



**Report of the
Comptroller and Auditor General of India
for the year ended March 2018**



लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Union Government
Department of Revenue
(Indirect Taxes – Goods and Services Tax)
Report No. 11 of 2019**

**Report of the
Comptroller and Auditor General
of India**

for the year ended March 2018

**Union Government
Department of Revenue
(Indirect Taxes – Goods and Services Tax)
Report No. 11 of 2019**

Laid on the table of Lok Sabha/Rajya Sabha on _____

Table of Contents

Contents		Page
Preface		i
Executive summary		iii
Chapter I : Implementation of GST		1-23
1.1	Background of GST	1
1.2	Concept of GST	1
1.3	Key legislations	3
1.4	New factors in GST	3
1.5	Central Administrative Structure	7
1.6	The objectives of GST	8
Chapter II : Revenue and return filing trends		25-39
2.1	Revenue trend	25
2.2	GST Registrations	30
2.3	GST Return filing pattern	33
2.4	Conclusion	38
Chapter III : Planning and Implementation of GST IT Project		41-83
3.1	Introduction	41
3.2	Organisational setup of GSTN	41
3.3	Background of Implementation of GST IT Project	42
3.4	IT Audit of GSTN	43
3.5	Overview of IT Audit findings	45
3.6	Introduction	46
3.7	Failure to validate and debar ineligible taxpayers from availing Composition Levy Scheme (CLS)	46
3.8	Issues related to other categories of taxpayers	51
3.9	Issues affecting user friendliness of the registration module	54
3.10	Findings accepted and corrective action taken or initiated	55
3.11	Conclusion on Registration Module	56
3.12	Introduction	57
3.13	Shortcomings in updating ECL	58
3.14	Non-implementation of service requirements of banks	60
3.15	Non-reconciliation with accounting authorities	61
3.16	Non-acceptance of payment where payment details were received after expiry of Challan	62
3.17	System level controls found absent in reconciliation files	62
3.18	Payment through debit/credit cards not provided in the GST IT system	63
3.19	Display of messages was not in sync with the actual status of the transaction	63
3.20	Conclusion on Payment Module	64
3.21	The Provisions for IGST Settlement	64

Contents		Page
3.22	Incomplete IGST Settlement	66
3.23	Duplicate records	69
3.24	Incorrect computation of IGST Settlement	70
3.25	Erroneous entries in settlement reports	71
3.26	Unrealistic claims of ITC of IGST	74
3.27	Conclusion on IGST Settlement Reports	75
3.28	Business Continuity	76
3.29	Change Management	78
3.30	Conclusion on Business Continuity and Change Management	81
3.31	A summary of the IT audit findings	82
Chapter IV : Compliance Audit of GST		85-106
4.1	Lack of access to data	85
4.2	Audit examination	86
4.3	Introduction	86
4.4	Provisions for transitional credit	86
4.5	CBIC instructions for verification of transitional credits	88
4.6	Leveraging IT for verification of transitional credit claims	89
4.7	Audit of transitional credits	90
4.8	Irregular registration in Composition Scheme	100
4.9	Allocation and mapping of taxpayers to jurisdictional tax officers	101
4.10	Overview of audit of Refund claims	103
4.11	Non-adherence of provisions of Refund	104
4.12	Conclusion	107
Appendix-I		109
Appendix-II		110
Appendix-III		113
Appendix-IV		116
Appendix-V		117
Appendix-VI		119
Appendix-VII		121
Glossary		122

Preface

This Report has been prepared for submission to the President of India under Article 151 of the Constitution of India.

The magnitude of the tax reform that GST has been, cannot be over-stated. Elsewhere in the Report it has been noted that the efforts of all the stakeholders, including the businesses, in transiting to this system are appreciable. That there would be teething problems in such a major transition is also not unexpected. The issues that remain, and that have been pointed out in the report, should not therefore be seen by the stakeholders as a fault-finding exercise. The gaps / shortcomings have been pointed out in the spirit of constructive suggestions to realise the full potential of this major reform. Issues raised in the report are consistent with the spirit of the reform itself : to relieve the consumer from the burden of cascading taxes; to make the system as fool-proof as possible; to provide the taxpayers an IT-based system that would ease compliance burden, and add to the ease of doing business; and in this context, to reduce the tax official-assessee interface to the very minimal.

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

Executive Summary

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

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

(Paragraph 1.6)

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

(Paragraph 1.6.2)

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

(Paragraph 1.6.3)

Chapter II : Revenue and return filing trends

Revenue analysis

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

(Paragraph 2.1.1)

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

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

(Paragraph 2.1.3)

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

(Paragraph 2.1.4)

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

(Paragraph 2.1.5)

Returns filing

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

(Paragraph 2.3.1)

Chapter III : IT audit of GSTN

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

(Paragraph 3.5)

Registration Module

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

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

(Paragraph 3.7.2)

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

(Paragraph 3.8.1)

- TDS registrations were allowed under invalid category.

(Paragraph 3.8.3)

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

(Paragraph 3.10.2)

Payment Module

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

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

(Paragraph 3.13.1)

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

(Paragraph 3.14)

- Issues in reconciliation of GST receipts.

(Paragraph 3.15)

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

(Paragraph 3.16)

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

(Paragraph 3.18)

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

(Paragraph 3.15)

IGST Settlement reports

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

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

(Paragraph 3.22)

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

(Paragraph 3.23)

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

(Paragraph 3.25)

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

(Paragraph 3.26)

System design deficiencies

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

(Paragraph 3.17)

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

(Paragraph 3.25)

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

(Paragraph 3.7.1)

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

(Paragraph 3.7.1)

Business Continuity and Change Management

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

(Paragraph 3.28.1)

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

(Paragraph 3.29)

To sum up the IT Audit findings:

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

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

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

(Paragraph 3.31)

Chapter IV : Compliance audit of GST

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

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

(Paragraph 4.1)

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

(Paragraph 4.7)

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

(Paragraph 4.9.2)

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

(Paragraph 4.11)

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

Chapter I : Implementation of GST

This chapter gives an overview of the features of the Goods and Services Tax (GST) including GST returns mechanism and the status of implementation of GST.

1.1 Background of GST

A comprehensive GST based on the Value Added Tax (VAT) principle was first suggested by the Kelkar Task Force in December 2002. The introduction of GST in India was first announced in the Union Budget 2006-07. Since then the Empowered Committee of Ministers had worked on preparing the background material for GST and the draft GST Acts. Implementation of GST finally materialised with the Parliament passing the Constitutional Amendment Act in September 2016, followed by the State Legislatures and GST was rolled out with effect from 1 July 2017 (including Jammu and Kashmir with effect from 8 July 2017).

As stated by the President of India Sri Pranab Mukherjee on the launch of GST from the Central Hall of Parliament on 30 June 2017, “GST is the result of a broad consensus arrived at between the Centre and the States and is a tribute to the maturity and wisdom of India’s democracy”.

1.2 Concept of GST

1.2.1 Definition of GST

GST is a tax on supply of goods or services or both and a single tax on entire value chain of supply, right from the manufacturer to the consumer. Credit of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

GST is a consumption based tax i.e. tax accrues to the State where goods and / or services are finally consumed.

1.2.2 Taxes subsumed

GST subsumed the following central and state taxes: -

Central Taxes subsumed	State Taxes subsumed
<ul style="list-style-type: none"> • Central Excise Duty (except five Petroleum¹ and tobacco products) • Additional Excise Duty • Service Tax • Additional Customs Duty commonly known as Countervailing Duty • Special Additional Duty of Customs. 	<ul style="list-style-type: none"> • State Value Added Tax (VAT)/Sales Tax (except five petroleum products and alcoholic liquor for human consumption) • Entertainment Tax (other than the tax levied by the local bodies) • Central Sales Tax (levied by the Centre and collected by the States) • Octroi and Entry tax • Purchase tax • Luxury tax • Taxes on lottery, betting and gambling

Central / State Excise duty and VAT would be continued on five Petroleum products, which would be subject to the levy of GST whenever notified on the recommendation of the GST Council. Tobacco products could be subjected to both Central Excise duty and GST. Alcoholic liquor for human consumption had been kept outside the ambit of GST.

1.2.3 Components of GST

There are three components of GST as follows: -

- **Central Goods and Services Tax (CGST)** : payable to the Central Government on supply of goods and services within the State/Union Territory.
- **State/Union Territory Goods and Services Tax (SGST/UTGST)** : payable to the State/Union Territory Government on supply of goods and services within the State/Union Territory.
- **Integrated Goods and Services Tax (IGST)** : in case of inter-state supply of goods and services, IGST is levied by the Government of India. Equivalent

¹ petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

IGST is also levied on imports into India. IGST shall be apportioned between the Union and the States as per the provisions of IGST Act.

- **GST Compensation Cess:** In addition to GST, a cess named GST Compensation Cess can be levied on notified goods and services and currently such cess is levied on pan masala, tobacco, aerated drinks, cars and coal.

1.3 Key legislations

The Constitution (One Hundred and Twenty Second Amendment) Bill, 2016, for introduction of Goods and Services Tax in the country was passed by Rajya Sabha on 3 August 2016 and by Lok Sabha on 8 August 2016. Consequent upon this, the President of India accorded assent on 8 September 2016, and the same was notified as the Constitution (One Hundred and First Amendment) Act, 2016.

The following Acts were passed for implementation of GST with effect from 1 July 2017: -

- The CGST Act, 2017;
- The UTGST Act, 2017,
- The IGST Act, 2017;
- The GST (Compensation to States) Act, 2017

The above Acts were assented by the President of India on 12 April 2017 and enacted with effect from² 1 July 2017. In addition to the above, each of the States have also passed the SGST Act.

All the above Acts were further amended vide the CGST Amendment Act, 2018 and the GST (Compensation to States) Amendment Act, 2018, the IGST (Amendment) Act, 2018 and the UTGST (Amendment) Act, 2018 notified on 29 August 2018 and made effective from 1 February 2019.

1.4 New factors in GST

Some of the notable factors introduced in GST, which were not there in the pre-GST era, have been detailed below : -

1.4.1 GST Council

In terms of Article 279A (1) of the Constitution of India, as amended, the President of India constituted the GST Council with effect from 12 September 2016. The GST Council is a constitutional body for making recommendations to the Union and the State Governments on the issues related to GST. The

² applicable to the State of Jammu and Kashmir with effect from 8 July 2017 after the State passed these Acts as Extension to Jammu and Kashmir Acts in view of Article 370.

GST Council, a joint forum of the Centre and the States, is chaired by the Union Finance Minister and members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation or any other Minister nominated by each of the States.

As per Article 279A (4), the Council will make recommendations to the Union and the States on: -

- a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the GST;
- b) the goods and services that may be subjected to, or exempted from GST;
- c) the model GST Laws, principles of levy, apportionment of GST levied on inter-State trade supplies and the principles that govern the place of supply (POS);
- d) the threshold limit of turnover below which goods and services may be exempted from GST;
- e) the rates including floor rates with bands of GST;
- f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
- g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- h) any other matter relating to the GST, as the Council may decide.

While discharging the functions conferred by this article, the GST Council shall be guided by the need for a harmonised structure of goods and services and for the development of a harmonised national market for goods and services.

1.4.2 Goods and Services Tax Network

Goods and Services Tax Network (GSTN) was registered on 28 March 2013 under Section 8 of the Companies Act, 2013 as a Non-Government Company and a 'Not for Profit Organisation'. It was formed to provide common and shared Information Technology (IT) infrastructure and services to the Central and State Governments, taxpayers and other stakeholders for implementation of the GST.

The Government of India holds 24.5 per cent equity in GSTN and all the States of the Indian Union, including NCT of Delhi and Puducherry and the Council, together hold another 24.5 per cent. The balance 51 per cent equity is with Non-Government financial institutions. It was decided (May 2018) to

convert GSTN into a fully owned Government Company. Further action on this decision was yet to be taken by the Government.

The objectives and organizational structure have been further detailed in Chapter III of this report.

1.4.3 Cross empowerment and distribution of taxpayers

Under GST, the taxpayers have to obtain separate registration in each State where they operate. A single challan is generated for paying all taxes of GST (viz. CGST, IGST, SGST and UTGST) under each registration and one single return is filed for both the central and state taxes.

In view of this dual control, the GST Acts provide for cross empowerment of the Central and State tax officers to administer all the components of GST viz. CGST, SGST, UTGST and IGST. The tax officers carry out administration of all components of GST in respect of the taxpayers or specific areas allocated to them. While the State Commercial tax departments are responsible for administering functions assigned to the States, the Central Board of Indirect Taxes and Customs (CBIC) and its field formations carry out functions assigned to the Centre.

As per circular of the GST Council dated 20 September 2017, the following criteria should be followed for the division of taxpayer base registered in a State between the Centre and the State to ensure single interface :-

- a) Of the total number of taxpayers with turnover below ₹ 1.5 crore, all the administrative control over 90 per cent of the taxpayers shall vest with the State³ tax administration and 10 per cent with the Central tax administration;
- b) In respect of the taxpayers with turnover above ₹ 1.5 crore, all the administrative control shall be divided equally in the ratio of 50 per cent each for the Central and the State tax administration;
- c) The division of taxpayers in each State shall be done by computer at the State level based on stratified random sampling and could also take into account the geographical location and type of the taxpayers, as may be mutually agreed.

The State tax officers have been empowered⁴ (October 2017) to grant refund of IGST and CGST and similar instructions on the State side were also issued empowering the Central tax officers to grant refund of SGST. The GST Council in its 9th meeting (16 January 2017) recommended that both the Central and

³ Except for the State of Jammu and Kashmir where all the taxpayers below ₹ 1.5 crore were allocated to the State.

⁴ Vide notifications No.11/2017–Integrated Tax and No.39/2017-Central Tax, both dated 13 October 2017.

State tax administrations shall have the power to take intelligence-based enforcement action in respect of the entire value chain and CBIC gave effect to this decision through a DO letter⁵ issued (October 2018) to its field formations.

1.4.4 Compensation to the States for loss due to implementation of GST

The Constitution Amendment Act, effective from 16 September 2016, has provided that Parliament should, on recommendation of GST Council, provide for compensation to the States for loss of revenue arising on account of implementation of GST for a period up to five years. The GST (Compensation to the States) Act, 2017 was passed to give effect to these provisions. This Act also provided for levy of a cess for the purpose of GST Compensation.

The States should be compensated for any shortfall in getting a revenue of 14 per cent over the base year (2015-16) revenue relating to taxes / duties subsumed into GST. The shortfall in revenue was to be arrived at after taking into account the SGST collection (collected as SGST as well as IGST settled as SGST) and collection of arrears of state taxes subsumed into GST. The GST compensation is payable bi-monthly and should be calculated finally for every financial year after the receipt of final revenue figures, as audited by the CAG.

1.4.5 Anti-profiteering

Section 171 of CGST Act, 2017 stipulated that any reduction in rate of GST on any supply of goods or services as compared to pre-GST tax rates, or the benefit of ITC, should have been passed on to the recipient by way of commensurate reduction in the prices. The wilful action of not changing the final price of the good or service by various means, despite the reduction in the rate of the tax for that particular goods or services, would amount to “profiteering”. The CGST Act, 2017 provided for a 3-tier structure for investigation and adjudication of the complaints regarding profiteering.

- National Anti-profiteering Authority
- Directorate General of Anti-profiteering
- State-level screening committees and standing committee

Any consumer or organisation experiencing the non-reduction in the price of the goods or services despite reduction in the rate of GST could file the complaint with proper evidences.

Any supplier, trader, wholesaler or retailer, who could not get benefit of ITC on account of reduction in the rate of GST, can also file the complaint with proper evidence. The Authority might inquire into any alleged contravention of the provisions of section 171 of the CGST Act, 2017 on its own motion or on receipt of information from any interested party as defined in the Rule 137 (c) of CGST Rules, 2017, person, body, association or on a reference having been made to it by the Central Government or the State Government.

⁵ D.O. F.No. CBEC/20/43/01/2017-GST (Pt.) dated 5 October 2018.

The Authority shall cease to exist after the expiry of two years from the date on which the Chairman enters upon his office unless the Council recommends otherwise.

1.4.6 Pan-India roll out of E way bill

After introduction of GST, for quick and easy movement of goods across India without any hindrance, all the check posts across the country have been abolished. The E-way (electronic way) bill has envisaged one electronic way bill, to be carried by the person in charge of conveyance, providing for a hassle free movement of goods throughout the country. The e-way bill system, a web based solution designed and developed by National Informatics Centre (NIC), has been introduced nation-wide for all inter-State supplies with effect from 1 April 2018 and has been made compulsory for movement of goods of consignment value exceeding ₹ 50,000. As regards intra-State supplies, option was given to the States to choose any date on or before 3 June 2018. All the States have notified e-way bill rules for intra-State supplies, the last being NCT of Delhi where it was introduced with effect from 16 June 2018. Different threshold limits have been fixed by different States for generation of e-way bills for intra-state supplies.

1.5 Central Administrative Structure

The Department of Revenue (DoR) of Ministry of Finance (MoF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Indirect Taxes and Customs (CBIC⁶), and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of GST are looked after by the CBIC.

Indirect Tax laws are administered by the CBIC through its field offices, the Commissionerates. In view of implementation of GST, CBIC restructured its field offices into 21 Zones of GST headed by the Principal Chief Commissioner/Chief Commissioner vide circular dated 16 June 2017. Under these 21 Zones of GST, there are 107 GST Taxpayers Services Commissionerates that deal with GST and Central Excise, headed by the Principal Commissioner/Commissioner. Divisions and Ranges are the subsequent formations, headed by Deputy/Assistant Commissioner and Superintendents respectively. Apart from these Commissionerates, there are 49 GST Appeal Commissionerates, 48 GST Audit Commissionerates and 22 Directorates dealing with specific functions such as DG (Systems) for management of Information Technology projects and DG, NACEN for training needs.

⁶ formerly Central Board of Excise and Customs (CBEC).

1.6 The objectives of GST

It was envisaged that GST would subsume a number of indirect taxes presently being levied by Central and State Governments into a single tax, thereby reducing the cascading of taxes and providing a common national market for Goods and Services. GST was also expected to simplify the tax regime and result in better tax compliance and a non-intrusive E tax system due to a robust IT Infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, GST was to have an in-built mechanism in its design that would incentivise tax compliance by trader.

1.6.1 Mechanisms to achieve these objectives:

The key mechanisms to achieve the objectives of GST were: -

- Unifying multiple central and state taxes;
- Simplified tax structure by eliminating multiple tax rates and introducing simplified forms and procedures;
- IT enabled compliance, with system verified seamless flow of ITC credit forming the core of IT system, providing for a single IT interface for taxpayer and IT based tax administration.

1.6.2 Implementation status of envisaged mechanisms

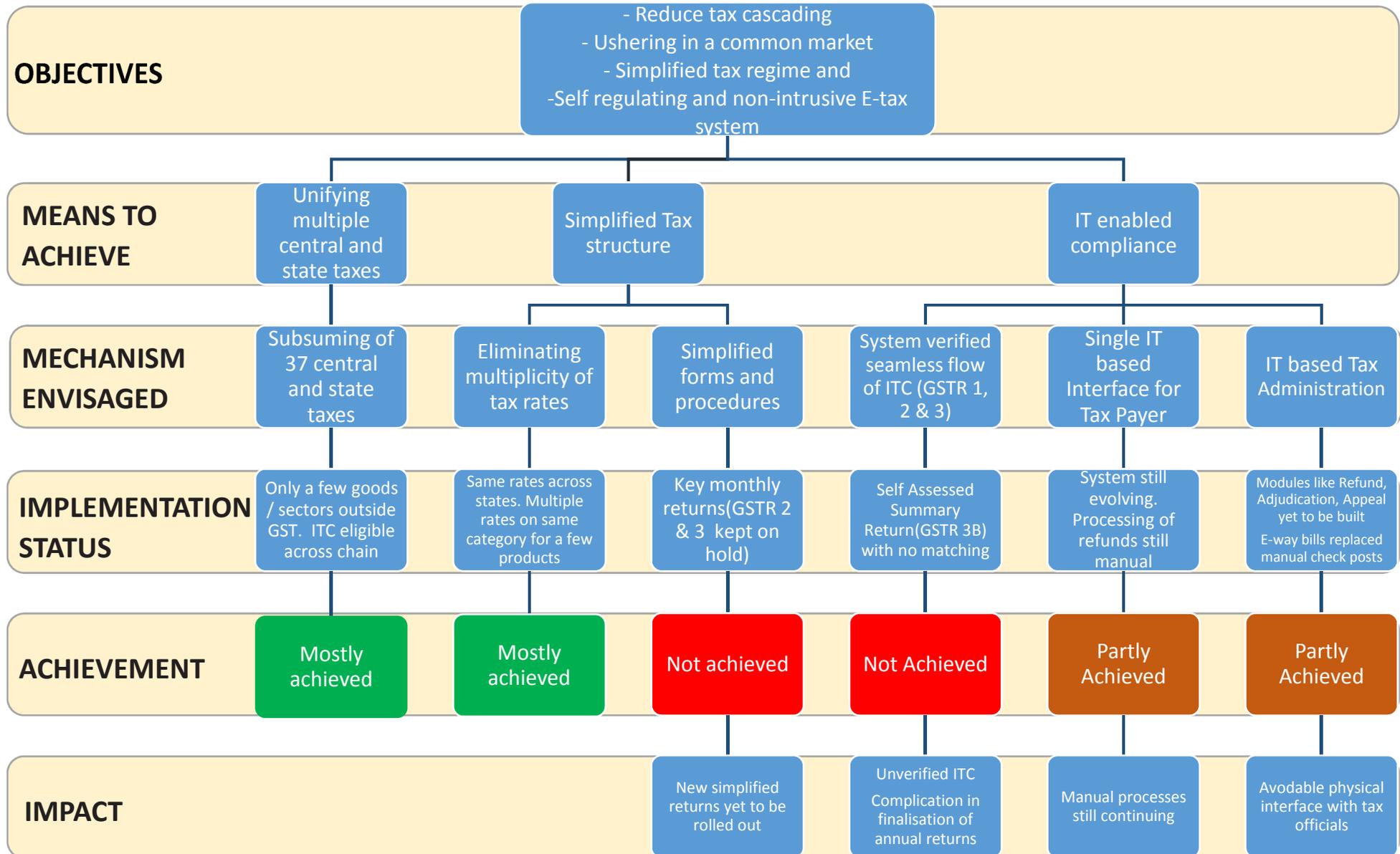
By the end of first month of roll out of GST (i.e. by 31 July 2017), 63.9 lakh taxpayers from Central Excise, Service Tax and VAT were migrated into the GST portal and 10.9 lakh taxpayers applied for new registrations. The tax payment functionality was available on the GST portal from the date of roll out of GST i.e. 1 July 2017. GST revenue amounting to ₹ 92,283 crore was collected in the first month i.e. July 2017 which included ₹ 14,894 crore of CGST, ₹ 22,722 crore of SGST, ₹ 47,469 crore of IGST and GST Compensation Cess of ₹ 7,198 crore.

51.4 per cent of the taxpayers filed GSTR-3B return for July 2017 by due date (28 August 2017). The monthly returns GSTR-1 and 2 were released on the portal by 1 September 2017.

But changes were made to the formats of the reports. Due dates for various key activities were postponed and GSTR-2 and 3 kept in abeyance. These changes were due to various factors like complexity of the formats or technical glitches on GST portal or the claimed lack of preparedness of stake holders and further changes triggered by these changes. As a result, GST System has remained a system still in the making even after nearly two years of roll out with the entire return mechanism undergoing major changes.

The chart No.1 maps the objectives of the GST with the mechanisms envisaged and their current status of implementation

Chart 1: Objectives of GST. extent of achievement and fall out



The following is the status of implementation of mechanisms envisaged under GST, as depicted in Chart No.1.

(a) Multiple taxes

The objective of subsuming multiple taxes has been mostly achieved with GST subsuming 37 different central and state taxes with ITC eligible across the value chain. Only a few goods / sectors have been kept outside GST, with a provision in constitutional amendment to subsume the major product viz. petroleum products as and when decided by the GST Council.

(b) Tax structure

GST ushered in a tax structure in which the same good or service has been subjected to same tax rate across the States. There are four major tax slabs right now (5 per cent, 12 per cent, 18 per cent and 28 per cent tax rates) with some luxury and sin goods in the 28 per cent slab such as cars, tobacco products, pan masala and aerated drinks, being further subject to GST Compensation cess. An indicative list of GST rates on goods and services has been given in **Appendix-I**.

There are a few products where the goods or services of same nature (i.e. same HSN / SAC code) attract multiple tax rates depending on the nature of the product or the unit value of the product as illustrated in table No.1 below:

Table No.1 : Multiple tax rates on same category of goods / services

Foot wear	Up to ₹1000 ₹ 1000 and above	5 per cent 12 per cent
Fiber	Silk and Jute Cotton and natural Manmade	Nil 5 per cent 18 per cent
Readymade apparel	priced below ₹1000 ₹ 1000 and above	5 per cent 12 per cent
Hotels and Lodges	Tariff Below ₹ 1000 ₹ 1000 - ₹ 2500 ₹ 2500 - ₹ 7500 ₹ 7500 and above	Nil 12 per cent 18 per cent 28 per cent

From the above table, it could be seen that goods or services of same nature have been subjected to multiple tax rates.

The GST Council, through its various meetings, reviewed the slab and rate structure from time to time. Since the inception of GST, CBIC issued 47, 30 and 9 notifications relating to changing of CGST rates in 2017, 2018 and 2019 (up to 31 March 2019) respectively. Similarly, 50, 31 and 8 notifications were issued changing IGST rates in 2017, 2018 and 2019 (up to 31 March 2019) respectively.

Thus, though the tax rate structure has been simplified as compared to pre-GST tax era, there is scope for further simplification.

(c) Returns prescribed

In GST, the taxpayers have to file a single return for all GST taxes viz CGST, SGST, IGST and GST Compensation Cess. The basic features of the return mechanism in GST envisaged electronic filing of returns, uploading of invoice level information, auto-population of information relating to ITC from returns of supplier to that of recipient, invoice level information matching and auto-reversal of input tax credit in case of mismatch. The returns mechanism was designed to assist the taxpayer to file returns and avail ITC. The various returns prescribed in GST have been detailed in **Appendix-II**.

The GST Council announced (July 2018) that a new simplified return mechanism would be implemented with effect from 1 January 2019. These new simplified forms were yet to be rolled out (June 2019). The very need for simplifying the returns indicates that the initially designed forms and the supporting IT features were not in line with the objective of a simplified tax regime.

(d) System verified seamless flow of ITC

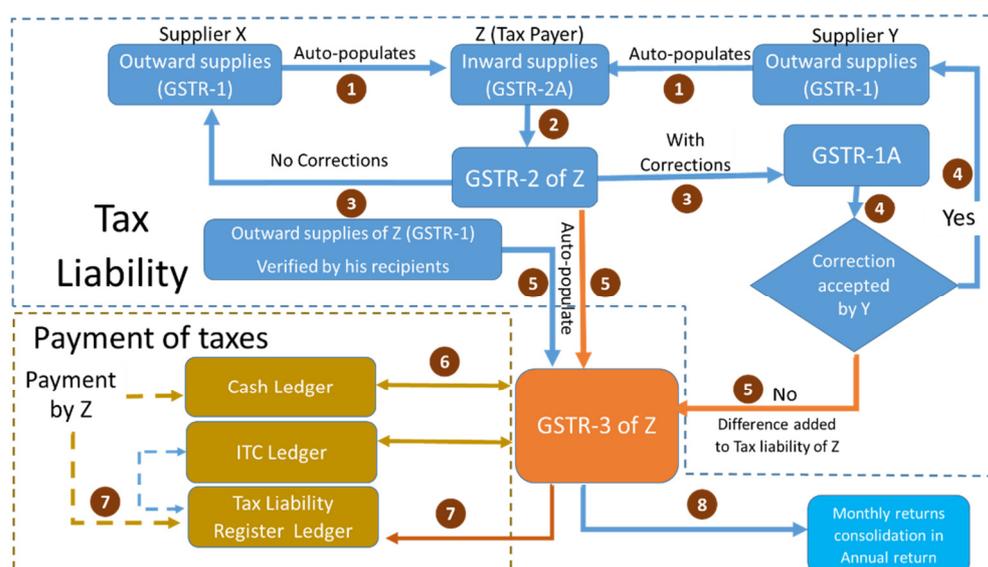
The system verified seamless flow of ITC was envisaged to be achieved through the returns GSTR 1, 2 & 3. It was originally envisaged that suppliers would file invoice-wise details of outward supplies made by them during the month through GSTR-1. The details of outward supplies so furnished by the supplier in GSTR-1 were to be made available electronically to the registered recipients through form GSTR-2A. Similarly, details of supplies relating to composition taxpayers, Input Service Distributors and Non-Resident taxpayers as well as Tax Deducted at Source (TDS) by Government departments / agencies and E-commerce operators also were to be made available electronically to the recipients. Thereafter, based on details available in form GSTR-2A, the taxpayer was supposed to furnish form GSTR-2 after including details of other inward supplies.

The details of inward supplies added, corrected or deleted by the recipient in his form GSTR-2 were to be made available to the supplier electronically in form GSTR-1A through the common portal. The supplier may either accept

or reject the modifications made by the recipient and Form GSTR-1 furnished earlier by the supplier should stand amended to the extent of modifications accepted by him.

