

DECODING CAG REPORT ON GST (COMPLIANCE AUDIT OF UNION GOVERNMENT, DEPARTMENT OF REVENUE (INDIRECT TAXES – GOODS AND SERVICES TAX))



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About the Report

On 12 July, 2019, a 135 pages report was send by supreme audit institution of India – CAG (Comptroller General of India) to union government of India; same was tabled in Parliament on 30 July 2019. This report is on ‘Compliance Audit of Union Government, Department of Revenue -Indirect Taxes i.e. Goods and Services Tax.

Report whereas records significance of GST in terms of major tax reforms on same outset also acknowledges the issues faced all classes of stakeholder during transactional phase. Report also suggests some of constructive changes in form of recommendation for overall good with real bonafide intention to fill the pitfall, in order to achieve stated objective of this vibrant tax reforms.

This is the first ever report from office of CAG on GST, based upon audits conducted during the year 2018-19. Report is for the year ending on March 2018. Report is classified into four chapters, where chapters majorly deal with implementation status, revenue to government, finding out of IT audit and finding out of compliance audit; respectively.

Chapter 1 - Insight to GST, its features especially the process relating to GST return; and implementation status of GST.

GST was rolled out on 1 July 2017 with both immediate and far reaching objectives, such as eliminating cascading effect, one nation one market, reducing compliance cost through simplified, self-regulating and less/non-intrusive tax compliance regime with help of single IT based interface. GST is landmark tax reform, as it subsume multiple central and state government taxes into dual GST (CGST along-with SGST/UTGST or IGST) and also ensure seamless availability of input tax credit across value chain.

Report highlighted, in term elimination of multiple taxes and subsumes them into one single tax; Government remains successful to a greater extent. As per report the objectives of IT based single window interface for taxpayer has also been achieved to some reasonable extents.

Report also stated ‘simplified tax compliance regime’, which is considered as primary objective of GST is largely remain unreached. This opinion in report is based upon two persuasive reasons, first being, system validated Input Tax Credit through “invoice matching” (i.e. GSTR 2 and 3) is not in place; and second is elusiveness of non-intrusive electronic tax system even after two years of roll out of GST.

Report suggests, these two persuasive evidences become conclusive because, return process which was responsible for ensuring invoice matching; rolled back due to complex mechanism and technical deficiencies. This will not only lead to error/fraud prone system especially in regards of availing ITC, but also point at lack of coordination between the ‘Executive involved in GST implementation along-with user thereafter’ and the ‘IT system developers at GSTN’.

Chapter 2 – Analysis of trends in revenue to Government from GST & GST returns filling, and accounting of IGST.

Revenue analysis – The revenue to government is not growing at speed it was in past, it is mentioned in the report that growth of indirect taxes slowed down to 5.80 per cent in 2017-18 over 2016-17, while this growth rate was 21.33 per cent during 2016-17. It is worth to mention here that union government undertakes the responsibility under GST (Compensation to states) Act to make the loss to state government, good on account of loss of state revenue due to implementation of GST that too at yearly growth rate of 14%. Even revenue to union government on goods and services (excluding central excise on Petroleum and Tobacco) also declined by 10 per cent in 2017-18 (in comparison to revenue of subsumed taxes in 2016-17).

Returns filing – Report stated that there is declining trend in filing of GST returns from April 2018 to December 2018. More surprisingly the numbers of outward supplies (GSTR-1) returns filled were continuously less in comparison to correspondent summary (GSTR-3/3B) returns, this implied that the tax departments did not have complete invoice level details. More so over since GSTR-3B is self-assessed summary return, hence the introduction of GSTR 3B in-place of GSTR-3 returns may result in return filing, with ITC claims; which could not be verified.

Accounting of IGST - Report highlighted a lacuna, in distribution of funds to the States. During 2017-18, union government distributes the year-end balance of IGST to the States as per Finance Commission formula, which is on a completely different basis instead of ‘Place of Supply’ concept as envisaged in the IGST Act. Said distribution is not in alignment to provisions of Constitution of India also.

Chapter 3 – Outcome of IT audit of GSTN - Registrations, Payments and IGST settlement reports

