

Excise and Taxation Technical Services Agency

Report on Review of COVIS application

Draft for Discussion

November 2006



Table of Contents

I. Executive Summary	3
II. Scope of Work.....	5
III. Approach.....	6
IV. Observations and Recommendations	8
➤ Detailed Observations:.....	9
a) Application Security	9
b) Dealer Management	18
c) Returns (VAT, TOT, Monthly Statement and Annual Statement).....	34
d) Refunds.....	45
e) Treasury.....	49
f) ICC.....	51
g) Forms Inventory Management.....	55
h) Entertainment.....	57
i) Public Account Committee.....	59
j) Casual Trader Management.....	61
k) Audits	66
l) Investigation	69
m) Determination of Disputed Questions.....	70
n) Rectification of Mistakes (U/S 29 and U/S 66).....	72
o) Masters	77
V. Disclaimer.....	81
VI. Glossary.....	82

I. Executive Summary



This report presents the results of Ernst & Young's (E&Y) work on the Review of the COVIS application. The COVIS application was reviewed with a view to commenting on the input, processing and output controls and security of the system as present during our review in a test environment.

The following key observations emanated from our review:

- Security loop holes exist in the system rendering it vulnerable to unauthorized use.
- Features of the Oracle database are not effectively used by the system
- Audit trails and logs of key transactions are not maintained within the system
- The system lacks dependency checks and field validations like reasonableness checks, edit checks, boundary values, calculation checks etc., at many places (for e.g., in the “returns” module)
- The system does not provide for the generation of key statutory notices. Further, the system also does not provide for tracking the manual notices issued by the department to closure.
- Key master data defaulted at the transaction level can be modified by the users.
- There are instances where values could have been parameterized to accommodate future amendments to law.
- Testing (unit, integration, and acceptance) may not have been comprehensive
- Access right modification at the authority code level may require changes to program code.
- The system aims at capturing data and not on automating processes. The weaknesses in the system may result in a need for increased manual controls and processes.

II. Scope of Work

The scope of work is governed by Task 17 mentioned under Clause 5 of the Agreement dated 20th January 2004 between ET TSA and E&Y relating to the Review of COVIS application deployed by ET TSA, and is as follows:

“E&Y shall monitor the acceptance test of COVIS Application Software and review each module of COVIS application for controls. E&Y shall submit to ET TSA an application review report for each module.”

III. Approach

An application controls review involves testing the input, processing and output controls inbuilt in the system to prevent and / or detect errors and security through the user interface of an application. This review should not be construed as a review of any other system or documentation other than the controls and security of the COVIS application.

We followed E&Y's standard time tested 'risk based approach' for conducting this application review. Our approach to execute this task was as follows:

- Referred to the following documentation
 - Software Requirements Specification (SRS) ver 2.1 for COVIS
 - VAT Procedures Manual of the Excise and Taxation department, Govt. of Punjab.
 - Sections and Clauses from the Punjab Government VAT Act & Rules, 2004
- Conducted a walk-through of the COVIS application as deployed on our laptops by ET TSA for the purposes of testing (July 31, 2006)
- Interviewed key personnel (of the software vendor to ET TSA) in order to understand the system
- Reviewed the master files set up
- Reviewed the transactions that are processed through the systems
- Reviewed the design of controls built in the system to validate that errors and irregularities are reasonably prevented or detected
- Understood the security features built into the system to evaluate if they meet the generally accepted standards of confidentiality, integrity, and availability.

- Reviewed a sample of the authority matrices (user access rights) to assess if they are restrictive in nature. We relied upon the authority matrix for each module of the system made available to us by ET TSA
- Tested the controls to identify deficiencies in the controls designed or envisaged to be operating in the COVIS application and made recommendations to improve controls

IV. Observations and Recommendations

This section presents our observations on the review of COVIS application. It consists of individual reports on each of the modules collated together as a single section. Each module has been presented as a separate sub section. A few of the controls identified may have been reported under different modules. This multiplicity is intentional either on account of the control applying to all such modules, or to add relevance to the context of such presentation.

➤ Detailed Observations:	9
a) Application Security	9
b) Dealer Management	18
c) Returns (VAT, TOT, Monthly Statement and Annual Statement)	34
d) Refunds	45
e) Treasury	49
f) ICC	51
g) Forms Inventory Management	55
h) Entertainment	57
i) Public Account Committee	59
j) Casual Trader Management	61
k) Audits	66
l) Investigation	69
m) Determination of Disputed Questions	70
n) Rectification of Mistakes (U/S 29 and U/S 66)	72
o) Masters	77

➤ *Detailed Observations:*a) Application Security

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	It is possible to create a user id for a suspended employee.	This may result in unauthorized access to the critical and confidential data of the department. Further, this may also result in these user ids being used to commit economic offences.	The User id should be linked with the employee Id. If an employee is suspended in the system, controls should be in place to validate that the corresponding user id is disabled. The system should not allow the creation of a user Id for suspended employees.
2.	The length and format of user Ids in the COVIS application are not standardized.	Lack of standard naming conventions may result in generic, ambiguous, unauthorized or multiple ids which in turn could result in lack of accountability	User ID nomenclature should be set out and followed while creating new users.
3.	It is possible to log-in into the COVIS application and execute	This may result in unauthorized access / changes to the critical and confidential data of	The facility to login using suspended user ids should be disabled.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	transactions using suspended user ids.	the department. Suspended IDs may be used to commit economic offences that may result in a loss of revenue.	
4.	There are no validations between the Authority codes, and the user IDs. Authority codes pertaining to the ETC can be assigned to an employee with a clerk designation.	This may result in excess/ unauthorized access being granted to the employees.	Authority code parameters should be modified to incorporate information on the level to which such authorities can be granted. Alternatively, manual controls should be in place to validate that authority codes are appropriately assigned.
5.	Password change at first login was not enforced by the system.	Weak password controls render the system vulnerable to unauthorized access.	Strong password controls should be considered and implemented within the

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	Further, the initial system generated password was same as user id.		system The system should be modified to generate random password for the new user Ids created.
6.	Password controls in the system are weak. Application passwords are not case sensitive.	Weak password controls render the system vulnerable to unauthorized access and reduce user accountability	The system should be rectified to make passwords case sensitive. The following password parameters should be implemented. <ul style="list-style-type: none"> ▪ Maximum password age (30-90) ▪ Minimum password age (1) ▪ Maximum password size (8) ▪ Minimum password size (5) ▪ Password history (5) ▪ Password complexity ▪ Lock (3 incorrect passwords) ▪ Pre-expired passwords

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
7.	The administrator could concurrently modify the assignment of authority codes for a user id in use.	This may result in corruption of transaction during processing. This may also result in unknown errors and exceptions in operation of application.	The system should be modified to disable changes to authority code assignments when such user ids are logged into.
8.	A user Id with the suspended authority codes attached to it could log-in in the system and access the transactions attached to such authority code.	This may result in unauthorized access to the critical and confidential data of the department. These IDs may be used to commit economic offences.	The system should be modified to deactivate user ids with suspended authority codes attached to them.
9.	We were able to obtain detailed application banners from the COVIS application. The controls in the system	Application banners give out sensitive information to prospective attackers. This may render the system vulnerable to security threats.	Controls should be built into the system to suppress the release of important information as part of the system banners.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<p>implementation do not suppress the release of the following critical information.</p> <p>ENVS: The environment variable that defines the path to the oracle home folder, and the Oracle database identification (SID).</p> <p>Handler Information: HANDLER_DISPLAY HANDLER_ID HANDLER_INFO HANDLER_LOAD HANDLER_MAXLOAD HANDLER_NAME</p>		

