninety per cent of the total amount so claimed and thereafter make an order under sub-section (5) for final settlement of the refund claim after due verification of documents furnished by the applicant.

Further sub-section 10 (b) of Section 54 of CGST Act, 2017 provides that the proper officer may deduct from the refund due, any tax, interest, penalty, fee or any other amount which the taxable person is liable to pay but which remains unpaid under this Act or under the existing law. However, in absence of mapping of these provisions of the CGST Act in the SRS, the CBIC IT system has not been designed to recover the dues pending in Liability Register-II from the refund due the taxpayer. As a result, provisional refund up to 90 percent of the refund claim was allowed without adjusting the demand. This fact was corroborated with output of data query (July 2021), for the period from 01 October 2019 to 31 March 2021. In 552 cases, provisional refund was sanctioned without adjusting the outstanding demand lying pending for recovery in the Liability Register-II.

On being pointed out by Audit (April 2022), the Ministry accepted the para and stated (August 2022) that there is no facility for adjustment of liability while issuing a Provisional order because this provision is not made available in the attributes in the API released by GSTN. If GSTN develops any functionality in the GSTN portal, the same will be developed in the backend also.

***Recommendation 30: 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.***

### **3.5.3 Functionality in the final refund order for recovery of interest on adjustment of outstanding demand under the Act or under any existing law was not developed**

Section 50 (1) of CGST Act, 2017 provides that every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding eighteen per cent, as may be notified by the Government on the recommendations of the Council. Further, Section 50 (2) ibid states that the interest under sub-section (1) shall be calculated, in such manner as may be prescribed, from the day succeeding the day on which such tax was due to be paid.

During testing of refund backend processes in UAT environment, it was noticed that provision of the Act for making adjustment of outstanding demand was implemented at the stage of issue of final refund order. However, 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 due to the taxpayers as this aspect was not considered while preparing the SRS. This was corroborated with the outcome of the data query containing 170 cases for the period from 1 October 2019 to 31 March 2021 where outstanding demand was adjusted from the final refund order (RFD-06) by Refund Processing Officer. In 52 cases, the delay in adjustment of demand from refund sanctioned ranged from 1 to 601 days. However, interest for delayed period on the adjusted amount was not considered. In 52 cases, an estimated amount of ₹ 43.05 lakh of interest on this account was not considered for levy. In 61 cases, demand ID creation date were not provided while in the remaining 57 cases the demand date and refund sanctioned date was same.

***Recommendation 31: The Department should ensure by working with GSTN that a functionality is developed and deployed in the system to ensure recovery of interest on outstanding demand.***

The Ministry accepted the observation and stated (August 2022) that as per the provisions of the existing API provided by GSTN, a liability under interest minor head cannot be adjusted against the amount that is sanctioned under the Tax minor head as the system disallows such adjustment. 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.

#### **3.5.4 Refund withhold functionality not developed**

As per sub-section 10 of Section 54 of CGST Act, 2017 where any refund is due under sub-section (3) to a registered person who has defaulted in furnishing any return or who is required to pay any tax, interest or penalty, which has not been stayed by any court, Tribunal or Appellate Authority by the specified date, the proper officer may—

- withhold payment of refund due until the said person has furnished the return or paid the tax, interest or penalty, as the case may be;
- deduct from the refund due, any tax, interest, penalty, fee or any other amount which the taxable person is liable to pay but which remains unpaid under this Act or under the existing law.

Further, Section 54 (11) provides that where an order giving rise to a refund is the subject matter of an appeal or further proceedings or where any other proceedings under this Act is pending and the Commissioner is of the opinion that grant of such refund is likely to adversely affect the revenue in the said appeal or other proceedings on account of malfeasance or fraud committed, he may withhold the refund till such time as he may determine.

During scrutiny of SRS document provided by the Department, it was noticed that withhold functionality (RFD-07 Part B) for refund for violation of provisions of GST Act has not been implemented so far.

***Recommendation 32: The Department should ensure the development and deployment of refund withhold functionality without further delay.***

When the observation was pointed out (September 2021) by Audit, the Ministry stated (August 2022) that the Refund Withhold functionality had been deployed in production on 03.08.2022.

Implementation of the same will be reviewed in subsequent Audits.

