

Chapter III : Planning and Implementation of GST IT Project

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

3.1 Introduction

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

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

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

3.2 Organisational setup of GSTN

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

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

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

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

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

3.3 Background of Implementation of GST IT Project

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

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

Table No.8 : Year-wise expenditure on GSTN

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

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

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

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

3.4 IT Audit of GSTN

3.4.1 The Background for IT audit

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

3.4.2 Scope of IT audit

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

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

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

Included IGST Settlement Reports, which were completed by September 2017

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

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

3.4.3 Audit objectives

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

3.4.4 Audit Methodology

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

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

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

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

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

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

3.4.5 Audit Criteria

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

3.4.6 Acknowledgement

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

3.5 Overview of IT Audit findings

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

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

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

Part A : Registration Module

3.6 Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.7.2 Ineligible taxpayers allowed registration under CLS

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

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

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

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

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

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

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

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

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

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

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

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

3.8 Issues related to other categories of taxpayers

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

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

(a) PAN made optional for registration of ONPs

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

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

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

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

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

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

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

¹⁹ All four shards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.9 Issues affecting user friendliness of the registration module

3.9.1 Search gave output beyond the criteria period at GST portal

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

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

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

3.9.2 No option for different Languages on GST portal

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

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

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

3.9.3 Registration for multiple business verticals

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

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

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

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

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

3.9.4 Jurisdiction Mapping with PIN Code not enabled

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

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

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

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

3.10 Findings accepted and corrective action taken or initiated

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

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

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

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

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

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

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

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

3.11 Conclusion on Registration Module

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

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

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

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

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

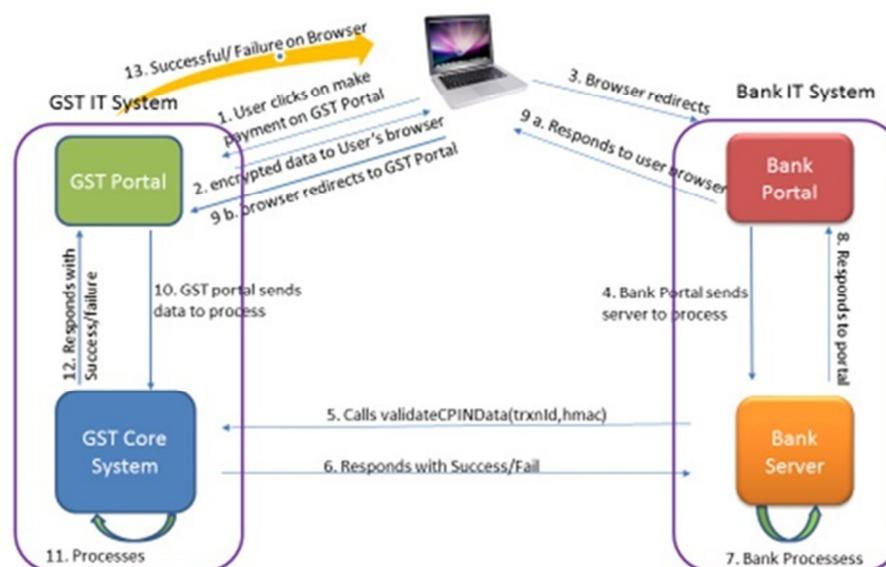
Audit found (May to October 2018) that certain basic validations were absent in the GST Registration module, most of which has been in use since the beginning of GST. The ***timelines initially indicated by GSTN in January 2019 to fix these validations were extended further*** in their reply sent through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

Part B : Payment Module

3.12 Introduction

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

Chart No.11 : Payment process for e-payments



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

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

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

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

3.13 Shortcomings in updating ECL

3.13.1 Delay in updating of ECL

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

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

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

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

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

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

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

3.13.2 ECL getting updated without confirmation from banks

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

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

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

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

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

3.14 Non-implementation of service requirements of banks

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

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

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

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

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

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

3.15 Non-reconciliation with accounting authorities

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

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

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

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

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

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

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

3.17 System level controls found absent in reconciliation files

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.20 Conclusion on Payment Module

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

Part C : IGST Settlement reports

3.21 The Provisions for IGST Settlement

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

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

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

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

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

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

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

3.22 Incomplete IGST Settlement

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

3.22.1 Reports not being prepared

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

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

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

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

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

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

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

GSTN further stated (June 2019 through DoR) that

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

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

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

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

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

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

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

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

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

3.22.3 Non-Settlement of interest

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

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

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

3.23 Duplicate records

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

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

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

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

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

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

3.24 Incorrect computation of IGST Settlement

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

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

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

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

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

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

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

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

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

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

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

3.25 Erroneous entries in settlement reports

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

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

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

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

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

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

3.26 Unrealistic claims of ITC of IGST

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

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

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

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

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

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

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

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

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

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

3.27 Conclusion on IGST Settlement Reports

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

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

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

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

Part D : Business Continuity and Change Management

3.28 Business Continuity

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

3.28.1 Business continuity policy not yet finalised

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

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

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

3.28.2 Disaster Recovery Performance short of target

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.29 Change Management

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

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

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

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

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

3.29.1 Timeline for activities not prescribed

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

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

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

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

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

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

3.29.2 Impact analysis either retrospectively done or not done

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

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

3.29.3 Acceptance certificate not issued

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

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

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

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

3.29.4 Lack of effective monitoring over CRs due to deficient documentation

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

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

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

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

3.30 Conclusion on Business Continuity and Change Management

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

3.31 A summary of the IT audit findings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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