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
10.	<p>The system throws up sensitive information such as the name of critical forms in error messages.</p> <p>We further observed that application does not have specific and structured error messages defined for each application module.</p>	<p>This may be used to circumvent access controls on the system and access sections of the system to which users should not have access.</p>	<p>The error messages in the system should be redefined to ensure that critical or sensitive information is not displayed to the end user.</p>
11.	<p>More than one authority code cannot be assigned to a single user id.</p> <p>The system has no provision for job assignment in case of non availability of key personnel.</p>	<p>This may affect the continuity of departmental proceedings in case of non availability of key personnel.</p>	<p>The system should have provision for assignment of more than one authority code to a single user id.</p>
12.	<p>The audit trail parameter has not been set.</p>	<p>Significant audit information may not be efficiently recorded on the system.</p>	<p>The auditing subsystem for critical transactions should be enabled.</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	Oracle inherently provides an “Auditing Subsystem” which can be effectively used to record, and detect critical transactions.		Key fields should be identified and tracked. Set criteria should be definable, on the basis of which exceptions should automatically be notified to designated authorities
13.	<p>The system uses object privileges that have been granted to the “PUBLIC” role in the database.</p> <p>The “PUBLIC” role is a special role in the database that includes all the users of the database. Object privileges assigned to PUBLIC typically get assigned to all the users of the database.</p>	Object privileges may be inappropriately defined for all the users affecting data confidentiality, integrity and availability	<p>Object privileges must be revoked from the “PUBLIC” role</p> <p>Application roles should be defined, and the object privileges should be granted directly to these application roles.</p> <p>Default PUBLIC grants to system objects should not be modified.</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
14.	<p>Predefined roles “RESOURCE” has been granted to all “Application User” accounts.</p> <p>The resource role includes the following sensitive system privileges:</p> <p>Create Cluster Create Indextype Create Operator Create Procedure Create Sequence Create Table Create Trigger Create Type</p>	<p>The “RESOURCE” role contains excessive privileges not normally needed by an application user.</p> <p>Privileges should be restricted to the bare minimum required by a user to carry out his day to day functions.</p>	<p>The system should be modified to ensure that the “RESOURCE” privilege is not granted to Application Users. Instead the system should define specific privileges that are required as a part of an application role, and assign such role to the user.</p>
15.	<p>The “TABLESPACE” for all the Application User accounts has been</p>	<p>New objects created on the SYSTEM TABLESPACE may conflict with the database</p>	<p>The system should be modified to ensure that users are created in a separate</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	set to the default “SYSTEM” TABLESPACE.	<p>Metadata.</p> <p>Additionally, user activity such as creation of data in the SYSTEM TABLESPACE may result in an excessive fragmentation of the TABLESPACE. This may affect the performance of the database.</p> <p>Further, the database stability will be affected if the SYSTEM TABLESPACE runs out of space.</p>	<p>configurable TABLESPACE.</p> <p>The existing users should be migrated to a TABLESPACE other than the SYSTEM TABLESPACE.</p>
16.	We were able to obtain the usernames and the password hashes of the system users.	There is a risk that unauthorized users can gain access to the system by altering user credentials and supplying the password using a “BY VALUE” parameter.	Access to the DBA_USERS table should be appropriately restricted.

b) Dealer Management

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
1.	The address field is not mandatory for the completion of an application request for dealer registration.	This may result in the following: <ul style="list-style-type: none"> • Procedural delays in department proceedings • Duplication of records • Loss of revenue in case dealer does not pay taxes. 	The address field should be made mandatory.
2.	The system accepts duplicate dealer registration request from the same dealer even with same dealer name and address details.	This may result in duplicate dealer records being created in the system.	Manual control procedures should be in place to validate duplicate requests.
3.	The system does not generate a report of application requests entered in the front window but not in the dealer	This may result in dealer registrations not being completed in time leading to a violation of law.	The system should be modified to generate an incompleteness log report setting out the status of all requests received at the front office and the stage at

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	management module.		<p>which they were pending. This report should provide a field wise listing of incomplete data.</p> <p>In addition, if the system is kept pending on account of certain notices having been issued; the report should list out the status of the notices.</p>
4.	The system has not been designed to handle special categories of organizations set out in Schedule G of the VAT Act.	This may result in a non compliance of the statute.	The COVIS application should be modified to handle special categories of organizations set out in Schedule G.
5.	The field – ‘date from which liable to tax’ is not a mandatory field at the time of entering a dealer creation request at the front window.	<p>This may result in dealers applying late for registration going undetected.</p> <p>This may also potentially result in loss of revenue to department.</p>	“Date from which liable to tax” – should be made a mandatory field. This will help monitor the prescribed time frames within which a dealer should apply for registration, take further course of action in the event of delays etc.
6.	The system generated an unhandled	<ul style="list-style-type: none"> ▪ This may affect the integrity of 	Error / Warning messages should be defined in a

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	exception at the time of generation of a temporary registration number.	data, as the extent of database update may not be known. This may also result in the ambiguity, reduced user efficiency, and wastage of time	manner to help the users to solve or report the errors.
7.	The COVIS application allows manufacturers to be registered as TOT ¹ dealers. Manufacturers are required as per current laws to be registered as VAT ² dealers.	This may result in a violation of law.	The COVIS application should be made configurable to allow the specification of the categories of applicants under the VAT or TOT
8.	A CST ³ registrant is granted a TOT, or a VAT (Voluntary) registration number which is not in accordance with the VAT act.	This may result in a violation of law	System should ensure that for a CST registrant only VAT (obligatory) registration is allowed

¹ Turnover Tax

² Value Added Tax

³ Central Sales Tax

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
9.	A registration applicant can be granted a TOT registration even if such applicant's expected turnover exceeds Rs. 50 lakhs.	This may result in the provisions applicable to VAT Act being violated, and the applicant being incorrectly classified.	System should validate the expected turnover with category of registration selected and should enable the options available under the category of registration selected.
10.	The system displays the father / husband field for population even to applicant types (persons) other than a proprietor	Inaccurate / redundant data may be entered affecting the usability of information.	For persons other than a proprietor/ partner the irrelevant fields such as father / husband field should be disabled
11.	Only one additional place of business can be recorded	This may result in incomplete details being captured for the applicant.	The system should be modified to accept multiple records for the additional place of business.
12.	The value in bank name field is not validated with the "scheduled local bank master" maintained in the system.	Non validated data can be entered affecting data integrity and usability.	The value in bank name field should be validated with scheduled local bank master.
13.	A VAT number can be issued to a dealer opting for TOT.	This may result in a violation of law.	The system should validate the option selected at the front window and should validate the expected