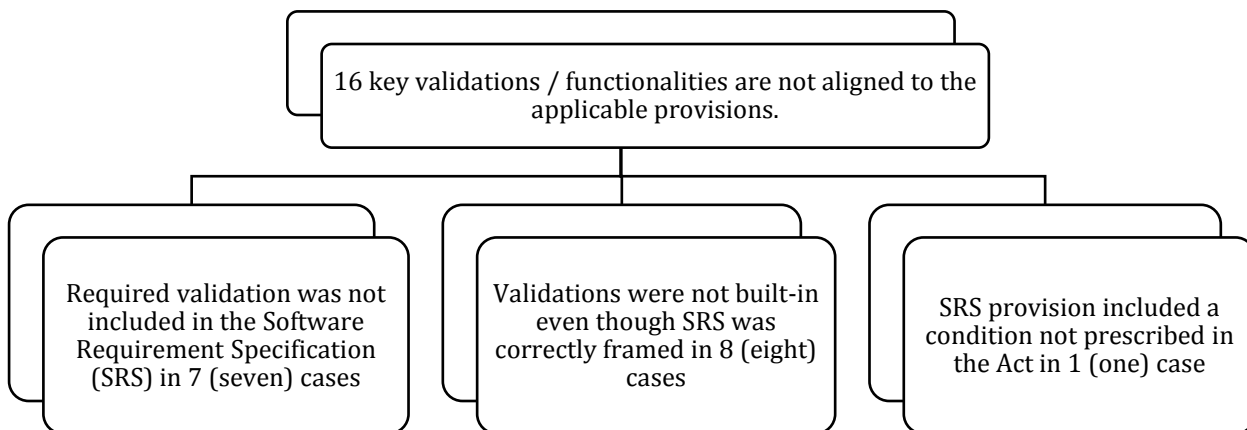


Figure 1 - Outcome of IT audit

Registration Module – Report specify four major lacunas in system validations, which make registration process; non-aligned to GST Act and Rules;

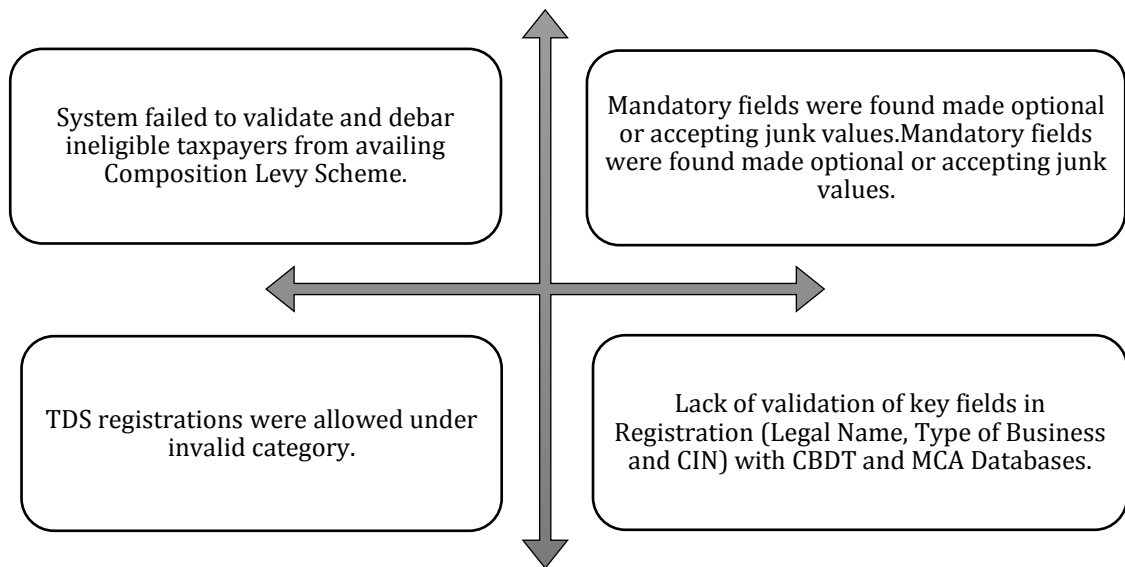


Figure 2 - Deficiencies highlighted in Registration Module

Payment Module – Although payment module is in operation since last two years, but still witness the following shortcomings;

