



सत्यमेव जयते

Report of the Comptroller and Auditor General of India



SUPREME AUDIT INSTITUTION OF INDIA

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

IT Audit of CBIC ACES-GST Application

Union Government
Department of Revenue
(Indirect Taxes – Goods and Services Tax)
Report No. 3 of 2023

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Comptroller and Auditor General of India**

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Preface

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

The Report contains significant results of the Information Technology (IT) audit of the ACES-GST Application of Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. The report contains audit findings relating to IT governance and IT security, implementation of functionalities and interface with other IT applications.

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period December 2020 to April 2022.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Executive Summary

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

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

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

A summary of the major audit findings is listed below:

Acquisition & Procurement

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

IT Governance and Management

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

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

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

Development and utilisation of modules

Modules like Mobile Application, Export, Audit and Taxpayer at Glance were yet to be developed at the time of Audit. Functionalities of the modules for Adjudication, Investigation and Appeal were being used only to a limited extent. *The Department should strengthen the IT Governance and Management mechanism to ensure that the project timelines are adhered to and rolled out modules are effectively used as envisaged.* The Ministry stated that the audit module has been rolled out on 1st April 2022 and all efforts were being made to accelerate the development and deployment of the remaining modules.

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

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

In respect of the other SLA parameters for which records were provided, there were issues in handholding resource deployment and delay in submission of Helpdesk Operational Plan (Level-1) by the Vendor. Further, refund grievances data revealed that incidents were resolved after the respective prescribed time limits and many incidents remained unresolved. *The Department should ensure that implementation of all aspects of SLA are effectively monitored; the Department and the Vendor perform their respective roles in accordance with the contractual provisions and non/late performance is effectively reviewed and resolved within the agreed time limit.* The Ministry accepted the recommendation and stated that the Department has deducted the maximum LD of 20% in all the quarterly payments made up to July-September 2021.

Registration Module

Instances of deemed approval of registrations without mandatory Physical Verification (PV) of business premises where taxpayers did not authenticate their Aadhaar were observed in Audit. ***The Department should conduct post-physical verification of the premises for the cases where Aadhaar has not been authenticated. The CBIC ACES-GST system should have provision to not allow grant of registration without mandatory physical verification of taxpayers with unverified Aadhaar Status. The Department should make provision for generating exception reports for cases where Aadhaar Verification and Mandatory Physical Verification status of a taxpayer is flagged as 'N' for monitoring and taking appropriate action.*** The Ministry, while accepting the para, stated that Aadhaar authentication was activated by GSTN from August 2020 and the same was implemented by CBIC from 5th October 2020 and the recommendation was being communicated to Policy wing. The fact remains that provision of physical verification in place of Aadhaar authentication should have been effective from 1st April 2020.

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

Registrations were approved in the case of applications filed through the MCA portal (SPICE-AGILE form) without mandatory physical verification where the taxpayers either opt out of Aadhaar Authentication or opted but Aadhaar authentication had failed. ***The Department should ensure that GST registration through MCA portal is not approved in the CBIC ACES-GST application unless the same is Aadhaar authenticated, or the physical verification is completed.*** The Ministry noted the recommendation for compliance and stated that the decision as to whether physical verification is required or not for a given application is indicated and communicated by the GSTN system. The fact remains that a mechanism is required to avoid deemed registrations in case of registration applications through MCA portal.

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

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

Suspension functionality in cases of application for cancellation of registration or suo-moto cancellation by the tax officer was not implemented. There was no mechanism to restrict such registered persons from making any taxable supplies and consequent passing on of credit during the period of suspension. **The Department should ensure that the suspension functionality is implemented in the CBIC ACES-GST application in line with the CGST Rules.** The Ministry accepted the para and stated that the effective date of suspension was to be communicated by GSTN through API and the same would be taken up for integration. In case of suo-moto cancellation, the enhancement would be taken up for implementation.

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

Validations for identifying multiple registrations with the same PAN registered under the Composite Levy Scheme (CLS) as well as Normal Taxpayers were not built in the application. **The Department should ensure that a validation is in place in the system so that the taxpayer under Normal Registration is not allowed for a Registration with the same PAN under the Composition Levy Scheme at the same time and vice versa. The Department should identify all such past cases to bring them into the normal taxpayer category.** The Ministry, while accepting the para, noted the recommendation for compliance and stated that a reconciliation exercise of all the registration data base with the GSTN data base is undertaken for rectification.

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

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

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

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

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

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

Returns Module

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

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

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

Functionalities such as Scrutiny of Returns, Summary and Provisional Assessment, Risk Assessment Engine, Ledger Maintenance etc., have not been developed and the timelines for development had not been frozen. ***The Department should prescribe definite timelines for the development and deployment of functionalities for effective monitoring. The Department should also ensure that important functionalities such as Scrutiny and Assessment, Risk Assessment Engine, Ledger Maintenance etc., are developed and deployed in a timely manner.*** The Ministry stated that the functionalities are under development or will be taken up shortly under AGILE mode.

Refund Module

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

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

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

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

Dispute Settlement and Resolution (DSR) module

Adjudication Module

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

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

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

Other Modules

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

Cross-cutting issues

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

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

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

Interface with GSTN

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

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

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

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

Interface with other IT applications

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

Chapter I: Overview

Goods and Services Tax (GST) was rolled out from July 1, 2017 through the implementation of the 101st Amendment of the Constitution of India. GST was not merely a simplification of the tax structure, but also a systemic reform with a focus on transparency, efficiency and speed in implementation and administration of taxes. Technology was a major component of the solution devised to fulfil these objectives. This could have been possible only when there was a strong IT Infrastructure and Service backbone which enabled capture, processing and exchange of information amongst the stakeholders. For this, Goods and Services Tax Network (GSTN), a Special Purpose Vehicle, was created. The GST portal developed by the GSTN is the front-end portal for the taxpayers for Registration, Returns, Payment and Refund modules.

Central Board of Indirect Taxes and Customs (CBIC) and the State GST authorities were given the option either to develop their own IT systems and applications to process the registration, returns and payment data as a back-end process and provide facilities to the taxpayers for other business related activities namely Refund, Investigation, Audit, Exports, Adjudication/Appeal etc. or to avail of the services to be provided by the GSTN.

A total of 27 States/Union Territories (UTs) had so far opted for the option of using GSTN system both for the front-end and back-end activities of their taxpayers and their tax officials (also known as Model - II states¹). On the other hand, CBIC and nine States/UTs opted for developing their own systems and applications (known as Model - I states²) for their departmental tax officials for tax administration for processing the registration, returns and payment data as a back-end process and also to provide facilities to the taxpayers and its departmental officials for other business-related activities namely Refund, Investigation, Audit, Exports, Adjudication/Appeal etc.

Thus, as far as CBIC is concerned, GSTN is a pass-through portal, which provides front-end facility for registration, returns and payment and after performing certain validations, GSTN shares the information and scanned images of documents uploaded on their system by the taxpayers or

¹ Andaman and Nicobar Islands, Arunachal Pradesh, Assam, Bihar, Chandigarh, Chhattisgarh, Dadra and Nagar Haveli, Daman and Diu, Delhi, Gujarat, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Lakshadweep, Madhya Pradesh, Manipur, Mizoram, Nagaland, Odisha, Puducherry, Punjab, Rajasthan, Telangana, Tripura, Uttar Pradesh, Uttarakhand and West Bengal

² Andhra Pradesh, Goa, Haryana, Karnataka, Kerala, Maharashtra, Meghalaya, Sikkim and Tamil Nadu

received from other State tax administrations and stakeholders to the CBIC ACES-GST Application for further action.

The Directorate General of Systems and Data Management (DG (Systems)), an attached office of the CBIC, is entrusted with the implementation of this back-end IT project. Overall, DG (Systems) is responsible for the design, development, programming, testing, implementation and maintenance of automated systems under CBIC, and for overseeing and managing the projects sanctioned by CBIC relating to information technology.

1.1 About CBIC ACES-GST Application

CBIC ACES-GST application is primarily meant for back-end processing of various GST functionalities like Refund, Investigation, Adjudication, etc., by the CBIC tax officers. Relevant modules of Automation of Central Excise and Service Tax (ACES³) Application (the erstwhile IT system for Central Excise/Service Tax) were incorporated into the application. The final scope for this development was subject to the state of business processes applicable for Central Excise and Service Tax in the GST regime.

The CBIC ACES-GST Application contains 11 modules viz. Access Control, Registration, Returns, Payment, Refund/Rebate, Exports, Audit, Dispute Settlement (Investigation, Adjudication and Appeal), Taxpayer at glance (TAG), ACES Migration, Mobile App. The CBIC ACES-GST Application intends to provide interface with other systems/applications both internally and externally. External interfaces are to be with GSTN, State Backend Systems, RBI, Banks, DGFT, MCA 21, CBDT, UIDAI, ICEGATE, ICES, RMS, ACES, EDW of CBIC etc. Internally, the interface is to be within different modules of the application.

Thus, the CBIC ACES-GST IT System is a new system implemented by CBIC for tax administration in GST regime. Though primarily meant for back-office processing by departmental officers in GST regime, it has some taxpayer interfaces primarily related to Central Excise taxpayers.

³ACES was rolled out in 2009 as a mission mode project of the Government of India under the National e-governance plan. It is a centralized web based and work-flow based system. It automates all the major business processes for administration of Central Excise and Service Tax. ACES has nine Modules of Central Excise and six modules of Service Tax for processing the day-to-day activities of the Department and the taxpayers. ACES interfaces with the following systems: i) Income Tax for Online Verification of PAN; ii) EASIEST for verification of Payment (Challans) from Banks; and iii) ICES for verification of IEC and Export Related processes. The functional modules of ACES were integrated with CBIC ACES-GST Application. Under GST regime, the existing ACES system is to be continued for some years as there would be a requirement of the ACES system for certain commodities that remained outside the scope of the GST. Also, it is required by existing taxpayers for completing activities relating to the past periods/obligations viz. filing of past returns, payment of arrears, claiming refund, etc., Additionally, the system may be required for dispute settlements (past periods), etc.

1.2 Audit Objectives

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

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

1.3 Audit Criteria

The following are the sources of audit criteria for this audit:

- (i) Central GST Act, 2017
- (ii) Central GST Rules, 2017
- (iii) Integrated GST Act, 2017
- (iv) Integrated GST Rules, 2017
- (v) Notification and circulars issued by CBIC
- (vi) Systems Requirement Specification (SRS)
- (vii) General Financial Rules, 2005 and 2017
- (viii) Request for Proposal (RFP)
- (ix) Master Service Agreement

1.4 Audit Scope

IT Audit of CBIC ACES-GST Application was conducted during December 2020-April 2022. The audit covered the period from August 2015 to March 2021. The scope of Audit covered:

- (i) Development of Modules and their functionalities
- (ii) GSTN Interface and other Interfaces
- (iii) Acquisition and Procurement of the CBIC ACES-GST Application
- (iv) IT Governance
- (v) Change Management

- (vi) Compliance with SLA Parameters

1.5 Audit Methodology

The audit methodology to achieve the audit objectives was, in brief, as under:

- (i) Audit conducted an Entry Conference in November 2020.
- (ii) Walkthrough/presentations were shared by the Department.
- (iii) Review and analysis of SRS and other documents related to various Modules, Change Management was done by Audit.
- (iv) Testing was done in User Acceptance Testing (UAT) environment to check the validations/audit checks relating to functionalities of various Modules of the CBIC ACES-GST system.
- (v) Extraction of data by running queries through CBIC on the CBIC database and further analysis of such data.
- (vi) Review and analysis of SLA monitoring reports and consequential action thereon.
- (vii) Examining the CBIC ACES-GST application through the SSO IDs provided to the Audit Personnel.
- (viii) For the purpose of this audit, three field offices of the Comptroller and Auditor General of India (C&AG) i.e., Delhi, Chennai and Bengaluru had participated in conduct of audit at the respective branches of Directorate General of Systems (DG (Systems)).
- (ix) The draft Audit report containing Audit findings and recommendations was issued to the Ministry for comments on 13 July 2022.
- (x) The Ministry's replies on draft Audit report were received on 30 August 2022.
- (xi) The Audit findings and recommendations of the draft Audit report was discussed with the Ministry during Exit Conference held on 2 September 2022.
- (xii) The Ministry's replies and submissions made during Exit Conference have been suitably incorporated in the report.

1.6 Audit Constraints

Access to testing environment and records production to audit was not up to the desired level. The audit opinion expressed in this report is limited to the extent of information provided, which was fragmented across the areas of audit undertaken.

With respect to requisition of record for audit of areas like setting up and functioning of Project Management Office (PMO) and Steering Committee,

Project timelines and milestones and its implementation, Change Management, the record production was partial. Also, due to non-providing of testing environment for almost half of the audit test check areas, Audit could not verify the development of functionalities across modules. Thus, Audit could not provide complete assurance regarding the development of the Application as envisaged.

Topic-wise constraints are as mentioned below:

1.6.1 IT Governance and Management

Documents related to setting up of Project Management office and Steering Committee and their functioning and details of meetings were not produced to Audit. Hence, Audit could not give assurance on whether the IT Governance structure and the role/working of Boards/Committees to oversee the management of project were adequate and effective.

As per RFP, an Incident Management Team was to be set up by the Vendor for monitoring the incidents, identification of vulnerable areas, performance testing and their timely resolution. However, due to non-production of relevant documents, Audit could not ascertain whether such a team was set up and if not, how and by whom these responsibilities were performed. Further, there was a requirement of the risk management plan in RFP which was also not produced to audit and therefore, audit could not check whether risk management responsibilities were clearly defined, to whom the same were assigned and whether the Root Cause Analysis (RCA) reports were prepared and submitted by the Vendor and monitored and reviewed by the CBIC.

1.6.2 Service Level Agreements

Out of 32 parameters pertaining to 5 SLAs, Audit was provided documents pertaining to 14 SLA parameters only. No documents were provided for any SLA parameter pertaining to Help Desk and Technical Support Incident/Ticket Resolution (L2 & L3) and Security (Vulnerability assessment & Penetration Testing). Audit could not derive any understanding to form an opinion on the functioning and service with regard to these parameters.

1.6.3 Change Requests

Apart from individual documents on a few change requests, Department did not provide records relating to establishment of Change Control Board (CAB), change control logs, development of backout process before any change request is implemented, Change Management procedures to

control emergency changes to the system, change order documentation etc.

1.6.4 Registration Module

Due to non-provision of a testing environment, Audit could not check processes of advance tax paid by the Casual Taxable Person or NRTP and whether the same is equal to the estimated tax liability, functionality of change in Principal Place of business and erroneous cancellation of registration.