GSTR-3 is a monthly return with the details of sales and purchases during the month along with the amount of GST liability. Most of GSTR-3 was supposed to be auto-generated from GSTR-1 and GSTR-2 while the taxpayer had to include the details of discharge of liability of tax, interest, penalty, refund claimed from electronic cash ledger and debit entries in electronic cash/credit ledger while filing GSTR-3. The flow of data and auto population of details in GST monthly returns as originally envisaged, has been shown pictorially in chart No.2 given below:

Chart No.2: GST Returns as originally envisaged



NB: Similarly details from GSTRs-4, 5, 6, 7 and 8 representing supplies from composition taxpayers, Non-Resident taxpayers, Input Service Distributors, Tax Deducted at Source (TDS) by Government departments / agencies and TDS by E-commerce operators respectively were also to auto-populate GSTR-2A of recipient. Only GSTR-1 has been shown in the above flow chart for illustrative purposes.

While this was the system originally envisaged and designed, the due dates of these key returns were postponed, a fortnight before launch of GST quoting lack of familiarity of the trade and apprehensions expressed with regard to the system readiness, as informed to the 17th GST Council meeting held on 18th June 2017. It was also informed to the Council in the same meeting that though the systems were ready for roll out of GST from 1st July 2017, trade and industry, specifically from the banking, civil aviation and telecom sector had requested for some more time to test the systems, get themselves familiarised and get assurance about the stability and robustness of the

system. It was further stated that though GSTN was ready, big businesses and their Enterprise Resource Planning (ERP) software were not ready and that GST Suvidha Providers (GSPs) needed time to test the software.

However, this contention is not fully justified. GSTN was formed in March 2013, the constitutional amendment to bring in GST was passed in September 2016 and it was announced in January 2017 that GST would be implemented from 1st July 2017. Even before the constitutional amendment was passed, the Empowered Committee of Ministers (ECM) had started working on the model GST Acts and business processes and the first model GST Act was placed in public domain in June 2016. The Business Process Documents on Registration, Payment, Registration and Refund were also placed in public domain during April 2015 to October 2015. The GST model laws were prepared by Nov 2016 and Acts passed by Parliament in April 2017. The Draft Rules on Returns, Registration, Payments, Refunds, Invoice initially prepared in Sep 2016 and the next version of draft rules duly adding ITC, Transition, Valuation and, Composition were finalised in March 2017 and approved by Council in May 2017. The draft forms (Invoice, Payments, Registration, Refund, Return and Mismatch) were finalised in Sep 2016 and further set of draft forms covering Composition, ITC, Payment, Refund and Registration were finalised in May 2017. Final rules and forms were notified on 19 June 2017.

GST is a major tax reform and Government had made its intent very clear that GST would be rolled out from 1st July 2017. Under the circumstances, it was expected that the system design would be firmed up well in advance and that the system would be robust enough to take care of changes. Even though the rules and formats were finalised very close to the roll out date, it is equally true that enough preparation could have been done on the basis of draft rules, and fine-tuned on the basis of finally approved rules.

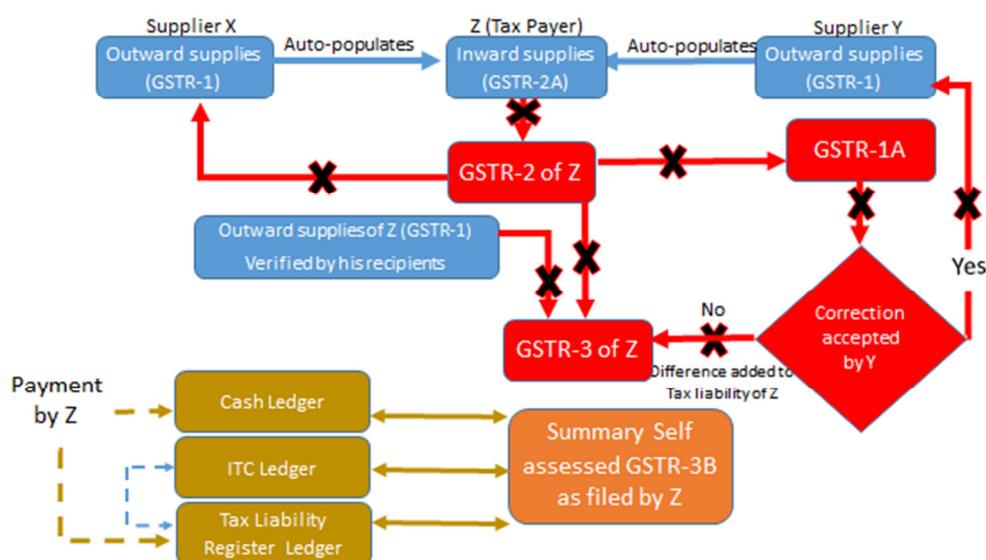
The GST Council approved (June 2017) GSTR-3B, a simpler temporary measure for two months citing lack of preparedness of industry and GSPs. GSTR-3B was designed as a self-assessed summary return which captured summary of outward supplies and inward supplies liable to reverse charge. ITC was being settled based on these self-assessed summary returns filed by taxpayers. This temporary return, initially introduced for two months, has been continued till date and GSTRs-2 and 3 have been kept in abeyance. As a result the key mechanism of system verified ITC and invoice matching was not achieved. As on date ITC as reported by the taxpayer in the summary return is used for further transactions.

In July 2018, i.e. one year after introduction of GSTR-3B putting GSTRs-2 and 3 on hold, the GST Council announced that a new simplified return

mechanism would be implemented from 1 January 2019. The new return mechanism is yet to be finally rolled out (June 2019), which is two years after introduction of GSTR-3B as a temporary measure. With the delay in framing a revised return mechanism, the summary return GSTR-3B, which is more of a self-declaration continued since the roll out of GST instead of the system-generated return based on verified invoices.

The processes and returns kept in abeyance have been shown in red colour in the flow chart No.3 depicting current status of returns.

Chart No.3: Current status of Key GST Returns



Currently, the IT system only captures the outward supplies as filed by supplier in GSTR-1, which can be viewed by recipient in GSTR-2A. The further processes of verification and correction of supplies by the recipient through GSTR-1A and 2 and the monthly return GSTR-3, based on matched invoice details, have been kept in abeyance.

The sequence of events clearly points to the complexity of the format and the design of the original returns.

(e) Impact of keeping GSTRs-2 and 3 in abeyance

- **Unverified ITC**

ITC claimed by the taxpayers was not system verified and ITC ledger was getting auto populated based on un-verified ITC flowing from self-assessed summary monthly return (GSTR-3B) filed by the taxpayers.

- **No self-regulating system**

As ITC and monthly returns were not based on system-verified details, the self-regulating system was not in place. Further, in the originally envisaged

returns mechanism, it could be verified if the suppliers have paid their overall tax liability as emanating in GSTR-3 from the matched outward and inward supplies, as taxpayer had to furnish payment details while filing GSTR-3. No such check could be in-built into the summary self-assessed GSTR-3B.

- **Manual check of details in returns**

In the absence of a self-regulating system, data analytics and Business Intelligence tools were being used by the tax departments to cross check data available in GSTRs 1 and 3B as well as E-way bill data. Information or clarifications had to be sought from the taxpayers in the manual form. This is disadvantageous to the taxpayers also as they have been denied a chance to get details in GSTRs-1 filed by their suppliers modified or rectified while such information was being used for verification.

- ***Roll out without key safeguards made the system vulnerable***

There were several reports of detection of fraudulent ITC claims made by certain taxpayers including use of fake invoices to claim ITC. Thus, partial roll out of GST IT system withdrawing key control mechanisms originally envisaged, without any other safeguards or impact assessment, made the system vulnerable.

- **Impact on annual returns**

The Annual return was to contain crucial information like the details of outward and inward supplies, ITC declared in returns and details of tax paid. It also has other information like demands and refunds, supplies received from composition taxpayers and HSN wise summary of outward and inward supplies.

The discontinuation of GSTR-2 and 3 has complicated the process of filing annual returns as very limited data from GSTR-2A and 3B would auto populate the annual return. The taxpayers are required to tally the data available in GSTR-1 being filed with their GSTR-3B before finalising the annual return.

It was originally envisaged in the GST Acts that the annual return pertaining to a financial year would be filed by the following 31 December. The due date for annual return of 2017-18 has been extended from time to time and the date has been finally extended to 31st August 2019.

It was envisaged in the GST law that any unmatched credit in the monthly returns should be rectified only up to the filing of annual return or filing of return for the month of September of the financial year whichever is earlier. The last date for claiming ITC on invoices relating to Financial Year 2017-18 originally was September of the financial year or submission of annual

returns whichever is earlier. Thus with the extensions, the utilisation of ITC as well as finalisation of returns of 2017-18 continue to remain open-ended.

- **Incomplete IGST settlement**

All the details required for IGST settlement or apportionment could not be captured in GSTR-3B, being a summary return introduced as a stop-gap arrangement initially. This has been detailed in the findings of IT audit of GSTN (**Paragraph 3.22 of Chapter III refers**).

When we pointed out the absence of key aspects in GST Return mechanism, resulting in the system being still a system still in the making (March 2019), the Ministry stated (April 2019) that the GST Council recommended to do away with the steps like invoice matching as a concessionary measure to give more time to the trade and industry to adjust to the new regime. They also informed that parallelly, the Government introduced alternative mechanisms to plug revenue leakages through data analytics and Business Intelligence (BI) tools. Though envisaged as a self-correcting system, the Ministry has held that due to difficulties to trade and industry, the system was being fine-tuned.

Thus, the self-correcting system, as originally envisaged, was not in place and this led to continuation of avoidable assessee-tax officer physical interface instead of IT based interface. This goes against the objective of reducing the avoidable physical interface to minimum, if not eliminated completely.

(f) Other envisaged self-policing mechanisms

- ***Non-implementation of reverse charge mechanism for supplies by unregistered person***

Generally, the supplier of goods or services is liable to pay GST. However, in specified cases, the liability to pay tax is on the recipient of supply of goods or services instead of the supplier, which is called the reverse charge. The GST Acts provide that wherever a registered person procures supplies from an unregistered supplier, the registered person needs to pay GST on reverse charge basis.

Initially⁷ (June 2017) the supplies received by a registered person from any or all the unregistered suppliers up to five thousand rupees in a day have been exempted from reverse charge. However, all categories of registered persons were exempted⁸ (October 2017) from the provisions of reverse charge on supplies by unregistered persons till 31 March 2018 initially. Such exemption

⁷ Notification No.8/2017-Central Tax(Rate) dated 28 June 2017.

⁸ vide notification no.38/2017-Central Tax (Rate) dated 13 October 2017, (corresponding IGST notification no.32/2017-Integrated Tax (Rate) dated 13 October 2017).

was extended⁹ from time to time up to 30 June 2018, 30 September 2018 and finally up to 30 September 2019.

The rationale for introduction of RCM and the impact of its subsequent deferral needs to be examined before further changes in this mechanism are made.

- **Tax Deduction at Source**

Section 51 of the CGST Act, 2017, provided for Tax Deduction at Source (TDS) by the Government departments, Local authority and the Governmental agencies. TDS is applicable for payments above ₹ 2.5 lakh.

TDS provisions were postponed from time to time. The reasons for this postponement, as mentioned in the 18th GST Council meeting minutes, were lack of preparedness of the Government agencies to deduct TDS and the need for TDS to be linked to fund settlement mechanism of respective States. It was also pointed out that since GSTR-2 was not getting filed, the TDS benefit could not be passed on to the taxpayer.

TDS provisions were finally made operational from 1 October 2018. Tax deductors were supposed to file a return by 10th of the succeeding month. However, the due date for this return for the months of October 2018 to December 2018 was extended¹⁰ to 31 January 2019 stating that certain operators were unable to obtain registration because of technical issues being faced by them on GST Portal.

TDS data could be used to arrive at the turnover of suppliers, at least where supplies were made to the Government and thereby, identify non-registrants and tax evaders. Given the glitches being faced and the fact that tax collection is a function of tax department and not all the government departments, it is recommended that Government may review implementation of TDS and consider alternative ways of achieving what is sought to be achieved through TDS. For instance, having a Service Tax registration was made compulsory for a bidder providing consultancy and other services to government. Similarly, by making GST registration compulsory for providing goods or services above a certain threshold to Government, real time analysis of the other data of payments made by Government departments to its suppliers and similar methods that Government may identify might serve the same purpose as this whole process of TDS.

⁹ Notifications No. 10/2018–Central Tax (Rate) dated 23 March 2018, No. 12/2018–Central Tax (Rate) dated 29 June 2018 and No.22/2018–Central Tax (Rate) dated 6 August 2018.

¹⁰ Order No.4/2018–Central Tax dated 31 December 2018.

(g) Partially rolled out GST Portal

For implementing the project, GSTN prepared Project Management Plan in which various use-cases¹¹ and functionalities of different modules were planned with timelines for implementation. The implementation of GST portal was conceived to be implemented in three phases as discussed below.

Phase-I

Phase-I consisted of taxpayer registration, taxpayer registration approval, Invoice upload, Payments, Return, Input Credit reconciliation, IGST Settlement, MIS Reports, System Administration, Security Management and Help Desk.

The functionalities for this phase of the project, as envisaged in the Software Requirement Specifications (SRS), were initially categorised into 184 use cases targeted to be completed over a period from January 2017 to August 2017. However, only 35 functionalities of Phase-I were in production environment at the time of GST roll out as on 1 July 2017. Out of the 184 use cases, 25 use cases were not in production as of January 2019. GSTN informed (January 2019) that 12 of these 25 use cases were de-scoped, 11 were moved to Phase-II and two cases pertaining to Annual Returns (forms notified in September 2018) were work-in-progress. The de-scoped use cases were primarily those related to GSTR-3 returns (held in abeyance) and those which had become redundant due to changes in law/rules.

Phase-II

Phase-II consisted of Assessment, Refund, Adjudication and Appeal, Audit and investigation, Recovery and Write-off (for 27 States / UTs).

Total 122 use cases covering various functionalities of this Phase were planned to be taken into User Acceptance Testing¹² (UAT) environment over a period starting from January 2017 to March 2019. SRS for most of these modules, however, were signed off between January and September 2018 and SRS of two modules (MIS and Audit) was yet to be signed off. 103 use cases of this Phase were to be taken into UAT environment by October 2018. However, we noticed that only 87 use cases were implemented as of January 2019.

These delays had an impact on implementation of GST which could be clearly seen in case of the refund module as detailed below: -

¹¹ A use case is a list of actions or event steps typically defining the interactions between a role and a system to achieve a goal.

¹² UAT is the last phase of the software testing process. During UAT, virtual software users test the software to make sure it can handle required tasks in real-world scenarios, according to specifications.

The module for processing the refund of **IGST paid on export of goods outside India**, with linkage between Customs IT system and GST portal was provided during September- October 2017. But **for the other categories of refunds**, it was originally envisaged that taxpayer would file Refund application on GST Portal, the application filed would be made available to tax officers online and the entire processing of refund would be automated. However, **as refund module was not provided on GST portal, it was decided (October 2017) that the application pertaining to refund claim should be filed and processed manually**. Hence, a workaround was created by developing a functionality RFD-01A to facilitate taxpayers to file refund applications on GST Portal and give a print out to the jurisdictional tax officer for manual processing, **necessitating avoidable interface with tax officer instead of a faceless IT interface, which defeated the original purpose of having non-intrusive E-Tax system**.

The refund application that could be transferred online to the tax officer, as originally envisaged, was made available on the GST portal for one category of refunds (viz. Exports of services- With payment of Tax) in October 2017 and for the remaining seven categories¹³ during August to October 2018. **The back office module relating to online processing of refunds was not ready (May 2018)**.

As per the phase wise implementation plan of GSTN, the crucial module of refund was originally planned for phase II. On the recommendation of the GST Council and the instructions of the GoI, the work on Refund functionality was commenced along with Phase I. As the module was not ready, however, manual processing of refunds continued.

The automated refund application which would be made available online to tax officer, was introduced in most of the cases more than one year after the roll out of GST, while the processing of refunds was still being done manually except refund of IGST paid on export of goods. This pointed towards the faulty planning of Refund module.

¹³ (i) Excess balance in Electronic Cash ledger, (ii) Exports of goods / services- Without payment of Tax, i.e., ITC accumulated, (iii) On account of assessment/provisional assessment/ appeal/ any other order, (iv) ITC accumulated due to inverted tax structure, (v) On account of supplies made to SEZ unit/ SEZ Developer (with payment of tax), (vi) On account of supplies made to SEZ unit/ SEZ developer (without payment of tax) and (vii) Tax paid on an intra-State supply which is subsequently held to be inter-State supply and vice versa (change of POS).

Phase III

Phase-III consisted of BI, Management Dashboards and Dynamic Reporting.

M/s. Infosys, the Managed Service Provider of GSTN, was to deliver 50 BI reports based on statistical analysis which were to be made available to 500 users from the States/UTs and CBIC. The reports were to be based on analysis of return, registration, payment and e-way bill data to identify anomalies in database and comparison of data like GSTR-1, GSTR-3B, e-way bill data to find out ITC mismatch and other anomalies. As per Request for Proposal (RFP), the execution plan of BI was to be finalised based on the requirement for reports. GSTN was in the process of identifying the required BI reports as of October 2018 and hence, the execution plan was under preparation stage only, with no timelines finalised for implementation.

Response of GSTN to partial roll out of GST portal and our comments

When we pointed out (November 2018) the status of phase-wise implementation of GST portal, GSTN stated (January 2019) that GST was to be rolled out from July 2017 and there were changes subsequent to signing-off of SRS in December 2016. Therefore, implementation of the functionalities of Phase-I was re-prioritised. For both Phases I and II, in view of the frequent changes in rules, notifications and decisions of the GST Council, Change Requests (CR) were planned and implemented in the GST portal on a continuous basis.

The reply of the GSTN should be seen in light of the following facts :-

- i. There had been no inadequacy as far as funding and hired human resource capacity was concerned.
- ii. Scope for fast and recurring changes in the rules / forms and consequent changes in enabling IT system was expected and should have been factored into the project governance system to ensure smooth transitioning of the current indirect tax regime to the GST regime.
- iii. Deficiencies were noticed in the implemented systems and also in the changes made thereafter as could be seen from the findings of the 'IT audit of GSTN' reported in Chapter II of this report. Deficiencies pointed by this audit remained unaddressed in some cases even after corrective action was reported by GSTN.
- iv. GSTN management was given independence to fix its own timelines for implementation of functionalities within the broad timelines for the activities given by the GST Council / the Government.

GSTN in its response endorsed by DoR (June 2019) stated that the preparation of IT Business Processes of Registration, Payment and Return had started on the basis of draft Business Process Document and Model GST Acts, which were provided during April to October 2015 and June 2016. Thereafter, GST Rules were placed in the public domain in December 2016 and January 2017. These were not complete rules and the same were published for comments of the public. After receiving feedback from the taxpayers and tax consultants, and other stakeholders, these rules had undergone changes. Therefore, significant changes in the processes that were provided in 2015 and June 2016 were inevitable. Though GSTN had done proper planning and monitoring mechanism were in place, however, due to evolving nature of Law and rules there has been revision in the plan.

It was also stated that they had successfully implemented IT processes of a complex GST system and had integrated with different systems of tax departments, banks, accounting authorities and other stakeholders.

Audit holds that delays and changes are not entirely unexpected for a system as complex as GST. An organisation of GSTN has been created exclusively for the purpose of providing IT backbone for GST in March 2013 and has been in existence for four years before actual roll out of GST. Hence it would be assumed that they were preparing for this mammoth tax reform. *GSTN attributing delays in system development to frequent changes in Act / Rule provisions indicated that the evolving nature of GST was not factored into the project management.* Taxpayers, especially exporters suffered due to GST refunds being held up, which was due to faulty planning of Refunds module.

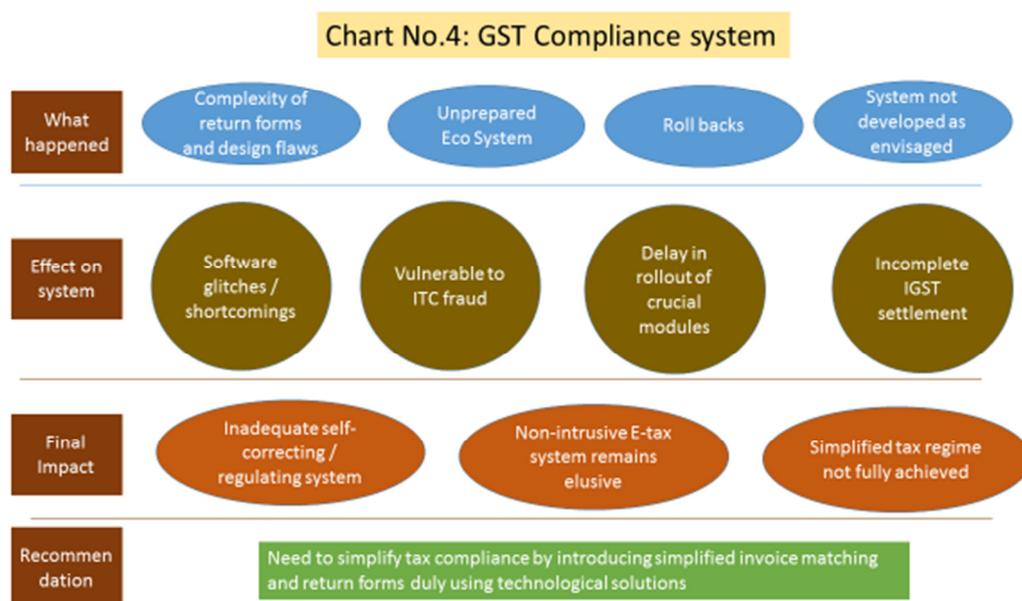
The efficiency of the system is the combined responsibility of all stake holders involved in its development. The implementation and progress of GST was also being regularly monitored by DoR, which was aware of the timelines for GST roll out. Inadequacies in the system show that there was a failure in not just system design but its testing by GSTN and acceptance by the tax departments before a pan-India roll out. As such, the executive who have endorsed the system as developed is equally accountable for the problems being faced.

1.6.3 Conclusion and Recommendations:

The implementation of GST in India is perhaps the biggest tax reform in the world and the effort made by all the stake holders, including the Central Government, the State Governments, DoR, CBIC, GSTN, MSP and those of businesses which were ready, that made it possible is commendable. The advent of GST has provided a common national market for goods and services and paved the way to reduce tax cascading by providing ITC across the value chain of supply of all goods and services barring a few goods /

sectors kept outside the ambit of GST. GST ushered in uniformity in tax rates as well as formats of registration forms, returns and challans across the country. E-way bills have by and large replaced the manual check posts.

One significant area where the full potential of GST has not been achieved is roll out of the simplified tax compliance regime. The chart No.4 below explains what happened on GST front and how it impacted the GST Compliance system:



The complexity of return mechanism and the technical glitches resulted in roll back of the originally envisaged system-verified ITC based on invoice matching, using GST returns (GSTRs-1, 2 and 3). The summary self-assessed GSTR-3B return, introduced as a stop-gap measure has continued. Thus the system as in vogue today is an unverified return, without an IT based checking of invoices and is prone to ITC frauds. The self-correcting system, as originally envisaged, is not in place and this has led to continuation of avoidable assessee-tax officer physical interface instead of IT based interface. Without invoice matching and auto generation of refunds, assessments etc. on the whole, the envisaged GST tax compliance system is non-functional.

The settlement of IGST to the States also is impacted as the IGST settlement reports were linked to data flowing from returns and also from modules such as appeals and refunds.

Overall, when a major system change was on the anvil and was being thought about for quite some time, it was expected that all involved would be geared up enough to make this change possible. It is understood that a major transformation in the tax administration with Pan-India impact may have a few initial problems. The adherence to the business rules and the system design are the responsibility of DoR, CBIC, State Tax authorities and GSTN.

The extent of changes, having to be now undertaken, as well as the suspension of the key aspects of the system, however, points to inadequate co-ordination among the stake holders such as DoR, CBIC and GSTN as well as failure to try out the system adequately before roll out. The GST portal, to the extent implemented, was not fully aligned to the provisions of GST Acts and Rules and was fraught with operational deficiencies and system design deficiencies in certain areas as brought out in our IT audit findings reported in Chapter III of this report.

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

Chapter II : Revenue and return filing trends

This chapter deals with the analysis of GST revenue of the Government of India, accounting of IGST and the return filing trends.

2.1 Revenue trend

2.1.1 Overall resources of Government of India

Tax revenue of the Union Government consisted of revenue receipts from Direct and Indirect Taxes. In the pre GST regime, Indirect Taxes comprised of Central Excise, Service Tax and Customs duties. After the implementation of GST, service tax and duties of Central Excise other than Petroleum products have been replaced with GST. Central Excise was continued to be levied on petroleum products and tobacco has been subjected to GST as well as Central Excise. The overall tax revenue of the Union Government for 2016-17 and 2017-18 has been given in table No.2 below :-

Table No. 2 : Resources of the Government of India

Tax component	(₹ in crore)	
	2016-17 (Pre GST)	2017-18 (Post GST)
A. Total Revenue Receipts	22,23,988	23,64,148
<i>i. Direct Tax Receipts</i>	8,49,801	10,02,738
<i>ii. Indirect Tax Receipts including other taxes</i>	8,66,167	9,16,445
<i>iii. Non-Tax Receipts</i>	5,06,721	4,41,383
<i>iv. Grants-in-aid & contributions</i>	1,299	3,582
B. Miscellaneous Capital Receipts	47,743	1,00,049
C. Recovery of Loans and Advances	40,971	70,639
D. Public Debt Receipts	61,34,137	65,54,002
Receipts of Government of India (A+B+C+D)	84,46,839	90,88,838

Source: Union Finance Accounts of respective years.

The overall receipts of the Union Government increased by ₹ 6,41,999 crores in 2017-18 over 2016-17. The share of Indirect taxes in total revenue receipts remained almost constant, accounting for 38.76 per cent in 2017-18, as compared to 38.95 per cent in 2016-17. The Indirect taxes registered a growth of 5.80 per cent in 2017-18 over 2016-17, while this growth rate was 21.33 per cent during 2016-17. The details of GST revenue have been discussed in succeeding paras :-

2.1.2 GST revenue of Government of India : Budget estimate vs actual receipts

The table No.3 below depicts a comparison of the Budget Estimates and the corresponding actuals for GST receipts.

Table No.3 : Budget, Revised estimates and Actual receipts (GST)

(₹ in crore)

Year	Budget Estimates (BE)			Revised Estimates (RE)			Actual		
	CGST	IGST	Cess	CGST	IGST	Cess	CGST	IGST	Cess
2017-18	No BE. Only RE.			2,21,400	1,61,900	61,331	2,03,261	1,76,688*	62,612
2018-19	6,03,900	50,000	90,000	5,03,900	50,000	90,000	4,57,535#	28,947#	95081#

Source: Union Finance Accounts and receipt budget documents of respective years.

* ₹ 67,998 crore assigned to the States and balance ₹ 1,08,690 crore retained by the Centre

March 2019 provisional figures as available on CGA website.

As could be seen from table 3 above, the CGST revenue was short of the estimates and the provisional figures of 2018-19 also indicate that CGST revenue did not meet the target of RE which is reduced by One lakh crore rupees as compared to original BE of CGST. The details of IGST are discussed in succeeding para.

2.1.3 Accounting and treatment of IGST

IGST, a levy on inter-state supplies and import / export of goods and services, is levied and collected by the Government of India and apportioned between the Union and the States as prescribed in the IGST Act. IGST is initially collected under Major Head 0008 in Consolidated Fund of India and then once taxpayer uses this as ITC to pay CGST / SGST / UTGST on further supply (here in after referred to as ITC cross utilisation), the amount is transferred from IGST to relevant head of account viz. CGST / UTGST under CFI or to SGST head of State Government concerned. Also, when ITC of IGST is rendered ineligible for further utilisation for any reason or gets lapsed (breaking the ITC chain), the same shall be apportioned between the Union and the States. The ITC Cross utilisation and apportionment amounts are arrived at every month using an algorithm that runs on GST portal based on returns filed.

As per the accounting procedure for IGST, the collections under IGST are to be booked under Major Head 0008 which has Sub Major Heads '01' for booking IGST on Import / Export of Goods and Services and '02' for IGST on Domestic Supply of goods and services. Minor heads are also available under these heads to capture ITC Cross utilisation as well as apportionment of IGST to CGST, SGST and UTGST separately.

The gist of entries booked under the Major Head 0008 IGST in the Finance Accounts of the Union Government for the year 2017-18 is given in table No.4 below :-

Table No.4 : Bookings under Major Head 0008- IGST

(₹ in crore)			
Description	0008-01 IGST on Import / Export of Goods and Services	0008-02 IGST on Domestic Supply of goods and services	Total
Collection during the year	2,02,141	1,80,485	3,82,626
ITC Cross utilization	Nil	(-)1,45,350	(-)1,45,350*
Apportionment of IGST	Nil	(-)25,587	(-)25,587*
Balance after settlement and apportionment	2,02,141	9,547	2,11,688
Advance apportionment	Nil	(-)35,000	(-) 35,000
Balance after advance apportionment	2,02,141	(-) 25,453	1,76,688
Share assigned to the States (Devolution)	(-) 67,998	Nil	(-)67,998
	1,34,143	(-)25,453	1,08,690

*Correctness of IGST settlement and apportionment are subject to the inaccuracies and deficiencies in IGST settlement / apportionment algorithm, identified as part of findings of IT audit of GSTN, have been reported in Chapter III of this report.

As could be seen from table No.4, against a collection of ₹ 1,80,485 crore under Sub Major Head 02 (IGST on Domestic Supply of goods and services), ₹ 1,45,350 crore was transferred out of IGST on account of ITC cross utilisation and ₹ 25,587 on account of apportionment, leaving a balance of ₹ 9,547 crore after these adjustments.