### 3.6 Investigation Module

Investigation was originally conceived as a part of DSR module as per RFP but has been developed as a separate module. The processes in the investigation module are designed for capturing and effecting the procedures from filing of information/intelligence, process of investigation and covers till issuance of the SCN and sanction for prosecution. The process gets linked to the DSR Module thereon for subsequent functions like adjudication of SCN, recovery of dues etc. The investigation module captures the procedures involved in investigation of cases by departmental officers, for use by Anti-evasion wing and Director General of GST Investigation.

During Audit it was noticed that the development of investigation module was planned to be taken up in phases. Phase I comprised recording all the investigation activities starting from initiation of the investigation case. Investigation processes except Post Investigation, Payment and Quantification have been developed in the module. Phase II comprising prosecution, compounding, interception of goods in transit is under development.

**Table 3.6 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings )
Whether SRS is prepared based on the GST Act, Rules, Notifications, Departmental Instructions and Circulars?	Tested (24)	Passed (20)	Generation of GST INS-01 to 05, Safe upkeep of goods, Inventory of seized goods, Capturing the details of payment, bond/security, Investigation register, Acceptance and Authorisation of Intelligence Information, System Reports, ACL , Workflow, Issuance of Incident/Offence/Investigation Report and SCN, 335J register	-
		Failed (4)	Validating the condition of returning document, Capturing the details if no notice is issued, Time-limits for release of goods, Special audit, Specific role matrix	2.5.3

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether Forms and functionalities relating to Investigation are generated as per SRS?	Tested (150)	Passed (133)	<p>Uploading of the cases booked before go-live of the module, Investigation team, Communication with taxpayer, GSTI-01, Investigation admn, Setup of command chain officers, Mandatory case lead, Additional officer in investigation module, To fill the fields "Source of Information" and "Command Chain", Higher authorities to approve/reject/clarify the investigating proposal, Updation of search and seizure results, Availability of historical data, Authorisation and Revocation, Transfer of case and files, History of officers, Read-only access to the Grant/Revoke authorization page, Intelligence Officers, Allotment of a unique case number, Approval of offline cases, Uploading of documents, Pulling the information, Unique investigation case id, Alert mechanism, Forms GSTI-02, 05, 08, 09, Reply from the taxpayer, Information to GSTN through APIs, Manual mail dispatch, Uploading of documents multiple times, GSTI-10, Details of summons, INS-01and 01A, Search forms and search proceedings, INS-02, Connection of seizure proceeding to search proceedings, Details of execution, Mahazar, Recording, Prohibition proceedings, INS-03, Release Proceedings, Validation certificate, To close proceedings action, INS-04, INS-05A, Arrest proceedings, GSTI-11, 12, 15, 16, and 26, Bail proceedings, GSTI-13, 14, 17, 18 and 20, Pre-population of data, SCN, Authority to give instructions, Notifications, Investigation case quick overview, Auto-updation, Closing the case file, Granting/revoking authorization facility to Investigation Admn, Transferring of files, To review the cases, Saving the review meetings, Initiating duplicate proposal for different GSTIN for the same case chain</p>	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings )
		Failed (17)	Functions relating to reward, Prosecution and compounding offences, DRC-03, DRC-04, Accessing / viewing post investigation activities, Trigger mechanism of the summons proceeding, Filing payments and quantifications, GSTI-19 Recovery Details, Closing of investigation, Capturing the information of SCN issued, GSTI-21, GSTI-22, Communications validated by digital signatures, Data retention	2.5.4.1 3.12.2
	Not Tested (9)	Could not be verified (9)	Transferring of Investigation cases, Remote Investigation task assignment, Assigning the task, Remote jurisdiction officer	-
Whether any interface mechanisms other than GSTN have been designed and implemented specific to Investigation Module?	Tested (1)	Failed (1)	Interface with any other external system specifically related to investigation issues	4.2

### 3.7 Dispute Settlement and Resolution (DSR) module

The processes in the DSR module were to be designed for capturing and effecting the procedures under the spectrum of activities involving the issue of SCNs/Statement of Demands (SODs), Adjudication of SCNs/SODs, Appeals, Review and Revision till the recovery of dues in the lifecycle of a dispute.

#### 3.7.1 Adjudication Module

The adjudication module was required to capture the procedures involved in issuing notice for demand and adjudicating the same by departmental officers empowered for adjudication - Range Officers to Commissioner, Director General of GST Investigation, Anti-evasion and Audit wings.