1.6.5 Returns Module

Audit could not verify the reasons for non-deployment of certain critical functionalities (Refer Paragraph 3.2 of this report) and whether the competent authority approvals for descoping/non-development of such functionalities was obtained. Further, correctness of the reports issued through 21 Advisories could not be checked as department did not provide the testing environment (UAT).

1.6.6 Payment Module

Audit could not verify whether the raw data of paid challans was transmitted by the GSTN on a real time basis as specified in the SRS due to non-facilitation of a walkthrough of the API. MIS Reports could not be checked due to non-facilitation of Testing environment.

1.6.7 Data Migration Module

Continuity of business for the products not subsumed under GST could not be checked in CBIC ACES - GST application due to non-facilitation of testing environment.

1.6.8 Refund Module

Audit could not check the process of issuance of Payment advice and various MIS reports as the department did not provide testing in the UAT environment for these aspects. Process of re-crediting of Input Tax Credits (ITC) to the ledger and R1 and R2 Reports which require integration with the other stakeholders (Bank, PFMS etc.) could also be not verified.

1.6.9 Adjudication Module

Six functionalities were under UAT when audit was underway, and these functionalities were later launched. Out of the six functionalities, Audit could verify two functionalities in UAT environment - 'Issue of OIO' in which we noticed that the approval function was not working in 'Front-end' and 'Issue of SCN for Anti-evasion' in which we noticed that the record submitted in workflow in frontend was missing. Two functionalities

- PH Recording and SCN for refund could not be tested due to non-replication of the functionality in test environment at the GSTN end. The remaining two functionalities - DRC 08 and Call Book could not be tested due to non-working of the credentials given to Audit.

Audit acknowledges the co-operation extended by CBIC and its officials during the conduct of this audit.

Chapter II: IT Governance and IT Security

Audit examined and sought assurance on the overall IT Governance and IT Security of the CBIC ACES-GST Application. Audit focus was on the acquisition process, role and working of Boards/Committees, Service Level Agreements, Change Management Process and IS Security.

Scrutiny of the records revealed that a total of 12 prospective bidders purchased the RFP, but only a single bidder participated in the bid. Certain gaps were noticed during the scrutiny of SRS of different modules vis-à-vis the provisions given in the Act/Rules.

The Exit management plan and Helpdesk operation plan were obtained from the vendor with a delay. There was levy of liquidated damages for non-achievement of SLAs.

2.1 Inception of CBIC ACES-GST Application

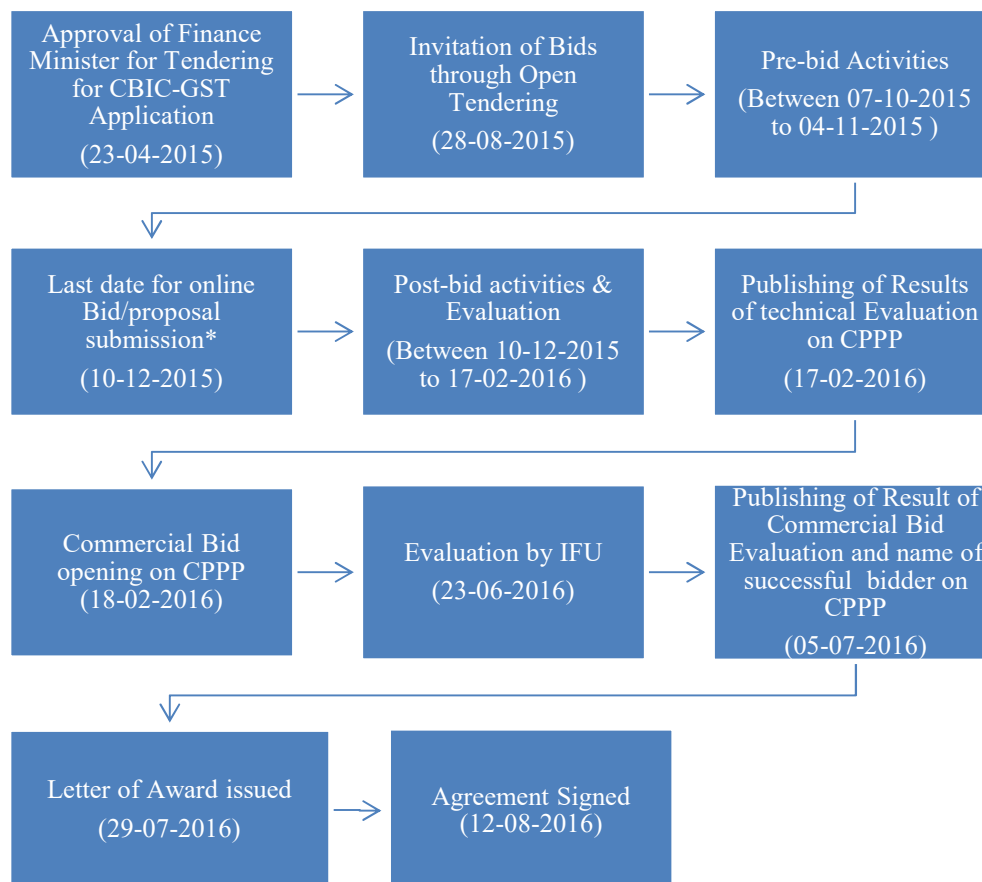
The Central Board of Indirect taxes and Customs (CBIC), Department of Revenue deals with the tasks of formulation of policy concerning levy and collection of Goods and Service Tax. The Directorate General of Systems and Data Management (DG (Systems)) has been entrusted with the implementation of the projects relating to Information and Communication Technology (ICT) in CBIC.

Since at the time of envisaging and roll out of the CBIC ACES-GST Application, GST laws had not yet been enacted and the details of the business processes to be followed in the GST was not completely worked out, the RFP floated vide RFP No. IV (39)/4/RFP GST 01/2015 for "Appointment of Vendor for Development and Maintenance of CBIC's Indirect Tax Applications (GST and ACES) and provision of Training and Helpdesk Services" provided a broad scope of the business processes that were likely to be followed in the GST regime.

Taxation being a dynamic concept, it was understood that the business processes may undergo changes from time to time and need to be automated at the shortest possible time periods, by the Centre, the States and GSTN. This would require regular, timely and effective interaction with all the stakeholders and periodic modifications in the system, applications, additions of new functionalities and servicing new requirements that ensured a smooth transition to the new tax regime.

2.2 Acquisition & Procurement

Chronology Chart - Timelines for Acquisition & Procurement of Vendor



*The last date for submission of bid was extended to 28.10.2015, 18.11.2015, 26.11.2015 and 10.12.2015.

The erstwhile CBEC (current CBIC) had initiated a GST Pilot in 2011 and GSTN was formed in 2014. In April 2015, as part of deliberations on preparedness for GST, the Department proposed development of an application, separate from the GST portal that would serve as the back-office solution for CBEC departmental users to process the registration, return and payment data captured by the GSTN portal. The planned timeline by the Department for development of the application & roll-out was from 10th August 2015 - 1st April 2016 and for maintenance between 1st April 2016 and 31st March 2021 for a period of five years. The proposal 'Preparedness for GST 01.04.2016' for the development of this application was put up by CBEC to the Ministry of Finance on 10.04.2015.

The proposal mentioned that PMU (M/s PwC) had prepared a Detailed Project Report and conducted a gap analysis based on a comparison of the 'As-Is' capacity of CBEC's existing IT infrastructure and the "To Be" state of the infrastructure, required to be in place by 2016. PMU had prepared a

cost estimate for the project ranging between ₹ 163.58 crore and ₹ 202.44 crore.

On 23 April 2015, the Finance Minister approved the proposal to initiate tendering for the development of applications of GST.

In August 2015, Directorate General of Systems (DG (Systems)) invited an open tender through RFP for selection of Implementation Agency for development and maintenance of CBIC's Indirect Tax Application (GST and ACES) and provision of Training and Helpdesk Services. The Vendor was to be selected under Cost-Based Selection.

A total of 12 prospective bidders had purchased the RFP. In September and October 2015, pre-bidding workshops were organized to address the queries of the prospective bidders. On requests of prospective bidders, the bid submission date was extended in four steps by 71 days i.e., from 30 September to 10 December 2015 by the Department. However, by the due date, only a single bid from M/s Wipro Ltd. was received even when 12 prospective bidders had purchased the RFP and the date of submission of bid was extended on the request of the prospective bidders. Tender opening process began on 23 December 2015.

Preliminary evaluation of the bid was conducted and Cover 1 (Integrity Pact, Authorization Letter and EMD) and Cover 2 (Pre-qualification Bid) were scrutinized during the evaluation process.

Technical bid was evaluated in January 2016 and February 2016 by the Technical Evaluation Group (TEG) with assistance from PMU (GST) and DG Systems officials. M/s Wipro Ltd. qualified this stage with a score of 80.6 against the cut-off marks of 70 for this stage as detailed below.

Table 2.1 - Preliminary evaluation of the bid

| Sl No. | Evaluation criteria | Total Marks | Minimum cut-off (60%) | Marks obtained | Qualification status |
|--------------|------------------------------|-------------|-----------------------|----------------|----------------------|
| 1. | Bidder's Credentials | 15 | >=9 | 15 | Qualified |
| 2. | Approach & Methodology | 10 | >=6 | 7.6 | Qualified |
| 3. | Solution Architecture | 23 | >=14 | 16.1 | Qualified |
| 4. | Key Resources | 40 | >=24 | 32.9 | Qualified |
| 5. | Presentation & Demonstration | 12 | >=7 | 9 | Qualified |
| Total | | 100 | 70 (70%) | 80.6 | Qualified |

After qualifying the technical bid stage, the Commercial bid was evaluated by two separate Price Evaluation Committees (PEC) constituted (March 2016) to evaluate the reasonableness of the price quoted by the bidder.

Both the committees found that the overall price quoted by the bidder in the original bid (₹ 190.17 crore) was quite close to the mean value (₹ 183.01 crore) of the cost range estimated (₹ 163.58 crore to ₹ 202.44 crore) by PGMA⁴ (earlier known as PMU⁵). However, the bidder suo-moto offered to reduce the bid amount to ₹ 184.00 crore plus taxes.

DG (Systems) sent the original as well as revised commercial bid to IFU⁶ on 23 June 2016 for approval. Revenue Secretary during the appraisal meeting (24 June 2016) of the Standing Finance Committee (SFC), Department of Revenue, suggested to get the reasonableness of price evaluated by an independent Price Evaluation Committee (PEC) comprising of officers from NIC, CBDT, DeitY and IFU. The independent PEC submitted its report to DG (Systems) on 05 July 2016 and recommended the price of ₹ 184 crore quoted by M/s. Wipro Ltd. as reasonable. Administrative approval and financial sanction were received on 01 August 2016 from Finance Minister. DG (Systems) issued the Letter of Award to M/s Wipro on 29 July 2016 and the Master Service Agreement was signed between DG (Systems) and Vendor on 12 August 2016.

Audit noted that M/s Wipro Ltd. who was awarded this contract, was the developer and maintainer of the ACES legacy system and would have better familiarity with tax administration workflow vis-a-vis the other 11 prospective bidders. The single bid contract of ₹ 184 crore was awarded to M/s Wipro Ltd., with the CBIC's notings citing the validity of the due process followed and reasonableness of awarded value being mean value of the estimated price range, and also that retendering may not leave sufficient time to develop the necessary GST application and to take over the ACES system on the expiry of the existing contract.

On this being pointed out by Audit (April 2022), the Ministry accepted (August 2022) the observation.

Recommendation 1: In future, the Department should ensure adequate competition and minimize vendor lock-in by ensuring that more bidders participate in the bid for tendering for the next contract. This may be done by devising appropriate procedures to ensure a more level playing field between the prospective bidders and the existing System Integrator (SI). Also, this tender may be initiated well in time so that in the event of receipt of only one bid, the Department has sufficient time to retender, if felt necessary.

⁴ Programme Governance and Monitoring Agency; PwC Pvt Ltd.

⁵ Programme Management Unit

⁶ Integrated Financial Unit

2.3 Technical requirements of the CBIC ACES-GST Application

The Vendor was expected to design, develop and deploy the application in line with the high-level solution architecture and be able to deliver all the functionalities, technical and operational features as mentioned in the RFP, meeting the desired service levels. The application was envisaged to be highly decoupled, modular, scalable and integrated software application, deployed centrally at the Data Centre (DC) and Disaster Recovery Site of CBEC (now CBIC), having the necessary interfaces for all the stakeholders through appropriate channels.

Application would be web-based and would integrate to a backend database with logical partitioning for effective data retrieval and storage. It was also proposed that the entire application should have flexible and scalable architecture with a well defined 'Business Logic layer' and 'Data Access Layer' to support the efficient handling of data and business logic between the 'Application Layer' and the 'Database Layer'. The application would be supported by an 'Enterprise Service Bus', which would enable effective data exchange and interaction between various interfacing bodies.

Given that the business requirements may remain fluid over the period of time, owing to the dynamic nature of the GST regulations, the functionalities and features of CBIC ACES-GST System were envisaged to be granular and modular enough for the administrators to enable or disable any particular functionality, at any given time, as per the requirement, without the need for a developer / code level change / custom UI change. While the key modules had been specified, it was a necessary requirement that the application should enable complete integration between different modules to enable building of workflows which may leverage information across the modules.

2.4 Scope of work for Vendor

The scope of work was to be carried out in multiple tracks:

Track 1: Takeover and operations and maintenance of ACES

Track 2: Design, development and implementation of CBIC ACES-GST System

Track 3: Operations and maintenance of CBIC ACES-GST System

Track 4: Training of CBIC officials

Track 5: Helpdesk operations

2.5 IT Governance and Management

IT governance enables organizations to manage their IT risks effectively and ensure that it meets the needs of the business today and that it incorporates plans for future needs and growth. It is an integral part of enterprise governance and includes the organisational leadership, institutional structures and processes, and other mechanisms (reporting & feedback, enforcement, resources etc.) that ensure that IT systems sustain organisational goals and strategy while balancing risks and effectively managing resources.