No adjustments on account of apportionment or ITC Cross utilisation were made from the sub major head 01 (IGST on Import / Export of Goods and Services), though an amount of ₹ 2,02,141 crore was collected during the year. The deficiencies in IGST algorithm on account of non-utilisation of data of imports and refunds have been commented upon as part of our observations on IT audit of GSTN (**Part C of Chapter III of this report refers**).

Owing to the huge unsettled balance in IGST, the GST Council in its 25th meeting held in January 2018 recommended advance settlement of ₹ 35,000 crore to the Centre and the States on provisional basis. This advance

settlement was done taking the 2015-16 revenue of the States from the taxes subsumed into GST as the basis and was proposed to be adjusted in ten equal instalments against regular settlement due to the States in 2018-19.

After this advance settlement, there was a balance of ₹ 1,76,688 crore left in IGST at the end of the year. GoI has devolved ₹ 67,998 crore under IGST to the States/UTs adopting Finance commission formula for devolution of central taxes. ***Devolution of IGST is in contravention of the provisions of Constitution of India as Article 270 (1) of the Constitution excludes duties levied under Article 269 (A) (i.e. IGST) from list of taxes and duties to be distributed between the Union and the States.*** When the Ministry sent the accounting procedure for IGST to CAG for approval, the procedure for advance apportionment of IGST to the Centre and the States, as recommended by the GST council was agreed to by the CAG. But the procedure for devolution was not agreed to by the CAG stating that devolution of IGST was against the provisions of Constitution of India.

Further, devolution of funds using Finance Commission formula also has the impact of distribution of IGST funds among the States in a manner quite different from the ratio in which funds would have gone to the States in normal course as ITC cross utilisation or apportionment is based on Place of Supply concept.

When we pointed this out (April 2019) the Ministry of Finance intimated (May 2019) that in 2017-18 devolution of IGST was done, pending finalisation of accounting procedure for accounting of IGST balance, after taking formal opinion from Department of Legal Affairs, Ministry of Law and Justice. It further stated that Section 49 (5) of the CGST Act has been amended (August 2018), which provided that the ITC of IGST to be utilised first and then only to utilise ITC of CGST and SGST to pay CGST/SGST. This was done to ensure faster settlement of IGST. Ministry further stated that during 2018-19, the balance IGST has not been devolved as was done in 2017-18 and IGST balance available after regular settlement and refund is being apportioned provisionally.

The reply of the Ministry is silent on the aspect of corrective action taken by it for setting right the IGST amount devolved during the year 2017-18. Steps like amendment of Section 49 (5) of IGST Act providing for faster utilisation of IGST and provisional settlement of IGST balance during 2018-19 will only impact the settlement of IGST from 2018-19 onwards. The reply of the Ministry was also silent on the aspect of impact on state revenues due to adoption of Finance Commission formula for distribution of IGST balance.

It would be pertinent to mention here that in CAG's report on Account of the Union Government (Report No.2 of 2019), tabled in Parliament on 12

February 2019, it was advised that GoI needed to account for its share correctly and devolution should take place from Central share only and that the remaining 50 per cent should be apportioned to the States as per IGST Act. In view of this, the States' share of IGST should be accounted for properly, duly booking the subsequent adjustments as the Centre's expenditure.

2.1.4 Comparison of indirect tax revenue on goods and services

To compare the indirect tax collections of GoI pre and post GST on goods and services, as shown in table No.5 given below, we considered revenues pertaining to all the components of central taxes subsumed into GST Viz.

- For 2016-17 : Subsumed components of Central Excise, Service tax and Customs duties of CVD and SAD of 2016-17 and
- For 2017-18 : CGST, UTGST and the Centre's share in year-end IGST balance for 2017-18 besides the subsumed taxes collected in the first quarter of 2017-18 as well as collection of arrears relating to the subsumed taxes during the remaining period of 2017-18. The IGST balance is the share retained by the Centre after devolution to the States.

GST revenue for March was due in April, while March revenue was payable in March itself in case of Central Excise and Service Tax. Hence for a reasonable comparison of revenue growth of indirect taxes, we considered the Centre's March 2018 GST revenue collected in April 2018 also as shown in column 4 of table No.5 given below: -

Table No.5 : Comparison of indirect tax revenue on goods and services

(₹ in crore)

Tax components	Year		
	2016-17	2017-18	2017-18*
Central Excise on Goods other than Petroleum and Tobacco	1,16,901	9,034	9,034
Service Tax	2,54,499	81,229	81,229
Central GST Taxes (CGST and UTGST)	0	2,04,896	2,37,075
IGST**	0	1,08,690	1,08,690
CVD and SAD of Customs	1,51,927	43,092	43,092
Central Sales Tax	495	102	102
Subsumed items revenue	5,23,822	4,47,043	4,79,222
Revenue difference for GST subsumed items in 17-18 over 18-19		-76,779	-44,600
Revenue difference for GST subsumed items in 17-18 over 18-19 (per cent)		-15	-10

* Including March 2018 GST collected in April 2018

** year-end balance retained by the Centre, as explained in para 1.7.4

As can be seen from the table above, post implementation of GST, the revenue on goods and services (excluding central excise on Petroleum and Tobacco) registered a decline of 15 per cent in 2017-18 as compared to revenue of subsumed taxes in 2016-17. Even after considering the March 2018 revenue of CGST collected in April 2018, the decline in revenue has been to the extent of 10 per cent. Reasons for such decline in revenue, if analysed and any action taken based on such analysis were called for from the Ministry and the reply was awaited.

2.1.5 Short Transfer of Compensation Cess to Public Account

As per the provisions of Article 266 of the Constitution of India, the GST Compensation Act and the accounting procedure for Compensation Cess as agreed to by the CAG of India, the compensation cess should be transferred to the Public Account. However, from the Finance Accounts 2017-18, it was noticed that there was a short transfer of ₹ 6,466 crore of Compensation Cess to the Public Account. It was further noticed that as per the agreed accounting procedure, GST Compensation Cess should be transferred to the Public Account by debiting major head 2047-Other fiscal services, Minor Head 797-Transfer to reserve fund. However, as per the Finance Accounts 2017-18, no such entry was found in the major head 2047.

The reasons for the same were called for (February 2019) from the Ministry and their reply was awaited.

2.1.6 Transition Credit, Refunds and Cost of collection

The Statistics on (a) Transitional credits, (b) Refunds claimed by taxpayers, processed and pending and (c) Cost of collection have not been provided by the Ministry. Hence we could not analyse the same and include in this report.

2.2 GST Registrations

2.2.1 Pan-India GST Registrations

The category-wise registrations under GST have been given in table No.6 below :-

Table No.6 : Details of registrations

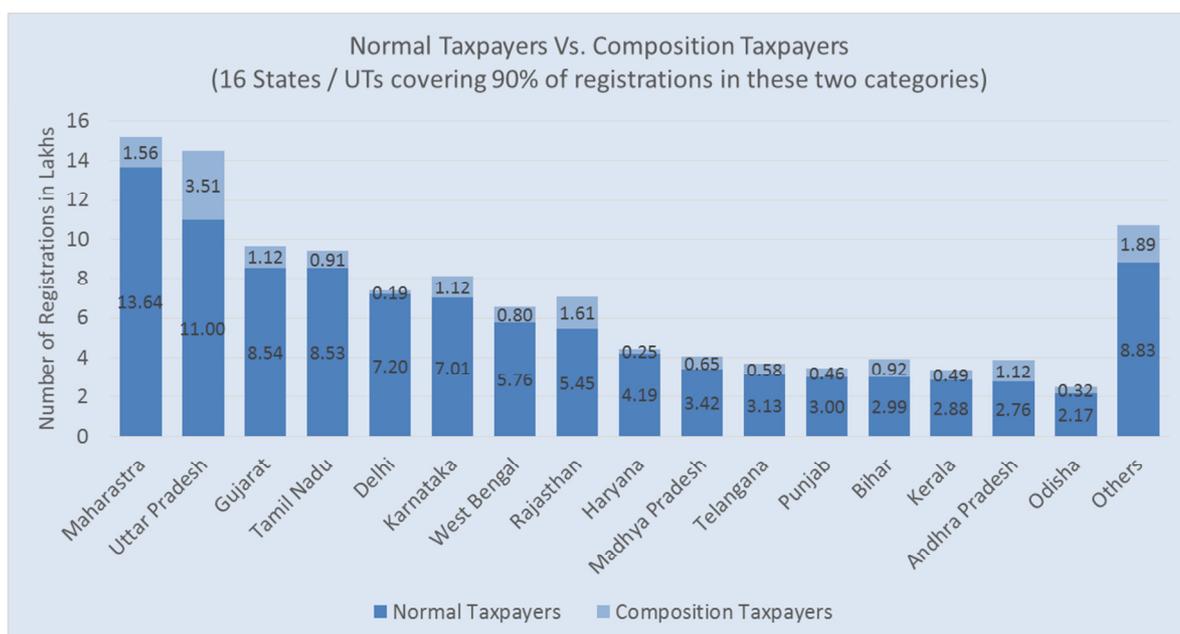
Category of Registrant	No. of Registrants	Percentage of total
Normal taxpayers	1,00,49,983	84.05
Composition taxpayers	17,48,885	14.63
Tax Deductors at Source	1,40,930	1.18
Tax Collectors at Source	5,500	0.05
Input Service Distributors	8,885	0.06
Others (Casual, NRTP, OIDAR)	1,741	0.01
Total Registrants	1,19,55,924	

Source: GSTN Daily summary reports

The total registrations under GST as on 28 February 2019 were 1.20 crore, of which normal taxpayers accounted for 84.05 per cent and composition taxpayers were around 14.63 per cent. Of the total registrations, 59,74,885 were migrated from pre-GST regime, accounting for around 50 per cent, while balance were new registrations.

The following chart No. 5 depicts the distribution of normal taxpayers and composition taxpayers across the top 16 States/Union Territories (UTs), constituting 90 per cent registration under these two categories: -

Chart No.5 : Normal Vs. Composition taxpayers



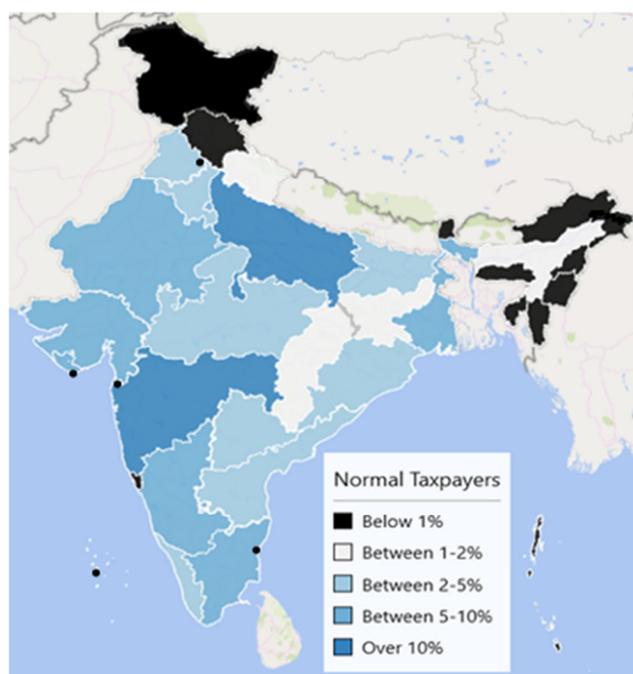
Source: Statistical data obtained through GSTN reports as on 28 February 2019

2.2.2 Distribution of normal taxpayers

The distribution of normal taxpayers across India as on 28 February 2019 has been depicted in the pictorial graph No.1 (statistical information in **Appendix-III**).

In normal taxpayers category, Maharashtra and Uttar Pradesh were among the top States falling in more than 10 per cent category and together these two States accounted for 24.51 per cent of total normal taxpayer registrations in the country. Sixteen States/UTs were in less than one per cent registrations category.

Graph No.1 : Distribution of normal taxpayers



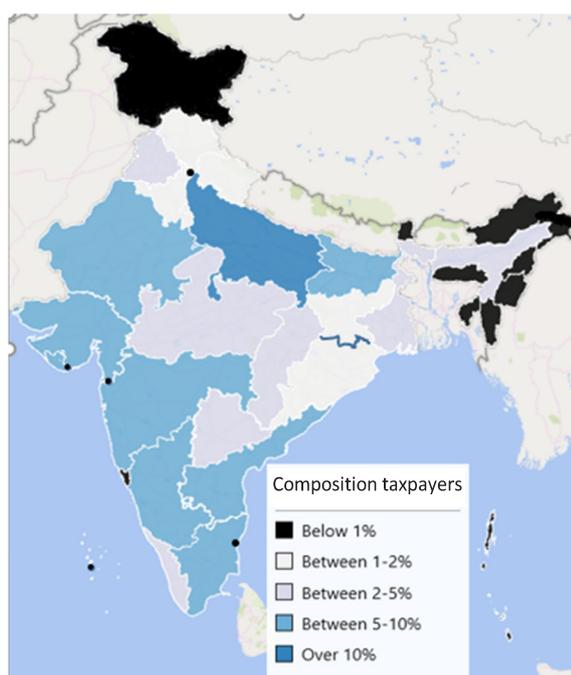
Source: Statistical data obtained through GSTN reports as on 28 February 2019

2.2.3 Distribution of Composition taxpayers

The distribution of taxpayers, who opted for composition levy, across India as on 28 February 2019 has been depicted in the pictorial graph No.2 (statistical information in **Appendix-III**).

Uttar Pradesh accounted for 20 per cent of the total composition taxpayers, followed by Rajasthan (9.2 per cent) and Maharashtra (8.9 per cent). Fifteen States/UTs figured in less than one per cent category.

Graph No.2 : Distribution of Composition taxpayers



Source: Statistical data obtained through GSTN reports as on 28 February 2019

2.3 GST Return filing pattern

2.3.1 Filing pattern of GSTR-1 and 3B

The trends of filing of GSTR-1 and 3B as on 28 February 2019 for the period from April 2018 to December 2018, as compiled from the summary reports shared by GSTN, have been depicted in table No.7 :-

Table No.7 :- Filing pattern of GSTR-1 and 3B

Return Type	GSTR-1			GSTR-3B				
	Months	Due for filing	Returns filed	Return filing per cent	Due for filing	Returns filed as on 28 Feb 2019	Return filing per cent	Returns filed by due date
April'18	44,96,316	27,28,772	61	88,17,798	76,94,460	87	56,38,813	64
May'18	46,82,345	27,48,617	59	91,22,309	78,18,233	86	56,18,925	62
June'18	93,16,710	70,48,521	76	93,16,710	78,97,701	85	58,39,034	63
July'18	47,75,626	27,50,521	58	94,70,282	79,57,565	84	64,39,259	68
Aug '18	47,26,891	27,28,177	58	96,15,273	80,14,906	83	57,02,349	59
Sep '18	96,57,239	69,98,553	72	96,57,239	80,41,279	83	64,19,403	66
Oct '18	46,09,444	26,53,997	58	97,57,664	80,52,558	83	59,28,822	61
Nov '18	45,72,118	25,83,371	57	98,46,645	79,13,241	80	63,36,787	64
Dec '18	99,01,997	64,36,328	65	99,01,997	78,18,108	79	62,49,078	63

The filing of GSTR-3B for April 2018 was 87 per cent while the filing per cent for December 2018 was only 79 per cent. It was noticed that GSTR-3B returns were being filed within the due date on an average by 63 per cent taxpayers and 20 per cent filed the returns after due date. GSTR-3B returns filed by the due date remained at a low per cent ranging from 59 per cent to 68 per cent during April to December 2018. Thus, while it was expected that compliance would improve as the system would stabilize with passage of time, it was seen that there was no improvement in filing of GSTR-3B by due date.

Chart No.6: Filing of GSTR-1 and 3B for April to December 2018



Source: Statistical data obtained through GSTN reports as on 28 February 2019

- The filing percentages of GSTR-1 returns were throughout less in comparison to the corresponding filing of GSTR-3B returns during the period April 2018 to December 2018. The introduction of GSTR-3B resulted in filing of returns with ITC claims which could not be verified and it appears to have disincentivised filing of even GSTR-1.
- With the changes made to returns mechanism, GSTR-1 has been the only return which would provide invoice level details. Further, GSTR-1 contains GSTIN-wise details of supplies made and hence by collating details from across various GSTR-1 returns, it would be possible to prepare a profile of taxpayers which could be used to identify liable businesses not registered under GST or those under-reporting their turnover.

GSTR-3B being only a summary return, short-filing of GSTR-1 implied that the tax departments did not have complete invoice level details as filed by the suppliers, which could be used to verify details given in GSTR-3B or to arrive at turnover. Since filing of GSTR-1 is mandatory, short-filing is an area of concern and needs to be addressed.

- Interestingly, GSTR-1 filing percentage at the end of each quarter was higher than the monthly filing per cent. As could be seen from table No.7 against 45 lakh and 47 lakh taxpayers due to file GSTR-1 for April and May 2018 respectively, only 27 lakh taxpayers filed these returns. But for the

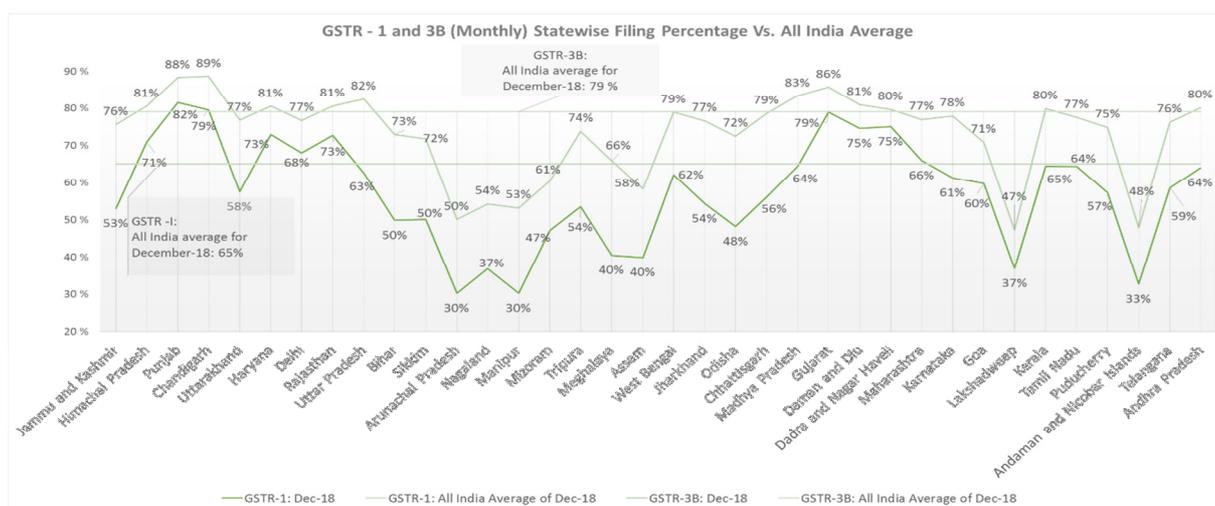
month of June in which taxpayers with turnover below ₹ 1.5 crore were also due to file returns (i.e. quarterly returns), the total taxpayers due to file GSTR-1 increased to 93 lakhs against which GSTR-1 was filed by 70 lakh people. Similar trend could be seen in the next two quarters also.

Quarterly hike in filing rates of GSTR-1 might happen either due to (i) small players being better compliant to filing GSTR-1 as compared to those with turnover above ₹1.5 crore or (ii) due to those with turnover above ₹1.5 crore also filing quarterly return instead of monthly returns.

- Ministry was requested (April 2019) to examine the reasons for this trend and to provide break up of taxpayers with turnover above and below ₹ 1.5 crore due to file GSTR-1, those who filed by the due date and the returns filed as on 31 December 2018. Reply was awaited (June 2019).

2.3.2 State-wise filing pattern of GSTR-1 and 3B

Chart No.7 : State wise filing pattern of GSTR-1 and 3B for December 2018



Source: Statistical data obtained through GSTN reports as on 28 February 2019

The filing of GSTR-1 across the country or the national average (returns filed as a percentage of returns due to be filed) stood at 65 per cent for the month of December 2018. Highest filing was noticed in Punjab (82 per cent), followed by Gujarat and UT of Chandigarh (79 per cent). Amongst the General Category States, the filing of GSTR-1 was below the all India average in Orissa (48 per cent), Bihar (50 per cent), Jharkhand (54 per cent), Chhattisgarh (56 per cent), Telangana (59 per cent), Goa (60 per cent), Karnataka (61 per cent) and West Bengal (62 per cent). Amongst UTs, Chandigarh accounted for highest filing of 79 per cent closely followed by Daman and Diu and Dadra

and Nagar Haveli (75 per cent), while Puducherry (57 per cent) recorded filing rate below national average.

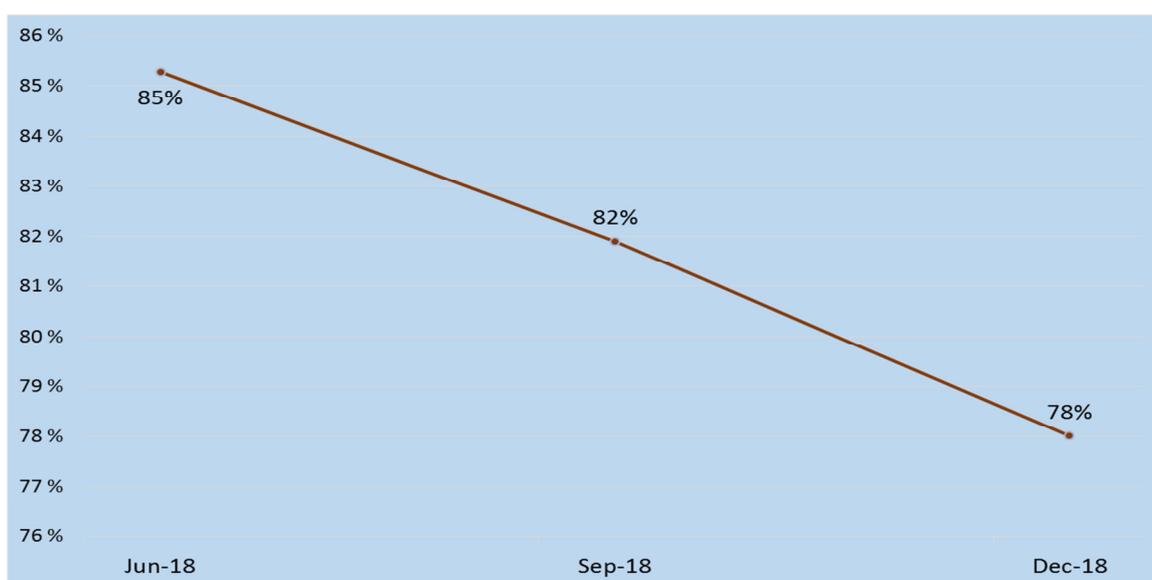
The national average filing of GSTR-3B across the country stood at 79 per cent. The highest filing was noticed in UT of Chandigarh (89 per cent), followed by Punjab (88 per cent), Gujarat (86 per cent) and Madhya Pradesh (83 per cent). Most of the General Category States were above or almost at par with national average rate of filing of GSTR-3B.

Ministry was asked if the reasons for such low return filing of GSTR-1 have been analysed and any action taken based on such analysis and reply was awaited (June 2019).

2.3.3 Filing of GSTR-4

The trends of filing of GSTR-4, a quarterly return to be filed by composition taxpayers, as on 28 February 2019 for the period from April 2018 to December 2018, have been given in chart No.8 below (corresponding statistical details in **Appendix-IV**).

Chart No.8 : Filing of GSTR-4 as on 28 February 2019

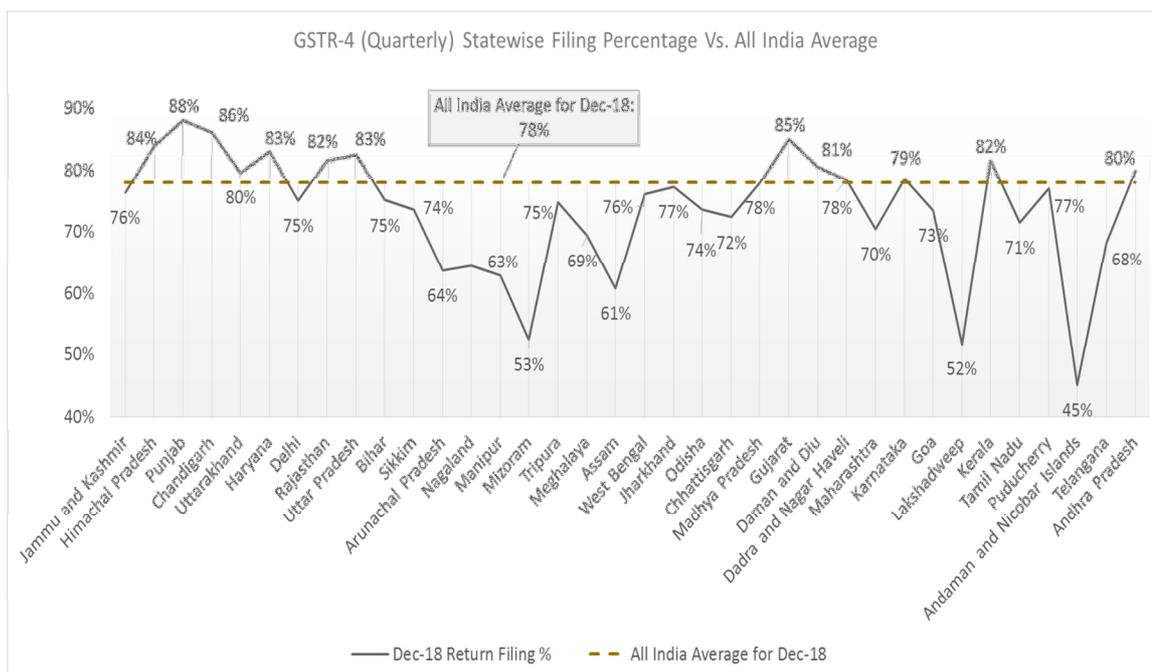


Source: Statistical data obtained through GSTN reports as on 28 February 2019

While the filing of returns by composition taxpayers appeared to be better than the return filing rate of normal taxpayers (i.e. GSTR-1) and almost at par with filing of summary return (i.e. GSTR-3B) by normal taxpayers, Ministry was required to examine reasons for decline in filing of GSTR-4.

The State wise filing rate of GSTR-4 for the quarter ending December 2018, as on 28 February 2019 has been given in chart No.9 below : -

Chart No.9 : State wise filing of GSTR-4 for December 2018



Source: Statistical data obtained through GSTN reports as on 28 February 2019

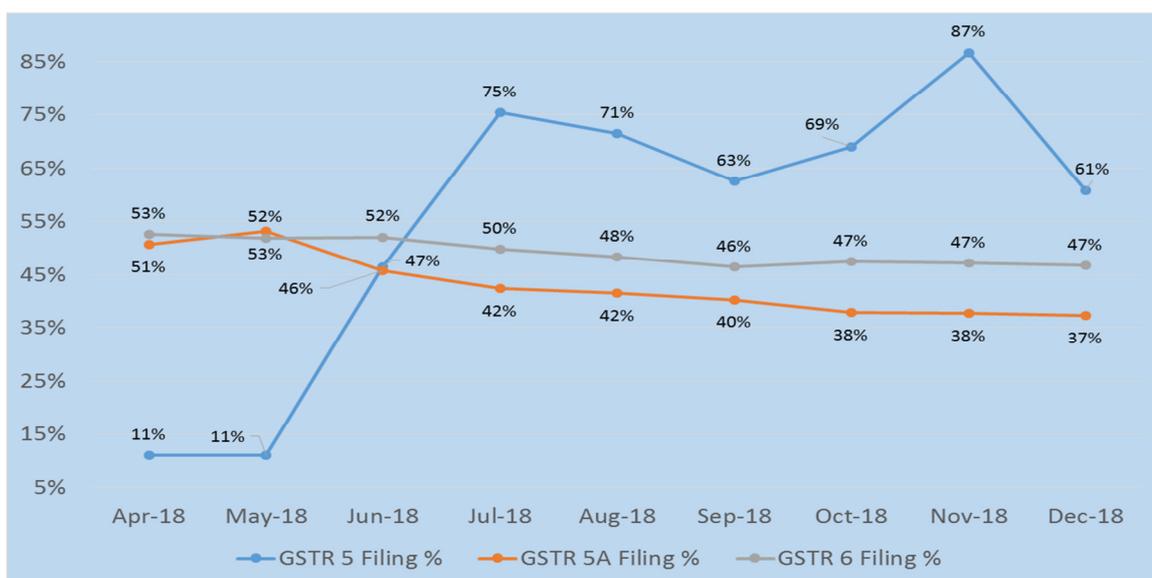
Highest filing of GSTR-4 was noticed in Punjab (88 per cent), followed by UT of Chandigarh (86 per cent), Gujarat (85 per cent) and Himachal Pradesh (84 per cent). Among General Category States, filing rates for Telangana (68 per cent), Maharashtra (70 per cent) and Tamil Nadu (71 per cent) were below the national average of 78 per cent. While the filing of GSTR-4 in most of the Special Category States was below national average, J&K (76 per cent), Himachal Pradesh (84 per cent) and Uttarakhand (80 per cent) registered above national average filing rates.

2.3.4 GSTR-5, 5A and 6

GSTR-5 is a monthly return to be filed by Non-resident taxpayers / Casual taxpayers. GSTR-5A is to be filed by those providing Online Information and Database Access or Retrieval services (OIDAR) from outside India to non-taxable person in India. GSTR-6 is filed by Input Service Distributor (ISD) giving the details of input tax credit received and distributed.