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
		This may also result in registration of dealer under wrong provisions and may result in procedural delays.	turnover with the limits prescribed for the option selected for registration.
14.	The system does not generate orders for a field inquiry.	This may result in procedural delays.	Generation of notice for field enquiry should be automated in the system.
15.	The system does not have the provision to auto generate the AN-01 notice (Notice on dissatisfactory field inquiry).	Key notices may not be issued in time, resulting in a violation of law.	Generation of notices for dissatisfactory field enquiry should be automated in the system. Workflows should be built in the system to automate the process.
16.	The stipulated time frame for replying to an AN-01 notice is not definable in the system.	This may result in a loss of revenue.	The system should be configured to define stipulated time frame for receiving response to notice AN-01.
17.	The system does not raise an exception in cases where the response to the AN-01 notice is received beyond the	Key notices may not be tracked resulting in procedural delays.	The system should raise exceptions where responses to AN-01 notices are not entered into the system in time.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	stipulated time.		
18.	The system does not have the provision to generate an AN-02 notice or to record reasons therefor.	Key notices may not be issued in time, resulting in a violation of law.	Generation of notice for rejection should be automated in the system.
19.	The system does not have a provision to generate exception reports where an application for registration was not on submitted on time	This may lead to delays in processing of applications in contravention of the statute; and may also result in a loss of revenue.	The system should be modified to include this provision.
20.	The system does not have a provision to forward the case for audit, and provisional assessment where an AN-02 notice has been issued.	Cases on which an AN-02 has been issued may not be forwarded to the Audit module, or taken up for provisional assessment.	The system should have the facility to document cases where AN-02 has been issued. These cases should be automatically listed or reflected in the Audit module. It should also be possible to record details of a provisional assessment on these cases.
21.	The system does not have a provision to generate a show cause notice (AN-03) where individuals submit applications beyond the stipulated	It may not be possible to issue show cause notices in time resulting in a violation of law.	The system should prompt a user to generate show cause notices (AN-03) where there are delays in submitting the applications. The notices should be generated at the option of the user. Responses to

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	time.		these notices should be captured in the software.
22.	The stipulated time frame to receive response to a show cause notice (AN-03) is not defined in the system.	This may result in a loss of revenue.	The system should be configured to define stipulated time frame for receiving response to show cause notice (AN-03).
23.	The system does not suspend the processing of a case until the AN-03 notices are resolved.	A case against which a show cause notice has been issued may be processed further in contravention of the law.	Cases in which an AN-03 notice has been issued should be suspended until resolution.
24.	The system does not have the facility to issue a notice of penalty assessment (AN-04) in cases where the response to an AN-03 notice is unsatisfactory.	Penalty assessment proceedings may be delayed / not taken up in contravention of the statute. This may further lead to a loss of revenue.	The system should capture the result of an AN-03 notice (Satisfactory / Not Satisfactory), and prompt the user to generate an AN-04 notice where the results are unsatisfactory.
25.	A dealer can stand surety to more than two dealers.	This is in violation of legislation.	A dealer should not be able to stand surety for more than two dealers.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
26.	Status of reconciliation of requests (other than those for registration) received at the front window, and processed by the department cannot be tracked.	This may result in that requests remaining unprocessed for a considerable period of time which may result in a violation of law or culminate into procedural delays.	The system should provide a status report of the requests received at the front window.
27.	It is not possible to trace all rejected applications for duplicate Registration Certificate (RC) / Tax Identification Numbers (TIN) and the reasons for such rejections.	It may not be possible to track rejections of requests for duplicate certificates in the system. Further, it would also not be possible to record the reasons for rejections, as required by the Act	The system should have the provision to record the rejected applications and the reason of rejection thereof.
28.	The system does not validate the values of estimated amounts of sales The estimated sales per day can be greater than estimated sales per month which in turn can be greater than the	Lack of validation may result in inaccurate information being entered into the system	Necessary validations should be built in the system so that the incorrect entries are prevented before transactions are saved.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	estimated sales per year.		
29.	TIN field was not validated (VAT Survey) with the dealer master maintained in the system at the front window	Lack of validation can result in inaccurate information being entered into the system.	TIN should be validated with the Dealer Master at the time of data entry (VAT Survey)
30.	The system does not support generation of notices on persons who are referred for amendment/ cancellation of registration.	Notices may not be issued / issued in time resulting in a violation of law.	The system should be modified to have a provision of generation of amendment/ cancellation notices through system. The system should also provide for keeping track of notices to be issued to the dealers.
31.	The system does not support generation of notices to dealers registered under TOT	Notices may not be issued / issued in time. This may result in a violation of law.	The system should be modified to have a provision of issuing amendment/ cancellation notices through system. The system should also provide to keep track of

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
			notices to be issued to the dealers.
32.	The system does not appropriately validate the text fields. We were able to enter special characters such as '*' and '#' etc. in these fields.	Special characters can be used for SQL injection ⁴ .	The system should perform validation checks (edit checks) on all fields. Special characters like '*' and '#' should not be allowed in text fields.
33.	The system does not automatically generate date of field enquiry. We further observed that field 'Field Enquiry' is disabled.	Field inquires may not be initiated in time. It may also not be possible to track cases where field inquires have not occurred in time.	The date of field enquiry should be automatically calculated by system as application receipt date + 10 days.
34.	The system does not have the provision to specify the 'From date' for which a list of accepted and	It may not be possible to specify the exact period.	The system should be modified to require the specification of 'To date' and 'From date' for which report needs to be generated.

⁴ SQL Injection is a popular and relatively easy method to hack into applications

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	rejected applications needs to be generated.	This may also affect the network & infrastructure performance adversely due to unnecessary performance overheads on key infrastructure elements.	
35.	It is not possible to configure field states as mandatory, optional etc at the form level. Field configuration has been hard coded.	Change request may have to be raised for a change in the field state.	Mandatory fields should be dynamically configurable.
36.	The system does not mark the registration application as “late” if date of receipt of application is greater than tax liability date plus thirty days.	This may result in late or non detection of dealers applying late for registration. This may also result in potential loss of revenue to department.	The system should highlight registration applications as “late” where the date of receipt of the system is greater than the tax liability date by thirty days or more.
37.	The ‘expected turnover’ field accepts a negative value.	This may result in a ‘VAT’ dealer being categorized as eligible for a	The system should not allow the entry of negative values.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
		TOT registration.	
38.	TI enquiry details are not mandatory for approval of registration application.	This may result in the registration process being completed in violation of law.	TI enquiry details should be mandatory for approval of registration request.
39.	The system does not provide/contain definable evaluation parameters that should be complied with to ascertain if investigation findings and clarifications are satisfactory.	It may not be possible to enforce the minimum criteria for approving investigation findings/clarification.	The system should have definable evaluation parameters to validate if the investigation findings and clarifications thereto provided by dealer are satisfactory.
40.	Information regarding the verification of financial security (in the case of Surety) is not maintained in the system.	It may not be possible to validate from the system at a future date, if the security provided by a dealer was appropriately verified.	There should be a provision in the system to capture the information regarding verification of financial security.
41.	Parameters to assess penalty for late registration are not defined in application.	Penalties on late registration may not be appropriately calculated.	The system should have provision to automatically calculate penalty for late registration. The parameters for assessing the penalty should be

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	The system also does not have a provision to calculate penalty for late registration.		definable.
42.	A registration certificate can be issued to dealer who has not submitted the mandatory security of Rs 50,000.	This may result in loss of revenue to the department.	The system should not allow the issue of the registration certificate if the security submitted is less than Rs 50,000.
43.	The stipulated timeframe is not definable in the COVIS application for generation of a show cause notice to person who has not provided security.	A show cause notice may not be issued in time to a person who has not provided security resulting in procedural delays.	The system should be configured to define the stipulated time frame for generation of the show cause notice.
44.	The notices issued to persons intimating the possible inadequacy in security amount are not recorded and tracked.	This may also result in additional security not being sought resulting in financial losses.	The system should record and track notice issued to person intimating the inadequacy in insecurity amount.
45.	The system does not refer a case to the arrears module for a dealer with	The arrears management module may not be used to track the arrears in the	The system should transfer cases to the arrears management module for dealers with outstanding