Table 2.2 - Summarised Audit Finding Matrix

| Sl. No. | Sub-Objective | Summary of Audit Checks | Status | Findings |
|---------|---|--|---------------------------|--|
| 1 | How does the organization identify and approve or reject new/old business requirements? | Project management office | Minimal record production | 2.5.1 2.5.3 |
| 2 | How does the leadership direct and monitor the performance of project? | Steering Committee, Fortnightly and monthly meetings, variations in cost, schedule and performance indicator from as planned, proper approvals, project milestones | Minimal record production | 2.5.2 2.5.4 2.5.4.1 2.5.4.2 2.5.4.3 2.5.5 |
| 3 | How does the CBIC monitor and manage their risks? | Incident Management Team, Vulnerable areas, Performance Testing, Risk Management Plan, Risk mitigated, Root Cause Analysis (RCA) | Scope restriction | - |

To direct and monitor the performance of project, the RFP envisaged creation of a Project Management Office and a Steering Committee as detailed below:

2.5.1 Project Management Office (PMO)

A Project Management office with a designated full time Project Manager from the Vendor and key persons from other relevant stakeholders including officials from the Purchaser and other representatives by invitation, was to be set up during the start of the project.

PMO was required to maintain weekly statuses, minutes of the meetings, weekly/monthly/project plans, etc. PMO was also to meet formally on a weekly basis covering, at a minimum, the following agenda items:

- Project Progress
- Issues and concerns
- Unresolved and escalated issues
- Change Management - Proposed changes, if any
- Any other issues that either party wished to add to the agenda.

Audit had requisitioned (July 2021) the documents related to setting up of project management office (PMO); however, the same were not provided. Based on the available documents provided by the Department, Audit could not find any mention of setting up of a Project Management Office which was to include a designated full time Project Manager from the Vendor and key persons from other relevant stakeholders including officials from the Purchaser and other representatives by invitation.

2.5.2 Steering Committee

The Steering Committee, envisaged as a forum for seeking and getting approval for project decisions on major changes was to consist of senior stakeholders from the Purchaser, its nominated agencies, consultants for the Purchaser and the Vendor. The Vendor had to participate in Steering Committee meetings and update the Steering Committee on Project progress, Risk parameters (if any), Resource deployment and plan, immediate tasks, and any obstacles in the project. During the development and implementation phase of the project, fortnightly Steering Committee meetings were to be held. During the operations and maintenance phase, the meetings were to be held at least once a month.

Audit noted that the Steering Committee was constituted but its composition and details of its functioning were not provided to Audit to assess whether this committee functioned as envisaged in RFP.

In this regard, audit observation was issued (April 2022) and the Ministry during the exit conference while noting the audit recommendation for compliance stated (September 2022) that all available office records were furnished before the audit team. PMO is functional and weekly/periodic review meetings are continuing since inception of project and also stated to share the same with audit again; however, the same was awaited (December 2022).

Recommendation 2: The Department should ensure that the PMO and steering committee are functioning as envisaged, to monitor the progress of implementation of the project.

2.5.3 Gaps in Software Requirement Specifications (SRS)

The SRS were prepared for all modules, which formed the basis for development of the modules. Audit test checked the SRS of all the modules vis-à-vis the Act/Rules to evaluate whether all the provisions were considered while preparing the SRS. Audit found that most of the provisions have been addressed in the SRS, subject to the following gaps.

Table 2.3 - Module wise details of gaps in SRS

| Name of the module | Validation provisions not included in SRS | Reference |
|----------------------|---|---|
| Investigation | Validating the condition of returning documents/books or things seized by authorized officer within thirty days after the issue of notice | Section 67(3) of CGST Act |
| | Capturing the details of release of goods if No notice is issued pursuant to search | Section 67(7) of CGST Act |
| | Ensuring time limits and extension of time limits for release of goods as mentioned in the Act | Section 67(7) of CGST Act |
| Registration | Absence of Validation to compute Aggregate Turnover from the Returns filed | Section 10 of the CGST Act, 2017 read with Notification No. 14/2019-Central Tax dated: 07.03.2019 |
| | Absence of provision in the SRS to alert the tax officer when all pending Returns have been filed by the taxpayer and full payments made within the prescribed period instead of replying to the SCN for non-filing of Returns. | Rule 22(1), Proviso to Rule 22(4) of the CGST Rules, 2017 . |
| | Absence of provision in the SRS to ensure that deemed approved registrations are duly signed or verified through electronic verification code. | Rule 10(5) read with Rule 9(5) of the CGST Rules, 2017. |
| | Absence of validation to ascertain the effective date of liability in respect of registrations obtained as a result of transfer, succession, demerger, amalgamation. | Section 22(3), 22(4) of the CGST Act, 2017. |
| | Absence of Suspension functionality and validation to restrict the registered taxpayers from making taxable supplies and consequent passing of credit. | Rule 21(A)(I) of the CGST Rules, 2017 . |

Considering that these requirements are laid down in law, there needed to be a validation process built in the system to ensure compliance with the provisions of law.

Recommendation 3: The Department should conduct a review to ensure that all the provisions laid down in Act/Rules/notifications, including the changes introduced at different times are accurately mapped and updated in the SRS for development of functionalities.

On this being pointed out by Audit (September 2021), the Ministry accepted the recommendation and stated (August 2022) that the suggested functionalities in both the modules will be developed.

2.5.4 Project Milestones

As per RFP (Clause 9.1), project milestones were to be measured from the Project Start date (referred to as “T”⁷).

During audit, to assess whether the project was developed and implemented as per the agreed plan and timelines, CBIC was asked to indicate the planned date and actual date for development and implementation of each module. In response, the Department provided the information in respect of Registration, Returns, ACL, ACES GST Migration, Refund modules. For the remaining modules, the Department stated that the DSR (Adjudication, Recovery and Appeal), Investigation Modules were implemented through Change requests. Mobile App and Audit Modules were in the SRS signoff stage as discussed in subsequent paras. Further, Taxpayer at Glance (TAG) and Export Modules were at discussion stage.

2.5.4.1 Development and utilisation of modules

The status of modules of CBIC ACES-GST Application after five years (September 2021) of the agreement was as under:

Table 2.4 - Status of development of modules

| Name of the module | Functionalities implemented | Functionalities yet to be implemented |
|--------------------|---|--|
| Registration | <ul style="list-style-type: none"> View Taxpayers’ registration forms and supporting documents | <ul style="list-style-type: none"> Associated Risk (based on the no of cases registered against the PAN Holder) |

⁷ Defined as the date of receipt of the Letter of Acceptance of Award or Seven (7) days after issuance of the Letter of Award by CBIC.

| Name of the module | Functionalities implemented | Functionalities yet to be implemented |
|----------------------------|--|--|
| | <ul style="list-style-type: none"> • Approve/Query/Reject Registrations for more information • Amendment of Registrations • Surrender of Registration • Cancellation of Registrations • Revoke Registration • Aadhaar linking and Physical Verification • Jurisdiction allocation logic (TCS and UIN) | <ul style="list-style-type: none"> • Suspension functionality • Composition Forms and composition Validations |
| Returns | <ul style="list-style-type: none"> • View All Forms with Downloadable option • Transitional Provisions - functionality for Non Filers (Partially deployed) | <ul style="list-style-type: none"> • Best Judgement Assessment • Scrutiny of Returns • Summary Assessment for forms relating to ASMT 01 TO ASMT 18 • GSTR - 4 Annual Return • ITC-02A |
| Payment | <ul style="list-style-type: none"> • Payment Receipt • Acknowledgement generation (PMT- 01) • View Ledgers (ITC and Liability Registers) - Sync with GSTN | <ul style="list-style-type: none"> • Transmission of reconciled data from Accounting Authorities • Verification of payment details • Synchronization report • Integration of data with other modules |
| ACES Migration | Not Applicable | |
| Export | Export module was in discussion stage and was yet to be developed. The module was in the draft SRS stage. | |
| Tax Payer At Glance | Discussion stage only. Draft SRS was awaited from the Vendor | |
| Refund | <ul style="list-style-type: none"> • Refund Application • Acknowledgement • Deficiency Memo • Provisional Refund Order • Payment Order • Refund Sanction Order • Complete and Partial Adjustment of Liability | <ul style="list-style-type: none"> • RFD-10 Application for refund of UIN • RFD-7 (Part-B) Order for withhold and release of Refund • RFD-01C Correction of mistake done in RFD-01B • Payment to CWF • RFD 10A CSD • RFD10B Duty Free Shop |

| Name of the module | Functionalities implemented | Functionalities yet to be implemented |
|------------------------------------|---|--|
| | <ul style="list-style-type: none"> • Notice for Rejection (SCN) • Reply of SCN view option • LUT (Letter of Undertaking) | |
| Investigation | <ul style="list-style-type: none"> • Phase I completed- all investigation activities | <ul style="list-style-type: none"> • Post investigation activities of Phase I • Phase II - Prosecution, compounding, interception of goods in transit |
| Adjudication | <ul style="list-style-type: none"> • Phase I- Issue of Show Cause Notices (SCNs) - for Refund and Anti-evasion, Adjudication processes • Issue of OIO (Forms DRC 01 and 3 to 8) • Process of fixing personal hearing and transfer of cases to/from call book | <ul style="list-style-type: none"> • DRC⁸ -02 • Issue of SCNs • Summary assessment • Scrutiny of returns • Audit and Special Audit |
| Appeal, Review and Revision | <ul style="list-style-type: none"> • Phase I functionalities (Forms APL⁹ 1 to 4) and • Review of Adjudication orders | <ul style="list-style-type: none"> • Phase II functionalities - 21 use cases • Remand orders (Forms APL 5 to 8, RVN 01) |
| Recovery | <ul style="list-style-type: none"> • Recovery of legacy arrears • Payment in instalments (Forms DRC 7A,8A, 20,21) | <ul style="list-style-type: none"> • Recovery process emanating from other sources (DRC Forms 9 to 19, 22 to 25) and • Recovery Register |
| E-Way Bill- Unblocking | <ul style="list-style-type: none"> • Fully implemented | <ul style="list-style-type: none"> • Nil |
| Audit | <ul style="list-style-type: none"> • SRS signed-Off | <ul style="list-style-type: none"> • Development of the entire module |
| Mobile Application | <ul style="list-style-type: none"> • SRS - Phase I signed Off | <ul style="list-style-type: none"> • SRS - Phase II and development of entire mobile application |

Apart from the unblocking functionality of E-Way Bill, which was fully developed, the modules for Registration, Payment, Refund, Investigation, Adjudication, Appeal, Review and Revision processes were substantially completed and were independently functional, though some functionalities were yet to be developed. The Recovery module was only partially completed. The critical recovery register was not yet developed and the current stage of development covered only two segments of the

⁸ Demand and Recovery forms

⁹ Appeal forms

underlying workflow processes. The development of Export, Taxpayer at a glance and Mobile application modules were at a nascent stage.

Against this backdrop, our review of the utilisation of the modules by field formations suggested that the functional portion of the modules for adjudication, investigation, appeal were being used only to a very limited extent.

- (i) As regards the adjudication module, the MIS reports for 2020-21 for Bengaluru zone indicated that while payment against SCNs was made from the GST front-end and Form DRC-03 (Intimation of payment made by taxpayer) were filed in 29,527 cases during 2020-21, no case was processed through the system. The MIS reports indicated that DRC-05 (intimation of conclusion of proceedings) or DRC-07 (Summary of orders) had not been issued for any case. Where taxpayers had made voluntarily payment using DRC-03, acknowledgement of acceptance of payment was issued in Form DRC-04 only in 53 cases. Similarly, on a pan India basis, a report for one month (July 2021) indicated that only 44 cases have been processed through the system by issuing DRC-07 and only 3,029 cases had been cumulatively processed so far.
- (ii) The investigation module also was not being utilised. A visit to one Commissionerate (Bengaluru East) indicated that no cases had been processed through the system. The register for investigation cases (335J) was maintained manually. A review indicated that cases were being primarily processed through e-Office.
- (iii) In the absence of the Appeal Register (which was yet to be developed), the extent of usage of Appeal module could not be assessed. Audit observed from Bengaluru-I Appeal Commissionerate that there were no cases in the appeal archive list of two ranges.

In response to the audit observation (September 2021), the Department replied (December 2021) that various outreach measures were initiated, which included various communications being sent to CBIC officers, online training and familiarisation programs, organising workshop at the Commissioner level and instructions that using e-office was not a replacement to the CBIS GST application. It also stated that outreach and awareness programs were conducted not only on a regular basis but also on a need basis. However, the issue of lack of usage was being pursued vigorously.

2.5.4.2 Delay in development of Mobile Application module

As per the MSA, Vendor had to develop a hybrid Mobile Application for Android, iOS and Windows platforms, to be accessible on Tablets and smartphones as part of Phase-I development of the CBIC ACES-GST application. It was to be designed to be platform independent and to work on both Online and Offline modes. The Mobile Application was to be extended to the Officers on field/site visits for creating and uploading their reports online on completion of physical verification etc., in addition to specific reports on revenue collected, returns filed, etc. All the 14 MIS Reports as available in the Web Application were to be considered for Mobile Application development.

The indicative timeline as envisaged in the MSA for deployment of the Mobile App in production was 31 May 2017. However, there was no progress on development of Mobile App until January 2019, when a Working Group consisting of 13 officers from CBIC was constituted to deliberate upon and to finalise the Business Requirements. Initially, the mobile devices were intended to be provisioned by CBIC for all their 24,612 officers but later, based on the hardware and software requirement discussions during March/April 2019, it was decided during May 2019, to adopt the Bring Your Own Device (BYOD) concept.

The vendor committed (11 September 2019) to delivery of Mobile Application in two phases with the revised SRS Sign-Off date for Phase-I as 30 September 2019 and Go-live as 30 November 2019. Phase-I was envisaged to cover MIS Reports as well as some modules and functionalities while the remaining was envisaged for Phase-II. However, after iterations, the vendor shared (14 January 2020) the SRS Version 2.0 without the Field Site Visit (FSV) dashboards and prototypes, which were to be submitted and vetted separately. CBIC partially signed-off SRS Version 2.0 on 16 January 2020 without UI Screens (pending technical feasibility report of developing the MIS reports in Mobile application by M/s Wipro Ltd) and accorded final approval (February 2021) for SRS - Phase-I with all the Reports and the UI screens.

As regards Phase-II of the Mobile Application, based on Working Group meetings and suggestions (June - July 2020) the Business Requirements Document (BRD) was finalised in December 2020 and there has been no further progress beyond the BRD finalisation. CBIC reviewed (November - December 2020) the progress status of the two Phases of Mobile Application and based on the bottlenecks identified, decided to put on hold further development until the Vendor deploys additional development resources and reverts on technical feasibility of developing

MIS reports (with reference to volume of data, graphical representation and hyperlinks).