The trends of filing of GSTR-5, 5A and 6 as on 28 February 2019 for the period from April 2018 to December 2018 has been given in chart no.10 below (corresponding statistical details in **Appendix-IV**).

Chart No.10 : - Filing of GSTR-5, 5A and 6 as on 28 February 2019



Source: Statistical data obtained through GSTN reports as on 28 February 2019

As could be seen from the graph above, the filing of GSTR-5A by OIDAR service providers has crossed 50 per cent only in April and May 2018 and has shown a declining trend since June 2018. Given that a separate registration category and return form has been prescribed for this category with a provision for administration of all OIDAR taxpayers centrally by Principal Commissioner of Central Tax, Bengaluru (West), Ministry was requested to intimate if reasons for such low filing of returns by this category have been analysed and any action taken based on such analysis. Similarly analysis done or action taken in respect of filing of GSTR-6 by ISDs, which was also around 50 per cent, have also been sought from the Ministry. Reply was awaited (June 2019).

2.4 Conclusion

Revenue analysis

- The growth of indirect taxes slowed down to 5.80 per cent in 2017-18 over 2016-17, while this growth rate was 21.33 per cent during 2016-17.
- Post implementation of GST, the Centre's revenue on goods and services (excluding Central Excise on Petroleum and Tobacco) registered a decline of 10 per cent in 2017-18 as compared to revenue of subsumed taxes in 2016-17.
- GoI resorted to devolution of IGST year-end balance to the States as per Finance Commission formula, which is in contravention of the provisions of the Constitution of India and the IGST Act. This also has the impact of distribution of funds to the States on a completely

different basis instead of 'Place of Supply' concept as envisaged in the IGST Act.

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

Returns filing

- While it was expected that compliance would improve as the system would stabilise, all returns being filed (GSTR-1, 3B, 4, 5A and 6) showed a declining trend of filing from April 2018 to December 2018.
- The filing percentage of GSTR-1 returns were throughout less in comparison to the corresponding filing of GSTR-3B returns. The introduction of GSTR-3B resulted in filing of returns with ITC claims which could not be verified and it appears to have disincentivised filing of even GSTR-1. Since filing of GSTR-1 is mandatory, short-filing is an area of concern and needs to be addressed.
- GSTR-3B being only a summary return, short-filing of GSTR-1 implied that the tax departments did not have complete invoice level details as filed by the suppliers, which could be used to verify details given in GSTR-3B or to arrive at turnover.

Chapter III : Planning and Implementation of GST IT Project

This chapter deals with the results of our IT Audit of GSTN covering Registration and Payment modules and IGST settlement reports.

3.1 Introduction

GST has envisaged integration of tax administration across the country, which required a robust IT backbone. GSTN was formed to provide common and shared IT infrastructure and services to the stakeholders¹⁴ for the implementation of GST. The main objectives of GSTN included : -

- To assist and engage with various stakeholders in preparing IT and communications related infrastructure for smooth roll out of any IT driven initiatives and other e-governance initiatives of the Government or any department or agency of the Government, specifically for the roll out of the GST;
- To provide for smooth transitioning of the current indirect tax regime to the GST regime; and
- To provide IT and communications related services to various stakeholders including implementation and management of GST IT System.

The common GST Portal developed by GSTN has been functioning as the front-end interface of the overall GST IT eco-system and includes filing of registration application, filing of return, creation of challans for tax payment, payment of GST, settlement of IGST payment, and generation of BI and analytics. M/s Infosys has been the System Developer and Managed Service Provider (MSP). The IT systems of CBIC and State Tax Departments were to be used to handle tax administration functions such as registration approval, assessment, audit, appeal enforcement, adjudication. While nine States¹⁵ and CBIC have been developing their own IT systems for tax administration, GSTN was entrusted with the development of the same for 20 States.

3.2 Organisational setup of GSTN

According to the Articles of Association, the Board of Directors of the Company (the Board) should have a minimum of two and a maximum of 14 Directors. The Chairman of GSTN should be nominated through a joint approval mechanism of the Central Government and the State Governments.

¹⁴ Finance departments of Government of India and State Governments, taxpayers, CBIC, State Tax Authorities, Principal Chief Controller of Accounts (PCCA), State Treasuries, Reserve Bank of India and authorised banks.

¹⁵ Tamilnadu, Kerala, Andhra Pradesh, Karnataka, Maharashtra, Goa, Haryana, Sikkim and Meghalaya.

The Board would appoint a Chief Executive Officer (CEO) for managing the business of the company, subject to the control and supervision of the Board. Under the present organisational setup, the CEO was being assisted by Executive Vice Presidents (EVP) and Senior Vice Presidents (SVP) looking after different functions of the company.

The strategic control of the Government over GSTN was ensured through measures such as adequate Government representation on the Board, mechanisms of Special Resolution on important matters and induction of the Government officers on deputation.

3.3 Background of Implementation of GST IT Project

GST was implemented with effect from 1 July 2017, with the background work being started well in advance. The constitutional amendment needed for implementing GST was passed in September 2016 and the CGST and the IGST Acts passed in April 2017. However, the Empowered Committee of Ministers (ECM), formed in May 2007, started the work on GST Acts, Rules and business processes. The draft Business Process Documents and model GST Acts were placed in public domain during April-October 2015 and June 2016, respectively. The GST Rules were also made available to the public for comments in two phases in December 2016 and January 2017. Hence, while changes were being made to Acts / Rules and Business Process Documents, the draft documents were made available well before roll out of GST.

Given the criticality of the IT infrastructure, which was to be the backbone of GST, GSTN was formed in March 2013 itself. The year wise expenditure on GSTN in each of these years, up to 2018-19 is as follows:

Table No.8 : Year-wise expenditure on GSTN

Year	Actual Expenditure (₹ in crores)
2013-14	3.04
2014-15	12.29
2015-16	48.07
2016-17	69.59
2017-18	544.07
2018-19	427.37

GSTN has incurred an expenditure of ₹ 133 crore till March 2017.

GSTN was able to ensure that the GST IT system was up and running with some basic features on the date fixed for roll out viz. 1 July 2017. It was also able to roll out form GSTR-3B in a very short time. Therefore, the

shortcomings and glitches in the system cannot be ascribed to short notice before start. Proper planning of systems that would be flexible enough to adjust for changes (which are only to be expected when transiting to a new system, that too a major change such as to GST) and sufficient advance checking is likely to have yielded a more sound system than has been available for the first two years of GST. Proper co-ordination between the committee setting out the Business Process Document, CBIC and GSTN too seems to have been missing.

3.4 IT Audit of GSTN

3.4.1 The Background for IT audit

GST portal has been at the core of the entire GST ecosystem, providing a single interface for around a crore taxpayers for their GST compliance functions. It has facilitated integration of tax administration across the Union and the States. With the entire GST related transactions originating on the GST portal, this has been the original and primary source of GST data, holding crucial tax data of the country and sensitive business data of the taxpayers. Hence, there emanated a need for CAG to carry out IT audit of GSTN periodically as part of mandate to conduct audit of receipts under Section 16 of CAG's (DPC) Act, 1971. We initiated the first IT audit of GSTN in May 2018, the details of which have been given in the subsequent paras.

3.4.2 Scope of IT audit

As on 31 December 2017, when we started planning the IT audit, 50 per cent of the functionalities planned for Phase I and 12 per cent of the functionalities planned for Phase II were completed. The status of implementation of various modules in Phase I had been detailed below : -

Table No.9 : Details of implementation of modules in Phase-I as on 31 Dec 2017

Modules (grouped)	Functionalities planned	In Production as on 31 December 2017	Percent completed
Registration	48	30	63
Payment	10	10	100
Returns#	37	17	46
Reports and Stand alone	89	35	39
Total of Phase I	184	92	50

Included IGST Settlement Reports, which were completed by September 2017

As could be seen from table No.9, Registration and Payments modules in Phase-I were the ones implemented to a large extent. The IGST settlement reports generated on the GST portal would determine the amount of IGST to be settled or apportioned to the Centre and the States / UTs. As this had a bearing on the flow of revenues into the Consolidated Fund of India and of the States, verifying the IGST Settlement reports, which have already been implemented, was important. Hence, it was decided to focus on Registration and Payments modules and IGST settlement reports during the first IT audit of GSTN.

The scope of the IT Security audit was limited to the review of IT security related reports of Standardisation Testing and Quality Certification (STQC), an attached office under Department of Information Technology, GoI and implementation of STQC's recommendations. Aspects of Business Continuity Plan (BCP) and change management processes which came to our notice in the course of audit of the selected modules, however, were covered in this audit.

3.4.3 Audit objectives

The main objectives of this IT audit were to assess whether the IT modules for the taxpayer Registration, GST Payment and IGST settlement, implemented by GSTN, were in line with the provisions of the Acts and Rules governing the GST regime and the SRS.

3.4.4 Audit Methodology

We test checked the aspects of Registration, GST Payment and the IGST settlement reports in operation as on 1 May 2018.

We conducted (May 2018) an entry conference with the GSTN team to discuss our audit plan and programme followed by discussions, presentations and walkthrough to understand the business process and the flow of information through the GST IT System. We also received feedback from some stakeholders of the GST IT System, namely Principal Chief Controller of Accounts (PCCA), Confederation of Indian Industry (CII) and VAT Department of Delhi Government.

Audit testing of important forms and functionalities as envisaged in the relevant Acts and Rules governing GST and SRS were first conducted on Training and User Acceptance Testing (UAT) environment of the GST system followed by audit testing in production environment. Data from production environment was analysed for validation of various audit checks.

The complete GSTN data has been divided into four shards (partitions) and each shard consists of data related to certain States. For a majority of the

audit checks, we analysed data of Shard-1 database consisting of nine States/UTs namely, Jammu & Kashmir, Delhi, Nagaland, Mizoram, Jharkhand, Madhya Pradesh, Dadra and Nagar Haveli, Goa, Pondicherry and Other Territory (Code-97). We also analysed the data maintained by GSTN on complaints and grievances of users.

Audit was conducted during May-October 2018. An Inspection Report was issued to GSTN on 29 November 2018, followed by an exit conference on 26 December 2018. GSTN replies thereon received in January 2019 have been suitably incorporated in this IT audit report. The replies given by GSTN were also verified again in January 2019 and the results of the verification duly included in this report. The findings of this IT audit were brought to the notice of the Ministry in March 2019 and the reply of the Ministry forwarding the response of GSTN was received in June 2019. The replies have been duly incorporated in the report.

3.4.5 Audit Criteria

Sources from where we derived the audit criteria for this IT audit included the Constitutional provisions related to GST; relevant provisions of the CGST Act, the IGST Act, the UTGST Act, the SGST Acts and their associated rules and regulations, notifications of the tax authorities like CBIC, relevant Business Process Documents and SRS. For ease of reference, we quoted only CGST Act / Rule provisions but the provisions quoted and findings emanating therefrom would be relevant for similar provisions of SGST / UTGST / IGST Acts, wherever applicable.

3.4.6 Acknowledgement

Audit acknowledges the co-operation of the GSTN in providing necessary information and records to audit and for furnishing replies to the audit observations.

3.5 Overview of IT Audit findings

We issued 37 audit observations pertaining to IT audit of GSTN to the Ministry. Out of these, 25 were accepted by GSTN and for 11, GSTN explained the constraints / reasons. Based on the reply of GSTN, one observation was closed. Against the 25 accepted observations, GSTN intimated corrective action (January 2019) in respect of nine observations and that action had been initiated on others. Out of these nine, we have no comments on compliance to five observations. But in four observations, we found that the issues pointed out by Audit continued even after corrective action was reported by GSTN, the comments on which have been given in the respective paras.

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

Audit findings on Registration module, Payments module, IGST settlement reports, Business Continuity and Change Management have been given in the following four parts.

Part A : Registration Module

3.6 Introduction

In the GST regime, registration has been made fully online and any legal person wishing to register would have to access the GST IT system for the same. While applying for a new registration, the applicant has to first fill Part-A of the application form, which consists of Legal Name, Permanent Account Number (PAN) as issued under the Income-tax Act, 1961, Email Address and Mobile Number along-with State and District. After Part A is submitted and validated, a Temporary Reference Number (TRN) is generated and sent to the Applicant. Based on the same, he would be able to retrieve the application and fill balance information in Part B of the form. On successful submission of Registration application with authentication, Application Reference Number (ARN) would be generated and intimated to the applicant. On approval of the application by the tax department, a fifteen digit GST Identification Number (GSTIN) would be generated and the same along with temporary Password would be sent to the primary authorised signatory via email. These credentials should be used by the Registrant to access the GST Common Portal.

The IT audit revealed deficiencies in the taxpayer Registration Module of GST IT system, including areas where the GST IT system was not aligned with the provisions of the GST Acts and the Rules. Detailed audit findings have been given below :-

3.7 Failure to validate and debar ineligible taxpayers from availing Composition Levy Scheme (CLS)

3.7.1 Same PAN holder found under CLS as well as normal taxpayer

The key conditions for a registered person to opt for CLS under Section 10 of CGST Act were :-

- (i) The aggregate turnover, on all India basis against the taxpayer's PAN, in the preceding financial year should not exceed the prescribed amount (₹ one crore at the time of this audit).
- (ii) Multiple registrations under the same PAN could opt for CLS only if all such registrations opted for the scheme.
- (iii) The option availed for CLS would lapse with effect from the day on which the aggregate turnover during a financial year exceeded the prescribed limit.

Test check by Audit revealed that the system validations were not adequately mapped to the above provisions of the Act as detailed below : -

(a) As of August 2018, 168 PAN holders out of total 1,27,995 active taxpayers in sampled the States/UTs¹⁶ were found to be registered under CLS as well as Normal taxpayers for different business verticals.

GSTN, agreeing to the lack of validation, cited the constraint to deliver critical applications on priority as the reason and stated that the validation was implemented with effect from 5 October 2018, in which all the registrations on common PAN across India, would be converted automatically into Composition, if a taxpayer had opted-in for composition for a single GSTIN.

However, subsequent Audit verification (January 2019) revealed 358 cases where the same taxpayer was found under Normal taxpayer and Composition category indicating failure of validation implemented from 5 October 2018.

GSTN had earlier replied (January 2019) that this was due to technical issue in Cache and the corrective action for the issue was likely to be completed by 15 March 2019.

GSTN further replied (June 2019 through DoR) that as the migration process was not completed before the new taxpayers were allowed to opt in for composition, the validation was not implemented at that point of time. They reported completion of corrective action regarding 168 PAN holders registered under CLS as well as Normal taxpayers for different business verticals, which remains to be verified by Audit.

GSTN reply could not be accepted since audit was conducted more than one year after the rollout of GST. Further, this issue was noticed in some of the registrations that happened even in July 2018. By that time, validation issues if any due to migration should have been rectified by GSTN. The persistence of such issues remaining in the application/data even after intimation of

¹⁶ Shard-1 database consisting of Jammu & Kashmir, Delhi, Nagaland, Mizoram, Jharkhand, Madhya Pradesh, Dadra and Nagar Haveli, Goa, Pondicherry and Other Territory (Code-97).

rectification measures points to weakness in the process of testing the application.

(b) GST IT system did not debar a PAN holder from registering under CLS in case their aggregate turnover from all registrations on all India basis exceeded the threshold of turnover prescribed for CLS. Similarly, GST IT system did not have provision to determine aggregate turnover of all registered persons under the same PAN to force the taxpayers enjoying CLS to move to Normal taxpayers category as soon as they crossed the prescribed turnover.

GSTN had replied (January 2019) that the functionality to validate the aggregate turnover of all the GSTINs issued on a common PAN at the time of opting-in for composition scheme, was under development. GSTN had also stated that the System was also being designed to make the turnover limit configurable to accommodate the frequent changes in the turnover limits as and when legal provisions were changed. These changes were expected to be implemented by June 2019.

GSTN, in their reply endorsed by DoR (June 2019) cited the following reasons as to why validation on the PAN based cumulative turnover was not tenable at that point of time:

- *The turnover limit fixed for composition scheme kept on changing*
- *The criterion to opt in for composition under VAT or Central Excise being different in comparison to GST*
- *Non-availability of the Return data based on PAN in respect of migrated taxpayers in the system*

GSTN informed that the validations were hence kept in abeyance and have been implemented during 2018-19.

The above reply is not tenable due to multiple reasons. A field like turnover limit not being made configurable in the first place indicated faulty design of the system. Similarly PAN based turnover data not being used for validating composition scheme indicates flaws in the way application was mapped with the applicable provisions initially. The different criteria for GST and erstwhile taxes for composition cited are not relevant since the issue is not of having adequate validation in GST and hence composition criteria of GST is only relevant. Since Normal and Composition taxpayers have different tax liabilities, not addressing this missing validation on priority even after being pointed out by audit is also a matter of concern since the issue has revenue implication.

In view of the criticality of turnover limit in determining eligibility for composition scheme, GSTN should have, on their own, ensured that these basic validations were included in the application. Besides ensuring implementation of the crucial functionality of making turnover limit configurable, Ministry may also consider reviewing the system design across modules to see if any other fields, similar to the 'aggregate turnover' referred to here, have to be made configurable to accommodate possible changes over a period of time.

3.7.2 Ineligible taxpayers allowed registration under CLS

- (a) As per Section 10(2) of CGST Act, the taxpayers engaged in following activities were not eligible to opt for CLS :-
- inter-State outward supplies
 - supply of goods through an Electronic Commerce Operator (ECOM) who were required to collect tax at source under Section 52 of the CGST Act.
 - Supplies to or by SEZ units / developers (treated¹⁷ as inter-State supply).

A data analysis of 37,225 Composition taxpayers revealed that the data contained 679 taxpayers belonging to the above categories (Inter-state suppliers, ECOM, SEZ developers / units). GST IT System, thus, failed to validate and debar these ineligible taxpayers from availing CLS.

GSTN had replied (January 2019) that the validations for Inter-state suppliers, ECOM, SEZ developers and SEZ units from opting-in for composition scheme was fixed and deployed to production on 29 June 2018 and that the data fix for the existing cases was completed on 29 November 2018. GSTN had also replied that based on the recommendation of the jurisdictional officer, the SEZ flags from the GSTIN of normal taxpayers, who had selected SEZ by mistake while migrating, were removed in all cases by 30 August 2018.

However, audit verification (January 2019) revealed 12 inter-state taxpayers registered under CLS, indicating deficiency in the corrective action taken. GSTN had replied that correction for these 12 cases was estimated to be completed by 15 February 2019.

¹⁷ As per Section 7(5) of IGST Act, 2017.

GSTN further replied (June 2019 through DoR) that the necessary validations have been put in place for E-com operators, interstate suppliers and SEZ units / Developers and they are not allowed by the system to opt in for composition. However, the reply remains to be verified by Audit.

- (b) The Government vide notification dated 27 June 2017 notified that the registered person should not be eligible to opt for CLS if such person was a manufacturer of the following goods : -
- Ice-cream and other edible ice, whether or not containing cocoa (Tariff Heading 21050000);
 - Pan Masala (Tariff Heading 21069020); and
 - Tobacco and manufactured tobacco substitutes (Chapter 24).

GST IT system, however, did not restrict the manufacturers of the above goods identified through HSN codes from registering as a Composition taxpayer.

GSTN had replied (January 2019) that validation on this account would be implemented by July 2019 and that the approving authorities of the Centre and the States were supposed to check such discrepancies at the time of approving the registration application and get such errors rectified. GSTN has further replied (June 2019 through DoR) that the necessary data captured at the time of registration was indicative and in the registration module, the system was capturing only the top five commodities.

GSTN's reply is untenable from system design perspective and registration module capturing only top five commodities cannot be quoted as a reason for not implementing validation for another requirement prescribed. Since the issue is of violation of applicable provisions, this could have been addressed with simple validation checks in the application at the time of registration.

Further, the reply regarding check of such discrepancies by tax officers should also be seen in light of audit observations made during field audit regarding non-verification of ineligible registrants under CLS by field formations of CBIC, as reported in **paragraph 4.8 of Chapter IV** of this report.

Thus GSTN failed in ensuring that the basic validations, as mandated by law and other applicable provisions, were properly built in to the system and these were included only after being pointed out by CAG audit. GSTN should strengthen their root cause analysis and testing process to ensure that such critical deficiencies in application are detected and rectified before rollout to public.

3.8 Issues related to other categories of taxpayers

3.8.1 Other Notified Persons (ONPs) for allotment of Unique Identification Number (UIN)

GST Acts provided for allotment of Unique Identification Number (UIN) to UN bodies and Embassies to enable them to claim refund of GST paid on purchases made by them. The Act also provided that the Other Notified Persons (ONPs), as notified by various Central and State authorities, were eligible to take registration under ONPs category for allotment of UIN. Organisations like ISRO have been notified under this category. The following discrepancies were noticed in respect registrations of ONPs.

(a) PAN made optional for registration of ONPs

PAN of the authorised signatory was mandatory¹⁸ for getting UIN under ONPs category. Audit noticed that GST IT system did not list this requirement as a compulsory field and that in 273 cases¹⁹ out of total 449 registrations for ONPs, PAN was not mentioned.

GSTN stated (June 2019 through DoR) that this defect has been fixed in March 2019. This remains to be verified by Audit.

(b) Registration for ONPs – Non-availability of facility for validating notification number or for obtaining/uploading the required documents

Our audit testing of registration data for UIN under ONPs revealed that the GST IT system accepted junk values (like 011800012839TRN, GST REG-13, U74999DL2018PTC332229, IN-DL00404261406469Q) filled by the applicants in the column of 'Notification Number,' which was a mandatory field as per SRS. Further, applicants were allowed to choose either State or Central jurisdiction, when the jurisdiction should have been based on notification issuing authority.

GSTN stated (June 2019 through DoR) that the uploading of notification by UIN along with the application was expected to be available by 30 September 2019.

For a category of Registration, which is permitted only based on specific notification(s), not having a provision in place to upload the notification at the time of registration is a basic deficiency in the system.

¹⁸ As per the application form (Part-A) REG-13 under Rule 17 of CGST Rules 2017.

¹⁹ All four shards.

3.8.2 Deficiencies in Online Information Database Access and Retrieval Services (OIDAR)

As per Section 2(17) of IGST Act, 2017, OIDAR referred to services whose delivery was mediated by information technology over the internet or an electronic network and the nature of which rendered their supply essentially automated involving minimal human intervention. These included services such as advertising on internet, cloud services, digital storage, online gaming. The following deficiencies were noted with regard to registration of OIDAR taxpayers :-

- (i) The module had no facility for uploading vital documents like scanned copies of passport with visa details, certificate of incorporation of the company, license issued by the country of origin and clearance certificate issued by the GoI, as envisaged in SRS.
- (ii) System accepted junk values (such as Bxspa1851r, 6, NA, na) against Tax Identification Number (TIN), which was a mandatory field to be filled while applying for registration. There was no provision for uploading the documents pertaining to TIN for verification by the tax officials.
- (iii) PAN and address of authorised representatives of OIDAR applicants, mandatory for filing the application of registration for OIDAR, were not made mandatory in the GST IT system.

While initially GSTN replied (January 2019) that facility for uploading vital documents was a product backlog item and was expected to be implemented by March 2019, this date was further extended to September 2019 vide their reply sent (June 2019) through DoR.

Regarding validation of TIN, GSTN had stated (January 2019) that single authentic data source of TIN at international level was not available as it varied from one country to the other. GSTN had also stated that the functionality to upload document pertaining to TIN/or identity certificate and credentials of authorised representative would be provided by June 2019.

Audit holds that in view of non-availability of any authentic data source of TIN, it is even more important to have the facility to upload vital documents needed for registering under OIDAR category. GSTN seeking so much time to build-in this small but critical functionality, and DoR endorsing the same, is unacceptable.

3.8.3 Deficiencies in Registration process of Tax Deductor at Source (TDS)

Section 51 of CGST Act 2017 stipulated that the Government might mandate the following category of authorities/persons to deduct tax at the rate of one

per cent from the payment made or credited to the supplier of taxable goods or services or both, where the total value of such supply, under a contract, exceeded two lakh and fifty thousand rupees:

- (i) Department or establishment of the Central Government or State Government; or
- (ii) Local authority; or
- (iii) Governmental agencies; or
- (iv) Such persons or category of persons as may be notified by the Government on the recommendations of the Council,

The Category (iv) was to be enabled only on issue of notification from the Government on the recommendations of the GST Council. At the time of verification of this feature by audit (June 2018), the Government had not issued any notification for adding any new category of Tax Deductor. But there were 700 applicants who had registered themselves under the category (iv) through the portal.

GSTN confirmed (January and June 2019) that the category was built in for future receipt of notifications and considering the behaviour of applicants, category (iv) was masked so that it might not be selected by the applicant by mistake. They had also stated (January 2019) that all the TDS registrants, who selected this option, were being advised by email to amend the category as per law through the amendment process and that another round of similar exercise would be performed after removing the drop down menu.

The masking of category (iv) did not hold good now in view of notification dated 13 September 2018, which notified specified autonomous bodies²⁰, societies and Public Sector Undertakings under this category. Audit advised (March 2019) that GSTN should re-consider the corrective action proposed as the TDS provisions were made effective from 1 October 2018, including for the categories notified under sl. no. (iv) of section 51.

Even though the Government notified certain organisations under the fourth category of TDS with effect from 1 October 2018, GSTN replied in January 2019 that they would mask this category. This raised doubts about the way up-to-date GST provisions were given effect in the IT system and the apparent lack of keeping track of latest developments and the failure of DoR / CBIC in ensuring that GSTN is kept updated.

²⁰ An authority or a board or any other body, - (i) set up by an Act of Parliament or a State Legislature; or (ii) established by any Government, with fifty-one per cent, or more participation by way of equity or control, to carry out any function

3.9 Issues affecting user friendliness of the registration module

3.9.1 Search gave output beyond the criteria period at GST portal

During testing of the search functionality on GST portal, we noticed that a search result for taxpayer who opted out from CLS for West Bengal and Bihar for the year 2018-19 included dates outside the range specified in search criteria, indicating incorrect logic / criteria incorporated in the search condition.

GSTN agreed that it was a defect and stated that it had been fixed in October 2018.

However, during verification (January 2019), we noticed deficiencies in the search functionality even after the fix.

3.9.2 No option for different Languages on GST portal

Contrary to the SRS, there was no language option for taxpayers other than English in the GST portal.

GSTN replied (January 2019) that on implementation of all the critical functionalities, development and implementation of the multi-lingual support would be taken up on priority and might be completed by October 2020.

Delay in implementation of Multi-Lingual Support meant increase in compliance cost to the taxpayers who are not used to English language.

3.9.3 Registration for multiple business verticals

Taxpayers requiring separate registration for any of its business verticals under the same PAN should submit a separate application in FORM GST REG-01 in respect of each such vertical. Further, SRS for registration stated that where a GSTIN or ARN already existed against the PAN, many fields would get auto-populated and would be non-editable.

GSTN did not implement this feature. Implementing this feature along with validations would have helped in the system flagging some violations of law at the time of registration, noticed during audit, such as (i) same taxpayers being registered under both composition levy and normal taxpayer category in contravention of the law and (ii) legal names and constitution of business being different for same PAN holder in a number of cases.

GSTN had replied (January 2019) that auto-population of composition levy had since been implemented. Auto-population of remaining fields i.e. Legal Name, Constitution of Business, Name of the Proprietor, PAN of the Business/entity, Promoters/Partners' details, GSTIN in existing Registrations as in same PAN, which was part of SRS, was under development and was expected to be implemented by June 2019. GSTN further stated (June 2019)

through DoR that the same was under development and expected to be implemented by September 2019.

Details such as PAN number were the same for multiple registrations. Non-implementation of such a basic functionality resulted in losing basic advantage of having an IT system.

3.9.4 Jurisdiction Mapping with PIN Code not enabled

During the process of filling up Part-B of registration, while selecting a State's circle/ward, users were allowed to select any Central jurisdiction from all over India. Ideally the State and Central jurisdictions must have been mapped to each other and there should have been only one Central jurisdiction for a specific State GST jurisdiction.

Data analysis also showed that there were large numbers of incorrect jurisdictions. Out of about 14 lakh taxpayers registered in the State of UP, a total 13,432 were either mapped with central jurisdictions outside UP or central jurisdiction was left blank. Considering that most of registration approval happened through deemed approval mode, there could be far more taxpayers across the Country, registered with incorrect jurisdiction. Absence of such a basic feature of jurisdictional mapping of the place of business might adversely impact tax administration, like incorrect reporting, lack of monitoring by the jurisdictional tax officer and pendency of grievance redressal.

GSTN had intimated (January 2019) that they had since received PIN Code based directory from all the States and from CBIC. GSTN also replied that on implementation of PIN Code based jurisdictional directory, the problem of selecting incorrect jurisdiction would be automatically minimised. GSTN initially (January 2019) stated that the functionality was likely to be released by April 2019, which was extended to September 2019 vide their reply (June 2019) sent through DoR.

Issues of incorrect mapping of taxpayers were noticed by us during field audit also, as brought out in **paragraph 4.9.2 of chapter IV**.

3.10 Findings accepted and corrective action taken or initiated

3.10.1 Technical glitches leading to delay in issuance of ARN and GSTIN, were identified by GSTN based on audit objection, were partly rectified by GSTN in January 2019. .

3.10.2 Issues regarding validation of key fields in Registration (Legal Name, Type of Business and CIN) with CBDT and MCA Databases pointed out by Audit were identified by GSTN and *it was stated (January 2019) that the same were expected to be rectified by March 2019. GSTN further stated (June 2019) in their reply forwarded by DoR that*

- *Validation of Legal Name was expected to be closed by April 2019.*
- *For validation of Type of Business, the communication for the same has been sent by GSTN to the taxpayers and the list will be shared with tax authority for getting the correction done on priority.*
- *CIN validation, was expected to be implemented by September 2019.*

3.10.3 It was made mandatory on GST portal for a taxpayer to provide a unique combination of PAN, Mobile and e-mail for each business vertical to be registered, though not mandated by Law. This shows the failure in mapping the applicable provisions correctly into the system, causing inconvenience to taxpayers.