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	outstanding dues.	cases that have not been transferred. This can result in a loss of revenue due to delays in collection.	dues.
46.	The system has no provision for uploading of external data (for e.g., Sales and Purchase information) in the form of database or flat file for determining the eligibility of a person for registration under VAT act. This data may be submitted in an electronic form by a person applying for registration.	This may result in late or non-detection of dealers applying late for registration.	The system should have a provision for uploading of external data. This would help ascertain the date of commencement of business.
47.	For department initiated registration process, the system does not have a provision to refer cases to audit for computation of outstanding tax liability.	The may result in inaccurate computation of outstanding tax liability and may also result in potential loss of revenue to department.	The system should have a provision to refer cases to audit for automatic computation of outstanding tax liability.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
48.	The system has no provision for release of surety if it is in the form of surety bonds or bank guarantee.	Incorrect surety balances may be shown in the system. This may result in a loss of revenue.	The system should record the release of surety in the form of surety bonds or bank guarantee.
49.	The system does not have a provision to record cancellation form details. We further observed that system has no provision to initiate field inquiry proceedings for cancellation forms.	This may result in manual processing of cancellation forms and may lead to procedural delays. Details of dealer cancellation may not be recorded in or processed through the COVIS application and may result in the following: <ul style="list-style-type: none"> ▪ Dealers being active on the system after they have been cancelled otherwise. ▪ Appropriate authorizations not 	The system should have a provision to record cancellation form details and field inquiry findings.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
		<p>being taken for dealer cancellation</p> <ul style="list-style-type: none"> ▪ Necessitate back end transactions to cancel dealer registrations. 	
50.	The system does not have definable parameters to validate the appropriateness of an application from a dealer for cancellation.	Cancellation requests may not be appropriately processed.	The system should have configurable rules to validate the reasons for cancellation.
51.	The system does not have a provision to generate report for list of TOT registered persons with annual turnover greater than VAT threshold.	This may lead to inappropriate classification of dealers based on the annual threshold limits defined in law.	The system should provide for the generation of a report with a list of all TOT registered dealers with annual turnover greater than VAT threshold.

c) Returns (VAT, TOT, Monthly Statement and Annual Statement)

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	It is not possible to navigate through the subsequent records displayed by a query operation after selecting the Cheque / DD tab at the time of entering returns in the front window module.	This may result in reduced efficiency and a wastage of time	The anomaly should be addressed.
2.	There are no validations between the cheque date and the current date. The system accepted a cheque dated 01/01/2001 in August 2006 at the time of entering returns in the front window module.	The acceptance of expired cheques may lead to delays in revenue collection.	The system should give an alert to the user if the cheque is older than three months and should not accept a cheque older than six months.
3.	The system accepted VAT returns for future periods.	This may lead to a violation of applicable laws.	The system should not be able to accept returns for future periods.
4.	The system allows the selection of a	This may result in the wrong entry of	The system should not accept the monthly statement

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	monthly option for a return submitted by a TOT registrant	quarterly returns as monthly statements.	request from the TOT dealer.
5.	The system accepted TOT returns for future periods.	This may lead to a violation of applicable laws.	The system should not accept returns for future periods.
6.	There are no validations between the value of deductible sales, sales returns, and cash / trade discounts and the gross sales value at the time of return entry. The gross sales value could be lesser than the tax free sales, sales return, and cash / trade discounts.	The data may not be complete, accurate, and usable.	The system should validate deductible sales, sales returns, and cash / trade discounts with gross sales value. In the event of a discrepancy, the return entry should be saved with an “error” flag.
7.	There are no validations between the net deduction from purchases field and the value of gross purchases at the time of return entry	The data may not be complete, accurate, and usable.	The system should validate the net deduction from purchases value and the gross purchases value. In the event of a discrepancy, the return entry should be saved with an “error” flag.
8.	There is no validation between the	This may result in incorrect ITC being	The ‘ITC brought forward’ should be validated with

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	Input Tax Credit (ITC) value entered in the form and the ITC value derived from the previous return at the time of return entry	granted to the dealer. This may potentially result in a loss of revenue for the department.	the previous return. In the event of a discrepancy, the return entry should be saved with an “error” flag.
9.	There is no validation between the sales break-up values and the gross sales value at the time of return entry	The gross sales value and the corresponding break up values may be inconsistent, and may result in an incorrect assessment of returns.	The value of sales break-up should be validated with the gross sales figure. In the event of a discrepancy, the return entry should be saved with an “error” flag.
10.	There is no validation between the purchases break-up values and the gross purchases value at the time of return entry	The gross purchases value and the corresponding break up values may be inconsistent, and may result in an incorrect assessment of returns.	The value of purchases break-up should be validated with the gross purchases figure.
11.	There is no validation between the sales deduction break-up values and the gross deductions values at the time of return entry	The gross sales deduction, and the corresponding break up values may be inconsistent and may result in an incorrect assessment of returns	The value of sales deduction break-up should be validated with the gross deductions figure. In case of a discrepancy the system should display an error and should accept the return with an “error” flag.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
12.	There is no validation between the purchases deduction break-up values and the gross deductions values at the time of return entry	The purchases deduction and the corresponding break up values may be inconsistent, and may result in an incorrect assessment of returns.	The value of purchases deduction break-up should be validated with the gross deductions figure. In case of a discrepancy the system should display an error and should accept the return with an “error” flag.
13.	The system does not have a provision to generate an exception report of returns not submitted for prior periods, and initiate penalty proceedings	This may result in a violation of law. It may also result in a loss of revenue.	A report should be created in the system which generates the list of dealers who have not submitted returns on regular basis. Such report should be reviewed periodically to initiate appropriate action.
14.	The system does not validate the total amount of tax, and its breakup at the time of return entry.	This may affect the calculation of taxes, and lead to a delay in the processing of returns.	The value of output tax should be calculated from the details of break-up of taxable sales. The field of output tax should be non-editable
15.	The rate of VAT applicable for break-up of taxable sales and purchases are not consistently displayed in the return entry screen	The appropriate rate of tax may not be applied to taxable sales and purchases.	The rate of VAT applicable for the break up of taxable sales and purchases should be displayed completely and accurately in all cases.
16.	There is no validation between the	A dealer may submit inconsistent /	The system should validate the value of sales and