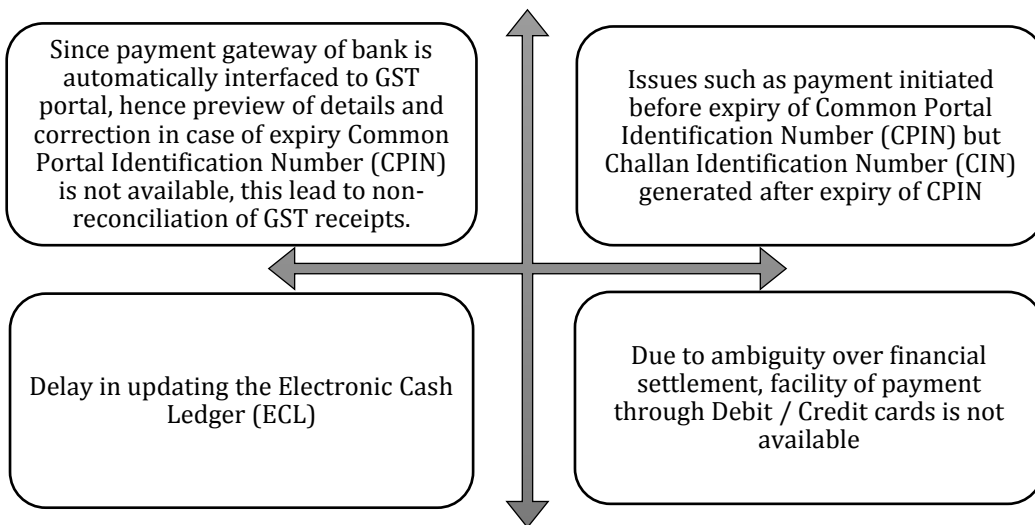


Figure 3 - Deficiencies highlighted in Payment Module

IGST Settlement reports – As per the report, due to ‘non matching of invoice (because GSTR-3B don’t carry enough required details) and ‘non-implementation of module like import and appeals’, correct settlement of IGST is impracticable; because both lead to incomplete IGST ledgers (During 2017-18, IGST balance of Rs. 2,11,688 crores remain unsettled)

Fraudulent and erroneous claim of ITC of IGST also need to be addressed, because report recorded a case, where system allowed the ITC claim of one taxpayer amounting to 79 per cent of total ITC claim by all taxpayers for said month.

Incorrect algorithm is also causing either duplicate record (during July 2017 to July 2018 6,748 cases in 5 Settlement ledgers which leads to inaccurate settlement of Rs. 416.07 crores of IGST is noticed) or picking details of entries from wrong category of taxpayers (during same period mentioned earlier in this para, IGST amounting to Rs. 359.46 crores incorrectly settled) .

Chapter 4 – Outcome of compliance audit of GST - transitional credits, registrations and refunds

Report specify, one of the limitation of compliance audit conducted, that opinion is framed in this chapter is based upon limited scope and number of audits conducted at field; in absence of having access to data relating to GST.

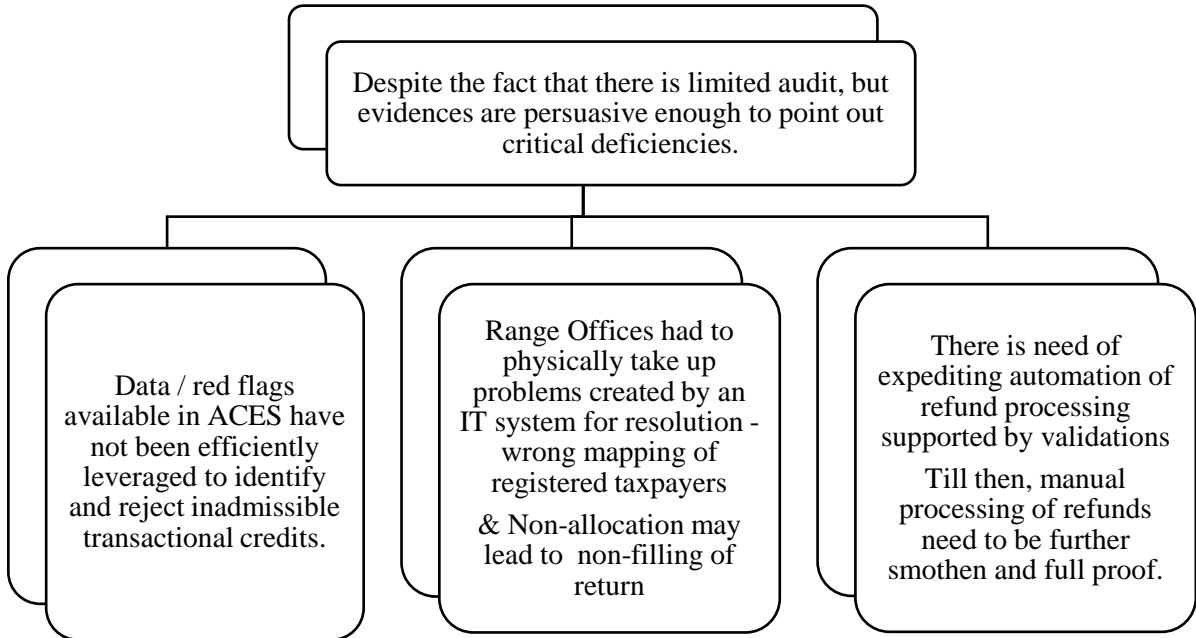


Figure 4 - Findings and recommendations based upon compliance audit

Report stated invoice matching is critical for functioning of GST in order to achieve underlying foremost objective of settling the input tax against output liability to ensure seamless input tax credit. Even settlement of IGST is also dependent upon invoice matching. But even after more than year from the date of enforcement of GST, the system of invoice matching is not robust. Auto invoice matching will lead to twin objective of ‘prevent any form of loss of revenue to government along-with equitable settlement of IGST between union and states’ and ‘reduce the need of manual interaction for assesses to residual level’.