The adjudication module comprises three parts - issue of SCNs, Adjudication and issue of OIO represented by forms DRC-01, DRC-02, DRC-03, DRC-04, DRC-05, DRC-06, DRC-07 and DRC 08.

While SCNs can arise out of summary assessment, scrutiny, audit including special audit, refund and anti-evasion, the functionality of issue of SCNs arising for Refund and Anti-evasion have only been rolled out. For issuance of OIO, all forms stated above, except DRC-02, have been rolled out. Additionally, the processes for fixing of Personal Hearing and transfer of cases in and out of Call book have also been rolled out.

**Table 3.7 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether SRS is prepared based on the GST Act, Rules, Notifications, Departmental Instructions and Circulars?	Tested (50)	Passed (46)	SCN related issues, Rectification of orders, Dispute Lifecycle Register, Unconfirmed Demand, Confirmed Demand, Recovery, Voluntary Payment, Appeals Registers, ACL, Delegation of powers, Liability Register Part-II, Personal Hearing Details, Generation of Form DRC-01, 02, 04, 05, 07, 20, Extension of time for payment, Jurisdictional authority, Checking for the taxable person to be a defaulter, On-going recovery process	-
		Failed (4)	Monthly Installments, DRC-21 with digital signatures	3.7.3.1 3.12.2
Whether Forms and functionalities relating to Dispute Resolution are generated as per SRS?	Tested (135)	Passed (98)	Drafting SCN, Delegation of powers, Submission for approval, Authority to approve/reject/modify the draft, Initiation of order/rectification, Rectification of order, Personal hearing details, Forwarding SCN to the GSTN, Unique reference number, DRC-01, Capturing of data on generation of SCN, Unconfirmed demand register, Entering the details of offline issue of SCN, Forwarding SCN to the adjudicating authority,	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
			DRC-03, Alert mechanism, DRC-06, Personal Hearing Number and data, Assigning Personal Hearing, Reminder mechanism, Liability register - II, DRC-03, DRC-04, DRC-05, Voluntary payment register, Concluding the proceedings, Confirmed Demand, DRC-07, Creation of an OIO, Communication with the taxpayer, DRC-02, Call Book, De novo adjudication procedures, Data retention for the requisite period	
		Failed (37)	Recovery Register, Dispute lifecycle register, Tax rates, Interest and penalty, Periodic issue of the SCN, DRC-02, Attachment of digital signature, Calculation of time limit for issuing of SCN, Getting the details of DRC-03 by audit admin, Updation of the recovery register, Attachment of Digital signature of the issuing authority with the OIO and DRC-07, Updation of demand on filing appeal, Calculation of interest and penalty by DRC-01, DRC-02 contains the details of GSTIN	3.7.1.1 3.7.1.2 3.12.2 3.12.3
	Not Tested (12)	Scope Restriction (12)	Limitation of 30 days for verification of DRC-03, Forwarding the DRC-04 and DRC-05 to the GSTN, To pull case reference number for the DRC-05 generated and pushed to the GSTN, Creation of one OIO based on multiple SCNs, Issuance of an OIO where DRC-06 is not received, Authority of approval to approve/modify/delete the OIO	-



Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
			created, Enforcement of time limit of issuing OIO from the date of issuing SCNs	

During audit, the following observations were noticed:

### 3.7.1.1 Absence of Dispute Lifecycle Register

As per SRS, a Dispute Lifecycle Register was envisaged as part of the DSR module. It was to contain details of five registers: Unconfirmed Demand Register, Confirmed Demand Register, Appeal Register, Recovery Register and a Voluntary Payment Register.

Audit observed that the Dispute Lifecycle Register was not developed till date and therefore the system presented a fragmented view of a dispute case. Currently, only isolated archive lists are maintained in Appeals and Recovery modules. It is also not clear whether data in these archive lists would be ported to the Dispute Lifecycle Register, when it is developed. The audit could not ascertain whether retrieval tests of data from archive lists were carried out.

Continued delay in developing the Dispute Lifecycle Register has an inherent risk of data of cases accumulating in the system without a lifecycle view.

***Recommendation 33: The Department should ensure the development of the dispute lifecycle register under the DSR (Adjudication) module.***

When the observation was pointed out (September 2021) by Audit, the Ministry stated (August 2022) that the Dispute Life Cycle Register will be developed after the development of all functionalities in various modules.