GSTN had replied that a Change Request in this regard would be completed by April 2019. GSTN further stated (June 2019) in their reply sent through DoR that this was under implementation and was expected to be in production environment by 30 September 2019.

3.10.4 Data analysis revealed that under Tax Collected at Source (TCS) category, there were blanks or NP against 'Registration Name', which was a mandatory field and another field 'jurisdictional approving authority', pointing towards absence of validations. *GSTN, agreeing with the audit observation, stated that the data fix was expected to be completed by 31 January 2019. Further progress was awaited (June 2019).*

3.10.5 There was no provision for raising an alert to the tax officer in case a Non Resident Taxable Person (NRTP)/Casual taxpayer had not filed for registration five days prior to date of commencement of business, as required under Section 25 of CGST Act read with Rule 13(i) of CGST Rules. GSTN implemented this feature with effect from 2 August 2018.

3.10.6 Based on audit observation, GSTN merged into one, the two separate portals²¹ that existed for complaint / grievance redressal, without any specific purpose for such separate portals.

3.11 Conclusion on Registration Module

Registration being the first step in tax administration and given the IT intensive system that GST was designed to be, Ministry should have ensured that a fool-proof Registration module was in place. ***The IT audit of Registration module revealed that the System did not provide for basic validations prescribed in the Act and Rules for Composition levy and that mandatory fields prescribed for categories like OIDAR and ONPs were not made compulsory in the System.*** GSTN cited constraints to deliver critical

²¹ (i) <https://services.gst.gov.in/services/grievance> and (ii) <https://selfservice.gstsystem.in>.

applications on priority or the functionality being a backlog item as reasons for non-implementation of certain validations or features.

We also found that ***critical fields like turnover were not made configurable while designing the system*** and Ministry should consider reviewing the design of all similar fields in this background. Even though the Government notified certain organisations under the fourth category of TDS with effect from 1 October 2018, GSTN replied in January 2019, that they would mask this category, raises doubts about the way up-to-date GST provisions were given effect in the IT system.

CBIC's reply to the IT audit findings was that the issues raised pertained to GSTN and a reply should be sought from DoR. The fact remained that CBIC, as a stakeholder of GST IT system, has a key role to play in proper design and development of system by GSTN as well as in strengthening the system by ensuring removal of deficiencies pointed out by audit. CBIC, being a part of DoR, asking audit to seek a reply from DoR also points towards lack of co-ordination between DoR and CBIC with reference to functioning of GSTN.

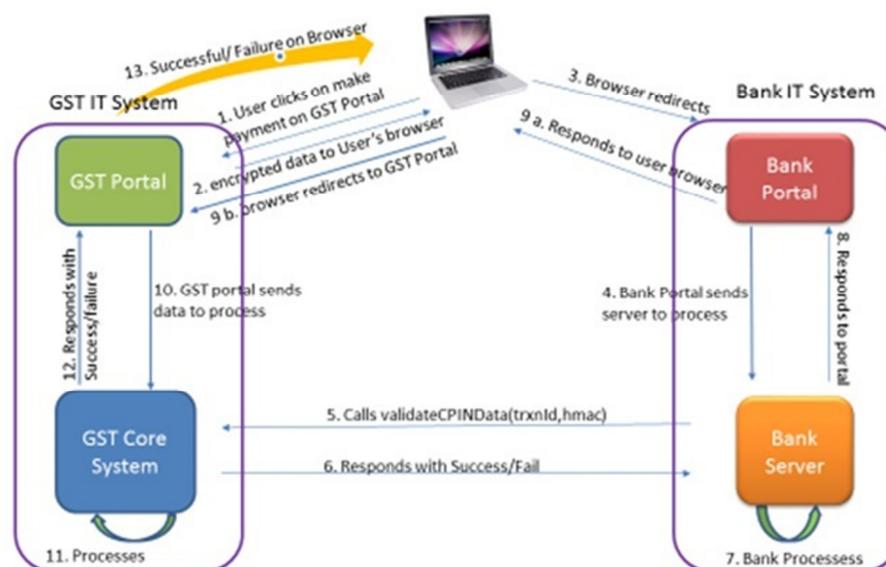
Audit found (May to October 2018) that certain basic validations were absent in the GST Registration module, most of which has been in use since the beginning of GST. The ***timelines initially indicated by GSTN in January 2019 to fix these validations were extended further*** in their reply sent through DoR in June 2019. This shows that ***fixing these deficiencies was neither prioritised by GSTN nor insisted by DoR***, which has merely forwarded the reply of GSTN containing extension of timelines for fixing these deficiencies.

Part B : Payment Module

3.12 Introduction

The process of payment of GST by the taxpayer is initiated with the taxpayer generating an e-Challan on the GST portal and being assigned a Common Portal Identification Number (CPIN). The taxpayer can then pay the taxes in any one of the available modes of payment (viz. Over-the-counter payment, e-payment, NEFT/RTGS). If the payment is successful, the Challan Identification Number (CIN) is received from the bank. GST Portal validates the data received from bank with the GST IT system data i.e. GSTIN, CPIN and Total Challan Amount. If the validations are successful, GST Portal sets the CPIN status as "PAID" and updates the Electronic Cash Ledger (ECL) of the taxpayer. If a transaction cycle is not completed because of some technical failure, the same is marked as "FAILED" transaction. The payment process for e-payments is schematically represented as below : -

Chart No.11 : Payment process for e-payments



The GST portal receives the e-scroll from RBI on the next day (T+1)²². The portal carries out reconciliation between the e-scrolls received from RBI and the challan details available on the GST portal and reports the reconciliation results to the Accounting Authorities in Reconciled and Non-reconciled (Recon and Non-Recon) files, depending upon the status of the transactions.

The reconciliation protocol of GST was devised to achieve the following objectives :-

- timely credit of deposits in the ECL of taxpayer,
- timely realisation of funds by the Government,
- reducing the discrepancies / errors,
- zero discrepancy between GST IT system data and e-scroll (received from RBI), and
- minimising the volume of errors leading to Memorandum of Error process.

Audit reviewed the payment and reconciliation process and noticed the following deficiencies :-

3.13 Shortcomings in updating ECL

3.13.1 Delay in updating of ECL

As per the Business Process Report on payments, banks were required to communicate the details of payments with CIN to GST IT system in real time

²² T+1 stands for Transaction day plus one day, which is the next day after the date of transaction.

so that the cash ledger of the taxpayer could be updated on a real time basis. However, analysis of payment data showed that in 80,816 cases, the payment date and the date on which the transaction was credited to the ECL of taxpayer were different. There were delays of more than three days in 10,088 cases. Of these, the delays were to the extent of five days in 3,345 cases and of ten days in 1,228 cases.

GSTN had informed (January 2019) that in majority of cases, the ECL got credited either on real time basis or via On-Demand-Calls made automatically to the banks in case taxpayers closed the browser before the payment process was completed.

However, despite all these arrangements, a few payments were still not getting updated in ECL because of various reasons. The breakup of 10,088 transactions pointed out by audit where there had been delay of more than three days, as explained by GSTN, had been given below : -

- (i) 2,658 transactions related to the period prior to the date of roll out of the functionality to update ECL on basis of RBI e-scroll i.e. 24 August 2017. For all these transactions, ECL updates based on RBI e-scroll were done on 25 August 2017.
- (ii) In 465 cases, delays were due to receiving transaction details late from RBI.
- (iii) In 5,620 cases, delays were due to receiving transaction details late from the banks.
- (iv) There were issues with RBI e-scroll processing, amount mismatch and signature verification which caused delay in updating ECL for 687 cases. This was on account of system integration issues with RBI which had been resolved thereafter.

As clear from above, delays in updating ECL were due to systemic issues on the part of all key players including GSTN, authorised banks and RBI. This has to be read together with absence of a mechanism of monitoring performance of authorised banks in meeting service requirements as mentioned in subsequent paragraph 3.14. Taxpayers not being able to discharge tax liabilities due to non-updation of their ECL, in spite of money being already deducted from their bank accounts, defeated the objective of providing timely credits to the taxpayer. It could lead to unnecessary demands being made on a taxpayer to pay the taxes and hence the need to sort and settle the payment system fully.

3.13.2 ECL getting updated without confirmation from banks

As prescribed in the Business Process for Payment, it was included in SRS that the GST portal had to update the ECL of the taxpayer after confirming the payment from the authorised banks. However, there were transactions where

CIN was reported by the authorised banks to the RBI but not to the GST Portal. Audit noticed that in such cases, ECL was getting credited based on e-scroll data from RBI without confirming the payment from authorised bank.

GSTN informed (January 2019) that the details were there in e-scroll of RBI which meant that the tax amount had been deducted from the account of the taxpayer by the bank and the same had been received by the Government through RBI. In order to avoid hardship to the taxpayer and facilitate them to pay their taxes, the ECL of the taxpayer was updated based on the e-scroll received from RBI.

GSTN also informed that this issue was communicated to DoR and discussed in meeting of GSTN representatives with DoR and accounting authorities on 13 October 2017. In the meeting it was not categorically stated to stop updating of ECL on the basis of RBI e-scroll and it was decided that the issue would be referred by DoR to the GST Policy wing for seeking clarifications/directions. GSTN informed that they had not been informed of any further decision in this regard. GSTN also informed that with subsequent development of a utility to make an on-demand-call to the respective banks to fetch the signed CIN record, instances of such transactions reduced substantially.

Thus, DoR had not taken a decision on the matter even though this issue had been flagged by GSTN in October 2017. No reply has been received from DoR (June 2019) to this issue. Rather than continuing such an ad-hoc arrangement, DoR has to set the process right by taking a decision to ensure proper accounting and reconciliation.

3.14 Non-implementation of service requirements of banks

The Joint Committee for Business Process on GST Payment recommended the following **minimum service requirements for the banks, which had not yet been implemented** :-

- There should be an assurance that all transactions credited to respective CGST, IGST, Additional Tax and SGST Accounts were being reported to RBI and no balances were left in these accounts.
- New parameters of bank performance including timely remittance and reporting of error-free data to all the stakeholders were to be developed.
- A system of incentives / penalties (on banks) was to be administered by the respective Accounting Authority if defaults arose in remission of CGST/SGST/IGST/Additional Tax in accordance with a transparent evaluation mechanism of the quality of data of collection reported by banks for accounting and reconciliation purposes.

- Over a long term, the Accounting Authority should develop a service quality rating for the participating banks based on identified transparent and quantifiable parameters.
- There should be an upfront (before being authorised) as well as periodic audit of the IT system of banks and the centralised system for handling GST receipts. The system audit should cover operational, technical and security aspects as per terms of reference and periodicity set by GSTN in consultation with Accounting Authorities.

In the absence of periodic audit of IT systems of the banks and parameters for evaluation and penalties, deficiencies in performance like delayed remittances/reporting of the Government receipts had been continuing on the part of authorised banks as explained in **paragraph 3.13**.

GSTN had informed (January 2019) that they took up this matter with the Principal Chief Controller of Accounts (Pr. CCA), who, in turn, initiated (December 2018) discussions to finalise the service/audit and other issues related to the banks. GSTN further stated in their reply sent through DoR (June 2019) that the payment success ratio for internet banking payment, presented by GSTN in a meeting held in December 2018, has been circulated to all the banks individually as per instructions of PCCA.

The shortcomings mentioned above pointed towards lack of coordination between various agencies and inadequate monitoring on the part of Ministry of Finance (MoF). MoF has to take up this issue on priority.

3.15 Non-reconciliation with accounting authorities

Payment data with the PCCA showed that receipt of 244 CINs pertaining to 2017-18 for an amount of ₹ 3.58 crore and 136 CINs pertaining to April-June 2018 amounting to ₹ 14.53 lakh were pending with GSTN and the same were booked under suspense head.

GSTN had reported (January and June 2019) updating of ECL in 188 cases out of 244 CINs for 2017-18 and in 64 cases out of 136 CINs pertaining to April-June 2018. For non-updating of ECL in other cases, various reasons were provided like Challan cancelled by user, expiry of CPIN, Invalid date, Invalid GSTIN and Unsigned CINs.

Audit observed that some of these issues (like invalid GSTIN, expiry of CPIN) were due to deficiency in GST IT system and others due to deficiency in the IT system of the bank and its interface with GST IT system. It is difficult to comprehend how such errors can occur in a system with automated interface between the IT applications of the banks and the GST portal. In view of the criticality of the function, it is expected that adequate testing would have

taken place at the design stage itself. Being directly related to tax payments, these issues need to be rectified on a priority basis.

3.16 Non-acceptance of payment where payment details were received after expiry of Challan

SRS for Payment Module envisaged a scenario where a payment was initiated but no response was received from the bank and subsequently bank sent CIN details after the challan had expired (i.e. for the expired CPIN). In such a scenario, it was prescribed that the GST IT system should accept this payment only if payment date was within the validity period of challan i.e. within 15 days from the date of challan generation.

Audit noticed that there were seven cases of e-payments and OTC (over the counter payments) where the payment was initiated within 15 days (when CPIN was active) but the payment was completed (CIN generated) after 15 days i.e. payment date was after the expiry date. However, GST IT system did not recognise these transactions as successful payments. Non-credit of payment in ECL even after successful payment would cause inconvenience and hardships to taxpayers. *GSTN intimated (January 2019) that a Change Request for acceptance of CIN generated after expiry of CPIN but payment initiated before expiry of CPIN through Net Banking was implemented on 4 October 2018.*

3.17 System level controls found absent in reconciliation files

Controls should be in place to ensure accuracy, completeness and consistency of data elements and relationships. While control total helps to verify integrity of data extracted based on its contents, checksums help to verify the integrity of the files containing the data extract. The following files were being shared with the Accounting Authorities for reconciliation purposes :-

- CIN and CPIN data of transactions.
- All End of Day (EOD) CINs and CPINs created from previous day 8.00 PM to that day 8.00 PM (24 hrs)
- RECON (reconciled) and NON RECON files based on e-scrolls received from RBI.

The Control Total files shared with the Accounting Authorities did not create 'Record Level Total', 'Major and Minor Head Totals' and 'Checksums'. There was a risk that in the absence of these system level controls, the completeness and accuracy of transmission of files might not be adequately validated.

GSTN had informed (January and June 2019) that the payment module was designed as per the approved Business Process Document and the BARM (Bank Authorization Reference Model), which did not prescribe the control totals. On approval of PCCA, the control totals, as suggested by the audit, were expected to be implemented by September 2019.

Thus, basic application controls, required to ensure integrity of data transfer, were not considered while designing the system.

3.18 Payment through debit/credit cards not provided in the GST IT system

The modes of payments specified in the GST Act included payments by Debit and Credit Cards. The Joint Committee on Business Processes also stated that this mode of payment would facilitate ease of doing business. This feature was also included in the SRS. GST portal, however, had not yet provided for GST payments by Debit and Credit Cards. Delay in implementation meant denial of this payment option to the taxpayers.

GSTN stated (July 2018) that a clarification on this mode of payment was awaited from DoR since July 2017 on financial implication of the following issues: (i) Payment of Merchant Discount, which ranged between 0.5 per cent to 2 per cent of the amount being paid and (ii) Handling of a payment disputed by the payer.

Ministry had not taken any decision in this regard even after about two years of roll out of GST.

3.19 Display of messages was not in sync with the actual status of the transaction

As per SRS, in case of an e-payment, if no response (neither success or failure), was received from the bank after three rounds of pinging, then transaction status had to be kept as 'Initiated' until a response was received from bank / e-Scroll or Challan expired. In such a scenario, taxpayer had to be displayed the message 'No response from the Bank'. However, audit noticed that in case of no response from bank, system showed the status as 'Failed' instead of 'No response from the Bank'. If appropriate message was not displayed, there was a risk that the taxpayer might initiate the payment by generating another challan.

Similarly, on expiry of 15 days from the date of CPIN, the status of challan was to be changed to 'Expired'. However, data analysis of sampled database (Shard-1) revealed that status of 19,842 challans was shown as 'Initiated'

even after the expiry of the challan when ideally the challan status should have been shown as ‘Expired.’

GSTN had intimated (January 2019) that the change requirement for taking care of this deficiency was likely to be implemented by April 2019. GSTN further informed (June 2019 through DoR) that this was under development and expected to be released in June 2019.

3.20 Conclusion on Payment Module

The Payment Module had been up and running from the day of roll out of GST (i.e. 1 July 2017) and had been in use for almost one year by the time IT audit started. Still, there were delays in updating of ECL, in spite of money being already deducted from the bank accounts, which could lead to unnecessary demands being made on a taxpayer to resolve the issues. It was also noticed that there was lack of assurance on minimum service requirements prescribed for banks, issues with reconciliation of GST receipts with PCCA and absence of system level controls like control totals. Issues such as payment initiated before expiry of CPIN but CIN generated after expiry of CPIN and incorrect display of messages to taxpayers were not dealt with until pointed out by audit. Facility of payment through Debit / Credit cards could not be made available as Ministry had not decided on how to deal with the financial implications.

Part C : IGST Settlement reports

3.21 The Provisions for IGST Settlement

Section 18 of the IGST Act specified that on utilisation of Input Tax Credit (ITC) of IGST for payment of CGST or SGST/UTGST, the Central Government should transfer the ITC amount from IGST account to CGST or SGST / UTGST account in such manner and within such time as may be prescribed. Further, Section 17 of the IGST Act provided that where ITC of IGST was rendered ineligible for further utilisation for any reason or lapse (breaking of ITC chain), the same should be apportioned between the Union and the States.

Central Government notified GST Settlement of Fund Rules, 2017 (GSTSF Rule) to apportion the IGST amount between the Union and the States. As per these rules, GSTN was to prepare the following 23 settlement reports and transmit them to the tax authorities.

Form	Form details
01.01	Monthly report containing State-wise details which is prepared from various other reports from 01.02 to 01.12
01.02	IGST liability adjusted against ITC of SGST/ UTGST (including cross utilization by ISD)
01.03	SGST/UTGST liability adjusted against IGST ITC.
01.04	SGST/ UTGST portion of IGST collected on B2C supplies including ISD distribution to unregistered unit, exports and supplies to SEZ.

Form	Form details
01.05	SGST/UTGST portion of IGST for inter-State/UT supplies made to Composition taxable person/ Non-resident taxable person/UIN holders.
01.06	SGST/UTGST portion of IGST collected on B to B supplies where ITC is declared as ineligible, including lapsed ITC due to opting composition scheme.
01.07	SGST/UTGST portion of IGST collected on B to B supplies where ITC remains unutilised till specified period.
01.08	SGST/ UTGST portion of IGST collected on supplies imported by unregistered persons.
01.09	SGST/UTGST portion of IGST for supplies imported by Composition taxable persons/UIN holders.
01.10	SGST/UTGST portion of IGST collected on goods/services imported by registered person (other than composition) where ITC is declared as ineligible.
01.11	SGST/UTGST portion of IGST collected on goods imported by registered person where ITC remains unutilised till specified period.
01.12	SGST/ UTGST portion of interest related to returns paid on IGST.
02.01	Monthly reports containing State-wise details containing list of registered persons who have adjusted liability of Central Tax from the ITC of Integrated Tax; this contains summary reports from table 2.02.
02.02	Monthly reports containing State-wise details containing list of registered persons who have adjusted liability of Central Tax from the ITC of Integrated Tax, as provided under section 18 of the IGST Act.
03.01	Monthly State-wise consolidated statement showing a summary of amount recovered as Integrated Tax, and the interest and penalty thereon, or compounding amount, or deposited for filing appeal; This contains reports from 3.02.
03.02	List of registered persons in a State or UT from whom recovery of Integrated Tax has been made with interest and penalty thereon, or compounding amount against demand, or amount deposited for filing appeal of the IGST Act as provided for in sections 79, 107, 112 and 138 of the CGST Act and the SGST Act of the concerned State and Section 21 of the UTGST Act.
04.01	Monthly State-wise consolidated statement showing a summary of the apportionment of Integrated Tax to the State (State Tax) or the Centre (Union Territory Tax), and to the Centre (Central Tax), in a particular month relating to Integrated Tax collected in respect of which POS could not be determined or the taxable person making such supplies is not identifiable; reports from table 4.02 and 4.03
04.02	List of registered persons from whom Integrated Tax has been collected in respect of which POS made by taxable person could not be determined, and is to be apportioned as provided under first proviso of sub-section (2) of section 17 of the IGST Act

Form	Form details
04.03	Details of Integrated Tax collected in respect of which the taxable person making such supplies is not identifiable, and is to be apportioned as provided under second proviso of sub-section (2) of section 17 of the IGST Act and this shall be an annual report to be submitted in October each year.
05.01	Monthly State-wise consolidated statement showing a summary wherein Integrated Tax paid by taxpayer has already been apportioned but subsequently refunded to the person.
06.01	Report of settlement arising between the Centre (Central Tax) and the State (State Tax) or the Centre (Union Territory Tax) on account of recovery of any tax, interest, penalty, fees or any other amount from refund.
07.01	Consolidated Settlement Register for each State and Union Territory and for the Centre.
07.02	This register contained consolidated details of transfer of funds to be made from Central Tax account to Integrated Tax account and vice versa based on consolidated summary of settlement details contained in Report Form GST Settlement Ledgers (STL) 01.01, 02.01, 04.01, 05.01 and 06.01.

The SRS for Returns Module - Settlement Reports (version 6.00) prepared by GSTN covered the functionality for creation and display of the Settlement Reports. These reports showed the settlement/apportionment of amounts (payable/receivable) between the Union and the States/UTs originating due to cross-utilisation of credit between SGST/UTGST, CGST and IGST and breaking of ITC chain. The SRS covered all the relevant returns (GSTR-2, 3, 4, 5, 6, 9, 10, 11) and other modules such as assessment, appeal, refund for generating the desired settlement reports.

Audit analysed the settlement reports of Delhi State for the month of May 2018 to identify issues relating to IGST settlement. The issues identified were further cross checked with the IGST settlement data on all India basis. Audit found the following inadequacies in IGST settlement reports.

3.22 Incomplete IGST Settlement

It was noticed that IGST settlement for many transactions was not happening as discussed in the following paras. This was partly responsible for accumulation of huge unsettled balance under IGST, as commented upon in **paragraph 2.1.3** of Chapter II of this report.

3.22.1 Reports not being prepared

As of June 2018, out of total 23 STLs, GSTN included only 11 STLs²³ in the reports transmitted to the tax authorities. Many of the remaining reports

²³ GST STL 01.01, 01.02, 01.03, 01.04, 01.05, 01.06, 01.09, 01.12, 05.03, 05.07 and 07.01.

could not be generated due to reasons like non-implementation of corresponding GST modules relating to imports and appeals (like GST STL 01.08, 01.09, 03.01) and limitation of the GSTR-3B return in capturing all the information required for settlement (like GST STL 04.03).

Some of the reports (01.07, 01.10 and 01.11) were still not being generated (May 2019) since they were based on erstwhile GSTR-2 and GSTR-3 returns. GSTN informed that the information required for generating these two reports was intended to be captured through the Annual Returns with the permission of the Government.

Hence, in the absence of all reports which were to be prepared for the settlement of IGST in accordance with GST Settlement of Fund Rules, 2017, the IGST settlement remained incomplete and accuracy of the settlement could not be assured.

GSTN had stated (January 2019) that the existing settlement algorithm had been designed keeping in view data available in GSTR-3B. The reports prescribed in the Settlement Rules could be generated with greater degree of accuracy if GSTR-2 and GSTR-3 were implemented.

GSTR-3B, being only the self-assessed summary return being filed by taxpayers, the data in this return was not validated with invoice details as originally envisaged since GSTR-2 and GSTR-3 were kept in abeyance. Hence, the settlement of funds between the Centre and the States using GSTR-3B was based on data which was not validated.

GSTN further stated (June 2019 through DoR) that

- *Report No. 01.07, 01.10 and 01.11, which were impacted due to GSTR-2 being put on hold, will be generated based on annual return GSTR-9.*
- *Generation of Report No. 01.08 has been started from February 2019 based on the data received from Indian Customs Electronic Commerce/Electronic Data interchange Gateway (ICEGATE), (not verified by Audit).*
- *Report No. 01.09 will be generated based on data received from ICEGATE by July 2019.*
- *Report No. 04.02 and 04.03 may not be required to be generated by GSTN since DoR was taking care of the same by releasing amount on adhoc basis to the States out of the IGST pool.*

Reply of GSTN in respect of Reports 04.02 and 04.03 and its endorsement by DoR need to be reconsidered for the following reasons:

- Section 17 (2) of the IGST Act clearly laid down provisions for apportioning IGST in these cases.
- A provision for release of IGST on ad-hoc basis has been made by amending IGST Act in August 2018 to facilitate apportionment of unsettled IGST, **for the time being**, on the recommendations of the Council.
- GSTN discontinuing two reports, quoting a temporary provision introduced for the time being and its endorsement by DoR in forwarding such a reply of GSTN are not tenable.

3.22.2 Non-utilisation of data on Imports, Appeal, Refund and Prosecution

Under GST, all imports have been considered as inter-state supplies and have attracted IGST. We noticed that import data, however, was not being utilised during settlement of IGST due to non-integration of GST System with the ICEGATE system used by Customs. Similarly, the payments made under Appeal, Refund and Prosecution for settlement of IGST were also not being considered for preparing IGST settlement reports as required by SRS. Thus, the IGST settlement reports were incomplete.

GSTN had stated (January 2019) that IGST data from ICEGATE had started flowing to GST IT system since December 2018. Once the backlog data was received in the GST IT system, the same would be used to settle the IGST paid by unregistered persons / Composition taxpayers, which was likely to be completed by 31 May 2019 for 2017-18. They further stated that in case of IGST paid on import, claimed by the registered taxpayer as eligible ITC in GSTR-3B, the same would be cross utilised subsequently and accounted for in normal settlement process.

GSTN further stated (June 2019 through DoR) that Report No. 01.09 will be generated based on data received from ICEGATE by July 2019 and that reports based on Phase II modules will be generated after implementation of those modules. They informed that generation of Report No. 01.08 has started from February 2019. However, the same remains to be verified by Audit.

GSTN had also replied (September 2018) that the settlement of funds pertaining to Refund, Appeal and Prosecution modules would be implemented once development of all these modules was completed. With regard to Refund, GSTN mentioned that since refunds of Central and the States' taxes were disbursed separately by Central and State Accounting Authorities, settlement of funds was not required in such cases. However, settlement of

the amount cross-adjusted against any liability would be taken up once complete Refund and Recovery Modules were implemented.

3.22.3 Non-Settlement of interest

The provisions of Section 17 of IGST Act, 2017, on apportionment of Integrated Tax would also apply to the apportionment of interest realised in connection with the tax so apportioned. The amount of interest, however, was not being taken into consideration while doing settlement process of IGST.

GSTN had stated (September 2018) that in the absence of processing of GSTR-1, GSTR-2 and GSTR-3 returns, it was not possible to determine the amount of interest due to be settled in favour of a particular State. GSTR-3B had no such information to process settlement report of interest paid on IGST. GSTN further stated (June 2019 through DoR) that work on Report No. 01.12 will be taken up after filing of annual return.

It would be pertinent to note that the IGST Act was amended in August 2018 to facilitate apportionment of such amount of unsettled IGST balance, as recommended by the GST Council, to the Centre and the States on ad-hoc basis. Incomplete IGST algorithm would result in continued accumulation of higher balances in IGST and consequent distribution of IGST on ad-hoc basis between the Centre and the States.

3.23 Duplicate records

SRS for Returns Module – Settlement Reports envisaged that various settlement reports would capture the return data of taxpayers which would be utilised for arriving at the settlement of IGST between the Union and various States. While capturing the return data into various settlement reports, it needed to be ensured that return data of one taxpayer appeared only once in the settlement reports.

Audit noticed that in five reports (viz. 01.02, 01.03, 01.04, 01.05 and 01.06), records for the same taxpayer for the same return period appeared more than once in 6,748 cases in respect of all GST registered taxpayers for the period from July 2017 to July 2018, thereby leading to **inaccurate settlement of ₹ 416.07 crore of IGST funds.**

GSTN had stated (January 2019) that the defect was identified and corrected vide initial bug fix in June 2018 and subsequently by another fix in November 2018. It was also informed that the financial implication on account of this

defect for the previous periods would be taken care of by a separate programme/ utility which was likely to be completed by 31 March 2019.

In spite of the corrections made by GSTN, audit in its verification in January 2019 noted that the issue of duplicate records still persisted and 1,507 cases of duplicate records were found in Settlement Reports 1.02 & 1.03 for December 2018.

GSTN further stated (June 2019 through DoR) that defect has already been fixed but its effect on previous months will be completed by end of June 2019. The rectification remains to be verified by Audit.

3.24 Incorrect computation of IGST Settlement

As per the extant statutes, at the time of audit taxpayers may utilize the ITC available in the credit ledger for discharging their tax liabilities. The following general rule should be adhered for utilisation of ITC :-

- ITC of IGST could be utilised for making payment of IGST, CGST and SGST in that order
- ITC of CGST could be utilised for making payment of CGST and IGST in that order
- ITC of SGST could be utilised for making payment of SGST and IGST in that order

Cross utilisation of credit between CGST and SGST and vice versa was not permitted under the statute.