Therefore, from a functional perspective, with substantial amount of time and effort expended, only the SRS for development of first phase of Mobile Application had been signed-off and initial screens were still being demonstrated. The development of the Mobile Application envisaged as phase I of the CBIC-GST application had already suffered a time over run of more than three years. Additionally, development of the Mobile Application in the manner envisaged seems unlikely, given that further development was on hold as technical feasibility of MIS functionalities was yet to be established and Vendor was unable to provide technical resources.

On this being pointed out (September 2021), the Ministry, while accepting the para, stated (August 2022) that all efforts were being made to accelerate the development and deployment of the mobile application.

2.5.4.3 Delay in development of Audit module

As per the MSA, the vendor had to roll out an Audit Module for usage by Audit formations of CBIC by May 2017. Processes significant for Audit module were identified, important among them being annual selection of units for audit, creation of Audit Planning Register, quarterly audit schedule and allocation, preliminary/desk review, data analysis, evaluation of internal controls, verification report, post verification and preparation of draft audit and final audit report. DG (Systems) identified that there was significant difficulty in converting business processes into system design and implementation due to technical/system limitation. The preparation of SRS commenced in May 2017 and underwent multiple revisions. The Department undertook extensive deliberations with Vendor for determining the scope of audit module and gaps in the SRS with reference to the RFP.

Finally, DG (Systems) signed-off the Audit SRS in January 2020. However, the vendor stated that the following functionalities included in the signed off SRS, were not covered in the RFP and would be considered 'out of scope', i) Issue ADT-03 ii) Issue ADT-04 iii) Audit Register iv) Broadcast (bulletin board) v) Desk Review analytics. After deliberations, it was agreed that except for Broadcast (bulletin board), all other issues were part of scope.

Thus, delay in defining and agreeing upon the scope of Audit module, delay in finalization of audit forms/processes for inclusion in SRS coupled

with the delay in finalization of the GST Audit Manual (that came into existence in July 2019) contributed, largely, to the delay in the SRS signoff.

In response to the audit observation (September 2021), Ministry, while accepting the para, stated (August 2022) that the Audit Module had been rolled out on 1st April 2022.

The implementation of the Module will be reviewed in subsequent Audits.

Recommendation 4: The Department should strengthen the IT Governance and Management mechanism to ensure that the project timelines are adhered to and rolled out modules are effectively used as envisaged.

2.5.5 Payment Schedule

RFP (Clause 9.2) defined the milestone wise payment schedule for payment of Application Development Cost, Payment of Operation & Maintenance Cost & Helpdesk Cost, and payment of Enhancement Cost & Training Cost. Payment for each activity was to be made as a percentage of total cost when the defined milestones for the afore-mentioned activities was reached. Based on the documents provided to Audit, the payments made against the different payment milestones for development of different modules, as summarised by Audit, is given below:

Table 2.5- Details of payments made against each payment milestone

| (Amount in ₹lakh) | | | | | | | |
|----------------------------|-----------------------------|-------------------|---------------------|--------------------|--------------------|------------------------|--------------------------------|
| Sl. No. | Payment Milestones | Billed Amount (A) | Descoped Amount (B) | Claimed Amount (C) | Amount Pending (D) | Liquidated Damages (E) | Actual Payment {F=A-(B+C+D+E)} |
| Registration Module | | | | | | | |
| 1. | SRS Signoff (10%) | 34.22 | 0 | 0 | 0 | 0 | 34.22 |
| 2. | UAT Deployment (20%) | 68.44 | 0 | 0 | 0 | 0 | 68.44 |
| 3. | UAT Signoff (50%) | 171.10 | 6.84 | 3.42 | 0 | 4.43 | 156.41 |
| 4. | Production Deployment (10%) | 34.22 | 1.36 | 0 | 0 | 0.06 | 32.8 |
| 5. | Go-Live (10%) | 34.22 | 1.36 | 0 | 0 | 0 | 32.86 |
| | Total | 342.2 | 9.56 | 3.42 | 0 | 4.49 | 324.73 |

| Sl. No. | Payment Milestones | Billed Amount (A) | Descoped Amount (B) | Claimed Amount (C) | Amount Pending (D) | Liquidated Damages (E) | Actual Payment {F=A-(B+C+D+E)} |
|-----------------------|-----------------------------|-------------------|---------------------|--------------------|--------------------|------------------------|--------------------------------|
| Returns Module | | | | | | | |
| 1. | SRS Signoff (10%) | 68.44 | 20.53 | 0 | 0 | 0 | 47.91 |
| 2. | UAT Deployment (20%) | 136.88 | 83.95 | 0 | 2.96 | 0 | 49.97 |
| 3. | UAT Signoff (50%) | 342.21 | 209.89 | 0 | 24.52 | 1.38 | 106.42 |
| 4. | Production Deployment (10%) | 68.44 | 41.97 | 0 | 5.58 | 0.006 | 20.88 |
| 5. | Go-Live (10%) | 68.44 | 41.97 | 0 | 4.90 | 0 | 21.57 |
| | Total | 684.41 | 398.31 | 0 | 37.96 | 1.38 | 246.75 |
| Refund Module | | | | | | | |
| 1. | SRS Signoff (10%) | 17.11 | 0 | 0 | 0 | 0 | 17.11 |
| 2. | UAT Deployment (20%) | 34.22 | 1.71 | 0 | 1.71 | 3.42 | 27.38 |
| 3. | UAT Signoff (50%) | 85.55 | 11.40 | 0 | 10.83 | 0.83 | 62.49 |
| 4. | Production Deployment (10%) | 17.11 | 2.21 | 0 | 2.23 | 0 | 12.67 |
| 5. | Go-Live (10%) | 17.11 | 1.82 | 0 | 3.39 | 0 | 11.9 |
| | Total | 171.10 | 17.14 | 0 | 18.16 | 4.25 | 131.55 |
| ACL Module | | | | | | | |
| 1. | SRS Signoff (10%) | 34.22 | 0 | 0 | 0 | 0 | 34.22 |
| 2. | UAT Deployment (20%) | 68.44 | 0 | 0 | 0 | 0 | 68.44 |

| Sl. No. | Payment Milestones | Billed Amount (A) | Descoped Amount (B) | Claimed Amount (C) | Amount Pending (D) | Liquidated Damages (E) | Actual Payment {F=A-(B+C+D+E)} |
|----------------------------------|-----------------------------|-------------------|---------------------|--------------------|--------------------|------------------------|--------------------------------|
| 3. | UAT Signoff (50%) | 171.10 | 0 | 0 | 0 | 9.41 | 161.69 |
| 4. | Production Deployment (10%) | 34.22 | 0 | 0 | 0 | 0 | 34.22 |
| 5. | Go-Live (10%) | 34.22 | 0 | 0 | 0 | 0 | 34.22 |
| | Total | 342.20 | 0 | 0 | 0 | 9.41 | 332.79 |
| ACES GST Migration Module | | | | | | | |
| 1. | SRS Signoff (10%) | 34.22 | 0 | 0 | 0 | 1.67 | 32.55 |
| 2. | UAT Deployment (20%) | 68.44 | 0 | 0 | 0 | 0.19 | 68.25 |
| 3. | UAT Signoff (50%) | 171.10 | 0 | 0 | 8.55 | 0.98 | 161.57 |
| 4. | Production Deployment (10%) | 34.22 | 0 | 0 | 1.71 | 0.11 | 32.4 |
| 5. | Go-Live (10%) | 34.22 | 0 | 0 | 13.68 | 0 | 20.54 |
| | Total | 342.20 | 0 | 0 | 23.94 | 2.95 | 315.31 |

Source: Data provided by Department (as of March 2022)

The remaining modules were developed either through change requests or were at planning/SRS stages.

The total amount paid to the vendor (against original contract amount) till date has not been made available to Audit. During the Exit conference (September 2022), the Ministry stated that Project Budget files for consolidated expenditure and budget thereof were provided to the audit team at DG (Systems) Delhi and also stated that they would share the same with Audit again; however, the same was awaited (December 2022).

2.6 Exit Management Plan (EMP)

Table 2.6 - Summarised Audit Finding Matrix

| Sl. No. | Sub-Objective | Summary of Audit Checks | Status | Findings |
|---------|---|---|---------|----------|
| 1. | Whether exit management policy/plan is established in accordance with the RFP | Exit management plan within 90 days from the effective date of the agreement. Re-drafted the Exit Management Plan every six (6) months and kept up to date. | Checked | 2.6.1 |

2.6.1 Exit Management plan not submitted by the Vendor

As per RFP, the vendor was required to submit an Exit Management plan in writing to the Purchaser or its nominated agencies within 90 days from the effective date of the Agreement in relation to the various phases of the Project. The Exit Management plan needed to be re-drafted every six months to keep it up to date. Each version of the Exit Management plan was to be approved by the Purchaser or its nominated agencies. As per RFP, in case of the Agreement being terminated, the Purchaser reserved the right to ask the Vendor to continue running the project operations for a period of 6 months after termination orders were issued and the Vendor should be obliged to provide such services for such period without any additional cost and expense to the Purchaser and without any impediment in the quality of services.

During audit, it was noticed that the Vendor did not submit any Exit Management plan which was also confirmed by the DG (Systems). In absence of an Exit Management plan, there was no assurance that the outgoing vendor would co-operate smoothly for effective continuity of the business. DG (Systems) did not provide reasons for non-submission of Exit Management plan by the Vendor and did not take any action for non-fulfilling of necessary obligations of the agreement.

When pointed out by Audit (April 2022), Ministry accepted the observation and stated (August 2022) that DG Systems had now obtained an Exit management Plan from the Vendor. The Ministry during the Exit Conference also indicated that they would (September 2022) share a copy of the plan with Audit; however, the same was awaited (December 2022).

2.7 Service Level Agreement (SLA) and Liquidated Damages

SLAs for CBIC application were designed on the basis that the Application Vendor would provide code of the application to be deployed in the

production environment to the System Integrator (SI) team. The SI¹⁰ was the sole owner of the production environment and responsible for managing the entire infrastructure including the DC/DR sites, DC/DR Infrastructure, LAN & WAN.

CBIC was responsible for monitoring of overall timelines, SLAs and calculation of penalties/ liquidated damages. The Vendor was expected to accomplish the Scope of Work under the agreement as per the Timelines and as per the Service Levels mentioned in the RFP. If the Vendor fails to achieve the Timelines or the Service Levels due to reasons attributable to the Vendor, the Vendor shall be liable to pay liquidated damages as per the percentage of capping provided in the RFP.

Table 2.7 - Summarised Audit Finding Matrix

| Sl. No. | Sub-Objective | Summary of Audit Checks | Status | Findings |
|---------|---|---|----------------------------|----------|
| 1 | SLAs were properly defined | SLA parameters | Partial record production | 2.7 |
| 2 | How SLAs are monitored | Deviations from committed SLA and Adherence level | Partial record production | 2.7.1.1 |
| | | | | 2.7.1.2 |
| | | | | 2.7.1.3 |
| 3 | Penalty (liquidated damages) provisions in case of non-compliance | Liquidated damages | | 2.7.2 |
| | | | | 2.7.3 |
| 4 | Role of Project Management Consultants if any | Incidents happening again and again | Partial records production | - |

Performance requirements by the Vendor as per the Service Level Agreement (SLA) were logically segregated into the following categories:

- Project Implementation - These SLAs were applicable from the start of the project to the Go-Live of Phase II. These SLAs were for ensuring that the project went live as per the agreed timelines and quality
- Operations and Maintenance
- Call Centre (Helpdesk and technical support)
- Training
- Security

¹⁰ Consortium of Tata Consultancy Services, Tata Communications Limited and Hewlett Packard

Against a total of 32 parameters pertaining to five SLAs, the Department provided SLA records for only 14 parameters as mentioned in the Table-2.8 below:

Table 2.8 - SLA Parameters

| Sl. No. | SLA Category | SLA Parameter | Document Provided (Yes/No) |
|---------|--|---|----------------------------|
| 1 | Levels for implementation phase | (i) Team mobilization and commencement of work | No |
| | | (ii) Key Resource Deployment | No |
| | | (iii) Key Resource Availability | No |
| | | (iv) Delay in achievement of implementation/ enhancement Milestones | No |
| | | (v) Data Migration | No |
| | | (vi) User Acceptance Testing during implementation/ enhancement | No |
| 2 | Service Levels for Operational and Maintenance Phase | (i) Availability | No |
| | | (ii) Response Time | No |
| | | (iii) Change Requests / Enhancements | Yes |
| | | (vi) Enhancement team availability | No |
| | | (v) Handholding support | Yes |
| 3 | Help Desk and Technical Support Incident/Helpdesk (L1) | (i) Availability of telephone line | Yes |
| | | (ii) Availability of Online complaint system | Yes |
| | | (iii) Call Wait Time | Yes |
| | | (iv) Call Abandonment | Yes |
| | | (v) Total hold time on call | Yes |
| | | (vi) Ticket acknowledgement | Yes |
| | | (vii) Calls forwarded for feedback | Yes |
| | | (viii) Call feedback rating | Yes |
| | | (ix) Assignment of tickets to the | Yes |

| Sl. No. | SLA Category | SLA Parameter | Document Provided (Yes/No) |
|---------|--|--|----------------------------|
| | | concerned team for resolution | |
| | | (x) Correct assignment of severities to tickets | Yes |
| | Help Desk and Technical Support Incident / Ticket Resolution (L2 & L3) | (i) Helpdesk ticket/Incident Response time | No |
| | | (ii) Time to Resolve | No |
| | | (iii) Time to Resolve | No |
| | | (iv) Time to Resolve | No |
| | | (v) Percentage of reopened incidents | No |
| | | (vi) Submission of Root Cause Analysis (RCA) Report | No |
| | | (vii) Timely updation of KEDB | No |
| 4 | Training | (i) On-time delivery of training as per training schedule agreed with CBIC | Yes |
| | | (ii) Training Quality | Yes |
| 5 | Security | (i) Vulnerability assessment & Penetration Testing | No |
| | | (ii) Vulnerability assessment & Penetration Testing | No |

Recommendation 5: The Department should immediately provide records for all the 32 SLA parameters to Audit.

Audit could not derive assurance regarding compliance to SLA due to lack of records. During scrutiny of the limited SLA records given to audit, the following observations were noticed:

2.7.1 Service Levels for Operational and Maintenance Phase

Out of the five SLA parameters under Operational and Maintenance Phase, Audit was provided documents in respect of two SLA parameters - Response time of application, Change Requests/Enhancements and Handholding support.

2.7.1.1 Response time of CBIC ACES-GST Application not implemented - Non-achievement of minimum target performance level

As per the RFP (Clause 10.5.1 of Vol.-I), the response time of 95% business transactions should have been within the limit of 2 seconds at Data Centre. If the Application Vendor fails to adhere this limit, he is liable to pay the liquidated damages at the agreed percentage of the quarterly payments.