### 3.7.1.2 Absence of mechanism for monitoring due dates

As per Section 73 and 74 of the CGST Act, 2017, adjudication order for tax not paid or short paid or erroneously refunded shall be issued within a period of three years from the due date of furnishing of annual return or date of erroneous refund, as may be applicable and in case of wilful misstatement, the period for issue of adjudication order extends to five years. The SCN in respect of these cases should be issued at least three months prior to the due date prescribed for the adjudication order.

Further, the GST council can change the date of furnishing the annual return for the given financial year.

Audit found that there was no in-built mechanism for modifying/updating these due dates, including revision/extension mandated by law/GST Council. A test check of data on grievance tickets pertaining to the period from January 2021 to July 2021 indicated that officers were not able to issue demand notices (in Form DRC-01) under Section 73 due to lack of this functionality.

***Recommendation 34: 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.***

In response to the audit observation (September 2021), the Ministry stated (August 2022) that the tickets pertaining to the difficulty faced by the officer in generating DRC-01 during Jan 2021 to July 2021 was not due to non-availability of the functionality for modifying/updating the due dates. All the tickets have been resolved. Further, the technical feasibility for integrating DRC-01 functionality with returns module for automating the due dates will be studied.

### 3.7.2 Appeal, Review and Revision module

The Appeal module encompasses the processes of a) Review and Revision at the Commissionerate level for orders passed by Departmental officers b) filing of appeals before the Commissioner (Appeals) - either by the Department or by the taxpayer c) passing of Order in-Appeal by the Commissioner (Appeals) and adjunct procedure and d) capturing of details of appeals filed at the Appellate Tribunals, High Courts or the Supreme Court etc.

The Appeal module was taken up in phases. Phase I functionalities related to work under First Appellate Authority (APL 01 to 04) and Review of Adjudication Orders have been rolled out. Phase II functionalities with 21 Use Cases, Final Version - Revision process and remand instruction order (APL 05 to 08, RVN 01) are under development.

**Table 3.8 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether SRS is	Tested (12)	Passed (12)	Form GST APL 02, Appeal filed	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
prepared based on the GST Act, Rules, Notifications, Departmental Instructions and Circulars?			treatment, prevalent conditions before filing an appeal, Revisional Authority process, Delegation of powers, FORM GST APL-04, Appeals Register to record chronological events in appeal, Adherence of timelines	
Whether Forms and functionalities relating to Appeals are generated as per SRS?	Tested (12)	Passed (5)	Appeals module form a part of DSR Phase I (Priority 1), Functional requirement of Appeals, De-novo functionality from Appeals, Refunds integration, Data retention	-
		Failed (7)	Recovery register, Mode of filing of appeal on refund order, Timeline for Review, Authority to view of UCD and CD Register and liability register.	3.7.1.1 3.7.2.1 3.7.2.2

During the course of audit, the following observations in respect of the Appeal, Review and Revision Module were noticed:

### 3.7.2.1 Manual filing of appeal on refund order

As per the SRS, based on the decision of the Commissioner (Review), the workflow involves two options that of accepting the order and filing an appeal. The envisaged workflow is functioning for review of demand orders, except in the case of review of refund orders, which requires manual intervention.

During audit, it was noticed that the process of review of refund order is created online but after the review process, the officer has to file the appeal against refund orders manually, which is not consistent with the SRS provision.

When the observation was pointed out (September 2021) by Audit, the Ministry stated (August 2022) that functionalities of (i) APL-03 and (ii) Filing of appeal against refund order had been rolled out.

Implementation of the same will be reviewed in subsequent Audits.

### 3.7.2.2 Absence of timeline for Review

As per sub-rule (A) of Rule 109 of CGST Rules, 2017, any person aggrieved by any decision or order passed under the Act has a time limit of three months to file an appeal. Similarly, the Department has a timeframe of six months to file an appeal.

During audit, it was noticed that the Appeal module is developed as per provisions and in the way that taxpayer and departmental officers cannot file an appeal through the system after three months and six months respectively. However, there is no mechanism built in the system to alert the user to complete the prescribed process of Review, which has a potential risk exposure of delays in the review process that can impact the statutory timeline prescribed for appeal.