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	value of sales and purchases as reported in the quarterly return and the values as reported as a part of the monthly statements.	incorrect returns that may not be tracked in time. This may also result in a loss of revenue for the department.	<p>purchases as reported in the quarterly returns with the values reported in the monthly statements.</p> <p>An exception message should be displayed by the system when values of quarterly returns do not match the values of monthly statements.</p> <p>An exception report should be generated dealer wise listing returns where the values as disclosed in the quarterly returns do not match the values as disclosed in the monthly statements.</p>
17.	At the time of return entry, the Gross sales value could be less than the tax free sales, sales return and cash/trade discounts.	<p>This may result in the following:</p> <ul style="list-style-type: none"> ▪ Potential loss of revenue ▪ Incorrect values being entered into the system ▪ Incorrect summarization of data 	The net sales figure should be calculated from the values entered in gross sales figure and the values of deductions from the sales. Incorrect entries should be saved with an “error” flag.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
18.	The system expects a manual entry in the net output tax field. The value is not automatically calculated at the time of return entry	This may result in an inaccurate computation of the net output tax. This may also result in a potential loss of revenue.	The net output tax figure should be internally computed from the net sales and values reported in net adjustments field. Any inconsistent returns should be saved with an “error” flag.
19.	A user can modify the value of the “net sales subject to TOT” field at the time of return entry.	This may result in a loss of revenue.	The net sales subject to TOT field should be automatically calculated by system. Discrepant returns should be saved with an “error” flag.
20.	The system does not permit ‘signing’ of the return and the selection of the ‘entry completed option’ after the return entry form is saved.	This may result in ambiguity, reduced efficiency and wastage of time.	The anomaly should be corrected.
21.	The system does not validate the dealer TIN with the dealer master while accepting annual statements.	This may result in the following: <ul style="list-style-type: none"> ▪ Incorrect information being entered. ▪ Procedural delays in tracing back an annual statement to the correct dealer. 	The system should validate the TIN field with the Dealer Master.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
		<ul style="list-style-type: none"> ▪ Duplicate, or Fictitious entries ▪ Potential revenue losses 	
22.	The system does not generate a receipt number on the completion of a TOT annual statement entry.	It may not be possible appropriately track returns.	The system should automatically generate a receipt number for an accepted annual statement.
23.	<p>Annual statements are not validated with quarterly and monthly returns.</p> <p>An annual statement was completed and saved successfully where the annual values of sales and purchase does not match with the quarterly and monthly values of sales and purchases reported by the dealer.</p> <p>The system does not generate an exception report listing the cases</p>	<p>This may result in the following:</p> <ul style="list-style-type: none"> ▪ Dealers stating different values in their annual statements ▪ Potential revenue losses ▪ Inconsistent data. 	<p>The system should validate the values of sales and purchase reported in quarterly returns and monthly statements with annual statements.</p> <p>The system should display an alert message before accepting the returns.</p> <p>An exception report should be generated listing the list of dealers and details of return where the values of quarterly returns and monthly statements do not match with the values of annual statements.</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	with errors.		
24.	The 'total amount payable' and the 'net refund' fields accepted negative values.	This may result in potential losses for the department. Negative values may also be used to circumvent the provisions and may result in economic offenses	The total amount payable and net refund fields not accept negative values.
25.	There is no validation in place to prevent the acceptance of negative values in the following fields : <ul style="list-style-type: none"> ▪ Value of export outside India ▪ Value of interstate sales ▪ Value of intra state sales ▪ Vat output tax 	Non validated data can be entered affecting data integrity and usability. Negative values may also be used to circumvent the provisions and may result in economic offenses	The fields should accept only values either equal to or greater than zero.
26.	There is no validation for the 'Financial Year' field at the time of	An entry to the wrong financial period may lead to the return being classified	The system should validate the periods for which a return can be filed. The returns should not be for a

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	return entry. The system accepted 'Financial Year' as 1900-01	as a part of a wrong financial period.	period in the future, or for a date prior to the date of registration of the dealer. In addition, all returns for a period against which the dealer has already submitted returns should be tracked separately as "revised returns"
27.	The system does not have a provision to generate notice (DN-02) to a person asking reason for filing an incorrect return. We further observed that notices are not recorded and tracked in the system.	It may not be possible to issue notice (DN-02) on time. This may result in a contravention of law.	The system should have a provision to generate notice (DN-02) to a person asking the reason for filing an incorrect return. There should also be a provision to capture responses to such notices in the system
28.	The stipulated time frame to issue notice (DN-02) to person asking for explanation is not parameterized in	This may result in procedural delays in processing of returns.	The system should be modified to define stipulated time period for issuing notice to person.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	the system.		
29.	The system expects a date to be entered against the “Tax Amount field” in the VAT returns form (VAT 23 & 24)	The user may not be able to complete data entry operation and save the return. This may impact the efficiency of the operations.	The system should be modified to correctly implement field level validations to ensure the completeness, and accuracy of input.
30.	The system does not generate show cause notice (DN-04) to a person who has not filed a return in time. We further observed that show cause notices are not recorded and tracked.	Show cause notices may not be issued in time, and appropriately tracked thereafter. This may result in a violation of law, and may also lead to losses.	The system should generate, or prompt to generate show cause notices. There should also be a provision to capture responses to such notices in the system.
31.	The system does not have a report for list of cases that have been referred to audit and have not yet finalized.	This may result in procedural delays in processing of returns.	The system should provide for generating a report stating the list of cases that have been referred to audit.
32.	The system does not validate ‘annual statement from’ field with the date of dealer registration.	A dealer may be able to pass off transactions older than a month of his registration date as a part of the	The system should be modified to validate ‘annual statement from’ field with the date of dealer registration.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
		annual statement.	
33.	The system does not have a provision to generate a demand notice incase any additional tax is found payable by the person.	A demand notice may not be generated in cases where additional tax is found payable. This can result in a violation of law, and a loss of revenue.	The system should generate a demand notice for additional tax payable by person.

d) Refunds

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The system does not display a list of mandatory documents in the documents section at the time of refund entry.	This may result in the acceptance of incomplete refund requests resulting in a violation of law. This may further result in the deficiency memo not being generated for the incomplete refund requests.	The system should be modified to ensure that refund requests are accepted only after all mandatory document fields are checked. In case of a discrepancy the system should generate a deficiency memo.
2.	The system does not have a provision to generate a notice for the approval of a refunds claim.	This may result in the notice not being issued in time resulting in a violation of law.	Generation of notices for the approval of refunds claim should be automated in the system.
3.	The system does not have a provision to facilitate the 'signing' of refund requests. The system displayed the alert	This may result in the department not being able to process correct refund through the system. This may affect the efficiency of the users.	The system should facilitate the signing of returns. The system should also generate meaningful errors / warnings to help users solve problems easily.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<p>message 'Refund is more than specified approval limit, you are not allowed'.</p> <p>We further observed that the Additional Excise & Taxation Commissioner (AETC) does not have authority to approve refund requests.</p>		
4.	The system generated an incorrect notice for refund VAT-29.	This may result in a violation of law	The nature and content of the notices should be revalidated.
5.	The system does not have a provision to accept a refund request for a casual trader.	This may result in the contravention of laws for casual traders.	The system should have a provision to accept refund requests for casual traders.
6.	The system does not have a provision to generate a dealer wise report,	This may result in inefficient tax collection tracking as well as revenue	The system should be modified to include a provision of generating a report listing dealers to

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	detailing the tax due and the refunds payable by the department if any.	leakage.	whom refunds are due or by whom tax is payable.
7.	The 'Net refund amount' field accepts negative value in the refund request entry screen.	The data may not be complete, accurate, and usable.	The 'Net refund amount' field should be appropriately validated to ensure that negative values are not accepted.
8.	The threshold value for referring cases to Audit is not parameterized in the system.	Cases may not be appropriately referred for audit	The system should be modified to assist the definition of threshold values for refund amount.
9.	The system does not have a provision to generate notices about errors in refund claim (FN-01), rejection of entire refund claim (FN-02) and notice along with refund voucher (FN-03).	This may result in the notices not being issued in time resulting in a violation of law.	Generation of notices for refund processing should be automated in the system.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
10.	The system does not validate 'Period from' and 'Period to' with the date of dealer registration. System accepts invalid future date '01/01/9999' as 'Period from' and 'Period to' date.	This may result in incorrect processing of refund request.	The system should validate the 'Period from' and 'Period to' fields with date of dealer registration.

