

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

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**Press Release**

**AUDIT REPORT ON GST TABLED IN PARLIAMENT**

Compliance Audit Report No. 11 of 2019 (Indirect Taxes – Goods and Services Tax) of Comptroller and Auditor General of India was tabled in Parliament today. This is the first Audit Report of CAG on Goods and Services Tax (GST), prepared on the basis of audits conducted during the year 2018-19. The Report acknowledges the magnitude of the tax reform that GST has been and the efforts of all the stakeholders, including the businesses, in transiting to this system. The highlights of the report are given below:

**Chapter I : Implementation of GST**

- ***One significant area where the full potential of GST roll out has not been achieved is the roll out of the simplified tax compliance regime.***
  - Even after two years of roll out of GST, system validated Input Tax Credit through “invoice matching” is not in place and non-intrusive e-tax system still remains elusive.
  - The complexity of return mechanism and the technical glitches resulted in roll back of invoice-matching, rendering the system prone to ITC frauds. Without invoice matching and auto generation of refunds, assessments etc. on the whole, the envisaged GST tax compliance system is non-functional.
  - The extent of changes, having to be now undertaken, as well as the suspension of the key aspects of the system, points to inadequate co-ordination among the stake holders such as Department of Revenue (DoR), Central Board of Indirect Taxes and Customs (CBIC) and GSTN as well as failure to try out the system adequately before roll out.

**(Paragraph 1.6.3)**

**Chapter II : Revenue and return filing trends**

**Revenue analysis**

- The growth of indirect taxes of Government of India (GoI) slowed down to 5.80 per cent in 2017-18 over 2016-17 as compared to 21.33 per cent during 2016-17, with GoI’s revenue from goods and services taking a 10 per cent dip.

**(Paragraphs 2.1.1 and 2.1.4)**

- Integrated GST (IGST), levied on inter-state transactions and imports, is initially collected by GoI and then to be shared between the Centre and the States as per the provisions of IGST Act. During 2017-18, GoI resorted to devolution of IGST year-end balance to states as per Finance Commission formula, in contravention of the provisions of the Constitution of India and the IGST Act. This also had the impact of distribution of funds to the States on a completely different basis instead of 'Place of Supply' concept as envisaged in the IGST Act.

**(Paragraph 2.1.3)**

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

**(Paragraph 2.1.5)**

### **Returns filing**

- While it was expected that compliance would improve as the system would stabilise, all returns being filed showed a declining trend of filing.
- The filing percentage of GSTR-1 returns (monthly returns on outward supplies) were throughout less in comparison to the corresponding filing of GSTR-3B returns (summary self-assessed return). The introduction of GSTR-3B has resulted in filing of returns with Input Tax Credit (ITC) claims which could not be verified.
- GSTR-3B being only a summary return, short-filing of GSTR-1 implied that the tax departments did not have complete invoice level details as filed by the suppliers, which could be used to verify details given in GSTR-3B or to arrive at turnover.

**(Paragraph 2.3.1)**

### **Chapter III : IT audit of GSTN**

CAG's IT audit of GSTN covered three areas viz Registration module, Payment module and IGST settlement reports.

#### **Overview of IT Audit findings**

Of 37 audit observations issued to the Ministry, 25 were accepted by GSTN, GSTN explained the constraints / reasons in 11 cases and one observation was closed based on the reply of GSTN. Of the 25 accepted observations, the issues pointed out by audit were found rectified by GSTN in five cases.

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

**(Paragraph 3.5)**

### **Registration Module**

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

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

**(Paragraph 3.7.2)**

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

**(Paragraph 3.8.1)**

### **Payment Module**

The payment module, despite being in operation since 1 July 2017, was fraught with operational deficiencies as detailed below:

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

**(Paragraph 3.13.1)**

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

**(Paragraph 3.14)**

- Issues in reconciliation of GST receipts.

**(Paragraph 3.15)**

- A tax payer has to generate a Common Portal Identification Number (CPIN) on GST portal and using this CPIN, which would be valid for 15 days, once tax is paid in authorised bank, a Challan Identification Number (CIN) is generated. Issues such as payment initiated before expiry of CPIN but CIN generated after expiry of CPIN and incorrect display of messages to taxpayers ('Failed' instead of 'No response from bank') were not dealt with until pointed out by audit.

**(Paragraph 3.16)**

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

**(Paragraph 3.18)**

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

**(Paragraph 3.15)**

### **IGST Settlement reports**

IGST settlement reports are designed to enable sharing of IGST between Centre and the States and these are generated based on the algorithm that runs on GST IT system.

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

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

**(Paragraph 3.22)**

- Incorrect settlement of IGST amounting to ₹ 776 crore was noticed during the period from July 2017 to July 2018 because of duplicate entries and the algorithm picking up entries from wrong category of taxpayers.

**(Paragraph 3.23 and 3.25)**

**Vulnerability of system to fraudulent ITC claims:**

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

**(Paragraph 3.26)**

***System design deficiencies***

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

**(Paragraph 3.17)**

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

**(Paragraph 3.7.1)**

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

**(Paragraph 3.7.1)**

***Change Management***

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

**(Paragraph 3.29)**

***To sum up the IT Audit findings:***

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

The issues brought out in IT audit also pointed towards the need for GSTN to re-examine prioritisation of development of various functionalities, strengthen their root cause analysis and testing process to ensure that critical deficiencies in application are

detected and rectified before rollout to public. The role of the executive in User Acceptance Testing (UAT) / SRS sign off also needs to be re-examined.

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

**(Paragraph 3.31)**

#### **Chapter IV : Compliance audit of GST**

- Unhindered and full access to pan-India data is crucial for meaningful audit by CAG and to draw required assurances.
- In absence of access to GST data, the conclusions in chapter IV on compliance audit were based on limited audits carried out in the field. However, the gamut of issues brought out even in this limited audit point to serious systemic deficiencies that need to be addressed by the department.

**(Paragraph 4.1)**

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

**(Paragraph 4.7)**

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

**(Paragraph 4.11)**

***The adherence to the business rules and the system design are the responsibility of DoR, CBIC, State Tax authorities and GSTN.***

***The system of payment and settlement of tax that was envisaged for GST was based on one hundred per cent invoice-matching and availment of input tax credit, as well as settlement of IGST on the basis of invoice-matching. Neither is possible as of now, as an invoice-matching system has not kicked-in. Invoice-matching is the critical requirement that would yield the full benefits of this major tax reform. It would protect the tax revenues of both the Centre and the States, it would lead to proper settlement of IGST and would minimise, if not eliminate, the tax official-assessee interface.***

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