Further, as per the SLA, the SI was expected to work in association with application Vendors to achieve the desired performance levels i.e., response time of the application should be less than 2 second for at least 95% of all business transaction. In case of any breach on SLA post the implementation, the SI should be liable for the applicable penalty.

During test check of the structured data provided, it was noticed that the data relating to this SLA (Quality of Service) was not provided for the quarter (April to June 2020) which indicated that this SLA was not implemented. The fact was also corroborated by the third party auditor's remarks in the SLA data viz. "The SLA is not applicable as application baselining is pending. SI team have shared the emails for low response time". Further, in case of non-achievement of the minimum targeted levels, Liquidated Damages should be invoked by the DG Systems, however, the same were not imposed against either the Application Vendor or SI Vendor.

In response, the DG System (August 2021) provided copies of correspondence that took place between SI Vendor (Consortium of TCS, TCL and HP) and Application Vendor (M/s. Wipro Ltd.) wherein the SI Vendor had regularly informed Application Vendor and the CBIC about the response time of GST Service URL and RMS access log URL where it exceeded the prescribed limit of 2 seconds. DG System further accepted (October 2021) that as per the process SI was sending regular emails to the application team for doing benchmarking of the application so that the SLA can be regularized and additional activities are done on the databases as well to ensure that there are no observations in application due to underlying infrastructure.

It is evident that Department has not actively pursued baselining of application with the Vendors and without such baselining, response time related SLA cannot be enforced. In absence of such baselining, neither the Application Vendor nor the SI Vendor is held accountable for failure to reach the targeted performance level (response time).

When the observation was pointed out (July 2022), the Ministry accepted (August 2022) the observation.

Recommendation 6: The Department should actively coordinate with both the Vendors (SI and Application Vendors) for baselining of application performance of the CBIC ACES-GST application, at the earliest.

2.7.1.2 Change Requests / Enhancements

As per the RFP (Clause 8.4 of RFP (Vol I)), all planned changes should be coordinated within the established change control process ensuring that appropriate communication on change required, approvals received, schedules adjusted etc. For any changes to the software, the Vendor had to prepare detailed documentation including proposed changes, impact to the system in terms of functional outcomes/additional features added to the system etc. Once a timeline had been agreed for implementation of a change request, then any delay from the planned timelines, reasons for which were solely attributable to the Vendor, would be penalized as mentioned in the Service Level RFP.

During scrutiny of records, it was observed that the applications for an Amnesty Scheme, Sabka Vishwas Legacy Dispute Resolution (SVLDR) and E-Way Bill module were developed as change requests. Audit noticed that there was delays (4 days to 60 days) in development of these change requests and the department imposed appropriate SLAs and LDs.

2.7.1.3 Deployment Plan for Handholding Resources

As per RFP (Clause 5.1.4 Sl. No. 14), the Vendor was required to train the resources on CBIC ACES-GST System application and deploy resources (111 hand holders) at 79 locations across the country to act as handholding support for the department users. These resources were required to assist the department users in their day to day operations on CBIC ACES-GST System. The attendance of the handholding resources would be managed by the Local Commissionerates and Target service levels had been defined for the attendance of the resources in the Service Level Agreement Section. Further, as per Schedule-III (Delivery Schedule) of MSA, the Vendor was required to submit handholding resource deployment plan by 01 September 2016 or 15 days after intimation from CBIC whichever was earlier.

Audit sought (July 2021) the handholding resource deployment plan submitted by the Vendor and actual deployment of the handholding resources. However, the Department did not provide the handholding resource deployment plan. In the absence of this, Audit could not ascertain that the Vendor had submitted a deployment plan and the handholding services were provided as per Delivery Schedule of MSA.

However, scrutiny of the payment files revealed that Vendor started the service in May 2017 and till April 2018 there was consistent shortage in the deployment of handholding resources.

2.7.2 SLA for Help Desk (L1)

As per RFP (Clause 5.1.5 of RFP Vol.1), for Helpdesk services to be provided to CBIC, the Vendor was required to setup:

- A National Call Centre (L1 Helpdesk) for handling queries from the departmental users as well as the dealers
- A Technical support team (L2/L3 Helpdesk) for providing timely resolution to the queries that could not be resolved by L1 Helpdesk

The L1 Helpdesk was set-up with an existing call Centre intended to provide 24/7 hours of support and enables both departmental users and dealers to register their complaints/suggestions. As per MSA, there are 10 SLA parameters for L1 Helpdesk Services with Liquidated damages with 20% of capping of the quarterly payments to be made to the Vendor for L1 Helpdesk service. If the liquidated damages cap was breached for two consecutive quarters, CBIC had the right to terminate the contract.

During scrutiny of the payment files relating to Helpdesk services for the period from December 2016 to March 2020, the following observations were noticed:

(i) Delayed submission of Helpdesk Operational Plan

As per Master Service Agreement (Delivery Schedule-III) dated 12 August 2016, the Vendor was required to submit Helpdesk Operational Plan by 15 September 2016 or 15 days after intimation from CBIC, whichever was earlier. The same was submitted to CBIC by a delay of one year on 01.09.2017.

On this being pointed out by Audit (July 2022), the Ministry accepted the para and stated (August 2022) that operation of the helpdesk was initiated as per contractual date and as the material period was very dynamic, the Vendor submitted the operational plan once the process got streamlined.

(ii) Non-achievement of SLAs

As per Service Level Agreements, there are 10 parameters for L1 Helpdesk Services. During the period from December 2016 to June 2017, Vendor provided helpdesk services for only 5 SLA parameters. Similarly, during quarters July-Sept 2017 and Oct-Dec 2017, the Vendor provided services for eight and nine parameters respectively. Hence, it was evident that the Vendor had not been able to achieve the required level of performance in

respect of helpdesk services for more than 12 months since the helpdesk went live in December 2016.

On this being pointed out by Audit (July 2022), the Ministry accepted the para and stated (August 2022) that SLA report was vetted by the PGA and that the Contract had maximum capping of 20% imposable LD. As such, bills were cleared on the maximum applicable SLA of 20 %. DG (Systems) made continuous efforts to make the Vendor comply with the contract provisions. These efforts resulted in the Vendor submitting the remaining SLA parameter data in the earliest possible time.

(iii) Levy of Liquidated Damages

As per RFP (Clause 10.2), the overall liquidated damages (LD) will be capped at 20% of the quarterly payment for call centre services for L1 Helpdesk.

The Helpdesk service went live in December 2016; the first invoice was submitted for the period from 07 December 2016 to February 2017 and thereafter invoices were submitted for subsequent quarters. Audit scrutiny revealed that due to non-achievement of desired targets of services and non-providing of some services, liquidated damages were more than 20% for the period from December 2016 to September 2018 (22 months) and ranged from 28.18% to 645%. However, due to capping of LD at 20% of the quarterly payment, the penalty was restricted.

RFP (Clause 10.2) indicates that if the liquidated damages cap is breached for two consecutive quarters, CBIC has the right to terminate the contract. Audit scrutiny revealed that for 22 months between December 2016 and September 2018, the calculated Liquidated Damages persisted beyond 20%.

On this being pointed out (July 2022), the Ministry stated (August 2022) that pertinently the aforementioned 22 months were marked by lot of changes in the law and the subsequently the application. In such a situation of constant flux, even changing the Vendor would not have resulted in any significant change in the quality of service.

Audit notes the reply of the Ministry.

(iv) Incident Management Performance short of target

As per RFP (Clause 10.6.2), high severity incidents are those which have critical business impact and should be resolved within 30 minutes. Average severity incidents are those which have a significant business impact and should be resolved within 4 hours whereas low severity incidents are those having minimal business impact and should be resolved within 16 hours

from the time taken to troubleshoot and Helpdesk tickets from the time the call has been logged at the Helpdesk till the time the problem is resolved/fixed. Root Cause Analysis (RCA) for all High and Medium Severity incidents was to be prepared and submitted within 5 working days from the date of resolution of incidents and the Know Error Database (KEDB) had to be updated within 5 days of the resolution date.

Scrutiny of refund grievances data revealed that 19,266 incidents of high and medium severity under refund module were created during the period from 2018 to 2021 (up to 7 August) as detailed below:

Table 2.9 - Year wise refund incident severity status

| Year | Severity | Total number of Incident created | Incidents where delay was noticed | Incidents resolved within prescribed time frame | Delay range | Incident still open |
|------|----------|----------------------------------|-----------------------------------|---|---|---------------------|
| | | | | | (Delays > 30 minutes in High, Delays > 4 hours in Average, Delays > 16 Hours in Low severity) | |
| 2018 | High | 9 | 8 | 1 | 16 Hrs 23 Minutes to 37 Days 16 Hrs. 52 Minutes | 0 |
| | Average | 191 | 186 | 5 | 04 Hrs 50 Minutes to 94 Days 1 Hrs. 19 Minutes | 0 |
| | Low | 173 | 164 | 9 | 23 Hrs 53 Minutes to 64 Days 15 Hrs. 44 Minutes | 0 |
| | Blank | 8 | 8 | 0 | 1 Day 0Hrs. 54 Minutes to 113 days 15 Hrs. 09 Minutes | 0 |
| 2019 | High | 1787 | 1780 | 7 | 01 Hrs.to 99 Days 02 Hrs. 53 Minutes | 0 |
| | Average | 341 | 336 | 5 | 4Hrs. 16 Minutes to 168 days 3 Hrs. 57 Minutes | 0 |
| | Low | 1091 | 1061 | 30 | 16 Hrs. 1 Minutes to 592 days 3 Hrs. 26 Minutes | 0 |
| | Blank | 10 | 9 | 1 | 22 Hrs. 42 Minutes to 89 days 13 Hrs. | 0 |

| Year | Severity | Total number of Incident created | Incidents where delay was noticed | Incidents resolved within prescribed time frame | Delay range | Incident still open |
|--------------|----------|----------------------------------|-----------------------------------|---|---|---------------------|
| | | | | | (Delays > 30 minutes in High, Delays > 4 hours in Average, Delays > 16 Hours in Low severity) | |
| | | | | | 7 Minutes | |
| 2020 | High | 5918 | 5903 | 15 | 31 Minutes to 249 days 11 Hrs. 44 Minutes | 2 |
| | Average | 120 | 119 | 1 | 4 Hrs. 15 Minutes to 100 days 22 Hrs 9 Minutes | 1 |
| | Low | 1879 | 1786 | 93 | 16 Hrs. 1 Minutes to 267 days 4 Hrs. 39 Minutes | 0 |
| | Blank | 16 | 16 | 0 | 19 Hrs. 19 Minutes to 149 days 50 Minutes | 1 |
| 2021 | High | 7507 | 7492 | 15 | 31 Minutes to 138 days 19 Hrs. 22 Minutes | 800 |
| | Average | 161 | 161 | 0 | 21 Hrs. 24 Minutes to 98 days 1 Hrs. 6 Minutes | 4 |
| | Low | 41 | 38 | 3 | 19 Hrs. 50 Minutes to 56 days 23 Hrs. 32 Minutes | 3 |
| | Blank | 14 | 14 | 0 | 2 days 20 Hrs 39 Minutes to 100 days 1 Hrs 8 Minutes | 0 |
| Total | | 19266 | 19081 | 185 | | 811 |

Source: Data provided by Department (as of July 2021)

It is evident from the above table that out of 15,221 incidents of high severity, 15,183 (99.75%) incidents were resolved after the prescribed limit of 30 minutes. In the category of 'average severity' incidents, 802 (98.64%) out of 813 incidents were resolved after the prescribed time. Similarly, in the category of 'low severity' incident 3,049 (95.76%) out of 3,184 incidents

were resolved with a delay. Audit also noticed that 48 incidents were not assigned under any severity and remained blank.

This indicated overall delayed management of the incidents and inability to close them within the prescribed time.

In response to the audit observation (September 2021), the Ministry stated (August 2022) that the Department has deducted maximum LD of 20% in all the quarterly payment made up to July-September 2021.

Recommendation 7: The Department needs to monitor and put constant pressure on the Vendor to resolve incidents within the prescribed timelines according to the incident category. Since LD is capped at a maximum of 20 percent this is not acting as an effective disincentive for the Vendor.

2.7.3 SLA for Training

As per RFP (Clause 5.1.4 Sl. No. 1), the Vendor was required to train the departmental users to enable them to effectively operate and perform relevant functions using the CBIC ACES-GST Application system. There are two service level parameters (i) 'On-time delivery of training as per training schedule agreed with CBIC' without delay and (ii) 'Training Quality' in terms of feedback to be taken from Nodal officer. The liquidated damages (LD) for not achieving training related timelines were capped at maximum of 20% of the training cost, which might be reviewed after six months from the Effective Date and at such intervals as might be decided by CBIC.

As per Master Service Agreement (MSA), training for 200 batches (one batch each of 25) was planned to be conducted. Further, as per Delivery Schedule-III, the Vendor was required to submit the Training Plan by 30 September 2016 or 15 days after intimation from CBIC, whichever is earlier, and start the training sessions after the Training Plan was approved by CBIC.

(i) Non-achievement of SLA for providing training service

Scrutiny of records revealed that training for 164 batches was conducted from January 2017 to September 2017 and 36 batches were pending for training till September 2021. During the above period, the performance of the Vendor was not as per the required level and liquidated damages were imposed to the maximum (20%) capping limit, whereas the calculations done by the Project Governance and Monitoring Agency (PGMA) (M/s PWC) was above the 20% capping and ranged from 27% to 149%. However, the Department was bound to impose only 20% as capped

liquidated damages despite the performance level being low by the Vendor.

On being pointed out by Audit (July 2022), the Ministry stated (August 2022) that the prevalent time had new tax regime change. Any new vendor would have had to be engaged in due lengthy RFP process and ultimately it would have faced the similar situations. Further, the Department also undertook an exercise to create a pool of master trainers from the available departmental officers who were further entrusted with training programmes. This effected in more numbers of training schedules being conducted by the CBIC officers and less dependency on the vendor.

(ii) Non-revision of SLA definitions, target levels and liquidated damages

As per RFP, SLA definitions, target levels and liquidated damages were to be reviewed after six months from the effective date and at such intervals as may be decided by the Purchaser. However, Audit noticed that the Department did not review and revise the same.

After being pointed out by Audit (July 2022), the Ministry, while accepting the para stated (August 2022) that CBIC had now reviewed the contract and SLAs. The competent authority had also approved an addendum to the RFP accordingly.