e) Treasury

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The system does not support the uploading of data or the reconciliation of data from the treasury/bank.	This may result in fictitious treasury payments being claimed by dealers.	The system should be modified to facilitate the automatic uploading of treasury data into the system. An automatic system generated reconciliation mechanism should be used to track treasury payments
2.	Unused Treasury Receipts (TR) are not tracked in the system	Unused treasury receipts may be misutilized.	The system should be modified to include the maintenance of a TR master to track unclaimed TR numbers.
3.	It is not possible to define details of new treasuries in the Treasury master maintained in the system.	Valid treasury receipts from new treasuries may be rejected. Minor matters such as addition of a new treasury etc., may require program changes.	The system should be modified to allow the maintenance of treasuries.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
4.	There is no validation between the main treasury and the district name fields.	Treasury information may not be accurate.	The main treasury field should be validated against the district name field.
5.	The reconciliation status against a request number can be changed any time by the user.	This feature may be misutilized. This may also potentially lead to losses.	The system should be modified to capture the cut off dates of the reconciliation A user should not be allowed to change the status of TR once the TR is generated.
6.	The COVIS application does not have a provision to track bounced cheques.	Tracking of collections may be affected. This may also result in potential losses.	The system should be modified to document the details of bounced cheques. This will help the department to track the status of the bounced cheques and also to initiate action against the concerned parties.

f) ICC

<i>Sl No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	<p>‘Bill quantity’ and ‘value of goods’ fields can be negative values in the entry / exit / transit entry forms.</p> <p>Further, the maximum size of the field has been set to 9 characters. Hence the maximum negative value that can be entered is -99999999</p>	Negative values may directly impact the collated information in the system. For instance the value of goods imported / exported from the state.	The fields should accept only values either equal to or greater than zero.
2.	There is no validation between the ‘GR date’ field and the current system date.	Old GRs (more than 1 year old) may be passed in the system in violation of law.	The system should not accept a ‘GR date’ which lies one year before the current system date.
3.	ICC data entry operator has access to sensitive reports.	Sensitive information may not be appropriately secured.	Transaction access to authority codes provided in the system should be made restrictive in nature.
4.	The system does not record multiple bills against a single vehicle number.	Lack of a provision to record multiple bills against a single	The system should be modified to enable recording of multiple bill against a single vehicle number.

<i>Sl No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
		<p>vehicle number may result in incomplete details being captured.</p> <p>This may also result in procedural delays and potential revenue loss to the department.</p>	
5.	The Taxation Inspector (TI) can perform data entry operation and can approve the same transaction.	Lack of controls over segregation of duties can lead to unauthorized transactions being entered and approved by TI.	Appropriate maker checker controls should be built into the system.
6.	The system cannot track the trucks which have entered the state, but have not exited the state.	This may result in procedural delays and potential revenue loss to the department.	The system should be modified to incorporate a provision to track the trucks which have entered the state but have not exited the state.
7.	<p>We observed the following w.r.t the detention and disposal process:</p> <p>An AETC of a district cannot view</p>	Information about vehicle detention may not be available in time. This may result in funds being misappropriated, and culminate into	The system should be modified to implement the workflow for automatic transfer of detained cases from TI approval form to detention and disposal form. Information about the dealers should be

<i>Sl No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<p>information about detained vehicles from his / her district.</p> <p>The detaining authority cannot record statement of owner of goods and details of documents presented by such person</p> <p>It is not possible to record the imposition of penalty by any authority in the state to whom a case may be referred.</p> <p>There is no provision for recording the penalties and sureties accepted at ICC.</p>	<p>revenue losses.</p> <p>Further transactions of a dealer whose vehicle has been detained may be passed without a closer scrutiny.</p>	<p>available to the AETC of the concerned district.</p>

<i>Sl No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<p>There is no provision to record information pertaining to disposal of detained goods.</p> <p>There is no provision to record information pertaining to sale of detained goods.</p> <p>There is no provision to maintain a daily cash register.</p> <p>The detention and disposal process was not linked with TI approval process at ICC. Detention cases were not automatically transferred to detention and disposal workflow in the system.</p>		

g) Forms Inventory Management

<i>Sr No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The 'number of forms' field is not properly validated and accepts negative values in the 'Forms issue' form.	Negative values may adversely impact inventory computation	The 'number of forms' field should be appropriately validated to ensure that negative values are not accepted.
2.	The system does not have a provision to capture the serial number of the forms.	Forms may not be tracked in the system. This may also result in forms, which are in the custody of dealers, whose certificates have been cancelled, being used by other dealers.	The system should be modified to capture the serial numbers of forms issued.
3.	The following fields in the 'forms issue' form accepts negative values for the following:	Negative values may adversely affect series information.	These fields should be appropriately validated to ensure that only positive values are accepted.

<i>Sr No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<ul style="list-style-type: none"> ▪ Series ▪ Series No (from) ▪ Series No (to) 		
4.	The system allows the modification of forms 'Cancelled (By Districts)' field.	<p>This may affect the integrity and usability of the forms inventory data.</p> <p>This may further result in a mismatch between the physical stock of forms with the District and the corresponding stock values as reported by the system.</p>	The forms 'Cancelled (By Districts)' field should be non editable by the user.
5.	The form for capturing the movement of forms from District to Ward was not functional.	Stock values for movement of forms from Districts to wards may not be captured.	The system should capture movement of forms from districts to wards.

h) Entertainment

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The system does not have a provision to accept the type of organization for registration under the Entertainment Act. (Company, partnership firm, etc).	This may result in incomplete details being entered for the dealer.	The system should be modified to capture the details of the type of organization.
2.	The system does not have a provision to record the details of multiple partners at the time of entering a form for registration under the Entertainment Act.	This may result in incomplete details being entered for the dealer. This may further result in notices and other correspondences having incomplete details.	The system should be modified to capture the details of multiple partners.
3.	The system does not have a provision to record the details of the head of the organization (Managing director, Karta, head trustee, etc) at the time of	This may result in incomplete details being entered for the dealer. This may further result in notices and	The system should be modified to capture the details of the head of the organization.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	registration under the Entertainment Act.	other correspondences having incomplete details.	
4.	The 'number of shows' field accepts negative values at the time of entering the particulars of an organization under the Entertainment Act.	Negative values may be used to circumvent the provisions of the Act. This may also result in the inaccurate computation of entertainment tax.	The 'number of shows' field should be appropriately validated to ensure that negative values are not accepted.
5.	The system displayed an incorrect list of values for the section under which the user is to be registered. An invalid value 'A' was displayed instead of the statutory values of '3' and '3A'.	This may result in the registration of the dealer under the incorrect sections of the act. This may further result in the incorrect computation of tax	The list of values should only display the valid values of '3' and '3A'.