In response to the audit observation (September 2021), the Department replied (December 2021) that the CGST ACT/Rules only prescribes timeline for filing appeals before appropriate appellate forums, which has been built in the application; however, no separate timeframe has been prescribed for review of adjudication or appeal orders. DG (Systems) Bengaluru further stated that the audit observation would be communicated to the GST policy wing for issuing uniform guidelines to all field formations regarding conduct of review in time.

### 3.7.3 Recovery module

Recovery module was to capture the procedures involved in recovery of the confirmed demand under GST and legacy regime, which would be used by departmental officers empowered for recovery - Range Officers to Commissioner, Director General of GST Investigation, Anti-evasion and Audit wings. The process involves the recovery of tax that remains unpaid and is payable by the taxpayer on account of scrutiny, assessment, adjudication and appeals process. The tax authorities can initiate the recovery process by adopting various modes of recoveries as provided in the GST laws.

**Table 3.9 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
DRC-20 and DRC-21	Tested (39)	Passed (22)	Filling the Form DRC-20, Mechanism to address the jurisdictional authority, Checking for installment amount less than twenty-five thousand rupees, Checking	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
			authorised officer, Application for deferred payment / payment in installment lands at the CBIC - GST backend application, Valid credentials, Recovery status, Initiate the input of DRC-07A, Assignment of task, "Mark To" option, Drafting Jurisdictional report, Landing directly in to Jurisdiction report sub tab, Working of "PUT UP" functionality, Access to view the updated ledgers and register in instalment/Deferred payment, Availability of case history, Visibility of Archive list, View the complete details of each DRC-21 order in Archive	
		Failed (17)	Suo-moto grants extension of time, Checking for authorised issue of DRC-21, Checking defaulter, In-built mechanism regarding recovery, Installment payment in the preceding financial year, Updation of recovery register, Displays the Work List, Viewing the complete order details dispute life cycle, Adding new jurisdiction report, Enabling of verification report questionnaires, Access to view the returns, Demand history of the taxpayer, Adding of Additional folder "DRC-21" under Summary links section, DRC-21 hyperlink, Trigger mechanism , Consideration of default in payment	3.7.3.1
	Not Tested (2)	Not verified (could not be verified) (2)	Checking for monthly installments not exceeding twenty-four, Tax Payer able to log in GSTN Portal and submit Application for deferred payment / payment in instalments (DRC-20)	-
DRC-07A	Tested (8)	Passed (7)	Procedure for recovery of dues under existing laws, Posting of demand of the order, Entering the data under the Legacy Arrears model, Initiating the input of DRC-07A into system, Updating the Demand History and ECL, Integration of generated Demand ID/Recovery	-

Sub-objectives	Tested/Not tested	Passed/Failed/Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
			ID to other modules like Appeals, Only recoverable demands shall be posted for recovery under GST laws	
		Failed (1)	Updation of Recovery Register	3.7.1.1
DRC-08A	Tested (6)	Passed (6)	Functionality for submitting the application forms DRC-08A into CBIC portal, Updating the Demand History and ECL, Integration of generated Demand ID/Recovery ID to other modules like Appeals, Amendment of the status through FORM GST DRC-08A, Uploading of summary on the common portal, Updation of Part II of Electronic Liability Register	-

Recovery module comprises of Recovery and Legacy Arrears represented by forms DRC-09 to DRC-25 and DRC-07A, DRC-08A. Functionalities for DRC-07A, DRC-08A, DRC-20 and DRC-21 representing two dimensions - recovery of legacy arrears (DRC 07A and 08A) and recovery of dues in instalments (DRC 20 and 21) had only been rolled out at the time of Audit.

Integration was in progress for functionalities related to recovery of dues from other means - third party, sale of taxable goods, attachment of immovable and movable properties, recovery as fine etc., represented by forms DRC-9 to DRC-19, DRC-22 to DRC-25. The crucial Recovery register had not been developed, though it was envisaged in the SRS.

When the observation was pointed out by Audit (September 2021), the Ministry while accepting the observation stated (August 2022) that Recovery process emanating from other sources (DRC Forms 9 to 19, 22 to 25) had been deployed to production/implemented. The crucial Recovery Register would be developed as a part of MIS.

Implementation of the same will be reviewed in subsequent Audits.