Recommendation 8: The Department should ensure that implementation of all aspects of SLA are effectively monitored; the Department and the Vendor perform their respective roles in accordance with the contractual provisions and non/late performance is effectively reviewed and resolved within the agreed time limit.

On this being pointed out by Audit (July 2022), the Ministry accepted the recommendation and stated (August 2022) the Department has deducted maximum L.D of 20% in all the quarterly payment made up to July-September 2021.

2.8 Change Management

In IT organisations, a structured change management process is normally used to manage and control changes to assets, such as software, hardware, and related documentation. Change controls are needed to ensure that all changes to system configurations are authorised, tested, documented and controlled so that the systems continue to support business operations in the manner planned, and that there is an adequate trail/record of changes.

Table 2.10 - Summarised Audit Finding Matrix

| Sl. No. | Sub-Objective | Summary of Audit Checks | Status | Findings |
|---------|--|--|---------------------------|--------------|
| 1. | Whether appropriate communication between Vendor and CBIC on change required has taken place; | CR Policy, Procedures for initiation, review and approval of CR, Change Control Board, Review of logs and Reports, Change Order timelines. | Partial record production | 2.8 2.8.1 |
| 2. | Whether proper approvals have been received by the Vendor from CBIC; | Change Order, Pre- and post-change system and user documentation. | Scope restriction | - |
| 3. | Whether schedules have been adjusted or re-prioritized to minimize impact on the production environment. | Back up documents for the change order, Emergency change. | Scope restriction | - |

RFP has elaborated the procedures for initiation, review and approval for change along with mapping of responsibility for these tasks. As per RFP (Clause 8.4), the Vendor had to prepare detailed documentation including proposed changes, impact to the system in terms of functional outcomes/additional features added to the system etc. The Vendor shall obtain approval from CBIC for all the proposed changes before implementation of the same into production environment and such documentation is subject to review at the end of each quarter of operations and maintenance support.

Once a timeline had been agreed for implementation of a change request, then any delay from the planned timelines, reasons for which were solely attributable to the Vendor, would be penalized as mentioned in the Service Level Agreement of the RFP. In case of major changes, approval would be sought in the Steering Committee meetings.

Audit requisitioned the records relating to establishment of Change Control Board (CAB), change control logs, development of back out process before any change request is implemented, Change Management procedures to control emergency changes to the system, change order documentation etc. But the Department did not provide the documents against the requisitioned records and only provided the list of change requests (CRs) carried out in the system and expenditure incurred on these CRs which are given below:

2.8.1 Change Requests / Enhancements

During scrutiny of the information provided by the Department, it was noticed that the department implemented 173 change requests valuing of ₹ 16.62 crore during the period 2017-18 to 2020-21 under different modules as detailed in the table below.

Table 2.11 - Change Requests

(Amount in ₹ lakh)

| Sl. No. | Name of Module | 2017-18 | | 2018-19 | | 2019-20 | | 2020-21 | |
|--------------|-------------------------|---|---------------|------------|---------------|------------|---------------|------------|---------------|
| | | No. of CRs | Value of CRs | No. of CRs | Value of CRs | No. of CRs | Value of CRs | No. of CRs | Value of CRs |
| 1. | Registration | 7 | 31.18 | 1 | 10.47 | 12 | 155.36 | 7 | 94.55 |
| 2. | Returns | 10 | 47.02 | 15 | 81.44 | 19 | 377.67 | 9 | 55.38 |
| 3. | Payment | - (*) | | | | | | | |
| 4. | Refund | 2 | 28.20 | 7 | 54.61 | 14 | 53.14 | 7 | 126.37 |
| 5. | DSR (ADJ+REC+APL) | - | - | - | - | 4 | 105.50 | 7 | 79.54 |
| 6. | Investigation | - | - | - | - | 3 | 46.70 | 1 | 4.65 |
| 7. | Export (*) | - (*) | | | | | | | |
| 8. | ACES GST | - (*) | | 2 | 21.63 | 12 | 12.56 | 3 | 7.53 |
| 9. | Mobile App | Mobile App is only at the SRS sign off stage. | | | | | | | |
| 10. | Audit | Audit modules is at the SRS sign off stage. | | | | | | | |
| 11. | Taxpayers at Glance (*) | - (*) | | | | | | | |
| 12. | Access Control Logic | - (*) | | | | | | | |
| 13. | Common CRs | 16 | 3.44 | - | - | 1 | 7.87 | - | - |
| 14. | SVLDRS** | - | - | 4 | 116.34 | - | - | - | - |
| 15. | E-way Bill | - | - | - | - | 10 | 140.30 | - | - |
| Total | | 35 | 109.86 | 29 | 284.51 | 75 | 899.15 | 34 | 368.06 |

(*)CR Details not Available

(**)SVLDRS was a new requirement which has been carried out through CR.

2.9 IT Security

IT security protects the integrity of information technologies like computer systems, networks, and data from attack, damage or unauthorized access.

Table 2.12 - Summarised Audit Finding Matrix

| Sl. No. | Sub-Objective | Summary of Audit Checks | Status | Findings |
|---------|--|--|---------|---|
| 1. | Whether Security of the IT system has been designed in an effective way? | User Access Management Process | Checked | 2.9.1.1 |
| 2. | Business Continuity and Disaster Recovery | Business Impact Analysis, Risk Assessment Reports, Backing up data and programs, Patching compliance reports, Data replications scheduled, Resource requirements, Disaster Recovery (DR) Drill Plan, Crisis Management Team, Recover Point Objective (RPO) and Recovery Time Objective (RTO) | Checked | To be Covered separately in IT Audit of SI (Saksham) Project. |

2.9.1 Access Control

Access Control Logic module (ACL) determines how the privileges are to be assigned to various users so that the business processes can be performed by the authorized users as prescribed. An ideal ACL should not only correctly assign the privileges to the proper officer, but should also provide required flexibilities for reassigning the roles, transfer the pending jobs etc., as desired.

Access control ensures that only users with the process credentials have access to sensitive data. Access to business information and data should be controlled in order to restrict the access to authorized users only. Any inappropriate access or unauthorized changes to application software, information or data must be restricted.

2.9.1.1 User Access Management (UAM)

User Access Management includes providing, maintaining and removing a user's access to various components of CBIC infrastructure such as network, applications and network devices in a controlled manner. Audit observed that the Department has a clearly defined policy/framework for access control in the application. Access in the Application is based on RFP and SRS drawn. Within the Application, access is given by the Administrator (ACL Admin) of the formation based on posting of a User in a formation. The procedures for User Registration, User Modification, Personal information modification of an existing user, Designation

Modification, Access for pending tasks in previous location, Additional Charge, Disable Request, Retired User, etc. are clearly delineated in the policy framework. A broad outline of the procedure is mentioned below:

SSO ID Creation - Nodal Officer initiates SSO ID creation request by filling SSO ID creation template and forwards the same from his/her official Icegate email ID / gov.in / nic.in ID to Saksham Seva.

UAM Team Verification - On receiving the request, the UAM Team verifies the channel of request, correct and mandatory fields in template and relevant documents of the user for verifying name, DOB (Date of Birth), DOJ (Date of Joining), etc.

Duplication Check - The UAM Team also verifies if a duplicate SSOID already exists for the user. If no existing SSOID is found, the UAM Team proceeds for creation of SSO ID.

Process post duplication check - The UAM Team sends email and the interaction to PMU Team for approval with observations of duplication check. PMU Team verifies the request and all attachments. After verification, the PMU Team forwards the request to UAM DOS¹¹ for seeking approval.

Maker Checker - The associate processing the request is designated as the Maker and the associate verifying the complete request is identified as the Checker. Post creation of SSO ID/Email ID, the Checker performs the validation check.

A similar procedure is followed in case of modification, activation and de-activation of user roles in the system.

In the production environment, Audit examined one case each of designation modification, deactivation of SSOID of retiring officer/official and disabling of SSOID of Vendor's staff. In these three test-checked cases, it was noticed that the procedures as per User Access Management were followed and no deviations were found.

2.9.2 IT Service Continuity Management Plan

CBIC came out with an IT Service Continuity Management (ITSCM) Plan (Version 2.3) dated November 2019 to ensure continuity of its business operations. The IT Service Continuity Plan (ITSCM Plan) outlines the contingency plans for business threatening emergencies, continuing business and complete recovery of its business applications in the event of a disaster at any of the data centers of CBIC.

¹¹ Directorate of Systems

CBIC released Information Security Policy (Version 2.3) dated July 2020 which defines the overall framework for implementing and sustaining a compliant and effective security program.

During the course of audit, the Department was asked to provide the information/documents relating to Information Security applied in the CBIC ACES-GST Application. In response, the Department provided the Information Security Policy, Back up Policy etc. Scrutiny of these documents revealed that:

(i) Information Security Policy

Scrutiny of the Information Security Policy revealed that the roles and responsibilities were clearly defined for protection of information assets within the IT Department. In the policy document, provisions for media handling (management of removal media, disposal of media, physical media transfer) are also covered.

The first version of IT Security Policy was issued in June 2009 and the last updated version was issued in July 2020.

(ii) Backup Policy

As per the Backup Policy document, the data is categorized as critical data (core business application & data) and non-critical data (Non-core business application and data). This data is to be backed-up fully on weekly, monthly and yearly basis with data retention on monthly and yearly basis. Back up of network devices is to be taken up on weekly basis and stored on local drive of a server/Physical Tape Cartridges. Configuration back up of data center core firewalls is manually taken on daily basis. Network devices logs is to be backed up through Arc sight logger server.

Back up Policy has been updated periodically. The first version was issued in August 2009 and the latest updated version was issued in July 2020.

Detailed audit of the above-mentioned aspects of IS Security would be taken up separately as part of a future audit of the Systems Integrator Saksham project.

Chapter III: Implementation of functionalities

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

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

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

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

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

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

3.1 Registration Module

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

Table 3.1 - Summarised Audit Finding Matrix

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

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

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

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

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

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

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

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

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

Sub-rule (4A)¹² of Rule 8 of CGST Rules 2017 read with Advisory No. 19/2020/August 2020, Rule 9(1) and Rule 9(5) of CGST Rules, 2017 together provide that where a person, other than those notified under sub-section (6D) of Section 25, fails to undergo authentication of Aadhaar number or does not opt for authentication of Aadhaar number, then with effect from 01 April 2020, the registration¹³ shall be granted only after physical verification of the principal place of business in the presence of the said person, not later than sixty days from the date of application, in the manner provided under rule 25 and the provisions of deemed approval stated in Rule 9(5) *ibid* shall not be applicable in such cases.

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

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

Audit analysed data of 2,78,732 registration applications from CBIC database for the period 01 April 2020 to 20 August 2020 and found 34,227 cases which have been deemed approved. Out of these 34,227 cases, 225 randomly selected cases¹⁴ were cross verified with the data in the GSTN Portal for the Aadhaar Verification Status and it was observed that in 208 cases, the GSTN Portal showed Aadhaar Verification Status as 'N' implying that the Aadhaar was not verified and the tax officer was to mandatorily conduct the physical verification of the premises prior to grant of GSTIN and the application should not have been deemed approved for the said period. For these 208 records, the CBIC database also showed the 'Mandatory Physical Verification' field as 'N' reconfirming that these applications were deemed approved without conduct of physical verification of business premise, thereby deviating from the provisions of law for the said period. This means that the System allows the tax officers to grant registration without or prior to mandatory physical verification of premises in respect of taxpayers with unverified Aadhaar status. Not conducting PV in such cases means enhanced risk of registration obtained with intention to conduct fraudulent transactions.

Recommendation 9: The Department should conduct post-physical verification of the premises for the cases where Aadhaar has not been authenticated. The CBIC ACES-GST system should have provision to not allow grant of registration without mandatory physical verification of taxpayers with unverified Aadhaar Status.

Recommendation 10: The Department should make provision for generating exception reports for cases where Aadhaar Verification and Mandatory Physical Verification status of a taxpayer is flagged as 'N' for monitoring and taking appropriate action.

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

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

¹⁴ Verified through the SSOID credentials of Chennai Zone provided to Audit team.

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

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

The proper officer may, for reasons to be recorded in writing and with the approval of an officer not below the rank of Joint Commissioner, in lieu of the physical verification of the place of business, carry out the verification of such documents as he may deem fit in lieu of PV¹⁵. This facility of granting approval on verification of documents without conducting Physical Verification was subsequently withdrawn¹⁶. Also, by Advisory 19/2020 dated 24 August 2020, the Department specified timelines (only indicative) to complete the whole process within the given 21 days; these timelines are only indicative to help the officers to complete the work without any delay at their end.

An analysis of data of 28,775 cases from the CBIC database¹⁷ for the period from August 2020 to March 2021 where Aadhaar status is 'N' and Mandatory Field Visit is 'Y' revealed that in 13,665 cases, the date on which it was forwarded by the CPC officer to the Jurisdictional Officer for Physical Verification was blank and the date of submission of PV Report by the Jurisdictional Officer was also blank. In the absence of critical information on the conduct of Physical Verification by the Jurisdictional Officer, the premise on which the CPC Tax Officer has approved the Registrations was not known. Blank value in the fields 'Forwarded to PV on' and the 'Date of conduct of PV' shows that there are issues in the flow of data from CPC to the Jurisdictional Officer and vice versa as a result of which audit could not gain an assurance on whether the PV was conducted for the cases highlighted.

¹⁵ as per Notification 62/2020 dated: 20.08.2020

¹⁶ vide Notification 94/2020 dated 22.12.2020

¹⁷ Data was shared by CBIC in a link to Antarang dated: 10.09.2021

It is also pertinent to mention that the CBIC ACES-GST application did not provide a workflow to obtain approval of the Joint Commissioner in cases where the documents have been verified in lieu of physical verification and it could not be ascertained from the IT System whether documents were verified in lieu of Physical Verification for the period from 20.08.2020 to 31.12.2020. On test-check of randomly selected 15 cases of the registrations approved by the tax officer, it was observed, that in 6 cases¹⁸ the tax officer had approved the registrations without conducting Physical Verification.

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

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

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

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

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

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

¹⁸ Verified through the Audit SSOID credentials of Chennai Zone.

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

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

Recommendation 11: The Department should develop an alert by which the CPC officer can identify the Adverse/Negative remarks. It should also consider developing a MIS report of such cases.