In 1,65,557 numbers of returns, IGST to SGST and vice versa and IGST liability from CGST-ITC were settled with Delhi in May 2018 report. Audit observed that there were discrepancies in the Settlement as computed by audit using returns data related to **Delhi taxpayers for May 2018 and those provided in Settlement report in 37 cases involving ₹ 37.68 lakh.**

Out of these 37 cases, in 11 cases, the taxpayer records did not appear in the Settlement Reports though cross-utilisation happened in GSTR-3B. On this being pointed out (July 2018), *GSTN replied that this defect was identified and fixed (November 2018) by GSTN. GSTN further stated (June 2019 through DoR) that missing records would be included in the settlement report of April 2019.*

In the remaining 26 cases, GSTN attributed the incorrect values in the Settlement Report to following reasons :-

- *In 23 cases, the manner/order in which ITC of IGST was required to be utilised as per law was not followed.*

- In one case, additional entry was posted for an excess amount in STL.
- In two cases, negative liability was adjusted against the total liability.

Regarding order of utilisation of ITC, GSTN stated that while the order may not have been as per norms, there is no financial implication due to the same. The effect of such transactions are targeted to be included in June 2019 settlement period.

Thus sample data analysis of one month (May 2018) for Delhi alone shows that the basic algorithm for settlement had defects leading to incorrect IGST settlement. The overall impact of the issue would be much higher. Ministry may review the matter and ensure that settlement happens as per the extant legal provisions.

Regarding order of utilization of ITC of IGST, subsequent to completion of IT audit, Rule 88A was inserted (April 2019) which allowed utilization of ITC of IGST towards payment of CGST and SGST / UTGST in any order with effect from 1 February 2019 subject to the condition that entire ITC of IGST should be completely exhausted first before using ITC of CGST or SGST / UTGST. DoR should ensure that this change is duly considered while addressing the defect pointed out in audit.

3.25 Erroneous entries in settlement reports

Incorrect settlement of IGST amounting to ₹ 359.46 crore was noticed during the period from July 2017 to July 2018 because of erroneous entries in Pan India STLs due to the algorithm picking up entries from wrong category of taxpayers as detailed below :-

Settlement Report	Observation	Reply of GSTN (January and June 2019)
STL 01.02 / 01.03	These reports should include taxpayers only from the States to which reports pertain to. However, these reports had 11,911 cases related to the other States, involving incorrect settlement of cross utilisation of ₹ 198 crore.	<i>The defect has been fixed on 31 January 2019 (To be verified by audit). Effect on previous month's settlement will be completed by June 2019.</i>
STL 01.02/01.03	Entries at an interval of 10,000 (viz. Sl. Nos. 10000, 20000, 30000 and so on) were found to be missing. Due to this, summation of the entries did not match with the sum total mentioned in the report. As	<i>The defect had been fixed (September 2018). It has no financial implication.</i>

Settlement Report	Observation	Reply of GSTN (January and June 2019)
	settlement was based on sum total of the report, this issue had no financial implication on the settlement of funds. However, the issue of incorrect reporting to tax authorities remained in the system.	
Category A of STL 01.04	This report was based on inter-state supplies made to unregistered persons in the State. Hence for this report, the supplier must be outside the State concerned. However, there were 37,723 records against category A where the suppliers were located in the same State to which the report pertained, involving settlement of ₹ 153 crore.	<p><i>The settlement was done on the basis of details provided by taxpayer in GSTR-3B. Hence, there was no check for validating the POS due to which the issue had arisen. A Change Request (CR) has been initiated, which was expected to be completed by March 2019.</i></p> <p><i>When the matter was placed before the Law Committee, they directed that no such validation is required in GSTR-3B being self-assessed and the CR is being modified accordingly.</i></p>
Categories E and F of STL 01.04	These dealt with exports / supplies to SEZs with payment of tax. No entries were found against these categories, thereby implying that the transactions falling under these categories were not being considered for settlement of IGST funds.	<p><i>No accumulation of IGST is happening due to non-implementation of category E and F. Taxpayer making export with payment of IGST are claiming refund subsequently. The refund is processed by Customs department directly. No</i></p>

Settlement Report	Observation	Reply of GSTN (January and June 2019)
		<p><i>settlement is required for the same.</i></p> <p><i>Audit does not agree with the contention that there is non-accumulation of IGST due to this reason since there could be instances of not claiming of IGST refund by exporters and instances of delayed payment of refunds by Customs.</i></p>
STL 01.05	<p>This report should have included transactions only pertaining to a State other than the one for which report was generated. However, it included 1,713 records related to the suppliers from the same State to which the report pertained to, involving incorrect settlement of ₹ 4.13 crore.</p>	<p><i>This had arisen due to absence of validation of Place of Supply (POS) in the current system. Change Request for implementing validation of POS was to be implemented by March 2019.</i></p>
	<p>There was no entry against one category of transactions (supplies to non-resident taxable person) in this report, thereby implying that the transactions falling under this category were not being accounted for in the IGST settlement process.</p>	<p><i>Non-resident taxable persons are bringing the goods from outside the country and may not be making any purchase. However, after filing of annual return, the effect will be checked. Presently, GSTR-3B does not contain details of supplies made to non-resident taxpayers.</i></p>
STL 01.06	<p>Category A under this report was for ineligible ITC for the recipients in a</p>	<p><i>The defect has already been fixed</i></p>

Settlement Report	Observation	Reply of GSTN (January and June 2019)
	State who received inward supply from other State. Hence, this category should have included taxpayers belonging to the State to which report pertained. However, this report contained 132 records of Category 'A' where taxpayer belonged to the State other than the State to which the report pertained to, involving incorrect settlement of ₹ 4.33 crore.	<i>on 31 January 2019 (To be verified by audit). Effect on previous month's settlement will be completed by June 2019.</i>

The deficiencies pointed out by audit on IGST settlement cover a gamut of issues such as duplicate records, incorrect computation of IGST settlement and erroneous entries in settlement reports. This shows that the algorithm determining IGST settlement is not correct and would mean that proper testing was not done before running this important functionality. Audit checks showed weaknesses in the output generated based on this algorithm. Hence audit requires access to full data for the purpose of deriving assurance on IGST settlement / apportionment for certifying the accounts of the Government.

3.26 Unrealistic claims of ITC of IGST

As per law, the recipient of supplies would take credit of the input tax paid on such supplies. Recipient should utilize the ITC available in the credit ledger for discharging his tax liabilities. As per GST Rules, ITC could not be claimed by a taxpayer unless it had been paid by the supplier. This was supposed to be ensured through the provisions for matching of invoices of 'suppliers and recipients' through filing of returns GSTR-1 and 2 and generation of monthly return GSTR-3 based on GSTR-1 and 2 filed by taxpayers, with taxpayer adding details of tax paid in GSTR-3.

However, for the time being, filling of GSTR-2 return had been kept in abeyance and taxpayers were allowed to claim ITC in GSTR-3B return without any such cross-verification. Under GSTR-3B, ITC was claimed by the taxpayer on self-assessment basis. Hence, in the absence of evidence that ITC was being claimed by a taxpayer after payment of tax by the supplier, **there was a**

risk that the irregular ITC claims by the taxpayers might go undetected. Certain instances noticed in audit in this regard have been detailed below : -

₹ 8.19 lakh crore of ITC of IGST was claimed by the taxpayers in their returns during 1 July 2017 to 8 August 2018 against total CGST, SGST and IGST of ₹ 11.93 lakh crore collected during 1 July 2017 to 31 July 2018. This meant that ITC claimed was significant relative to tax collected.

Out of ₹ 8.19 lakh crore as stated above, taxpayers of Andhra Pradesh (State code 37) alone claimed (19 July 2018) IGST-ITC for ₹ 6.49 lakh crore which was considered as highly unlikely. This was brought to the notice of GSTN by audit on 21 August 2018.

GSTN replied (September 2018) that the excess IGST credit of ₹6.45 lakh crore pertaining to a particular taxpayer of Andhra Pradesh was erroneously claimed by the taxpayer while filing GSTR-3B for the month of June 2018 and the same had been reversed by him on 28 August 2018.

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

Audit further observed that after removing the above figure from Andhra Pradesh, the State of Punjab constituted the highest IGST-ITC of 32.6 per cent of all India IGST-ITC balance and risk of irregular ITC credits could not be ruled out.

GSTN had stated (September 2018) that in the absence of GSTR-2 and GSTR-3, which were kept in abeyance by the Government, it was difficult to compare and validate the ITC of IGST (or CGST/SGST) availed by the taxpayer in GSTR-3B with the corresponding inward supply data. Under GSTR-3B, ITC was claimed by the taxpayer on self-assessment basis. Further, they also stated (January 2019 and June 2019) that since settlement was not made out of ITC claimed but after cross-utilisation, such wrong claims did not affect the settlement process.

It should be noted that GSTR-3B being a self-assessed return as of now (June 2019), any ITC claimed erroneously could subsequently be cross utilised and thereby enter the IGST settlement process.

3.27 Conclusion on IGST Settlement Reports

The IGST settlement algorithm was being run using incomplete sets of data either due to non-implementation of related modules or due to non-availability of data in case of returns kept in abeyance. To the extent the settlement reports were generated, audit found various inaccuracies in the

algorithm. As these have a bearing on the settlement of funds to the Centre and various States, the Ministry of Finance should undertake a comprehensive review of IGST settlements done so far, duly considering the inaccuracies brought out by Audit.

In view of the weaknesses noticed during audit in the output generated based on this algorithm, audit requires to access full data for the purpose of deriving assurance on IGST settlement / apportionment for certifying the accounts of the Government.

A solution should also be devised to resolve the problem of accumulation of IGST balance due to incomplete IGST algorithm.

Part D : Business Continuity and Change Management

3.28 Business Continuity

Business Continuity Management System (BCMS) is a set of interrelated elements that organisations use to establish, implement, operate, monitor, review, maintain, and improve their business continuity capabilities. BCMS comprises of Business Continuity Plan (BCP) which is the process an organisation uses to plan and test the recovery of its business processes after a disruption. Disaster Recovery Plan (DRP), a subset of BCP, encompasses the steps taken to implement and support the firm's infrastructure, including hardware, software and sites necessary for the recovery of mission-critical services and applications.

3.28.1 Business continuity policy not yet finalised

Any kind of disruption in functioning of GST IT System, even of temporary nature, will severely impact the indirect tax administration of the country. Hence a comprehensive policy of BCMS and its proper implementation are very crucial for all stakeholders of the project.

We noticed that GSTN was still in the process of finalising the BCMS. The first draft of BCP-disaster recovery policy was prepared in August 2017 and updated in May 2018 but it had not been approved. Only the DRP was finalised in May 2018, 11 months later after roll out of GST IT System.

GSTN had stated (January 2019) that BCMS plan was being refined and same would be released by March 2019. To address the availability of the current GST IT System, the approved DRP was released and the disaster recovery drills were performed as per this plan. GSTN further stated (June 2019 through DoR) that BCMS Plan (Ver 1.4) has been released on 28 March 2019. However, the same remains to be verified in audit.

3.28.2 Disaster Recovery Performance short of target

The IT infrastructure in GSTN had been operating from one primary Data Centre²⁴ (DC-1) and Near Line Data Centre²⁵ (NDC-1). The Disaster Recovery Mechanism (DRM) was to be implemented through secondary Data Centre (DC-2) and Near Data Centre (NDC-2) at an alternate location. The DC-2 was expected to take over in case of disruption of service in the DC-1 within specific time and ensure continuity of service. GSTN had set a target of zero data loss and 30 minutes time as Recovery Point Objective²⁶ (RPO) and Recovery Time Objective²⁷ (RTO) respectively for switch over data from DC-1 to DC-2 or vice-versa.

Our scrutiny of incident root cause analysis linkage report revealed that the services of GST portal were affected 25 times during 1 July 2017 to 30 June 2018. Out of these, during four incidents, all the services of GST portal were affected and server was down for the time ranging from 01:10 hours to 12:00 hours. The services were restored only after fixing the issue in DC-1 and were not transferred to DC-2 as intended in the BCP since the secondary fall back DC-2 facility was not ready.

Audit also noted that to test the readiness of DRM, GSTN performed two mock drills²⁸ in June and July 2018. In the first mock drill, a total of 14 hours 50 minutes were taken against planned duration of six hours. The second Mock drill took three hours in excess of the planned duration.

GSTN had stated (August 2018) that due to frequent changes in business process, the system software in GST IT system were being deployed twice every week and often unforeseen scenarios had caused these outages. During application outages, moving Data Centres would be of no value unless the affected application was first corrected.

Audit did not agree with this contention since in 11 cases out of 25 incidents mentioned above, GSTN had identified infrastructure as responsible for the incident. All the four incidents, when all the services were affected, were

²⁴ Data Centres comprise of networked computers and storage that businesses or other organisations use to organise, process, store and disseminate large amounts of data.

²⁵ In some organisations there will also be a Near Line Data Centre at the location of primary DC for data replication where copy of data is replicated on real time to prevent any data loss in the event of a disaster.

²⁶ RPO refers to the amount of data at risk and reflects the amount of data that potentially could be lost during a disaster recovery.

²⁷ RTO is the targeted duration of time and a service level within which a business process must be restored after a disaster (or disruption) in order to avoid unacceptable consequences associated with a break in business continuity.

²⁸ The primary objective of the mock drill is assessing the readiness of the alternate Data Centre to provide services in adequate time. It also assesses if the estimated time for each activity is adequate. During the mock drill, application and monitoring services will be failed over to the alternate Data Centre, however the same will not be made available to public.

attributed to issues in infrastructure. In such cases, the lengthy outage period could have been avoided if the DRM was available, adequate and functioning.

GSTN informed in Exit conference (December 2018) that DC-2 was fully functional. However, the same remains to be verified in Audit. GSTN also replied that as per RFP, RTO and RPO would be measured during Operation and Maintenance (O & M) phase and not in the Development phase. During all the incidents, zero RPO was achieved and this was demonstrated via Disaster Recovery Drills (DRD). The DRD involving shifting of operations from primary DC to alternate DC were being performed so as to ensure preparedness within agreed RTO and RPO in phased manner. GSTN further reported (June 2019 through DoR) achievement of RTO of less than 30 minutes for Critical function (Invoice upload, Return Filing, Tax Payment and Ledger Generation) and RTO of less than 4 hours for other functions.

GSTN's reply should be seen in the light of criticality of GST System in the national economy. Even though GSTN might have got into the O&M Phase recently, the fact was that GST portal had gone live since July 2017. A functional DRM taking care of all disaster scenarios with target performance criteria should have been ready long time back. The failure to ensure this for nearly two years after rollout of such a critical application was an unmitigated risk for the entire GST-ecosystem and its stakeholders.

Thus, GSTN was still in the process of streamlining the BCMS which remained work-in-progress and the recovery time noted was not as per the intended targets. Hence, disruption in service in primary DC might affect the GST services causing inconvenience to all the stakeholders.

3.29 Change Management

According to the change management process, GSTN should create the Change Request (CR) on the basis of new requirement from the Government or deviation from approved SRS. The MSP should provide a CR document with a sequential number of the CR containing the proposed change item, description of the proposed change, including business impact, cost impact, risk, training (if any), timelines of delivery of change and Service Level Agreement (SLA's) for delayed delivery.

The impact analysis document should be prepared to identify the potential consequences of the CR, the modification needed to accomplish the required change and also covers the high level timeline of delivery. In case the cost impact of CR crossed ₹ five lakh, it required the approval of the Change Approval Board (CAB), otherwise Sr. Vice President (Software Development) could give the approval, informing CAB subsequently. CRs, as approved,

should be communicated to the MSP for development. Reasons of rejection of the CRs, if any, should also be noted and communicated to the initiator of the CR.

The MSP would acknowledge receipt of the CR document and responsible for delivery of the change as per cost and timelines approved by the CAB. Delays in delivery of changes should be placed before the CAB, for applying the penalty as applicable for approval.

A total of 271 CRs were raised from 1 July 2017 onwards till 13 July 2018 across all modules. Audit reviewed the change management process in GSTN and noticed the following deficiencies : -

3.29.1 Timeline for activities not prescribed

Audit noticed that no individual timelines were defined for each activity/step for below mentioned activities:-

- Preparation, review & approval of CR and impact analysis documents
- CAB or GSTN approval on the basis of cost
- Implementation, testing and verification of CR
- Acceptance certificate
- Processing of invoice raised by MSP

As no time limits were fixed for the above activities, it was not possible to ensure that CRs were being handled in a timely manner and to fix responsibility in case of delay on part of the MSP/GSTN in implementing the change.

GSTN had stated (January 2019) that RFP was drafted considering the waterfall methodology for development of application software. However, due to multiple changes in requirements from the Government, the Agile methodology was adopted to continue the development. With this, GSTN was deploying services to production in a continuous manner and at the same time new features were being developed. GSTN intimated that they were running in development and operational phases together and the timeline mentioned in the RFP were applicable only for operational phase. The change management process was being revised to optimise the changes being raised and timeline for individual activities.

Reply of the GSTN was not agreeable since desired timelines for the activity could be defined and implemented from the initial days of rollout of GST since it was a matter of internal business process to handle CR. Keeping the timelines open-ended for a running system was an inefficient project management methodology.

GSTN informed (June 2019) that they have re-visited the change management process in December 2018 to establish an orderly and effective procedure for tracking the change from initiation till production along with delay, if any.

3.29.2 Impact analysis either retrospectively done or not done

Out of the 271 CRs reviewed, audit noticed that impact analysis was done retrospectively in 168 CRs raised between 1 July 2017 and 22 February 2018. Further, in 103 CRs, impact analysis was not done by December 2018. Audit noticed that in only 112 CRs, cost analysis was done and in rest of the 159 CRs, cost analysis was yet to be done. Among the 112 CRs where cost analysis had been done, 19 CRs involved costing more than ₹ five lakh and hence needed approval of CAB. 14 CRs were approved by CAB post facto (July 2018) and the remaining five CRs were yet to be given approval.

GSTN stated (January 2019) that impact analysis and approval of CAB started in Phase 3 from February 2018 onwards in order to realise the effort spent in implementing the CRs. An estimation framework was formalised with impact analysis template to provide the details of effort and timeline of a CR. This proposal was formally approved by CAB on 22 February 2018. For the earlier cases, since the CRs were already executed, post facto approval from CAB was being accorded.

3.29.3 Acceptance certificate not issued

After successful implementation of CR, 'Acceptance Certificate' was required to be issued by CAB. As per RFP, if in any case there was no response from CAB, the said implementation would automatically be deemed accepted.

'Acceptance Certificate' was not issued (January 2019) in 135 CRs which were in live production. Thus, these changes were deemed to be accepted by GSTN even if the due process of accepting the change might still be pending.

GSTN had stated (January 2019) that CAB was reviewing and approving the effort and cost required to implement the change and provide the go-ahead to start the change implementation. Since the changes were being initiated by GSTN Services team, it should have been reviewed/approved by GSTN Services team after the successful implementation. This was an anomaly in RFP that the acceptance and completion certificates would be issued by CAB. This was corrected by taking the approval from CAB in the meeting held on 14 December 2018, that change requester would provide the acceptance post implementation of CR in production, as per defined Standard Operating Procedure of Procurement & Contract department and Change Management of GSTN. GSTN further stated (June 2019 through DoR) that the new procedure defined has been mutually agreed between MSP and GSTN.

It should be noted that if any shortcomings were to be noticed in changes already made, there existed a risk of the MSP absolving from their responsibility since they were deemed to have received the Acceptance Certificate for the change.

3.29.4 Lack of effective monitoring over CRs due to deficient documentation

Audit observed that there was no formal documentation and end to end software solution in 85 CRs prior to November 2017. Due to this, various processes of changes were spread across multiple teams and spreadsheets making the effective monitoring of CRs difficult.

GSTN had stated (January 2019) that the change management process was streamlined in a phased manner. Initially the focus was on tracking and monitoring since the system was new and operational mechanism was not completely established. In order to strengthen the process, control was added in phased manner. To evaluate the impact analysis and effort estimation of a change, the framework was approved by CAB in February 2018. Subsequent to that, the changes raised and implemented before that date were evaluated in retrospective manner and CAB approval was accorded post facto. For the new changes, the revised process was being used.

The above shortcomings showed that change management process was yet to be streamlined even after about two years of rollout of the application. In the absence of defined timelines, and effective change approval, acceptance and monitoring mechanism, Audit was not in a position to comment whether the changes implemented met the desired standard and had led to the intended outcomes.

GSTN further stated (June 2019 through DoR) that the change management process has been revised in December 2018 to effectively manage the changes.

3.30 Conclusion on Business Continuity and Change Management

Any kind of disruption in functioning of GST IT System even of temporary nature would severely impact the indirect tax administration and cause inconvenience to all the stakeholders. Business Continuity Policy still being work-in progress and a long disaster recovery time against a 30-minute targeted recovery time, as reflected in the mock drills, pointed towards the risks to the system in case of any disruption. Lack of a systemic approach to change management indicated the crucial risks existing in the application running on the GST portal.

3.31 A summary of the IT audit findings

The IT audit of GSTN revealed, *inter alia*, following issues : -

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

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

- System failed to validate and debar ineligible taxpayers from availing Composition Levy Scheme.
- Mandatory fields were found made optional or accepting junk values.
- TDS registrations were allowed under invalid category.
- Lack of validation of key fields in Registration (Legal Name, Type of Business and CIN) with CBDT and MCA Databases.

The Payment Module, despite being in operation since 1 July 2017, was fraught with operational deficiencies like: -

- Delay in updating the ECL even after successful payment of tax by the taxpayer.
- Lack of assurance on minimum service requirements prescribed for banks.
- Issues in reconciliation of GST receipts.
- Issues such as payment initiated before expiry of CPIN but CIN generated after expiry of CPIN and incorrect display of messages to taxpayers were not dealt with until pointed out by audit.
- Facility of payment through Debit / Credit cards could not be made available as Ministry did not decide on how to deal with the financial implications.

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

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

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

The following **system design deficiencies** have been noticed : -

- There were no control totals like check sums or record level totals in files shared with Accounting Authorities.
- The IGST algorithm was found to be defective picking up entries from wrong reports in IGST module.
- A field like turnover limit, prone to changes, was not made configurable.
- No alert was issued when the threshold of turnover prescribed for Composition Levy Scheme was crossed.

Business Continuity Policy was not finalised and only Disaster Recovery Plan had been in place. The Disaster Recovery drills took longer than the 30-minute targeted recovery time. These pointed towards the risks to system in case of any disruption.

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

While acknowledging that GST is a complete new system being developed, the fact remains that in view of its magnitude and Pan-India impact, it is all the more necessary that due care is taken both in development and in testing of the system before roll out. The failure to map business rules correctly and the absence of key validations in the rolled out system points to inadequacies in the functioning of GSTN. The issues brought out in IT audit also pointed towards the need for GSTN to re-examine prioritisation of development of various functionalities, strengthen their root cause analysis and testing process to ensure that critical deficiencies in application are detected and rectified before rollout to public. The need to involve executive in UAT / SRS sign off also needs to be re-examined.

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

Chapter IV : Compliance Audit of GST

The instances mentioned in this Report are those which came to notice in the course of test audit conducted during the period 2018-19. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

4.1 Lack of access to data

GST is envisaged as a highly IT-intensive system of tax administration with a single interface for taxpayers across the country for their GST compliance functions. With all the steps in tax collection right from challan generation to accounting of receipts and from registration to return filing / scrutiny being automated, it provides a good opportunity for the first time ever to the Government and the Parliament to have a full assurance²⁹ from the CAG on the correct implementation of tax laws. In a manual system, audits were done on “test checks” and there were limitations in providing assurance. Unhindered and full access to pan-India data is crucial for meaningful audit and to draw assurances, otherwise certifying the revenue receipts may become difficult. In this background, and in view of the need for data analysis in audit of GST, the office of the CAG took up the matter of access to Pan-India GST data with DoR as far back as 2016 itself. DoR’s offer of providing data based on CAG’s queries is not workable, as without the full data, it is neither possible to formulate queries, nor run the required algorithms on the data. The CAG had sought data through the Application Programme Interface (APIs) already designed by GSTN. It need hardly be stated that providing such data as CAG may require is a constitutional and legal requirement.

After much pursuance, CBIC has shared only the MIS reports which give aggregate statistics at Commissionerate level (for Central data) and State level (for State data). Audit, therefore, was hampered in the detailed analysis of pan-India transactions.

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

²⁹ ‘expressing a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria’

4.2 Audit examination

The GST return mechanism has been undergoing major changes since implementation of GST. The due date for filing annual return for 2017-18 by December 2018 originally was subsequently extended to August 2019. Hence, during the year 2018-19, we focused mainly on audit of transitional credits, registrations and refunds.

The findings on each of the identified areas are given below in three parts : -

Part A : Transitional credit

4.3 Introduction

With the introduction and implementation of GST, which subsumed multiple indirect taxes, there was also a need to clearly spell out provisions and arrangements to ensure smooth transition from the old tax regime to GST. This was needed especially to provide for carry forward of ITCs, relating to pre-GST taxes that were available with the taxpayers on the day of roll out of GST, into GST regime (*herein after referred to as transitional credits*).

Transitional credit provisions are important for both the Government and business. For business, these credits should be carried forward properly to give them benefit of taxes they had already paid on inputs or input services in the pre-GST regime. From the view point of the Government, the amount of admissible transitional credits will determine the extent of cash flow of GST revenue and hence in the interest of revenue, only admissible and eligible transitional credits should be carried forward into GST.

4.4 Provisions for transitional credit

4.4.1 Conditions for availing transitional credits

Section 140 of the GST Act contains elaborate provisions relating to transitional arrangements for ITC. This section provides for a registered person, other than composition taxpayer, to carry forward closing balance of input tax credit under Central Excise and Service Tax Act as CGST and input credit under State VAT Acts as SGST, subject to specified conditions. The important conditions are discussed below : -

- a) Credit can be carried forward as given in the last return filed under pre-GST statutes
- b) Such credit should be admissible as ITC under GST Act and pre-GST Acts
- c) Returns for at least previous six months before roll out of GST should have been furnished.

A registered person, not liable to be registered under the pre-GST law, or who was dealing with exempted goods / services or a first / second stage dealer or a registered importer or a depot of a manufacturer, is also entitled to carry forward credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock. The important conditions prescribed for this are that the said registered person should be in possession of invoice or other prescribed documents, evidencing payment of duty under the existing law in respect of such inputs, which were issued not earlier than twelve months immediately preceding the appointed day (viz. 1 July 2017).

Similarly, provisions were made to facilitate taxpayers to carry forward ITC in respect of capital goods, Input Service Distributors (ISD) and Centralised Registrations.

CGST Act has been amended (August 2018) in order to clarify, with retrospective effect from 1st July 2017, that the cesses shall not be a part of the transitional ITC under GST.

4.4.2 Timelines for transitional credit returns

Rule 117 of the CGST Rule, 2017, provides that every registered person entitled to transitional credit, has to file a declaration electronically in FORM GST Tran-1, on the GST portal within 90 days of roll out of GST. This rule also provides for extension of this ninety day period by a further period not exceeding ninety days by the Commissioner, on recommendation of the GST Council. Thus, the *CGST Rules initially provided for a maximum of 6 months to file Tran-1*. However, to facilitate those taxpayers who could not file Tran-1 by the due date on account of technical difficulties on GST portal, a provision was inserted³⁰ in this rule for extension of date for Tran-1 by a further period not beyond 31 March 2019, on the recommendations of the Council.

4.4.3 Due date(s) for filing Tran-1

The due date for filing or revising Tran-1, which *originally was 28 September 2017* has been extended from time to time with final deadline extended to 31 March 2019 as detailed below : -

Date of Order	Extended due date	Reason for extension
18 and 21 Sep 2017	31 Oct 2017	The due date for submission of Tran-1 return was extended to facilitate revision of Tran-1.
28 Oct 2017	30 Nov 2017	No specific reason was found for extension but the GST Council discussed about the delay

³⁰ Vide Notification no. 48/2018-CT dated 10 September 2018.

Date of Order	Extended due date	Reason for extension
		in development of the functionality for revision of Tran-1.
15 Nov 2017	27 Dec 2017	Based on deadlines provided by GSTN and discussions with GSTN, the due date for submission extended.
17 Sep 2018	Up to 31 Jan 2019 in certain cases	Owing to technical difficulties on common portal, extension recommended by the GST Council, for the class of registered persons who could not submit Tran-1 by the due date on account of technical difficulties on GST portal.
31 Jan 2019	Up to 31 March 2019 in certain cases	

CBIC also set up (April 2018) an IT grievance redressal for taxpayers' grievances due to technical glitches on GST portal vide circular dated 3 April 2018. It was mentioned in this circular that a large number of taxpayers could not complete the process of Tran-1 filing either at the stage of original or revised filing as they could not digitally authenticate the Tran-1s due to IT related glitches. As a result, a large number of such Tran-1s were stuck in the system. GSTN was asked to identify such taxpayers who could not file Tran-1 on the basis of electronic audit trail. It has been decided that all such taxpayers, who tried but were not able to complete Tran-1 procedure (original or revised) of filing them on or before 27 December 2017 due to IT-glitches, shall be provided the facility to complete Tran-1 filing.

The technical glitches and delays in making Tran-1 available on GST Portal has led to repeated extension of due date for filing the return Tran-1.

4.5 CBIC instructions for verification of transitional credits

CBIC issued instructions from time to time during September 2017 to March 2018 regarding verification of transitional credits by its field formations as detailed below :-

- i. In September 2017, CBIC informed its field formations that the registered persons had claimed over ₹ 65,000 crore as CGST transitional credit till then. ***(It is worthwhile to mention here that CGST collected during July and August 2017 was ₹ 29,296 crore).*** CBIC flagged the possibility of registered persons claiming ineligible credit due to mistake or confusion. It asked its field formations to

verify claims of ITC of more than ₹ One crore by matching the credit claimed in transitional returns with the closing balance in returns filed under earlier laws and checking eligibility of credit under GST regime.