**3.7.3.1 Audit noticed the following gaps in implementation of the Recovery module:**

- (i) The Demand History Tab had been provided without the hyperlinks as envisaged thereby not providing for the detailed:
  - DRC-20 status with instalment payment/deferred payment details for Demand ID

- DRC-21 status with the payment update status in the archive list for Demand ID
  - Total Demand, amount paid with balance payable as only Total Amount is mentioned
- (ii) Hyperlinks for the General Information of the Taxpayer had also not been developed in case of DRC-21
- Functionality to see details of payments made by the taxpayer in instalments in case of DRC-21 had not been implemented
  - Option for creation of New Jurisdiction Report in case of DRC-21 was not implemented
  - Colour coding to indicate age-wise pendency for processing DRC 20 (Application for deferred payment/payment in instalments) on the worklist dashboard of every officer was not implemented

In response to the audit observation (September 2021), the Ministry accepted (August 2022) the observation.

### 3.8 Export Module

**Table 3.10 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/ Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether functionalities of Exports are designed and implemented as envisaged	Not tested (5)	-	Preparation of SRS as per Act/Rules/notifications, Adherence of timelines, SRS implication in forms and functionalities, GSTN and other interface	Not developed yet

Audit noticed that the development of Export module had not started and DG(Systems) was in the discussion stage with Wipro and ICEGATE/ICES regarding technical feasibility and process of transferring complete EXIM data.

***Recommendation 35: The Department should ensure the development and implementation of export module in a timely manner.***

When the observation was pointed out by Audit (April 2022), the Ministry stated (August 2022) that they have noted the recommendation for compliance.

### 3.9 Audit module

**Table 3.11 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether functionalities of Audit Module are designed and implemented as envisaged	Tested (5)	Passed (1)	Preparation of SRS as per act/rules/notifications	-
		Scope restriction (4)	Adherence of timelines, SRS implication in forms and functionalities, GSTN and other interface	3.9

The preparation of SRS for Audit module commenced in May 2017 and the module was still under development at the time of Audit.

When the observation was pointed out by Audit (April 2022), the Ministry stated that the Audit module had been rolled out on 1st April 2022.

The same (Audit module) will be reviewed in subsequent Audits.

### 3.10 Taxpayer at Glance - TAG

**Table 3.12 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether functionalities of TAG module are designed and implemented as envisaged	Not tested (5)	-	Preparation of SRS as per Act/Rules/notifications, Adherence of timelines, SRS implication in forms and functionalities, GSTN and other interface	Not developed yet

Audit noticed that the development of the module had not begun. The Department stated that the TAG requirements had been given to the Vendor in September 2020 for preparation of SRS. The draft SRS was yet to be submitted by the Vendor.

On this being pointed out by Audit (April 2022), the Ministry while noting the recommendation for compliance stated (August 2022) 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".



### 3.11 Mobile Application

**Table 3.13 - Summarised Audit Finding Matrix**

Sub-objectives	Tested/Not tested	Passed/Failed/ Scope restriction	Summary of Audit Checks	Remarks (Audit Findings)
Whether mobile app modules are designed and implemented as envisaged	Tested (5)	Passed (1)	Preparation of SRS as per act/rules/notifications	-
		Failed (4)	Adherence of timelines, Coverage of the entire spectrum of operations, GSTN and other interface	Under development

During audit, it was noticed that the Mobile Application was under development.

***Recommendation 36: The Department should ensure the development and implementation of mobile application in a timely manner.***

On this being pointed out by Audit (April 2022), the Ministry stated (August 2022) that all efforts are being made to accelerate the development and deployment of mobile application.

### 3.12 Cross-cutting issues

#### 3.12.1 User activity logs- across modules

As per the RFP (Clause 7.1 (2 j)), the user activity logs as envisaged should provide support for a comprehensive audit trail features in the portal such as the following:

- Daily activities log should be merged into the history log files
- Date, time and user-stamped transaction checklist should be on-line generated for different transactions
- All transaction screens should display system information
- Daily activity reports should be provided to highlight all the transactions being processed during the day

Audit observed that while the trails of various forms were being maintained in the application, the content of individual changes made in the forms at various levels of hierarchy in the draft stage were not being recorded and stored. An input field 'Remarks' exists for recording comments at the time of submission/return/delegation of the draft. This field for remarks cannot be an alternate mechanism for version control.

Hence, only the contents of the final approval were recorded and updation (additions/deletions/alterations) by the officials preceding the approval/rejection of the form were neither mapped to their respective SSOID nor formed a part of the record. The version control utility was found to be absent in the workflow activity.

