

Revamp & Reboot GST Audit as Mooted by CAG & PSC

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TWO

official reports last month voiced concern over mismanaged audit of goods and services tax (GST). We hope the Department of Revenue (DoR) would resolve promptly, this and many other issues raised by Parliamentary Standing Committee (PSC) on Finance and Comptroller and Auditor General (CAG) in their respective reports.

In its report on DoR's Demand for Grants for 2023-24 presented to Parliament on 23rd March 2023, PSC observed: "**large number of documents are being sought from tax-payers for conducting an audit. Besides, the assesseees are also being called to the GST offices for physical appearance, which consumes lot of time**"

PSC has advised DoR to prepare a "**white list**"

of documents that would be necessarily required for conducting an audit. This should become guidance note for all stakeholders.

It also recommended to DoR to "

look into the feasibility of developing a mechanism for online audit in GST, which can make the process more efficient and less intrusive."

This recommendation brings us to the CAG report on Information Technology (IT) Audit of Central Board of Indirect Taxes and Customs (CBIC)'s Automation of Central Excise and Service Tax (ACES)-GST Application. It includes audit module (AM) whose roll-out suffered a five-year delay.

We leave it to the GST stakeholders to guess the cost of this delay in terms of revenue leakages, frauds and additional time spent on auditing.

Presented to Parliament on 28th March, 2023, the report shows ACES-GST application is still "work in progress" as is the GST itself. We urge DoR to share with the GST payers the action taken report on slew of recommendations and observations made by CAG.

ACES-GST is hosted on www.cbic-gst.gov.in and administered by CBIC. It is CBIC's back-end portal for GST and excise, the front-end is GST network, which is hosted on www.gstn.org.in.

As we know GSTN was transformed into 100% owned Government company from a private company with effect from 30 th June 2022 in keeping with the decisions of GST council and the Union Cabinet.

This front-end network also handles back-end activities of GST departments of 27 States. Like CBIC, nine other States/Union Territories have their own back-end software.

This multiplicity of applications for back-end activities conflict with the Government's vision of GST as 'One Nation; One Tax'. We urge CAG to study the impact of this multiplicity of back-end software on the working of GST system as a whole, from the standpoint of efficiency and detection of revenue leakages.

Under Master Service Agreement, WIPRO (the vendor) had to roll out AM for usage by May 2017. The roll-out was however, done in April 2022. CAG noted that the preparation of Software Requirements Specification (SRS) commenced in May 2017.

SRS underwent multiple revisions. CBIC undertook extensive deliberations with Vendor for determining the scope of audit module and gaps in the SRS with reference to the request for proposal (RFP) issued in 2015.

According to CAG report, DG (Systems), CBIC identified that there was significant difficulty in converting business processes into system design and implementation due to technical/system limitation. DG (Systems) finally signed-off the Audit SRS in January 2020.

The Report states: "

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

Thus, delay in defining and agreeing upon the scope of Audit module, delay in finalization of audit forms/processes for inclusion in SRS coupled with the delay in finalization of the GST Audit Manual (that came into existence in July 2019) contributed, largely, to the delay in the SRS signoff.

CAG checked whether functionalities of Audit Module are designed and implemented as envisaged. Of the five functionalities tested by CAG, only one passed test and the remaining four had "**scope restrictions**".

As put by CAG report, "

The preparation of SRS for Audit module commenced in May 2017 and the module was still under development at the time of Audit. When the observation was pointed out by Audit (April 2022), the Ministry stated that the Audit module had been rolled out on 1st April 2022 ." CAG has resolved to review AM in the subsequent audits on GST.

AM aside, there are several modules whose status shows that ACES-GST application is very much a story of work in progress. The report found that modules like Mobile Application, Export, Audit and Taxpayer at Glance were yet to be developed at the time of CAG audit. Functionalities of the modules for Adjudication, Investigation and Appeal were being used only to a limited extent.

As put by CAG, "

Functionalities such as Scrutiny of Returns, Summary and Provisional Assessment, Risk Assessment Engine, Ledger Maintenance etc., have not been developed and the timelines for development had not been frozen ."

The Ministry told CAG that these functionalities are under development or will be taken up shortly under "**AGILE mode**".

CAG has recommended that DoR should strengthen the IT Governance and Management mechanism to ensure that the project timelines are adhered to and rolled out modules are effectively used, as envisaged.

This is neither the first nor the last time that CAG has found too many deficiencies in computerization/automation of activities, both under CBIC and Central Board of Direct Taxes.

While acknowledging the achievements made by DoR on the digitalization front, we urge the Government to draw common lessons from all special IT audit reports of CAG. After all, learning from the past deficiencies is the foundation for better outcomes and bigger achievements.

DoR should also prod different agencies to interface and integrate different revenue & financial networks. Without timely development and upgradation of IT backbones, the gap between potential revenue and receipts would remain huge.

The Government should consider including IT systems for different revenue streams under PM Gati Shakti for accelerating digital progress in the revenue domain.