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

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

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

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

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

Applications filed by taxpayers (ARNs) through MCA portal, the Aadhaar flag and Physical Verification (PV) flag was transmitted as null in the json file. Since Aadhaar authentication for such ARNs is not implemented in GSTN, the Aadhaar details are blank and not allocated to the proper officer resulting in the ARNs getting deemed approved. To address the issue, a fix was put in place by Wipro on 21 December 2020 through a 'Change Request (CR) 282- REG_01 ARNs - Aadhaar Exempted Cases (MCA)', whereby all such ARNs filed through the MCA portal having the Aadhaar and PV details as blank were allotted to the proper officer for processing.

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

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

Recommendation 12: The Department should ensure that GST registration through MCA portal is not approved in the CBIC ACES-GST application unless the same is Aadhaar authenticated, or the physical verification is completed.

In response to the audit observation (November 2021), the Ministry noted (August 2022) the recommendation for compliance and stated that the decision as to whether physical verification is required or not for a given application is indicated and communicated by the GSTN system. As far as CR-282 is concerned it was implemented to allocate the ARNs filed through the MCA portal to the proper officer for processing and to prevent deemed approval.

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

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

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

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

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

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

- (i) In 7,67,328 cases (SATQ_REG_SQ02, Period: 01.07.2017 to 31.03.2021), the applications for registration have neither been approved nor rejected by the tax officer which is in contravention to the provisions of Rule 9 of the CGST Rules and indicates the

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

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

- (ii) In 72,955 cases (SATQ_REG_SQ05, period: 01.07.2017 to 30.06.2021), where queries had been raised through Form REG-03 but for which replies had not been furnished by the taxpayer (Form REG-04), the CBIC ACES-GST application had permitted the registration to be approved by the tax officer in 15,727 cases and deemed approved in 57,228 cases and certificate of registration (REG-06) was issued, which is not in accordance with the provisions of Rule 9 ibid. In all such cases where no reply has been received within the prescribed period, the CBIC ACES-GST application instead of rejecting the application had permitted issuance of Registration certificate.

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

In response to the Audit observation (November 2021), Ministry partly accepted the para and stated (August 2022) that Rule 9 does not provide any timeline for cases where the taxpayer has not responded and hence auto- rejection option is not built in the system. It also stated that the 57,228 cases were deemed approved because of integration failure with GSTN due to alert code failure. The technical team is working upon this issue.

Recommendation 13: The Department may consider proposing an amendment to the provisions of Rule 9 of the CGST Rules, 2017 for clearly specifying a timeline for rejection of applications for registration where the applicant fails to respond to Form GST REG-03 within seven days.

3.1.1.6 Delay in implementation of Suspension functionality resulting in ineffective monitoring

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

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

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

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

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

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

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

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

crore and fifty lakh rupees²⁰ may opt to pay under the Composition Levy Scheme (CLS). Where the aggregate turnover under single PAN of the taxpayer in the preceding financial year exceeds the threshold, then the registered person is not eligible to continue to pay tax under the Composition Levy Scheme and he should have been moved to normal taxpayer for charging GST.

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

Recommendation 15: The Department should pursue the matter with GSTN to enforce the validation to compute the aggregate turnover from returns and to move such persons registered under the Composition Levy Scheme to normal taxpayer after they cross the prescribed turnover threshold. An alert for the tax officer can also be included for such cases where the taxpayers cross the turnover threshold meant for the Composition Levy Scheme. The Department should identify all such past cases to bring them into the normal taxpayer category.

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

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

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

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

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

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

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

Recommendation 16: The Department should ensure that a validation is in place in the system so that the taxpayer under Normal Registration is not allowed for a Registration with the same PAN under the Composition Levy Scheme at the same time and vice versa. The Department should identify all such past cases to bring them into the normal taxpayer category.

In response to the audit observation (November 2021), the Ministry while accepting the para noted (August 2022) the recommendation for compliance and stated that a reconciliation exercise of all the registration data base with the GSTN data base is undertaken for rectification, if any.

3.1.2.3 Delay in implementation of Composition (CMP) Forms

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

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

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

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

Recommendation 17: The Department should ensure early development of CMP-5, CMP-6 and CMP-7 forms and validation check alert enabling the proper officer to initiate the prescribed action against the taxpayers who no longer fulfil the eligibility conditions relevant to the CLS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Audit extracted (September 2021) pan-India data of 2,70,536 cases from the CBIC database of all Regular taxpayers where the last filed GSTR-3B return was before January 2020 or where even a single GSTR-3B return has not been filed before January 2020 and found them still active. As per the ibid Rules, all these registrations should have been cancelled by carrying out the bulk suo-moto cancellation. Further analysis of these data revealed the following:

- (i) Out of 2,70,536 cases, in 2,34,486 cases not even a single GSTR-3B return was filed before January 2020 and in 36,050 cases the last GSTR-3B return filed was before January 2020. All these registrations were active as of 27 September 2021.
- (ii) On a random test check of 40 cases²¹ pertaining to Tamil Nadu, it was observed that in 11 cases, GSTR-1 returns were being filed by the taxpayer for tax periods subsequent to the last filed GSTR-3B period. Hence, the filing of GSTR-1 returns which indicates Outward Taxable Supply, without filing the GSTR-3B returns raises potential concerns over the possibility of passing on ineligible Input Tax Credit.

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

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

²¹ Verified through the Audit SSOID credentials of Chennai Zone.

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

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

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

Recommendation 21: The Department should ensure compliance with Rule 10 and 10A of the CGST Rules, 2017 read with Rule 21 and 21A and consider providing an alert functionality at the Tax Officers Dashboard in the case of non-filing of Bank account details within the prescribed time limits.

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

3.1.2.8 Inadequate validations in the suo-moto cancellation proceedings

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

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

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

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

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

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

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

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

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

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

Recommendation 22: The Department should provide a linkage between the Registration and the Returns Module so that a Tax Officer is alerted when Returns are filed and taxes are paid in response to a notice in REG-17. Action may also be initiated to provide effective validation/alert in respect of the timelines as per the provisions of the CGST Rules.

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

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

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

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

Audit verified randomly selected 20 such GSTINs pertaining to Chennai Zone with the GSTN Portal and noticed that the GSTINs were available in the GSTN portal with all the relevant jurisdictional details and for all the 20 cases, GSTR-1 and GSTR-3B Returns are being filed regularly. However, these 20 GSTINs²² have not been mapped in the CBIC ACES-GST application to any Jurisdictional authority till date.

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

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

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

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

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

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

²² Verified through the Audit SSOID credentials of Chennai Zone.

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

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

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

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

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

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

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

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

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

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

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

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

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

SRS (V 1.3) did not provide the process flow for 'View Earlier Registrations'. However, the Traceability Matrix in the SRS mentioned that the above requirement has been complied with in REG_Approve_01. The functionality to "View earlier Registrations" with the same PAN was, however, developed as a Change Request 177, at a cost of ₹ 13.72 lakh in July 2019 (PAN Validation) and the functionality was deployed in production with effect from 12 November 2019 (Advisory: 34 Dated 04 December 2019).

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

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

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

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

CBIC database (SATQ_NewREG_GQ_10), showed that in nine cases, the taxpayers, while keeping the liability undischarged in respect of a cancelled GSTIN (suo-moto cancellation for non-filing of Returns), obtained a new registration to continue the business. Such new applications might have been made as the person may not have furnished requisite returns and not paid tax for the tax periods covered under the old/cancelled registration. In some cases, it was also observed that the inactive GSTIN has filed GSTR-1 but not filed GSTR-3B. The information on the discrepancies in the tax filing periods of GSTR-1 and GSTR-3B is not available as an alert to the tax officer.

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Returns Module

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

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

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

Table 3.2 - Summarised Audit Finding Matrix

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

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

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

3.2.1 Inadequacies in Returns Module

3.2.1.1 Non-deployment of GSTR-4 return

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

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

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

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

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

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

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

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

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

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

A random check in the Return Module ('View Returns') of the CBIC ACES-GST application pertaining to three Ranges in Chennai showed that in 8 cases²³, persons who have opted for Composition Levy Scheme were filing GSTR-3B. When cross verified with the details in GSTN Portal, it was found that in 4 cases there was a mismatch of the Taxpayer Type as they were shown as normal taxpayers in the GSTN portal. The incorrect mapping of the 'Type of Return filed' with the 'Type of Registration' in the Return Module affects the reliability of the CBIC database.

Recommendation 26: The Department should initiate corrective action to reconcile the data in the CBIC with the data in GSTN and map the correct Return type with the Registration Type.

In response to the audit observation (November 2021), Ministry accepted the recommendation (August 2022) and stated that in some cases, the type of taxpayer is shown incorrectly as "Composition" in the CBIC backend Registration Database. A reconciliation exercise in respect of the Registration Database between GSTN and CBIC has been initiated and corrective action is being taken to rectify the same in the CBIC database.

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

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

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

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

²³ Verified through the Audit SSOID credentials of Chennai Zone.

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

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

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

Recommendation 27: The Department should enable the issuance of GSTR-3A notices through the common portal to non-filers of all types of Returns including GSTR-04 and CMP-08.

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

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

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

Processes, Invoice matching²⁴ and Ledger Maintenance for cross verification (Cash, ITC, and Liability) have not been deployed in production.

(ii) SRS on GST>Returns_New_Requirements_V0.6 (signed off on 7/7/2020), SRS - Return Assessment V.7.0 (signed off on 15/04/2020), Scrutiny of Returns V1.2 (signed off on 25.03.2019) and Provisional Assessment V0.5 (signed off on 25.03.2019) made available to Audit had not been taken up for development. It is pertinent to point out that these functionalities were already included in SRS V1.9 and were subsequently descope.

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

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

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

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

Recommendation 28: Department should prescribe definite timelines for the development and deployment of functionalities for effective monitoring. The Department should also ensure that important functionalities such as Scrutiny and Assessment, Risk Assessment Engine, Ledger Maintenance etc., are developed and deployed in a timely manner.

3.3 Payment Module

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

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

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

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

Table 3.3 - Summarised Audit Finding Matrix

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

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

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

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

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

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

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

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

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

3.4 Data Migration from ACES

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

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

Table 3.4 - Summarised Audit Finding Matrix

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

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

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

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

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

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

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

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

3.5 Refund Module

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

Table 3.5 - Summarised Audit Finding Matrix

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

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

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

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

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

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

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

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

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

Recommendation 29: The Department should pursue the matter with GSTN to develop the functionality for processing the refund applications of the UIN category meant for Notified Persons as envisaged in the SRS.

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

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

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

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

Recommendation 30: The Department should pursue the matter with GSTN to develop the functionality for either adjustment of outstanding demand or at least an alert about such outstanding demand to the Proper Officer at the time of sanctioning the provisional refund.

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

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

During testing of refund backend processes in UAT environment, it was noticed that provision of the Act for making adjustment of outstanding demand was implemented at the stage of issue of final refund order. However, there was no provision for recovery/adjustment of interest on payment of outstanding demand (interest from the date of demand raised (Demand ID date) to the date of amount adjusted from refund due) from the final refund due to the taxpayers as this aspect was not considered while preparing the SRS. This was corroborated with the outcome of the data query containing 170 cases for the period from 1 October 2019 to 31 March 2021 where outstanding demand was adjusted from the final refund order (RFD-06) by Refund Processing Officer. In 52 cases, the delay in adjustment of demand from refund sanctioned ranged from 1 to 601 days. However, interest for delayed period on the adjusted amount was not considered. In 52 cases, an estimated amount of ₹ 43.05 lakh of interest on this account was not considered for levy. In 61 cases, demand ID creation date were not provided while in the remaining 57 cases the demand date and refund sanctioned date was same.

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

The Ministry accepted the observation and stated (August 2022) that as per the provisions of the existing API provided by GSTN, a liability under interest minor head cannot be adjusted against the amount that is sanctioned under the Tax minor head as the system disallows such adjustment. However, this issue was taken up with GSTN for necessary action as per the statutory provisions.

The contention of Ministry is not acceptable. There is a provision to adjust outstanding interest liability against refund due in the refund order. However, there is no provision in the system to adjust the interest accrued on late adjustment of the outstanding demand for the period from the date of demand raised (Demand ID date) to the date of amount adjusted from final refund due.

3.5.4 Refund withhold functionality not developed

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

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

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

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

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

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

Implementation of the same will be reviewed in subsequent Audits.

3.6 Investigation Module

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

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

Table 3.6 - Summarised Audit Finding Matrix

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

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

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

3.7 Dispute Settlement and Resolution (DSR) module

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

3.7.1 Adjudication Module

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

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

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

Table 3.7 - Summarised Audit Finding Matrix

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

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

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

During audit, the following observations were noticed:

3.7.1.1 Absence of Dispute Lifecycle Register

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

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

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

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

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

3.7.1.2 Absence of mechanism for monitoring due dates

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

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

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

Recommendation 34: The Department should discuss the technical feasibility of development of a mechanism to modify/update the dates in integration with Returns module and develop a mechanism for same in the module.

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

3.7.2 Appeal, Review and Revision module

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

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

Table 3.8 - Summarised Audit Finding Matrix

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

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

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

3.7.2.1 Manual filing of appeal on refund order

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

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

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

Implementation of the same will be reviewed in subsequent Audits.

3.7.2.2 Absence of timeline for Review

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

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

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

3.7.3 Recovery module

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

Table 3.9 - Summarised Audit Finding Matrix

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

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

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

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

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

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

Implementation of the same will be reviewed in subsequent Audits.

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

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

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

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

3.8 Export Module

Table 3.10 - Summarised Audit Finding Matrix

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

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

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

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

3.9 Audit module

Table 3.11 - Summarised Audit Finding Matrix

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

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

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

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

3.10 Taxpayer at Glance - TAG

Table 3.12 - Summarised Audit Finding Matrix

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

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

On this being pointed out by Audit (April 2022), the Ministry while noting the recommendation for compliance stated (August 2022) that the necessity of TAG's development would be reviewed as the ADVAIT project under DG Systems had already implemented a similar dashboard "Know your Taxpayer".

3.11 Mobile Application

Table 3.13 - Summarised Audit Finding Matrix

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

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

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

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

3.12 Cross-cutting issues

3.12.1 User activity logs- across modules

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation 38: The Department should ensure that the digital signature functionality incorporated and adopted in all modules proper

for authentication of statutory documents by an individual officer in a non-repudiable manner.

3.12.3 Manual calculation of interest

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

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

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

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

Chapter IV: Interface with other IT Applications

The audit objective sought assurance as to whether the technology solutions for interfaces with other applications are functioning effectively and meeting the business requirements adequately as envisaged. The audit checks were devised for all dimensions in terms of documentation, effectiveness of integration and functionalities, security and audit trail.