- ii. Through instructions dated 1 December 2017, field formations were directed to verify cases of transitional credit over ₹ One crore with special care and thereafter to undertake verification in descending order of credit availed.
- iii. The circular issued (March 2018) by CBIC indicated that Central Tax Offices would verify transitional credit claims in respect of CGST in case of all taxpayers irrespective of whether the taxpayer was allotted to Central or State Tax Office. CBIC also shared the list of identified 50,000 cases of CGST credits along with datasets with Central Tax Offices and asked them to complete verification of 1/3rd of cases assigned in each quarter starting from March-June 2018 and ending in Jan-Mar 2019.

4.6 Leveraging IT for verification of transitional credit claims

Prior to introduction of GST portal, the department has been using the IT application “Automation of Central Excise and Service Tax” (ACES) through which filing of returns, payment of duty/tax and processing of returns relating to Central Excise and Service Tax were carried out. Hence, the department had a database relating to returns filed by taxpayers in respect of goods manufactured / services provided and the details of Cenvat credit closing balance and other details available from the returns as on 30 June 2017.

In the initial instruction issued in September 2017, CBIC asked field formations to match transitional credit claims with Cenvat credit balances. However, in March 2018, CBIC shared data sets of top 50,000 transitional credit claims on their intranet portal “ANTARANG” to assist field formations in verification of transitional credits.

As informed by CBIC,

- Tran-1 data is received from GST portal on the CBIC backend system. This data has been integrated with appropriate validation to enable automated verification of correctness of credit carried forward to Tran-1 by the taxpayers.
- This validation ensures that the details of Tran-1 are cross checked with (i) pre-GST registration, (ii) status of returns filed under pre-GST laws and (iii) Cenvat credit balance available in the last return filed by the taxpayers.

- Where the validation is successful, a green tick would be shown on dashboard of departmental officer viewing Tran-1 and a red tick would appear in case the validation failed.

4.7 Audit of transitional credits

Given the importance of transitional credits, being a one-time activity during transition to GST and its impact on revenue inflows in GST regime, we focussed on verification of transitional credit cases by CBIC field formations during our field audit in 2018-19.

To conduct data analysis and identify areas of focus and to select units / cases for audit, we requested (April 2018 and June 2018) CBIC to provide data relating to transitional credits and sought (December 2018) transitional credit data of selected fields. **The requisitioned data has not been provided by CBIC and even the readily available data sets relating to the 50,000 cases identified by CBIC have not been made available to us.**

In absence of data, we carried out a limited audit of transitional credit claims in the units which we selected for audit based on other risk parameters. The individual cases noticed and the system lapses identified based on these cases are included in this report.

Some of the audit findings indicate that data / red flags available in ACES have not been efficiently leveraged to identify and reject inadmissible credits and corrective action was taken only after being pointed out by us. CBIC also did not devise any methodology through which the inadmissible claims can be addressed at the central level with the aid of information technology.

Ministry, in its reply stated (March 2019) that all possible steps have been taken at Board level for denial of ineligible credit to be transitioned in GST regime. They also said that the decision to allow or disallow ITC is of quasi-judicial nature to be taken by proper officers in terms of provisions of the Act in each such case individually. They further held that this cannot be done at central level as the same would be ultravires the provisions of the Act.

Audit found inadmissible claims in cases already verified by the department and where the data validation results should be available with the department and the tax officer. This showed that despite CBIC taking steps of issuing circulars and providing data sets and validations to assist tax officers to verify transitional credits, all available details have not been fully utilised for validation and even the available leads have not been effectively

used by the tax officers or monitored by CBIC. Audit's suggestion of leveraging IT to identify inadmissible credits and address the same at central level through automated system is more from the point of view of Business Process

Re-Engineering to effectively assist tax officers to discharge their statutory functions.

4.7.1 Overview of audit of transitional credits

We focused on verification of transitional credit cases by the department during our audit of selected ranges in 47 Central GST Commissionerates. We verified 2,119 cases and found 309 instances (15 per cent) of omissions in verification of transitional credits amounting to ₹ 392.91 crore, which were issued as observations to the CBIC field formations. As already mentioned in paragraph 4.7, in the absence of data, we carried out limited audit of transitional credits.

In the absence of data, we carried out a limited field audit of transitional credits. Despite the limited audit, we found deviations in a significant 15 per cent of cases test checked. This points to the likelihood of a large number of errors/omissions in the overall population of transitional credits claimed by the taxpayers.

Forty two significant observations relating to 39 taxpayers in 13 Commissionerates have been issued to the Ministry (**Appendix-VI**) and included in this report, involving a money value of ₹ 107.39 crore as detailed below :-

(₹ in crore)			
Issue noticed	Commissionerates involved	No. of cases	Amount of audit objection
Carry forward of excess Cenvat balance	6	6	2.58
Irregular availing of transitional credit	4	4	2.02
No systemic check to prevent double availing of credit	1	1	0.00
Irregular Availing of Cess credit not detected	6	21	9.74
Non-restriction of utilization of disputed credit	2	2	78.49
Non-payment of interest on reversal of transitional credit	4	8	14.56
Total		42	107.39

Out of these 42 cases, Ministry accepted the observation in 33 cases involving an amount of ₹ 14.58 crore and intimated recovery of ₹ 3.72 crore in 18 cases.

4.7.2 Carry forward of Excess Cenvat Credit

As per Section 140 of the CGST Act, 2017, a registered person, other than a Composition taxpayer, is entitled to take, in his Electronic Credit Ledger, the amount of Cenvat credit carried forward in the return relating to the period up to 30 June 2017, furnished under the existing law. The registered person shall not be allowed to take the credit unless the said credit was admissible as Cenvat Credit under the existing law (Central Excise Act, 1944 and Finance Act, 1994) and is also admissible as ITC under CGST Act, 2017.

Section 140(3) of CGST, Act, 2017 facilitates transit of tax credit on stock into the GST regime. One of the conditions for allowing the transitional credit under section 140 (3) is that the invoice should not be before 1 July 2016 i.e. not more than one year old.

We noticed **six cases** of excess availing of transitional credit amounting to ₹ 2.58 crore in six Commissionerates³¹ (**Appendix-VI**) in violation of provisions quoted above. The excess carry forward of transitional credits in all these cases was not detected during transitional credit verification process. This resulted in the excess carried forward transitional credit of ₹ 2.58 crore remaining undetected until pointed out by us.

Of these, **four cases** in four Commissionerates, pertained to incorrect claim of transitional credit on account of excess availing, incorrect computation of reversal of Cenvat credit on common inputs and services, short payment of excise duty and incorrect credit based on invoices which were more than one year old.

When we pointed this out (between May 2018 and February 2019), the Ministry, while admitting the observation in three cases, intimated (between May and June 2019) recovery of ₹ 1.16 crore including interest. In one case, while not admitting the failure of department in verifying transitional credit claims, the Ministry stated (June 2019) that there was a partial default in payment of duty by the taxpayer in June 2017 and that separate action would be initiated under the existing law (i.e. Central Excise). The reply of the Ministry was not acceptable since the department did not identify this lapse though the claim of transitional credit in this case was already verified.

The remaining **two cases** have been narrated below : -

³¹ Chennai North, Chennai South, Coimbatore, Dehradun, Pune-I, and Delhi East.

(a) Omission in detection of wrong carry forward of credit despite being red flagged by ACES

Scrutiny of the Tran-1 of a taxpayer in Delhi East Commissionerate, revealed that the taxpayer had claimed credit of ₹ 2.33 crore. Audit noticed that in the ST-3 return of the taxpayer for the period April to June 2017, the opening balance of Cenvat credit of Service Tax was ₹ 1.38 crore. This was pointed out as 'an error' in the return by ACES as the taxpayer had 'Nil' closing balance in the previous return (i.e. for the period October 2016 to March 2017). Thus, the transitional credit to the tune of ₹ 1.38 crore was inadmissible.

The Department had verified this case but this irregular credit, though red flagged by the ACES System in the return for the quarter April – June 2017, was not noticed by the department. Further, this audit finding points towards non-utilisation of information available in ACES to ensure automated verification of correctness of transactional credits.

When we pointed this out (May 2018), the Ministry while admitting the objection intimated (April 2019) the deposit of ₹ 1.38 crore by the taxpayer under protest. Further, it stated that although the return was marked with the Error detected, the return was not marked for Review & Correction by the System. Hence, Audit's contention that data/information available in ACES were not utilised for automated verification was not fully correct.

Reply of the Ministry could not be accepted as the details of the previous credits availed by the taxpayer were available in the ACES system. It would be pertinent to mention that though the issue was flagged by the ACES system, the same was not used even during the verification of credits undertaken by the department. This and other observations on verification of transitional credits included in this report have shown that electronic information available in ACES has not been fully utilised during the verification process.

(b) Credit involving multiple units

We noticed that a taxpayer in Pune I GST Commissionerate, claimed transitional credit of ₹ 214.58 crore as ITC of all their registered/unregistered units under existing law. The above said Tran-1 form was verified by the department as per the Board instructions issued from time to time and reported (July 2018) to Pune Zone.

On scrutiny of Central Excise Return ER-1 (Excise Return-1) of one of the units, say Unit 'X' for the month of June 2017, it was found that the closing balance of eligible credit was ₹ 15.04 crore, however, the taxpayer had claimed transitional credit amounting to ₹ 17.32 crore in Tran-1 of that unit.

Further, verification of ER-1 returns of all other existing units for the month of June 2017, revealed that the transitional credit in respect of two other units, say Units 'Y' and 'Z' having Cenvat closing balance of ₹ 0.03 crore and ₹ 2.24 crore (including cess) respectively, was not claimed in Tran-1 of units Y and Z. However, the total amount of credit of ₹ 2.27 crore of the said two existing units was carried forward under unit X.

On verification of the GST registration certificate (form GST REG-06), it was found that the above units Y and Z were neither registered as principal place of business nor additional place of business under GST. Hence, the Cenvat balance of these units was not eligible for carry forward through Tran-1. Thus, the claim of transitional credit of ₹ 2.27 crore was required to be recovered.

When we pointed this out (February 2019) the Ministry, while not accepting the observation, stated (May 2019) that the assessee tried to add the above two units as additional place of businesses before filing TRAN-1, but GSTN portal was not allowing to add additional places of business. However, an SCN for ₹ 2.27 crore had been issued to the taxpayer.

The argument put forth by the Ministry appeared flawed on account of the following reasons :-

- The functionality to apply for amendment to Registration was made available on the GST portal in September 2017.
- Instead of issuing SCN for recovery of the amount, Ministry should have instructed the field formation to facilitate taxpayer to correct the registration details and thereby regularise the TRAN-1 which appeared as an irregular availment due to the initial technical glitches.

The Ministry should verify all similar cases where difficulty was faced by the taxpayer due to technical glitch on the GST portal and ensure corrective action.

4.7.3 Irregular availing of transitional credit

As per Section 140 of the CGST Act, 2017, the taxpayers should have furnished all the returns required under the existing law to avail transitional credit.

CBIC has clarified vide instructions dated 14 March 2018 that balance in Personal Ledger Account would not be under transition to GST and that on completion of the pending assessment, the same could be claimed as refund under Central Excise/ Service Tax provisions.

Transitional credit can be availed in respect of inputs or input services received on or after 1 July 2017, the duty or tax in respect of which has been paid by the supplier under the existing law, subject to the condition that the invoice or any other duty or tax paying document of the same was recorded in the books of account of such person within a period of thirty days from the appointed day (1 July 2017). The CBIC clarified in its letter dated 14 March 2018 that the provisions of this Section did not apply to capital goods.

It has been judicially held that the terms “inputs” and “capital goods” are distinctly defined in the Act and thus, in the absence of matching provisions pertaining to capital goods in section 140(5), there would be no possibility of availing credit on such tax under the GST regime.

In respect of four cases in four Commissionerates³², Audit noticed irregular avilment of transitional credit involving revenue of ₹ 2.85 crore (**Appendix VI**) without adhering to provisions quoted above.

The Ministry accepted the observation in two cases and intimated issuance of Show Cause Notice (SCN).

In another case issued to department in November 2018, Ministry, while not admitting the observation, stated (May 2019) that the lapse was procedural in nature and that the mismatch was because of wrong filing of ER1 return by the concerned unit and that the mistake was suo moto intimated by the taxpayer to the department. It was also stated that the department’s verification was in progress and as abundant precaution, SCN was issued (May 2019) to the taxpayer. The reply of the Ministry was not acceptable as there was no provision for transfer of credit which has not been claimed by the taxpayer through original or revised return. Hence taxpayer directly availing ITC, which was not available in the return, was irregular.

Reply was awaited (June 2019) in one case.

Instances involving incorrect availing of Cenvat credit on capital goods and availing credit without filing ST returns have been narrated below :-

(a) Non-detection of incorrect availing of Cenvat credit on capital goods

We noticed that a taxpayer in Coimbatore Executive Commissionerates, had carried forward Cenvat credit on capital goods or parts of capital goods, as transitional credit which was not in order. This excess carry forward of transitional credit of ₹ 22.74 lakh was not pointed out by the department during verification of transitional credit. This excess credit of ₹ 22.74 lakh has to be recovered.

³² Coimbatore, Chennai South, Gandhidham, Pune I.

When we pointed this out (January 2019) the Ministry, admitted the objection and informed (June 2019) that SCN would be issued.

(b) Cenvat credit allowed without filing returns of service tax

Audit observed that a taxpayer in Gandhidham Commissionerate had claimed ITC of service tax amounting to ₹ 73.51 lakh in its Tran-1 form without filing the last service tax return – ST-3 (for the period up to June 2017). This lapse was not observed by the department despite conducting verification (Jan – Mar 2018) of the Tran-1 of the taxpayer.

When we pointed this out (July 2018), the Ministry while admitting the observation intimated (April 2019), the issue of SCN to the taxpayer.

4.7.4 No systemic check to prevent double availing of credit

We noticed that a taxpayer having two registration numbers in Belapur GST Commissionerate, had filed Tran-1 for both GST registrations in the month of November 2017 and claimed transitional credit of ₹ 25.51 crore and ₹ 4.27 crore. The same were reflected as ITC in the respective credit ledgers on 13 December 2017. The taxpayer had again filed revised Tran-1 in the month of December 2017 and claimed transitional credit of ₹ 4.27 crore under the other registration number and the same was reflected in the ECL on 27 December 2017.

On verification, the department noticed that the taxpayer had carried forward same transitional credit of ₹ 4.27 crore under both GST registrations. The department had pointed out incorrect transition of ITC amounting to ₹ 4.27 crore as credited in ECL and the same was debited by the taxpayer from his credit ledger on 29 June 2018. ***This indicated that the taxpayer had rectified the double credit only when it was pointed out by the department during verification and there was no systemic check to prevent double credit.***

While examining the above, it appeared that the CBIC- GST system could not detect such irregularity of same credit being carried forward through form Tran-1 for more than one GST registrations. It was evident that in the above mentioned case, such irregularity was detected only when both the Tran-1 forms were verified by the Commissionerate. This limitation of CBIC-GST system might be a serious concern and the scope of such double credits in other cases could not be ruled out.

Further, it could also be concluded that CBIC-GST system did not have adequate checks to identify availing of multiple credits by a taxpayer having multiple registrations.

When we pointed this out (September 2018), the Ministry while admitting the observation re-iterated the guidance note issued by CBIC. They also stated that the decision to allow or disallow ITC is of quasi-judicial nature to be taken by the proper officer in terms of the provisions of the Act in each such case individually.

The reply of the Ministry was silent on non-detection of such credits by the CBIC-GST system.

4.7.5 Irregular Availing of cess credit not detected

Through the Taxation Law Amendment Act, 2017, the Education Cess (EC), Secondary and Higher Education Cess (SHEC), Swachh Bharat Cess (SBC), Krishi Kalyan Cess (KKC), were abolished with effect from 1 July 2017 and had, thus, become ineligible to be carried forward to GST regime as input tax credit (ITC). This was also clarified by the directions of the CBIC in March 2018.

We noticed in 21 cases in six³³ Commissionerates that the taxpayer had availed input tax credit of the above mentioned cesses in Tran-1 amounting to ₹ 9.74 crore (**Appendix-VI**), which was inadmissible.

In one case relating to Delhi-East Commissionerate, the department had verified the case but failed to point out ineligible Cenvat credit availed by the taxpayer, the details of which were available in ST-3 return.

In two cases relating to Gandhidham Commissionerate, the department had not conducted any scrutiny of Tran-I of these taxpayers although total ITC claimed by these taxpayers amounted to ₹ 16.18 crore and transitional credit in one case was above ₹ one crore . Hence, the instructions of Board to verify cases above ₹ 1 crore first and then in descending order were not complied with, resulting in non-detection of incorrectly availed ITC. Further, the details of verification of transitional returns by the department were not provided in the remaining 18 cases. Hence, audit could not comment on whether these cases were already scrutinised by the department or not.

Though the details of cesses were available in ACES, the same were not effectively used to disallow ineligible transitional credit on cesses.

When we pointed this out (between March 2018 and February 2019), the Ministry, while admitting the objection in all the cases intimated (between April and May 2019) recovery of ₹ 1.19 crore in 14 cases and issue of SCN for ₹ 28.08 lakh in two cases. Further, it stated that the decision to allow or disallow ITC is of quasi-judicial nature to be taken by the proper officer in terms of the provisions of the Act in each such case individually. It was also

³³ Bengaluru East, Bengaluru South, Daman, Dehradun, Delhi-East and Gandhidham.

stated that this could not be done at central level as the same would be *ultra vires* the provisions of the Act.

The reply of the Ministry regarding IT system was not relevant since the audit comment was about non-utilisation of information available in ACES.

4.7.6 Non-restriction of utilization of disputed credit

Board's circular dated 23 February 2018 dealt with cases where an SCN issued for recovery of Cenvat credit or erroneously refunded has been adjudicated and in the last adjudication order or the last order-in-appeal, as it existed on 1 July 2017, it was held that such Cenvat credit was not admissible. The circular stipulated that such Cenvat credit (herein and after referred to as "disputed credit"), credited to the electronic credit ledger as transitional credit, should not be utilised by a registered taxable person to discharge his tax liability under the CGST Act or under the IGST Act 2017, till the order-in-original or the last order-in-appeal, holding that disputed credit as inadmissible, would be in existence. During such period, if the said disputed credit is utilised, it shall be recovered from the taxpayer, with interest and penalty as per the provisions of the Act.

We noticed that disputed credits amounting to ₹ 78.49 crore were claimed and utilised as transitional credit by two taxpayers in Chennai South and Outer Commissionerates, which was irregular. Even though the details of claims of such disputed credits were available with the department, the IAD in their verification reports failed to point out both (i) utilisation of the disputed credits and (ii) the non-compliance as to the submission of required undertaking as prescribed in the circular. The concerned Range Offices also did not initiate any action in this regard. The inadequate verification process resulted in irregular utilisation of disputed credits amounting to ₹ 78.49 crore, which should be recovered along with interest amounting to ₹ 15.17 crore.

When we pointed this out (September 2018) the Ministry, while not admitting the observation, stated that there was no field in Tran-1 form to show the disputed credit separately. There was no facility for the taxpayer to maintain any credit equivalent to the disputed in the ECL till February 2018 as GSTN used to automatically debit the entire credit available in ECL against the tax liability of the taxpayer. Further, in respect of all the disputed matters, the taxpayers preferred an appeal on payment of mandatory pre-deposit. Thus, the matter being sub-judice in an appellate forum, no recovery action could be initiated as an automatic stay operated against any recovery action.

The Ministry's reply in bringing out functional difficulties with regard to monitoring of disputed credit included as part of transitional credit and its

subsequent utilisation thereof, has pointed to the systemic inadequacies in relation to transitional credits. As regards operation of automatic stay when an appeal is filed by the taxpayer, the provisions of circular dated 23 February 2018 issued by the CBIC as detailed below indicated the need for clarification.

Para 2.1 of the circular prescribed that so long as the Order-In-Original³⁴ (OIO) or the last Order-In-Appeal (OIA), as it **existed** on 1 July 2017, holding the Cenvat credit as inadmissible is in **existence**, such Cenvat credit should be treated as disputed credit and shall not be utilised.

Para 2.2 said that so long as such OIO or OIA holding that disputed credit as inadmissible is in **operation**, if the said disputed credit is utilised, it shall be recovered from the taxpayer.

Thus, two words 'existence' and 'operation', which have different meanings were used in the circular, as an existing OIO or OIA would cease to be in operation, once stayed. It can be inferred that disputed credit cannot be utilised during the existence of such OIO or OIA but such disputed credit, if utilised, shall be recovered only if such OIO or OIA is in operation.

Ministry may like to eliminate this ambiguity by issuing suitable clarification in order to avoid litigation and to protect the interest of revenue.

4.7.7 Non-payment of interest on reversal of transitional credit

Section 50(3) of CGST Act, 2017, provides that a taxable person, shall pay interest on such undue or excess claim at such rate as notified. The current notified rate of interest is 24 per cent. Eight observations noticed on non-payment of interest on reversal have been detailed below:

(a) During audit of Audit I & II Chennai and Coimbatore Commissionerates we noticed that ineligible credits on cesses claimed earlier were reversed by 7 taxpayers³⁵. It was observed that interest liability on reversal of ineligible credits was neither pointed out by the department, nor any action was initiated by the concerned Range Offices to levy and collect applicable interest. This resulted in non-levy of interest of ₹ 1.91 crore.

(b) The Board in their guidelines indicated that Cenvat credit cannot be availed as transitional credit twice. The double availment could happen in situations such as, availing Cenvat credit as transitional credit through Tran-1 and also through return in form GSTR-3B or availing same credit twice through two different tables of Form Tran-1. As per Section 50 of CGST Act, 2017, a taxpayer is liable to pay interest on excess claim of ITC.

³⁴ An order issued by adjudicating authority disposing off the SCN.

³⁵ Falling under jurisdictional executive Commissionerates - Chennai South, Chennai Outer, Coimbatore and Salem

In Chennai South Commissionerate, it was noticed from the ECL of a taxpayer that he had claimed transitional credit of ₹ 57.08 crore twice, as ITC accrued through inputs in GSTR-3B return (on 18 August 2017) and once as transitional credit brought forward through Tran-1 (on 23 August 2017). The taxpayer rectified the same by reversing transitional credit claim made in GSTR-3B in July 2018.

While the taxpayer has reversed the wrongly availed dual credit on his own in this case, this also indicated that the system had no check to deter or at least to red flag availment of same Cenvat credit more than once by the taxpayers, though this was identified as a risk by CBIC. This coupled with existence of a functionality³⁶ till February 2018, wherein GSTN used to automatically debit the entire credit available in ECL against the tax liability of the taxpayer, indicated the risk of utilisation of such irregular credits by the taxpayers.

Even though the taxpayer reversed the excess claim after a lapse of 11 months, no interest liability was pointed out by IAD during their verification. The liability of taxpayer to pay interest on excess availed credit amounting to ₹ 12.65 crore should be examined.

When we pointed out these eight cases (between December 2018 and January 2019), the Ministry admitted the objection (June 2019) in four cases, while reply was awaited (June 2019) in the remaining four cases .

Part B : - Registration

We examined records of 80,874 registrations in selected ten Commissionerates and we noticed deficiencies/lacunae in 12,912 cases (16 per cent), which were issued as observations to the CBIC field formations. Three significant observations involving 5,496 registrations relating to composition scheme and mapping of registered taxpayers to jurisdictional officers, issued to Ministry, have been narrated below : -

4.8 Irregular registration in composition scheme

Section 10 of the CGST Act, 2017, stipulates that a registered person cannot opt for Composition scheme if he is engaged in the supply of works contract services. As taxpayers have to apply for GST registration centrally on GST portal, the portal should have proper validation to ensure that only the eligible taxpayers opt for Composition scheme. As per Rule 9 of CGST Rules, 2017, a registration is treated as deemed approved if no objection is raised by tax officer within three days. Hence, in case of inadequacies in key validations of Registration Module on GST portal and non-verification of the

³⁶ As per reply given by the Ministry to paragraph 4.7.6.

registration application within three days by jurisdictional tax officers, the irregular registrations stand approved.

During the audit of Siliguri and Kolkata North GST Commissionerates, it was observed that ten taxpayers opted for 'composition levy' though they provided works contract services.

The lack of key validations noticed during IT audit of Registration Module were brought out in **Part-A of Chapter III** of this report. Thus, while there was no proper validation in the system to debar those dealing in works contract services from registering as composition taxpayers, the field formations have also failed to verify the details of registration. As the tax rates and compliance requirements are completely different for composition taxpayers, the department should take effective action to ensure that these and other such ineligible taxpayers are registered under the correct category. Any returns already filed by such wrongly registered taxpayers need to be reviewed and corrective action taken.

When we pointed this out (between April and June 2018), the Ministry, while admitting the objection, intimated (April 2019) that out of ten, seven taxpayers had already opted out of the scheme, one mentioned works contract service by mistake while they actually dealt in hosiery and leather and action had been initiated against the remaining two taxpayers. Regarding filing of returns by nine of these taxpayers who deal in works contract service, Ministry informed that four taxpayers filed nil returns and hence there was no revenue impact, while one taxpayer filed revised returns paying differential tax and action has been initiated against four taxpayers.

Ministry further stated that composition scheme being an optional scheme, it was not feasible to put built in system check to prevent ineligible taxpayers from opting for the scheme.

The reply of the Ministry as regards built in system check is not tenable as though the scheme is optional, the terms and conditions prescribed for opting for the scheme are mandatory, which should be taken care of by the system. It is very much possible to deter taxpayers from opting for composition levy by mistake or out of ignorance by designing suitable validations on GST Portal.

4.9 Allocation and mapping of taxpayers to jurisdictional tax officers

The allocation of taxpayers between Central and State tax departments is based on turnover as already mentioned in **paragraph 1.4.3 of Chapter I**. Notification issued (June 2017) by the appointed Central tax officers decided the jurisdiction up to the Commissionerate level and Trade Notices issued by

the Zonal Chief Commissioners further demarcated the jurisdiction of each officer up to the Range level. Based on this allocation, the mapping of registered taxpayers to the jurisdiction was to be carried out on GST portal.

4.9.1 Non allocation of registrations of taxpayers to their proper jurisdiction

During the audit (June 2018) of Divisions IV and VI of Thane GST Commissionerate, it was observed that 734 number of existing taxpayers were still “unallocated” to their proper jurisdiction. Even after a lapse of nearly one year at the time of audit (June 2018) after implementation of GST (w.e.f. 1 July 2017), the assessee allocation to proper jurisdiction was not completed.

The Division replied (June 2018) that as the allocation of taxpayers was handled by the GST portal, division office had no role in this regard.

The reply could not be accepted as the department should take up the matter with appropriate authority for allocation of proper jurisdiction to the taxpayers in the interest of revenue and to mitigate the taxpayers’ difficulties.

While bringing this to the notice of Ministry (April 2019), we requested Ministry to comment on the reasons for taxpayers remaining unallocated and the current status of allocation of these taxpayers. Further, the total number of unallocated taxpayers under the entire jurisdiction of CBIC as on date and reason for the same along with action plan to mitigate the same have also been sought.

The Ministry informed (May 2019) that a total of 42,428 GSTINs were yet to be allocated under the entire jurisdiction of CBIC for want of distribution orders from the jurisdictional authorities and that the department has been regularly following up with the GST Zones for bifurcation of the pending taxpayers. In respect of Thane Commissionerate, while not admitting the objection, the Ministry stated (May 2019) that as per their details, a total of 114 assesseees remained unallocated in the divisions IV and VI and that details of 734 GSTINs were not available with them for providing any current status.

Even two years after roll out of GST, the allocation of assesseees, which is the basis for administration of GST by tax departments, remained incomplete. Ministry neither gave any reasons regarding why the distribution orders regarding assessee allocation could not be finalised nor indicated any timelines / action plan for resolving the same.

As regards variation in number of pending allocations of 114 as per the CBIC and as pointed out in observation as 734, the numbers quoted by Audit were as per the MIS reports of the concerned Commissionerate, which can be obtained by the Ministry from the concerned Commissionerate..

4.9.2 Incorrect mapping of taxpayers

During audit (August 2018) of seventeen ranges under Bengaluru East Commissionerate, we noticed that 3,161 taxpayers, out of a total of 16,352 taxpayers mapped to 17 Ranges by the system, did not belong to these Ranges as per the Notification and Trade Notice. Thus, **19.33 per cent of the taxpayers mapped to these Ranges were incorrectly mapped**. The number of incorrectly mapped taxpayers in the individual Ranges varied from 2 per cent to 58 per cent of the total number of taxpayers under the respective Ranges. Although the Range Officer reported these discrepancies to the Public Relation Officer (PRO) in the respective Commissionerate, proper mapping was yet to be done in these cases as of August 2018.

It was further noticed that 1,612 taxpayers (10 per cent) belonging to these 17 Ranges as per the Trade Notice were wrongly mapped to other Ranges within the same Commissionerate. However, this issue was not considered by the Range offices while taking up the issue of mapping of taxpayers with the PRO.

Wrong mapping carried the risk of the returns filed/non-filing of returns by the wrongly mapped taxpayers not being subject to any kind of scrutiny by the jurisdictional officer or taxpayer grievances remaining unaddressed as tax officers access to information was based on the mapping.

When we pointed this out (August 2018), the Ministry while not admitting the observation stated (May 2019) that action had already been initiated for correct mapping by Range Officer by sending a request to PRO.