i) Public Account Committee

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The 'revenue involved' field accepts negative values at the time of Audit report entry.	Negative values may be used to circumvent the provisions of the Act. These may also result in potential loss of revenues for the department.	The 'revenue involved' field should be appropriately validated to ensure that negative values are not accepted.
2.	There is no validation between the report date and the current financial period.	This may result in the reports being classified under a wrong period.	The system should not accept a report for a period beyond the current financial period.
3.	There is no validation between the 'replied on' field and the current system date at the time of entry of responses to reports. Further, the system accepts a 'replied on' value which lies beyond the current system date.	It may be possible to future date or backdate responses.	System should not accept a 'replied on' value which lies beyond the current system date.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
4.	There is no validation between the 'report year' field and the current system date.	This may result in reports being wrongly put up for responses.	System should not accept a 'report year' value which lies beyond the current system date

j) Casual Trader Management

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/Implication</i>	<i>Recommendation</i>
1.	The name and address fields are not mandatory for the completion of an application request for casual dealer registration.	This may result in incomplete details being entered in contravention of law which would affect the integrity and usability of the data. This may also result in procedural delays.	The system should be modified to enforce the mandatory dealer name and address fields.
2.	A deficiency memo generated by the application does not mention the nature of the deficiency even where none of the 'mandatory document' check boxes are checked.	This may result in incomplete deficiency notices being issued to dealers. This may also result in a violation of law.	The system should be modified to ensure that the deficiency memo states the list of all the mandatory documents not submitted by the dealer.
3.	The TR No field is not mandatory and	This may result in duplicate claims	The system should be modified to make the 'TR No'

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/Implication</i>	<i>Recommendation</i>
	<p>accepts fictitious values at the time of entry of treasury payment receipts for casual traders.</p>	<p>being made by dealers, and may culminate into potential losses.</p> <p>This may further result in reconciliation of TR receipts displaying items with blank TR numbers as ‘not reconciled’.</p>	<p>field mandatory.</p>
<p>4.</p>	<p>The following fields are not mandatory for the generation of a temporary permission certificate.</p> <ul style="list-style-type: none"> • Security Determined • Date of Commencement • Period of event from • Security Details (Name of person liable to pay tax / Amount) 	<p>This may result in a violation of law.</p>	<p>The system should be modified to make the aforementioned fields mandatory.</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/Implication</i>	<i>Recommendation</i>
5.	The 'head office' field could be modified and the record updated in the system after the temporary permission number had been generated.	This may result in fraudulent modification of dealer data for tax evasion etc.	The system should not permit the modification of fields after the form is saved and the temporary permission number is generated.
6.	<p>The system generated a blank VAT-11 (Final Permission Certificate) form against a temporary permission certificate during the generation of which the following fields had been left empty:</p> <ul style="list-style-type: none"> • Security Determined • Date of Commencement • Period of event from • Security Details (Name of person liable to pay tax / Amount) 	This may result in a contravention of the statute.	System should be modified to make the aforementioned fields mandatory.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/Implication</i>	<i>Recommendation</i>
7.	There is no validation between the 'Date of Commencement' and the 'Period of Event From' fields in the casual trader request entry form.	<p>This may result in registrations being granted to dealer for a period exceeding that required by a casual trader.</p> <p>This may also result in a loss of revenue as the casual trader is not required to file the quarterly returns as required in the case of registered and taxable dealers.</p>	<p>The 'Date of Commencement' field should be validated against the 'Period of Event From' field.</p> <p>The System on detecting a request for a period greater than six months should either not accept the form or accept the form with an "error" flag.</p>
8.	The system does not display the values captured at the front window at the time of detailed data entry of a casual trader request.	This may also lead to the unauthorized modification of data.	The system should automatically display the data captured at previous stages and the fields should be non-editable.
9.	The system generated a receipt number without the payment details being entered.	This may result in a loss of revenue	The system should be modified to make the payment fields mandatory.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk/Implication</i>	<i>Recommendation</i>
10.	The receipt no / date field in the casual trader return entry does not accept the acknowledgement number and the list of values displayed the error “LOV contains no data”	This may result in an inability to record the tax payment by casual traders in the system. This may also result in a loss of efficiency / time.	The system should be modified to be able to accept tax payment details of casual traders.
11.	The system does not have a provision to record the particulars of the event period extension / new outlet. We further observed that the form had no mandatory documents specified.	This may result in incomplete details being entered which would affect the integrity and usability of the data. This may also result in event period extension / new outlet requests not being tracked in time leading to revenue leakage.	The system should have a provision to capture the relevant details. The extension screen should be modified to define the mandatory documents and should not accept the system with incomplete details.

k) Audits

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	There is no validation between the 'Panel Head,' 'Team Members', 'Designation' fields and the employee master in the Panel creation form.	This may result in an inappropriate panel being created. This may also lead to access rights being incorrectly attached to fictitious user ID(s).	The 'Panel Head', 'Team Members' and the 'Designation' fields should be validated against the employee master.
2.	There is no validation between the 'From Date' and the 'To Date' Field while searching for audit cases.	It may not be possible to specify the search period.	The 'From Date' should be less than the 'To Date' Field.
3.	The system does not display the ICC details for the TIN selected.	ICC information may not be available for conducting an audit. This may result in procedural delays.	The system should be modified to display the ICC details for the TIN selected.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
4.	The system does not permit signing of cases after updating the status of an audit.	It may not be possible to assign accountability for user actions.	The system should be modified to permit the signing of audit cases.
5.	The system incorrectly displays approved audit cases as pending in the Audits Monitoring function.	This may result in procedural delays.	The system should be modified to display only the pending cases.
6.	The system does not enforce the filling up of the 'Audit Panel Members' field.	This may result in the audit panel not being finalized in the system prior to commencement of the audit.	The system should be modified to make 'Audit Panel Members' field mandatory.
7.	There is no validation between the audit period dates and the assigned audit panel dates.	It may be possible to assign an audit panel at a back or future date	The audit period dates should be validated with the assigned audit panel dates.
8.	A user can select pending cases not yet approved for audit and refer the same for investigation.	This may result in incorrect cases being selected for audit.	The system should be modified to accept only approved cases for framing of audits.
9.	The system does not have a provision	Notices may not be issued in time,	The system should be modified to support the

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	for generating a notice based on the outcome of an audit.	or issued at all. This may lead to a violation of law.	generation of a notice based on the outcome of an audit.
10.	The system does not validate search criteria fields. System accepts negative values in search criteria fields (Key fields such as Turnover, VAT, etc).	This can result in inconsistent search results.	The system should validate search fields criteria to accept only positive values.
11.	The system does not validate 'Investigation from' and 'Investigation to' field. System accepted 'Investigation from' field as '01/01/1955' and 'Investigation to' field as '01/01/2098'.	It may not be possible to specify the period for conducting an investigation.	The system should validate dates to accept only valid values.

l) Investigation

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The system does not have a provision to generate an investigation result notice.	This may result in delays in initiating investigation procedures.	The system should be modified to provide for the generation of investigation result notice.
2.	The system does not correctly process manually selected audit cases for the initiation of investigation procedures.	This may result in delays in initiating investigation procedures.	The system should be modified to provide for the framing of investigation for manually selected audit cases.

m) Determination of Disputed Questions

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	The system has no provision to record the details of a disputed query.	This may result in delays in the determination of disputed questions due to the receipt of insufficient information.	The system should be modified to include the provision of recording the details of the disputed query.
2.	The mandatory documents for submitting a disputed query at the front window were not specified in the relevant fields.	Incomplete requests may be accepted in violation of law. This may result in delays in the determination of disputed questions due to the receipt of insufficient documentation.	The system should be modified to define the mandatory documents and should not accept an application with incomplete details.
3.	Even though the process of determination of disputed questions does not involve the payment of any	It may not be possible to save requests on disputed questions. The users may not know how to react to the system	The system should be modified to remove the requirement of filling up the fees fields.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	application fee under the applicable laws, the system enforced the filling up of the fees fields (Treasury / TR Date / TR Amount).	response resulting in reduced efficiency, and wastage of time.	
4.	The query field details can be modified after the query number has been generated.	It may be possible to alter the details after processing the transaction.	The system should be modified to ensure that after a record is committed to the system the field values cannot be modified.