While visualizing the CBIC ACES-GST Application, it was envisaged that CBIC ACES-GST Application will provide interface with other systems/applications both internally and externally. External interfaces are to be with GSTN, State Systems, RBI, Banks, DGFT, MCA 21, CBDT, UIDAI, ICEGATE, ICES, RMS, ACES, EDW etc. Internally, the interface is to be within different modules of the application.

It was observed that the CBIC ACES-GST Application interface with GSTN has been established but development of interface mechanisms with other external systems and agencies like State Systems, RBI, Banks, DGFT, MCA 21, CBDT, UIDAI, ICEGATE, ICES, RMS, ACES, EDW etc. has not yet been initiated.

During the course of Audit, it was observed that there were inadequate validation controls while accepting data from common portal in case of Aadhaar authentication and implementation of amendments in registrations.

There were instances of mismatch of data between GST common portal and CBIC application due to lack of reconciliation.

4.1 Interface related issues which affected key decisions of the Department

The primary interface of CBIC ACES-GST is with the GST System consumed through APIs developed by GSTN. The data/information relating to a taxpayer viz. registration, tax payment, return filed etc., available on GST Common Portal will have to flow back and forth on real time basis.

Based on the substantive testing during Audit using data analysis, interface related issues identified during such audits are detailed below:

4.1.1 Inadequate validation controls resulting in mandatory fields displaying blank values

The SRS Ver.1.0 on 'Physical verification of Aadhaar linked Registration Applications' specifies that the GST Portal, on the basis of Aadhaar verification, will send the registration information to CBIC ACES-GST application for further processing as per the scenarios listed below:

Table 4.1 – Aadhaar Scenarios

| Opt for Aadhaar Verification | Aadhaar Verification Status | Mandatory Physical Verification |
|------------------------------|-----------------------------|---------------------------------|
| Yes | Verified | No |
| Yes | Unsuccessful | Yes |
| No | Not Applicable | Yes |

Further, the SRS also specifies that the REG-01 New Registration applications with failed Aadhaar Verifications/not opted for Aadhaar verification will be marked for "Mandatory Physical Verification" at GST Portal and needs to be processed only after carrying out Physical verification of the premises.

The above changes in rules were implemented by GSTN (21 August 2020). The changes in the API were consumed by CBIC ACES-GST application with immediate effect and the ARNs were shown in the dashboards of the CPC officers with their status as to whether these ARNs were marked for PV or not (DG System Advisory No. 26/2020 dated 12 October 2020).

Audit examined pan-India data extracted from the CBIC database for applications (ARNs) filed between 21 August 2020 and 31 March 2021 for which registrations had been granted. In 25,864 cases out of 6,60,263 such cases, it was noticed that the mandatory 'Aadhaar Verification Status' field and the 'Mandatory Physical Verification' field displayed a blank value. On a test check of 75 cases relating to Chennai for 'Aadhaar Verification Status' from the GSTN portal, it was observed that in 35 cases the verification status was 'Not Authenticated' thereby implying mandatory physical verification in these cases as per the CGST Rules. However, it was observed from the CBIC ACES-GST application that no mandatory physical verification had been carried out for these 35 cases.

The acceptance of blank values by the CBIC ACES-GST application for fields marked as mandatory shows deficiencies in validation controls. This needs to be rectified.

When the observation was pointed out (November 2021) by Audit, the Ministry stated (August 2022) that they have noted the observation for compliance.

4.1.2 Absence of alert to Proper officers on generation of Temporary Registration Number (TRN) under Suo-Moto Registration

As per Rule 16(1), where, pursuant to any survey, enquiry, inspection, search or any other proceedings under the Act, the proper officer finds that a person liable to registration under the Act has failed to apply for such registration, such officer may register the said person on a temporary basis and issue an order in REG-12. The person to whom such temporary registration has been granted should obtain regular registration by submitting REG-01 within a period of 90 days from the grant of temporary registration (Rule 16(3)). The effective date of Registration, in such cases, will be the date of the order granting temporary registration (Rule 16(5)).

Audit review revealed that there was no provision to validate ARN of a new Registration, received pursuant to an order passed under Rule 16 *ibid*. Also, there was absence of mechanism to link the TRN with the Jurisdiction to enable the tax officer to monitor whether the suo-moto order has been complied with by the taxpayer.

Further, in absence of adequate linkages, sanction of refund, if any, on an appeal against the suo-moto order may not be possible. The effective date of registration in cases of Suo-Moto registration has to be validated since the liability to GST arises from the date of issue of the order.

Data extracted for suo-moto registrations for pan India showed that during the period 01 June 2019 to 31 May 2021 in 61 cases registration were granted on suo-moto basis.

Recommendation 40: The Department should pursue the matter with GSTN and Policy Wing, to devise a suitable mechanism to link the Jurisdiction with the TRN.

When the observation was pointed out (November 2021) by Audit, the Ministry stated (August 2022) that they have noted the recommendation for compliance.

4.1.3 Inadequate validation to implement amendments across registrations with the same PAN

Section 28 of CGST Act, 2017 read with Rule 19(1)(a)(b) of CGST Rules, 2017 prescribes for any change in any of the particulars furnished in the application for all types of registrations either at the time of obtaining registration or as amended from time to time. Proviso specifies that the change relating to Legal name of Business in any State or Union territory shall be applicable for all registrations of the registered person obtained on the same Permanent Account Number (PAN).

A pan India data extraction of 32,152 cases was made for the period from 01 July 2017 to 31 August 2021 from the CBIC database involving different Legal Names for the GSTINs under the same PAN. On a random test check of 25 unique PANs, it was observed that in 10 cases an amendment to the Legal Name of Business in one of the registrations obtained under the same PAN had not been made applicable to all other registrations obtained on the same PAN.

Recommendation 41: The Department should initiate action to implement the amendments made in the Legal name of Business to all other registrations under the same PAN.

When the observation was pointed out (November 2021) by Audit, the Ministry stated (August 2022) that they have noted the recommendation for compliance.

4.1.4 Instances of Mismatch of data between GST Common Portal and CBIC Database

The Aadhaar Verification Status field, for 50 randomly selected cases²⁵ was compared with the Aadhaar verification data available in the GSTN Portal and it was observed that in 21 cases there was mismatch of data. Similarly, a comparison of the data contained in 'Taxpayer Type' field for 25 cases revealed mismatch of data in 15 cases. Also, in Payments Advisory 3 it was stated that the entries in Ledgers are not getting updated and hence there

²⁵Verified through the Audit SSOID credentials of Chennai Zone.

are data gaps in the Ledgers. Mismatch of data between the common portal and the CBIC database raises concern on the reliability of data which further leads to inaccurate MIS Reporting.

Recommendation 42: The Department should implement an End of Day reconciliation mechanism (interface based) for all the modules to ensure that the data in the CBIC database is always in sync with the GSTN database.

When the observation was pointed out (November 2021) by Audit, the Ministry stated (August 2022) that they have noted the recommendation for compliance.

4.1.5 Discrepancies between the Permanent Account Numbers (PANs) available in the CBIC ACES-GST application and GSTN Portal

As per the GSTN SRS V7.00 on Registration, a new applicant applying for registration is required to fill in Part-A of the Registration Form, which consists of Legal Name, Permanent Account Number (PAN), Email Address and Mobile Number along-with State and District. The GST Portal will validate whether PAN and Legal Name mentioned in Part-A matches with CBDT Database. On successful validation of the same, a Temporary Reference Number (TRN) is generated and sent to the applicant. The TRN is used to retrieve the application and to fill Part B of the Registration form for approval and generation of GSTIN.

As per Rule 10 of the CGST Rules 2017, where the application for grant of registration has been approved under Rule 9, a certificate of registration in FORM GST REG-06 showing the principal place of business and additional place or places of business shall be made available to the applicant on the common portal and a Goods and Services Tax Identification Number (GSTIN) shall be assigned subject to the following characters, namely:

- two characters for the State code
- ten characters for the Permanent Account Number or the Tax Deduction
- Collection Account Number
- two characters for the entity code
- one checksum character

A pan-India data extraction was made from the CBIC database involving mismatch of PAN in the GSTINs (3rd character up to the 12th character) with the PAN available in the CBIC database. A total of 57,693 GSTINs involving such mismatches were extracted for the period from 01 July 2017 to 01 October 2021 from the CBIC database. Out of these 57,693 cases, eight cases pertaining to Chennai were cross verified with the CBIC ACES-GST application by using the Audit SSOID and the mismatch between the PANs was confirmed. Further, examination of two out of eight cases with the details available in the GSTN portal, revealed that the Legal names were found to be incorrect and did not pertain to the GSTIN.

The existence of two PANs in the CBIC ACES-GST application for the same GSTIN i.e., mismatch of PAN in the GSTINs (3rd character upto the 12th character) with the PAN number available in the CBIC database and the fact that the RCs (which are non-editable PDF documents populated into the CBIC database from the GSTN system) reflecting incorrect legal names vis-à-vis the GSTINs raises concerns about the reliability of the data available in the CBIC database. In the light of the aforesaid findings, it was not clear to Audit as to which PAN was actually validated in the CBDT database for approval and issuance of Registration Certificates.

Recommendation 43: The Department should take appropriate action to reconcile the cases of mismatch in PAN, existence of incorrect legal names in the RCs and the details of the correct PAN based on which RCs had been issued.

When the observation was pointed out (November 2021) by Audit, the Ministry stated (August 2022) that they have noted the recommendation for compliance.

4.2 Interface with other IT applications

Apart from GSTN, the CBIC ACES-GST Application was intended to interface with various applications within CBIC and external agencies through the Enterprise Service Bus layer by web services. Among the applications that would require integration with CBIC ACES-GST Application, the significant ones are - ICEGATE, ACES, ICES, CPGRAMS, NSDL, RBI, MCA 21, State level applications.

While it was clear at the tendering stage itself that the integration with GSTN would be through APIs published by GSTN, in respect of other applications, it was recognized that depending upon the level of maturity of the interfacing system, there may arise requirements to implement integration through file sharing, file transfer, DB sharing etc. as well. However, it was envisaged that all data exchanges would be done in a secured manner, SSL enabled secure exchange of data and messages will need to be performed.

Audit observed that even though the interface with GSTN has been established, development of interface mechanisms with other external systems and agencies has not yet been initiated.

Recommendation 44: The Department should initiate the development of interface of CBIC ACES-GST application with other applications.

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



New Delhi

(SIDDHARTHA BONDADE)

Dated: 01 March 2023 Principal Director (Goods and Services Tax-I)

Countersigned



New Delhi

(GIRISH CHANDRA MURMU)

Dated: 02 March 2023 Comptroller and Auditor General of India

GLOSSARY

Glossary

| | |
|-------------------------|--|
| AC | Assistant Commissioner |
| ACES | Automation of Central Excise and Service Tax |
| ACL | Access Control Logic |
| ADVAIT | Advanced Analytics in Indirect Taxation |
| API | Application Programming Interface |
| APL | Appeal Forms |
| ARN | Application Reference Number |
| ASMT | Assessment Forms |
| BCP | Business Continuity Plan |
| BRD | Business Requirements Document |
| BYOD | Bring Your Own Device |
| CAB | Change Advisory Board |
| CBDT | Central Board of Direct Taxes |
| CBIC | Central Board of Indirect Taxes and Customs |
| CDR | Commissionerate Division Range |
| CE | Central Excise |
| CIN | Corporate Identification Number |
| CLS | Composition Levy Scheme |
| CMP | Composition Forms |
| CPC | Central Processing Cell |
| CPGRAMS | Centralised Public Grievance Redress and Monitoring System |
| CPPP | Central Public Procurement Portal |
| CR | Change Request |
| CSD | Canteen Stores Department |
| CWF | Consumer Welfare Fund |
| DC | Data Centre |
| DG (Systems) | Directorate General of Systems and Data Management |
| DIN | Director Identification Number |

| | |
|----------------|---|
| DOS | Directorate of Systems |
| DR | Disaster Recovery |
| DRC | Demand and Recovery forms |
| DSC | Digital Signature Certificates |
| DSR | Dispute Settlement and Resolution |
| EDW | Enterprise Data Warehouse |
| EMD | Earnest Money Deposit |
| EMP | Exit Management Plan |
| EXIM | Export Import |
| GST | Goods and Service Tax |
| GSTIN | Goods and Service Tax Identification Number |
| GSTN | Goods and Services Tax Network |
| GSTP | Goods and Service Tax Practitioners |
| GSTR | Goods and Service Tax Returns |
| HUF | Hindu Undivided Family |
| ICEGATE | Indian Customs Electronic Gateway |
| ICES | Indian Customs EDI System |
| ICT | Information and Communication Technology |
| IFU | Integrated Financial Unit |
| INS | Investigation Forms |
| IS | Information Security |
| IT | Information Technology |
| ITC | Input Tax credit |
| ITSCM | IT Service Continuity Management |
| KEDB | Know Error Database |
| LAN | Local Area Network |
| LD | Liquidated Damages |
| LUT | Letter of Undertaking |
| MCA | Ministry of Corporate Affairs |
| MIS | Management Information System |

| | |
|-------------|--|
| MSA | Master Service Agreement |
| NEFT | National Electronic Funds Transfer |
| NSDL | National Securities Depository Limited |
| OIO | Order in Original |
| OTC | Over the Counter |
| PAN | Permanent Account Number |
| PEC | Price Evaluation Committees |
| PFMS | Public Financial Management System |
| PGMA | Project Governance and Monitoring Agency |
| PH | Physical Hearing |
| PMO | Project Management Unit |
| PMU | Project Management Office |
| PV | Physical Verification |
| RBI | Reserve Bank of India |
| RC | Registration Certificate |
| RCA | Root Cause Analysis |
| RFD | Refund Forms |
| RFP | Request For Proposal |
| RTGS | Real Time Gross Settlement |
| SCN | Show Cause Notice |
| SEZ | Special Economic Zone |
| SFC | Standing Finance Committee |
| SI | System Integrator |
| SLA | Service Level Agreement |
| SRS | Software Requirements Specification |
| ST | Service Tax |
| TAG | Taxpayer at Glance |
| TDS | Tax Deducted at Source |
| TEG | Technical Evaluation Group |
| TRN | Temporary Reference Number |

| | |
|--------------|---|
| UAM | User Access Management |
| UI | User Interface |
| UIDAI | Unique Identification Authority of India |
| UIN | Unique Identification Number |
| URL | Uniform Resource Locator |
| VAPT | Vulnerability Assessment and Penetration Testing |
| WAN | Wide Area Network |
| XML | Extensible Mark-up Language; XML is a file format |
| ZCDR | Zone Commissionerate Division Range |

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