The reply of the Ministry is not acceptable as in spite of being aware and bringing it to the notice of PRO, wrong mapping of taxpayers persisted in the system at the time of audit (after nearly one year of implementation of GST). This para also indicated that there was no mechanism in CBIC-GST system to address this issue on Pan-India basis and in this highly IT intensive environment also, Range Offices had to physically take up problems created by an IT system for resolution.

Part C : Refunds

4.10 Overview of audit of Refund claims

We examined the records relating to Refunds of 543 out of 727 claims in selected five Commissionerates³⁷. We noticed non-adherence to extant provisions in processing of refunds in 28 claims (5 per cent) involving an

³⁷ Aurangabad, Bhiwandi, Daman, Mumbai East and Surat

amount of ₹ 2.72 crore. In 27 cases involving ₹ 2.40 crore, Ministry accepted the audit observations.

It is pertinent to mention here that the Central tax officers were cross empowered to process refund of both SGST and CGST in respect of GST taxpayers allotted to them. Hence irregularities in refunds would impact both Consolidated Fund of India as well as the States.

Out of the total objection amount of ₹ 2.72 crore on Refunds, an amount of ₹ 42.71 lakh involving three claims pertains to SGST refunds impacting the revenue of Gujarat, while two claims involving ₹ 20.79 lakh pertain to Maharashtra SGST.

All these 28 cases were issued to Ministry (**Appendix-VII**) and seven significant cases have been narrated below : -

4.11 Non-adherence of provisions of Refund

Section 54 of the CGST Act, 2017, provides that any person claiming refund of any duty and interest, may make an application for refund to the department before the expiry of two years from the relevant date in the prescribed form. The refund application should be accompanied by such documentary or other evidence as the applicant may furnish to establish that the amount in relation to which refund is claimed was collected from him or paid by him and the incidence of such duty/interest had not been passed on by him to any other person. Further, the proper officer has to issue the order sanctioning the refund after due verification and examination of claim within sixty days from the date of receipt of application.

In accordance with section 54 (3) of the CGST Act 2017, a registered person may claim refund of any unutilised Input Tax Credit (ITC) at the end of any tax period where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (i.e. Inverted Duty Structure). Further, Rule 89(5) of the CGST Rules, 2017, prescribes the formula for maximum refund of unutilised ITC on account of inverted duty structure. As per the rule *ibid*, net ITC means the ITC availed only on inputs during the relevant period. Thus, credit availed on input services is not to be considered for net ITC.

As per Para 3.1 of the circular dated 4 September 2018, regarding the provisions in case of refund of unutilised ITC, the refundable amount is calculated as the least of the following amounts:

(a) The maximum refund amount as per the formula laid down in Rule 89(4) or Rule 89(5) of the CGST Rules, 2017;

- (b) The balance in the electronic credit ledger of the claimant at the end of the tax period for which the refund claim is being filed after the return for the said period has been filed; and
- (c) The balance in the electronic credit ledger of the claimant at the time of filing the refund application.

4.11.1 Excess allowance of refund

(a) A taxpayer falling under Mumbai East GST Commissionerate claimed refund of ₹ 27.18 lakh on account of inverted duty structure for the month of March 2018 and the same was allowed as claimed. Scrutiny of the documents available on record revealed that the Net ITC of ₹ 41.74 lakh considered for computation of the maximum amount of refund also included credit availed on input services of ₹ 38.77 lakh. Thus, the admissible Net ITC as per Rule 89(5) of the CGST Rules, 2017 would be input credit of ₹ 2.98 lakh only. Hence, after taking ₹ 2.98 lakh as Net ITC into consideration, the maximum amount of refund as per prescribed formula works out to nil. Thus, there was an irregular grant of refund of ₹ 27.18 lakh by the department, which is required to be recovered.

When we pointed this out (February 2019), the Ministry, while accepting the observation (May 2019) reported issuance of SCN to the taxpayer.

(b) A taxpayer under Mumbai East GST Commissionerate claimed refund of ₹ 76.42 lakh on account of zero-rated supply of goods for the month of July 2017 and the same was allowed by the department. Scrutiny of the documents available on record revealed that the balance in the electronic credit ledger of the claimant at the end of the tax period after the return for the said period has been filed was ₹ 44.72 lakh only. This being the least, the claimant was entitled to allowance of refund of ₹ 44.72 lakh. This has resulted in excess allowance of refund of ₹ 31.70 lakh.

When we pointed this out (February 2019), the Ministry, while not accepting the observation, stated (May 2019) that the formula to be used for calculating the refund pertained to the period prior to issue of circular dated 4 September 2018.

The reply of the Ministry could not be accepted as the circular quoted was clarificatory in nature and hence the Act provisions clarified by the circular would apply to period prior to the circular as well. The reply of the Ministry indicated the need to review all cases processed prior to the issue of the circular.

(c) The Board vide Circular dated 4 September 2018 clarified that after determination of amount refundable, the equivalent amount is to be debited to electronic credit ledger by the taxpayer in the following order: First against Integrated Tax to the extent of balance available and thereafter to Central tax

and State/Union territory tax equally to the extent of balance available and in the event of shortfall in the balance available in a particular electronic credit ledger, the differential amount is to be debited from the other electronic credit ledger. Further this procedure was to be followed for all refund application filed after the date of issue of aforesaid circular.

A taxpayer falling under Mumbai East GST Commissionerate filed refund application (GST RFD-01A) on the GST portal on 18 September 2018 and filed a copy of the application with the department on 1 October 2018. It was observed from GST RFD-01A that at the time of filing of refund application, the taxpayer's electronic credit ledger had a balance of IGST of ₹ 28.45 lakh, CGST of ₹ 17.49 lakh and SGST of ₹ 17.49 lakh. Further, the taxpayer had claimed refund of IGST of ₹ 12.37 lakh, CGST of ₹ 12.87 lakh and SGST of ₹ 12.87 lakh. After scrutiny, the department rejected claim of ₹ 5,456 and sanctioned refund of IGST of ₹ 12.37 lakh, CGST of ₹ 12.84 lakh and SGST of ₹ 12.84 lakh. Thus, it was observed that the department had not followed the order of debiting the refund amount to electronic credit ledger as envisaged in the above referred circular. The error resulted in excess allowance of refund from CGST and SGST aggregating to ₹ 16.08 lakh (₹ 28.45 lakh - ₹ 12.37 lakh), which further resulted in excess credit balance in IGST electronic credit ledger to that extent.

When we pointed this out (February 2019), the Ministry while admitting the objection (May 2019) intimated the issuance of SCN.

4.11.2 Irregular grant of provisional refund

As per section 54(6) of CGST Act, 2017, in the case of any claim for refund on account of zero rated supply of goods or services or both made by registered persons, 90 per cent of refund claimed may be sanctioned on a provisional basis and thereafter an order made under sub section (5) for final settlement of the refund claim after due verification of documents furnished by the applicant. **Thus, sanction of provisional refund is allowed on account of zero rated supply of goods and / or services and not in other categories.**

(i) During the examination of records relating to refunds in division IV of Bhivandi GST Commissionerate, we noticed that the department had issued the provisional refund of 90 per cent pertaining to refund on account of excess cash balance in electronic ledger in case of two taxpayers and on account of inverted duty structure in case of one taxpayer which are other than the cases of zero rated supply of goods or services. Thus, the provisional grant of refund in these cases resulted in irregular grant of refund of ₹ 34.86 lakh.

(ii) Similarly, while examining records relating to refund in Division-V under Surat Commissionerate, we observed that the department had issued

the provisional refund of 90 per cent on account of inverted duty structure amounting to ₹ 1.39 crore to a taxpayer. The refund claim was sent to jurisdictional Range office for verification, which had opined that the provisional refund clause would apply only in cases of zero rated supply of goods/services. However, the Division office had already sanctioned and disbursed the refund on provisional basis even before receipt of negative verification report from Range office. This resulted in incorrect grant of provisional refund of ₹ 1.39 crore against ineligible category of refund.

When we pointed this out (between June and September 2018), the Ministry partially admitting the observations, stated (May 2019) that it was a procedural lapse and refund was anyway admissible to taxpayer. Further they intimated that at the instance of the CBIC, the jurisdictional Commissionerates have issued instructions to the field formations to follow the correct procedure.

The Ministry, vested with the responsibility of ensuring compliance with the provisions of the CGST Act, holding non-compliance with the provisions of the Act as only a procedural lapse, is highly unacceptable. Ministry should identify all similar cases and seek assurance from field formations about proper verification of all the refund claims which were sanctioned provisionally, in contravention of the Provisions of the Act.

4.12 Conclusion

- Unhindered and full access to pan-India data is crucial for meaningful audit and to draw required assurances needed, otherwise certifying revenue receipts may become difficult. DoR's offer of providing data based on CAG's queries is not workable, as without the full data, it is neither possible to formulate queries, nor run the required algorithms on the data. The CAG sought data through the Application Programme Interface (APIs) already designed by GSTN. It need hardly be stated that providing such data as CAG may require is a constitutional and legal requirement.
- In the absence of access to GST data, the conclusions in this chapter on compliance audit were based on limited audits carried out in the field. However, the gamut of issues brought out even in this limited audit point to serious systemic deficiencies that need to be addressed by the department.
- The technical glitches and delays in making Tran-1 available on GST Portal has led to repeated extensions of due date for filing the Tran-1 returns.

- Some of the audit findings on transitional credits indicated that data / red flags available in ACES have not been efficiently leveraged to identify and reject inadmissible credits and corrective action was taken only after being pointed out by us.
- Non-allocation or wrong mapping of registered taxpayers carried the risk of the returns filed/non-filing of returns in such cases not being subject to any kind of scrutiny by the jurisdictional officer. Further, the Ministry's reply that Range Offices initiated corrective action by writing to the PRO indicated that there was no mechanism in CBIC-GST system to address this issue on pan-India basis and in this highly IT intensive environment also, Range Offices had to physically take up problems created by an IT system for resolution.
- The instances of non-adherence to the provisions relating to refunds, pointed towards the need for expediting automation of refund processing with proper checks and validations besides improving the system for monitoring manual processing of refunds, till automation is completed.

New Delhi

Dated: 12 July 2019

Principal Director (Goods and Services Tax-I)



(HIMABINDU MUDUMBAI)

Countersigned

New Delhi

Dated: 12 July 2019

Comptroller and Auditor General of India



(RAJIV MEHRISHI)

APPENDICES

Appendix-I : GST rates on goods and services

(Reference : Paragraph 1.6.2 (b))

GST rates on goods

Slab	Indicative items
0 per cent	Food grains, Cereals, Milk, Jaggery, Common Salt
5 per cent	Coal, Sugar, Tea & Coffee, Drugs & Medicine, Edible Oil, Packaged and branded food items, Indian Sweets, organic fertilizers
12 per cent	Frozen meat products, Fruit Juices, Vegetable Juices, Beverages containing milk, Tractor
18 per cent	Capital goods, Hair Oil, Soap, Toothpaste, School Bags, Refrigerators, Chewing gum, chocolate, Wafers coated with chocolate
28 per cent	Air conditioner, molasses, Monitors and Projectors
28 per cent+ Cess	Small cars (1 per cent / 3 per cent cess), Luxury cars (15 per cent cess), tobacco products, pan masala and aerated water

GST rates on services

Slab	Indicative items
0 per cent	Hotel/ Lodges with tariff below INR 1000
5 per cent	Goods transport, Rail tickets (other than sleeper class), Economy class air tickets, Cab aggregators, Restaurants
12 per cent	Works contract, Business Class air travel
18 per cent	Telecom services, IT services, branded garments and financial services
28 per cent	Cinema tickets above ₹ 100, Betting, Gambling

Appendix-II : Returns under GST

(Reference : Paragraph 1.6.2 (c))

GSTR	Description	Who has to file	Standard due date of filing	Remarks
1	Statement of outward supplies of Goods or Services	Normal Registered Person	10 th of next month	Due date for monthly returns of July 2017 to September 2018 was extended to 31 October 2018. Due date for quarterly returns for the quarters October–December 2018 and January-March 2019 was extended to last date of following month instead of 10 th of following month
2	Statement of inward supplies of Goods and Services	Normal registered person	15 th of next month	Kept in abeyance
3	Return for normal taxpayer	Normal registered person	20 th of next month	Kept in abeyance
3B	Simple monthly return	Normal registered persons	20 th of next month	Initially introduced for two months and continued thereafter till date
4	Quarterly-return	Composition taxpayers	18 th of the month succeeding the quarter	No extension
5	Monthly return for non-resident taxpayer	Non-resident taxpayer	20 th of the month succeeding tax period & within 7 days after expiry of registration	Due date for monthly returns of July – December 2017 were extended till 31 January 2018.

GSTR	Description	Who has to file	Standard due date of filing	Remarks
5A	Monthly return for a person supplying OIDAR services from a place outside India to a non-taxable online recipient	Supplier of OIDAR Services	20th of the next month	Due date for monthly returns of July – December 2017 were extended till 31 January 2018.
6	Monthly return for an Input Service Distributor (ISD)	Input Service Distributor	13 th of next month	Due date for monthly returns of July 2017 – August 2018 were extended till 30 September 2018.
7	Monthly return for authorities deducting tax at source	Tax Deductor	10 th of next month	Due date was extended to 28 February 2019 for the returns for the period October 2018 to January 2019
8	Monthly statement for E-Commerce Operator depicting supplies made through it	E-Commerce Operator	10 th of next month	Due date was extended to 7 February 2019 for the returns for the period October 2018 to January 2019
9	Annual return	Normal Registered Person	31 st December of next Financial Year	Extended till 31 August 2019 for year 2017-18
9A	Simplified Annual Return under Composition Scheme	Composition taxpayers	31 st December of next Financial Year	Extended till 31 August 2019 for year 2017-18
10	Final return	Taxable person whose	Within three months of the date of	---

GSTR	Description	Who has to file	Standard due date of filing	Remarks
		registration has been surrendered or cancelled.	cancellation or date of order of cancellation, whichever is later.	
11	Details of inward supplies to be furnished by a person having UIN	UN agencies and Embassies		File their returns only when they apply for refunds on quarterly basis

Appendix-III : Distribution of Normal and Composition taxpayers

(Reference : Paragraphs 2.2.2 and 2.2.3)

State Code	State Name	Normal taxpayers	Normal taxpayers as a percentage of all India Normal taxpayers	Composition taxpayers	Composition taxpayers as a percentage of all India Composition taxpayers	Others (including ISD, Casual taxpayers, TCS, TDS, NR taxpayers, OIDAR)	Others as a percentage of total	Others as a percentage of total Others	Total	Migrated out of Total	Migrated as a percentage within State
1	Jammu and Kashmir	87364	0.87	9440	0.54	1267	0.01	0.81	98071	46309	47
2	Himachal Pradesh	85293	0.85	21192	1.21	969	0.01	0.62	107454	52175	49
3	Punjab	300047	2.99	46220	2.64	1862	0.02	1.19	348129	182464	52
4	Chandigarh	27387	0.27	2071	0.12	885	0.01	0.56	30343	16951	56
5	Uttarakhand	126162	1.26	31947	1.83	2942	0.02	1.87	161051	75467	47
6	Haryana	419365	4.17	24654	1.41	2698	0.02	1.72	446717	214678	48
7	Delhi	719515	7.16	18558	1.06	4076	0.03	2.60	742149	382229	52
8	Rajasthan	545063	5.42	160877	9.20	16194	0.14	10.31	722134	410251	57
9	Uttar Pradesh	1099885	10.94	350689	20.05	9332	0.08	5.94	1459906	667853	46
10	Bihar	298693	2.97	92344	5.28	5219	0.04	3.32	396256	161456	41
11	Sikkim	6599	0.07	839	0.05	289	0.00	0.18	7727	2676	35
12	Arunachal Pradesh	10561	0.11	2476	0.14	916	0.01	0.58	13953	3199	23
13	Nagaland	6243	0.06	2201	0.13	240	0.00	0.15	8684	2985	34
14	Manipur	10741	0.11	1749	0.10	462	0.00	0.29	12952	2972	23
15	Mizoram	5100	0.05	97	0.01	224	0.00	0.14	5421	1850	34

State Code	State Name	Normal taxpayers	Normal taxpayers as a percentage of all India Normal taxpayers	Composition taxpayers	Composition taxpayers as a percentage of all India Composition taxpayers	Others (including ISD, Casual taxpayers, TCS, TDS, NR taxpayers, OIDAR)	Others as a percentage of total	Others as a percentage of total Others	Total	Migrated out of Total	Migrated as a percentage within State
16	Tripura	22938	0.23	2786	0.16	914	0.01	0.58	26638	11488	43
17	Meghalaya	23573	0.23	2598	0.15	375	0.00	0.24	26546	9885	37
18	Assam	154875	1.54	45741	2.62	2420	0.02	1.54	203036	85942	42
19	West Bengal	575614	5.73	80120	4.58	10464	0.09	6.66	666198	257847	39
20	Jharkhand	143600	1.43	21543	1.23	2790	0.02	1.78	167933	72721	43
21	Odisha	217261	2.16	32235	1.84	2424	0.02	1.54	251920	121410	48
22	Chhattisgarh	100867	1.00	35333	2.02	2521	0.02	1.61	138721	74278	54
23	Madhya Pradesh	341926	3.40	65346	3.74	3474	0.03	2.21	410746	239894	58
24	Gujarat	854308	8.50	112360	6.42	9791	0.08	6.23	976459	474971	49
25	Daman and Diu	5971	0.06	334	0.02	181	0.00	0.12	6486	3690	57
26	Dadra and Nagar Haveli	8065	0.08	408	0.02	109	0.00	0.07	8582	4154	48
27	Maharastra	1363979	13.57	155907	8.91	34035	0.28	21.67	1553921	778504	50
29	Karnataka	701003	6.98	111517	6.38	14034	0.12	8.94	826554	482660	58
30	Goa	32864	0.33	4907	0.28	670	0.01	0.43	38441	21166	55
31	Lakshadweep	202	0.00	30	0.00	43	0.00	0.03	275	11	4
32	Kerala	287751	2.86	48653	2.78	5389	0.05	3.43	341793	219762	64
33	Tamil Nadu	853294	8.49	90710	5.19	7899	0.07	5.03	951903	511558	54

State Code	State Name	Normal taxpayers	Normal taxpayers as a percentage of all India Normal taxpayers	Composition taxpayers	Composition taxpayers as a percentage of all India Composition taxpayers	Others (including ISD, Casual taxpayers, TCS, TDS, NR taxpayers, OIDAR)	Others as a percentage of total	Others as a percentage of total Others	Total	Migrated out of Total	Migrated as a percentage within State
34	Puducherry	20615	0.21	2562	0.15	343	0.00	0.22	23520	13095	56
35	Andaman and Nicobar Island	3934	0.04	882	0.05	251	0.00	0.16	5067	949	19
36	Telangana	313292	3.12	57619	3.29	8974	0.08	5.71	379885	175000	46
37	Andhra Pradesh	275967	2.75	111940	6.40	2093	0.02	1.33	390000	192385	49
97	Other Territory	66	0.00	0	0.00	1	0.00	0.00	67	0	0
99	Center Jurisdiction	0	0.00	0	0.00	286	0.00	0.18	286	0	0
	Grand Total	10049983	100.00	1748885	100.00	157056	1.31	100.00	11955924	5974885	50

Appendix-IV : Filing of GSTR-1, 3B, 4, 5, 5A and 6

(Reference : Paragraphs 2.3.3 and 2.3.4)

Return Type	Particulars	April'18	May'18	June'18	July'18	August'18	September'18	October'18	November'18	December'18
GSTR-1	Due for filing	4496316	4682345	9316710	4775626	4726891	9657239	4609444	4572118	9901997
	Returns Filed	2728772	2748617	7048521	2750521	2728177	6998553	2653997	2583371	6436328
	Return Filing %	60.69%	58.70%	75.65%	57.59%	57.72%	72.47%	57.58%	56.50%	65.00%
GSTR-3B	Due for filing	8817798	9122309	9316710	9470282	9615273	9657239	9757664	9846645	9901997
	Returns Filed	7694460	7818233	7897701	7957565	8014906	8041279	8052558	7913241	7818108
	Return Filing %	87.26%	85.70%	84.77%	84.03%	83.36%	83.27%	82.53%	80.36%	78.95%
GSTR-4	Due for filing			1766630			1774379			1757919
	Returns Filed			1506595			1453121			1371088
	Return Filing %			85.28%			81.89%			77.99%
GSTR-5	Due for filing	109	366	101	61	49	32	29	30	28
	Returns Filed	12	40	47	46	35	20	20	26	17
	Return Filing %	11.01%	10.93%	46.53%	75.41%	71.43%	62.50%	68.97%	86.67%	60.71%
GSTR-5A	Due for filing	158	158	188	210	224	236	251	260	266
	Returns Filed	80	84	86	89	93	95	95	98	99
	Return Filing %	50.63%	53.16%	45.74%	42.38%	41.52%	40.25%	37.85%	37.69%	37.22%
GSTR-6	Due for filing	9749	9875	9832	9904	9936	9852	9413	9288	9220
	Returns Filed	5129	5129	5120	4936	4809	4572	4465	4379	4312
	Return Filing %	52.61%	51.94%	52.07%	49.84%	48.40%	46.41%	47.43%	47.15%	46.77%

Appendix-V: Key Validations / functionalities not aligned to provisions

(Reference : Paragraph 3.5)

Para No.	Issue in brief	Provided in SRS	Implementation failure
3.7.1 (a)	PAN holders found registered under CLS as well as Normal taxpayer, which was not allowed by the Act	Yes	Yes
3.7.1 (b)	GST System did not debar a PAN holder from registering under CLS in case their aggregate turnover from all registrations on all India basis exceeded the threshold of turnover prescribed for CLS	No	—
3.7.2 (a)	GST IT System failed to validate and debar Inter-state suppliers, ECOM, SEZ developers / units from availing CLS.	Yes	Yes
3.7.2 (b)	GST IT system did not restrict the manufacturers of Ice Cream, Pan Masala, Tobacco from registering as a Composition taxpayer.	No	—
3.8.1 (a)	PAN, which was mandatory, was made optional for registration of ONPs	Yes	Yes
3.8.1 (b)	Registration for ONPs – Non-availability of facility for validating notification number.	No	—
3.8.2 (i)	No facility for uploading vital documents in case of OIDAR	Yes	Yes
3.8.2 (ii)	System accepted junk values against Tax Identification Number (TIN), a mandatory field for OIDAR. There was no provision for uploading the documents pertaining to TIN for verification by the tax officials.	No	—
3.8.2 (iii)	PAN and address of authorised representatives of OIDAR applicants, mandatory for filing the application of registration for OIDAR, were not made mandatory in the GST IT system.	Yes	Yes
3.8.3	The Category (iv) to be made available on when notified by the Government found operational before any such notification was issued	No	—
3.9.3	No provision for auto-population of required fields for multiple registrations under the same PAN	Yes	Yes
3.9.4	Jurisdiction Mapping with PIN Code not enabled	No	—
3.10.3	It was made mandatory on GST portal for a taxpayer to provide a unique combination of PAN, Mobile and e-mail for each business vertical to be registered, though not mandated by Law.	Yes	No

Para No.	Issue in brief	Provided in SRS	Implementation failure
3.10.4	Under Tax Collected at Source (TCS) category, there were blanks or NP against 'Registration Name', which was a mandatory field and another field 'jurisdictional approving authority', pointing towards absence of validations.	Yes	Yes
3.10.5	There was no provision for raising an alert to the tax officer in case a Non Resident Taxable Person (NRTP)/Casual taxpayer had not filed for registration five days prior to date of commencement of business, as required under Section 25 of CGST Act, 2017 read with Rule 13(i) of CGST Rules, 2017.	No	—
3.19	Display of messages was not in sync with the actual status of the transaction	Yes	Yes

Appendix-VI : Overview of audit of transitional credits

(Reference : Paragraph 4.7.1)

(₹ in lakh)

DAP No.	Name of Commissionerates involved	No. of cases	Objection Amount	Accepted Amount	Recovered Amount
Paragraph 4.7.2 : Carry forward of Excess Cenvat Credit					
13	Chennai North	1	50.09	50.09	50.09
13	Chennai South	1	7.11	0.00	0.00
13	Coimbatore	1	53.06	53.06	53.06
25	Dehradun	1	10.09	10.09	12.53
3	Delhi East	1	138.00	138.00	138.00
31	Pune I	1	0.00	0.00	0.00
Paragraph 4.7.3 : Irregular availing of Transition Credit					
30	Pune I	1	74.69	0.00	0.00
13	Chennai South	1	31.17	31.17	0.00
13	Coimbatore	1	22.74	22.74	0.00
2	Gandhidham	1	73.51	73.51	0.00
Paragraph 4.7.4 : No systemic check to prevent double availing of credit					
26	Belapur	1	0.00	0.00	0.00
Paragraph 4.7.5 : Irregular Availing of Cess credit not detected					
7	Dehradun	1	37.09	37.09	37.09
9	Gandhidham	2	27.30	27.30	0.98
8	Delhi East	1	19.51	19.51	19.51
15	Bengaluru East	11	345.02	345.02	46.15
15	Bengaluru South	5	533.47	533.47	2.99
23	Daman	1	11.92	11.92	11.92
Paragraph 4.7.6 : Non-restriction of utilization of disputed credit					
11	Chennai South	1	729.00	0.00	0.00
11	Chennai Outer	1	7119.97	0.00	0.00

DAP No.	Name of Commissionerates involved	No. of cases	Objection Amount	Accepted Amount	Recovered Amount
Paragraph 4.7.7 : Non-payment of interest on reversal of transitional credit					
13	Chennai South	4	1338.31	9.80	0.00
13	Chennai Outer	1	21.99	0.00	0.00
13	Coimbatore	2	29.03	29.03	0.00
13	Salem	1	66.44	66.44	0.00

Appendix-VII : Overview of audit of Refund claims

(Reference : Paragraph 4.10)

(₹ in lakh)

DAP No.	Name of Commissionerates involved	No. of cases	Objection Amount	Accepted Amount	Recovered Amount
18	Mumbai East	2	58.88	27.18	0.00
20	Bhiwandi	3	34.86	34.86	0.00
22	Daman	21	22.80	18.27	0.00
24	Surat	1	139.00	139.00	0.00
27	Mumbai East	1	16.08	16.08	0.00
	Total	28	271.62	235.39	0.00

Glossary

ACES	Automation of Central Excise and Service Tax
ARN	Application Reference Number
BARM	Bank Authorisation Reference Model
BCMS	Business Community Management System
BCP	Business Continuity Plan
BI	Business Intelligence
CAB	Change Approval Board
CAG	Comptroller and Auditor General of India
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CBIC	Central Board of Indirect Taxes and Customs
CCA	Chief Controller of Accounts
Cenvat	Central Value Added Tax
CEO	Chief Executive Officer
CGST	Central Goods and Services Tax
CII	Confederation of Indian Industry
CIN	Challan Identification Number
CLS	Compensation Levy Scheme
CPIN	Common Portal Identification Number
CR	Change Request
CVD	Countervailing Duty
DC	Data Centre
DEA	Department of Economic Affairs
DG	Director General
DoR	Department of Revenue
DRD	Disaster Recovery Drills
DRM	Disaster Recovery Mechanism
DRP	Disaster Recovery Plan
EC	Education Cess

ECL	Electronic Cash Ledger
ECM	Empowered Committee of State Finance Ministers
ECOM	Electronic Commerce Operator
EOD	End of Day
EVP	Executive Vice President
E-way	Electronic way
Gol	Government of India
GST	Goods and Service Tax
GSTIN	Goods and Services Tax Identification Number
GSTN	Goods and Service Tax Network
GSTR	Goods and Services Tax Return
GSTSF Rule	Goods and Services Tax Settlement of Fund Rule
GTA	Goods Transport Agency
HUF	Hindu Undivided family
ICEGATE	Indian Customs Electronic Commerce/Electronic Data interchange
IGST	Integrated Goods and Services Tax
ISD	Input Service Distributor
IT	Information Technology
ITC	Input Tax Credit
KKC	Krishi Kalyan Cess
LLP	Limited Liability Partnership
Ltd.	Limited
MCA	Ministry of Corporate Affairs
MIS	Management Information System
MoF	Ministry of Finance
MSP	Managed Service Provider
NACIN	National Academy of Customs, Indirect Taxes and Narcotics
NCT	National Capital Territory
NDC	Near Line Data Centre
NIC	National Informatics Centre

Non-Recon	Non-reconciled
NRTP	Non-Resident Taxable Person
O & M	Operation and Maintenance
OIDAR	Online Information Database Access and Retrieval Services
ONPs	Other Notified Persons
PAN	Permanent Account Number
PCCA	Principal Chief Controller of Accounts
PII	Personally Identification Number
PLA	Personal Ledger Account
POS	Place of supply
PRO	Public Relation Officer
Pvt.	Private
RBI	Reserve Bank of India
Recon	Reconciled
RFP	Request for proposal
RPO	Recovery Point Objective
RS	Revenue Secretary
RTO	Recovery Time Objective
SAD	Special Additional Duty
SBC	Swachh Bharat Cess
SCN	Show Cause Notice
SEZ	Special Economic Zone
SGST	State Goods and Services Tax
SHEC	Secondary and Higher Education Cess
SLA	Service Level Agreement
SRS	Software Requirement Specifications
ST	Service Tax
STL	Settlement Ledgers
STQC	Standardisation Testing and Quality Certification
SVP	Senior Vice President

TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TIN	Tax Identification Number
TRN	Temporary Reference Number
UAT	User Acceptance Testing
UIN	Unique Identification Number
UT	Union Territory
UTGST	Union Territory Goods and Services Tax
VAT	Value Added Tax

© CONTROLLER AND AUDITOR GENERAL OF INDIA
www.cag.gov.in