n) Rectification of Mistakes (U/S 29 and U/S 66)

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
1.	<p>The correct dealer type details captured at the time of dealer registration were not displayed on selecting a request number from the list of values in the front window.</p> <p>The value 'VO' is displayed as the only dealer type option in the list of values.</p>	This may lead to a display of incorrect data and may also lead to procedural delays.	The system should be modified to display the dealer details as recorded in the dealer master.
2.	The system does not display a list of values for the order number field at the time of entry of a request for rectification of mistakes.	This may lead to incorrect data being entered in the system affecting future proceedings.	The system should be modified include the provision of displaying a list of values for the order number field.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
	<p>There was no validation between the order number field and the master table of order numbers.</p> <p>The system accepted arbitrary order numbers including alpha-numeric and negative numbers in the order number field.</p>		
3.	The system does not enforce the filling up of the 'Rectification Under Section' field at the time of rectification entry.	This may result in incomplete details being entered which would affect the integrity and usability of the data.	The system should be modified to make the 'Rectification Under Section' field mandatory.
4.	The system does not generate an order of rejection (IN-01) if the request is received after three years from the date of issue the order.	This may result in the violation of the applicable laws.	<p>The request date for the rectification of mistakes should be validated against the date of issue of the order.</p> <p>The system should not accept a request for the</p>

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
			rectification of mistakes beyond the statutory period of three years from the date of issue of the order and should issue a rejection notice (IN-01).
5.	On entering the 'Order No' the 'Order Date' and 'Order Type' fields were not automatically displayed from the records captured at the point of generation of the order number.	Non validated data can be entered affecting data integrity and usability.	The system should be modified to ensure that the 'Order No', 'Order Date' and 'Order Type' fields are master driven.
6.	The system does not have a provision to issue Notice IN-02 to dealers for changes required in the forms and supporting documents.	This may result in key notices not being issued in time resulting in delays in the process of rectification of mistakes. This may result in incomplete details being maintained in the system as the record of manually generated notices	The system should be modified to include a provision of generating Notice IN-02.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
		would not be recorded in the system.	
7.	The system accepted negative values in the 'Rectified Amount' field.	Negative figures may be used to incorrectly alter the data in the system. This can also result in a potential loss of revenue.	The system should be modified to ensure that only positive values are accepted by the 'Rectified Amount' field.
8.	The system generated a blank notice for the rectification request.	The system may not have been appropriately tested and this may result in delays in the notices not being issued in time resulting in procedural delays.	The system should be rectified to support the generation of notices reliably.
9.	The system does not have a provision to issue a notice to person affording opportunity of hearing incase of enhancement of tax liability payable or tax refundable in the rectification order.	A notice may not be issued to persons in time resulting in a violation of laws.	Generation of notice should be automated in the system.

<i>Sr. No.</i>	<i>Observation</i>	<i>Risk / Implication</i>	<i>Recommendation</i>
10.	'Order number' field is not validated with order master. The system accepts order number as negative value.	This may result in inaccurate details being entered which would affect the integrity and usability of the data.	The 'Order number' field should be validated and only accept valid values greater than zero.
11.	The 'order date' field is not validated. The system accepted '01/01/1950' as 'order date'.	This can result in rectification orders being passed in violation of law (beyond the stipulated time frame)	The order number field should be validated with order master.

o) Masters

<i>Sr. No</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
1.	The system permits the addition of a district code under a suspended divisional office code.	This may result in incorrect information being entered into the system.	The system should not allow the creation of district codes under suspended division codes.
2.	The system permits the addition of ICC records under a suspended district code.	This may result in information being entered under a non existent ICC.	The system should not allow the creation of ICC records under suspended division codes.
3.	The mandatory fields are not displayed in the form.	This may lead to the non creation of new ICC codes. This may also affect the operations of the department.	The system should be modified to ensure that mandatory fields are appropriately displayed.
4.	The Administrator can add new authority codes to approve existing business processes.	This may result in unauthorized access to the critical and confidential data of the department.	The system should be modified to include secondary approval for all the changes to the authority codes.

<i>Sr. No</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
	The level two authority code can be lower than the level one authority code.	This may result in the approval of transactions by personnel not higher than those authorized to approve the transactions.	All changes to the authorities should be logged and such logs should be reviewed on a periodic basis.
5.	The system does not permit the creation of a new penalty code.	This may lead to a delay in administering penalty processes, and consequently a violation of law.	The system should be modified to permit the creation of new penalty codes. All changes to the penalty codes should be logged and such logs should be reviewed on a periodic basis.
6.	The system accepted VAT rates which were not defined in Punjab VAT Act.	This may be a violation of the applicable laws. This may result in the Administrator creating a VAT rate for a commodity not defined in Punjab VAT Act.	The VAT rates should be master driven.

<i>Sr. No</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
		This may result in the incorrect computation of VAT.	
7.	The Administrator can create duplicate authority codes.	This may result in unauthorized access to the critical and confidential data of the department. These authority codes may be used to commit economic offences.	The system should be modified to include secondary approval for all the changes to the authority codes. All changes to the authorities should be logged and such logs should be reviewed on a periodic basis.
8.	The TOT and VAT threshold fields accepted negative values.	This may lead to a violation of applicable laws. Non validated data can be entered affecting data integrity and usability.	The system should be modified to ensure that only positive values are accepted in the VAT and TOT fields.

<i>Sr. No</i>	<i>Observation</i>	<i>Risk/ Implication</i>	<i>Recommendation</i>
		<p>This may result in incorrect notices being sent to dealers for registration.</p>	

V. Disclaimer

Our report is based on the copies of the documentation, the system (current as of July 31, 2006), and other clarifications and information provided to E&Y by ETTSA, or by the Software Vendor for COVIS at ETTSA's behest. This review is limited only to the controls and security of the implemented modules of the COVIS application, as made available to us and to no other application, document or part or excerpt thereof that might have been either mentioned in this report or referred to in the course of this review, unless the same has been explicitly stated to have been included as part of this review.

The approach for carrying out this review has been described earlier in this report (in section III). We have taken reasonable care in carrying out this review, and have highlighted all significant issues that have come to our notice during the course of our review, which might have undergone changes since then.

This review is a one-time activity. The scope as documented in the section II above does not provide for reconfirmation of the changes made to the system based on the recommendations given by Ernst & Young, or any other changes whatsoever. Hence no obligation is assumed to revise this report to reflect these or any other changes, which occur subsequent to the date of completion of the review i.e. 31 August 2006.

This report is solely for the information of ETTSA only, and should not be used, circulated, quoted or otherwise referred to for any other purpose, nor included or referred to in whole or in part in any document without our prior written consent.

VI. Glossary

Term / Abbreviation	Description
ETTSA	Excise and Taxation Technical Services Agency
COVIS	Computerized VAT Information System
ICC	Information Collection Center
VAT	Value Added Tax
TOT	Turnover Tax
LOV	List of Values
SRS	Software Requirements Specifications
HLD	High Level Design
CST	Central Sales Tax
RC	Registration Certificate
TIN	Tax Identification Number
TI	Taxation Inspector
ETO	Excise and Taxation Officer
AETC	Assistant Excise and Taxation Commissioner
DETC	Deputy Excise and Taxation Commissioner
ETC	Excise and Taxation Commissioner
DD	Demand Draft