In this regard, an audit observation (September 2021) was issued. The Ministry accepted the para and replied (August 2022) that implementation of Version Control functionality as suggested would be taken up subject to technical feasibility.

***Recommendation 37: The Department should ensure that the portal can capture all changes/alterations or at least significant changes carried out by each user in the workflow as part of the user activity logs.***

### **3.12.2 Non-implementation of Digital signature/e-signature - across modules**

Digital Signatures are mandated as a means of authentication of any electronic record using an electronic method or procedure, in accordance with the provisions of Section 3, Information Technology Act, 2000. The authentication process confirms the identity of a person or proving the integrity of information, resulting in non-repudiation - the inability to refute responsibility.

As per Rule 26 (3) of CGST Rules, 2017, all notices, certificates and orders under the provisions of Chapter-III of CGST Rules, 2017 shall be issued electronically by the proper officer or any other officer authorized to issue such notices or certificates or orders, through digital signature certificate or through E-signature as specified under the provisions of the Information Technology Act, 2000 or verified by any other mode of signature or verification as notified by the Board in this behalf.

Further, the contract concluded with the Vendor (Master Services Agreement - MSA) stipulated the following:

- The technical requirement of Support security protocols, Digital Certificates and e-Sign for secure authentication for all the communication with the taxpayers are to be complied with (Para 7.2 of MSA-Non-functional requirements of the solution).
- The respective modules of the system enabling the use of Digital Signatures, for access by the registered taxpayers and Departmental users are to be built in the application software (Para 1.1 (e) of MSA- salient features of ACL).

During the course of Audit, it was observed that Digital Signatures have not been incorporated and adopted in any of the modules. To establish this, Audit test checked registration certificates randomly and found that the signature/e-Verification code of the proper officer mandated by the Rules were not available on the Registration Certificates. Further, in respect of Registrations which were deemed approved, though the Proper Officer is mandatorily required to authenticate the certificates within three days after the stipulated period for deemed approval, there was no evidence of such authentication being done by the proper officer.

In response to the audit observation (September 2021), the Department replied (December 2021) that currently server-based DSC is implemented and that the issue of digital signature is being worked out in respect of all modules and will be implemented soon. However, in case of deemed registration, it was informed that no authentication was required, as they were not approved by the proper officer.

In this connection, on receipt of reply (March 2021), Audit requisitioned (June 2021) for copy of the Board's notification permitting the server level authentication/verification of the Registration certificate. However, the copy is yet to be made available to audit.

Further, the Department's contention that no authentication was required for RCs issued under Rule 10(5) is not tenable as the rule clearly specifies that registrations which are granted under sub-rule (5) of Rule 9 shall be duly signed or verified through electronic verification code and made available to the applicant on the common portal, within a period of three days after the expiry of the period specified in the rule. Further, the reply that the Board had permitted server based DSC is not acceptable since it is not good enough for statutory documents and registration certificates.

In this regard, the audit observation was issued (April 2022) and the Ministry during the exit conference stated (September 2022) that it would consider revising its reply (August 2022) "CBIC uses server level authentication using SSOID based login"; the same was awaited (December 2022).

The fact remains that the IT Act 2000 and the contract concluded with the Vendor (Master Services Agreement - MSA) stipulated digital signature functionality or e-signature. Such a DSC or e-signature (typically Aadhaar based) confirms the identity of an individual officer in a non-repudiable, verifiable manner, which cannot be achieved through server based DSC.

***Recommendation 38: The Department should ensure that 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.***

### **3.12.3 Manual calculation of interest**

As per Section 73 and 74 read with Section 50 the CGST Act, 2017, interest is leviable on delayed payment of tax whenever the demand is recovered. Interest shall be calculated from the succeeding the day on which tax was due to be paid till the date of payment. The notified interest rate is 18% with effect from 1 July 2017.

Audit observed that calculation of interest across all modules was designed to be done manually exposing it to risk of computation errors. Considering that the tax payable is determined once the demand is confirmed and interest calculation is typically prone to errors, the best practice would have been to incorporate a feature for automating the calculation of interest with the requisite details of tax payable, period and rate of interest being provided as inputs.

***Recommendation 39: The Department should expedite the development of functionality for automated calculation of interest as envisaged.***

In response to the audit observation (September 2021), the Ministry while accepting the para stated (August 2022) that the issue was being taken up with GSTN.