



M/s. Modi Realty (Miryalaguda) LLP

GST Review Report – Jul'17 to Mar'18



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Background of M/s. Modi Realty LLP

- We understand that M/s. Modi Realty LLP (hereinafter referred as the “auditee”) is a limited liability partnership firm engaged in the business of construction of villas.
- It is seen that presently auditee has only one ongoing project “AVR Gulmohar Homes” which has 91 villas construction.
- Our review covers the following revenue sources of the auditee -
 - ❖ Sale of residential Villas
 - ❖ Interest on Fixed deposit
 - ❖ Rental Income

Scope of service

The scope of the assignment is as per the offer sent to you and confirmation received, which is as follows:

- Test check of books of accounts and other GST records for checking the compliance, reporting the deviation in the system and transactional errors.
- Suggestion on areas of weaknesses; [Verification will be conducted on the sample basis].
- Verification of various streams of income by scrutiny of Books of Accounts and ascertaining the taxability under GST
- Review of documentation and reconciliation etc. Suggesting the modifications required in accounting.
- Review of disclosure in returns.

Acknowledgement

- We acknowledge the support extended by the staff of the auditee:
- Accounting department
 - Customer Relationship Management
 - Purchase department
- for cooperating in providing the data and explanations required by us.

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Segments of report

The points arising out of the review are discussed under the following segments –

1. **List of abbreviations-** This segment covers the list of abbreviations and their extended words used in the report;
2. **Executive summary-** This segment covers a summary of issues, which have high risk and is aimed for the top management of the company.
3. **Return filing status-** This segment gives brief idea about the GST returns filed by the auditee;
4. **Conceptual report-** This segment covers aspects relating to the legal position as prevailing under law that should be noted by the company.
5. **Systems report-** This segment contains the points pertaining to areas where weaknesses were observed in terms of internal control, some of which may have ramifications on legal compliance in future if not complied.
6. **Transactional report-** This segment contains the specific transactions noted by us which may have impact in the long run if not complied with.
7. **Key assumptions and limitations of the review** - This segment list out the assumptions and limitations which are observed during the review.
8. **Annexure to the report** - In this segment, annexure to the points discussed under aforesaid heads are provided. Unless otherwise mentioned, the instances given in the annexure are illustrative only as the audit was based on test check. The same are given in the ***“MR_Annexure_Jul’17 to Mar’18_ESH”*** attached.

1. List of abbreviations

Abbreviation	Meaning
Auditee	Vista Homes
GST	Goods and Services Tax
CGST	Central GST
SGST	State GST
IGST	Integrated GST
RCM	Reverse Charge Mechanism
WDV	Written down value
w.r.t	With respect to
URD	Unregistered dealer

Abbreviation	Meaning
GSTIN	GST Identification Number
ITC	Input Tax Credit
BOA	Books of Accounts
Ref.	Reference
OC	Occupancy Certificate
Approx.	Approximately
AOS	Agreement of sale
TOS	Time of Supply
GSTR	GST Return

2. Executive summary

2.1 Risk Compliance (Based on quantification)

Observation	Risk	Ref.	Amount(in Rs./-)
Consideration of land value as 50% of the total consideration in AOS is liable to GST	High	4.1	Not quantified
Service tax needs to be paid on the construction services provided to landowners under JDA	High	4.2	Not quantified
Short payment of GST under RCM w.r.t. URD procurements	High	4.4	Rs.2,23,523/-
GST missed to be paid on few rental receipts	Medium	4.3	Rs.12,237/-

2. Executive summary

2.2 Value addition

Observation	Ref.	Amount (in Rs./-)
Suggestions for improvements to be made w.r.t accounting and other procedural aspects of system	5.15	No quantification

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3. Return status

During the course of our review we observed that the auditee has filed all the returns under GST both GSTR 3B and GSTR 1 within the due dates except for few. We suggest to file returns under due date to avoid payment of interest.

Following are the returns which were filed after the due date. *(Refer annexure "Return status" for details)*

Month	Type of return	Due date	Date of Filing	Delay
August'17	GSTR-3B	20-Sep-17	14-Oct-17	-24
September'17	GSTR-3B	20-Oct-17	28-Oct-17	-8
October'17	GSTR-3B	20-Nov-17	12-Dec-17	-22
November'17	GSTR-3B	20-Dec-17	22-Dec-17	-2
December'17	GSTR-1	10-Feb-18	12-Feb-18	-2
January'18	GSTR-1	10-Mar-18	13-Mar-18	-3
February'18	GSTR-3B	20-Mar-18	21-Mar-18	-1



4. CONCEPTUAL REPORT

4.1 Consideration of land value as 50% of the total consideration in AOS is liable to GST

Area	Description
Observation	It was noted that auditee has entered into AOS for the entire consideration. After receiving 50% of the consideration, auditee will enter into sale deed and for the remaining 50% of the value, construction agreement will be entered. GST is paid only on the agreement of construction value ie., on 50% of the value @18%. On the remaining 50% of the value, no GST is being paid.
Provisions under GST	As per Entry no. 5(b) of Schedule II of CGST Act, 2017, construction of a complex, building, civil structure or a part thereof is treated as supply of service.
Impact	As initially, AOS is entered for the villa without the bifurcation of land and construction, GST will be liable to be paid on the entire value of AOS and not only on the construction services.
Recommendations	It is suggested to the auditee, to discharge GST on the balance 50% of the value.

4.2 Service tax needs to be paid on the construction services provided to landowners under JDA

Area	Description
Observation	Auditee has entered into a Joint Development Agreement (JDA) on 23 rd December 2016 with 3 landowners. As per JDA, the landowners are entitled to 35% of the built up area and the developer is eligible for the 65% of the built up area. Auditee has also demarked the villas to landowner allocated the villas to
Provisions under GST	As per Sec. 142(11)(b) of CGST Act, 2017, the services which are provided in ST regime, then ST shall be paid on the same.
Impact	As the JDA, demarking the villas to the landowner was entered in ST regime, then service tax shall be paid on the same.
Recommendation	It is suggested to discharge ST on the same at the applicable rates and value at the earliest.

4.3 GST missed to be paid on rental receipts

Area	Description
Observation	Auditee is in practice of collecting rent from sub-contractors. It is noted that the auditee has not discharged GST on same.
Provisions under GST	The said transaction satisfies the definition of supply and GST is attracted as per section 7 of CGST Act'2017.
Impact	Total amount involved in such scenario amounts to Rs.80,220/- and probable GST is Rs.12,237/- . <i>(Refer annexure "Rental_GST missed" for details)</i>
Recommendations	We suggest the auditee to discharge the same at the earliest along with interest @18% in order to avoid unnecessary discrepancies in this regard.

4.4 Short payment of GST under RCM w.r.t. URD procurements

Area	Description
Observation	GST under RCM is discharged only on the Unregistered inward supplies till August' 2017.
Provisions under GST	As per Sec 9(4) of the CGST act,2017, up to 12th Oct'17 GST shall be payable under RCM for the supplies received from unregistered persons irrespective of the quantum of transaction. Exemption has been provided only for the cases where total amount of procurements in a day are less than Rs. 5,000/-.
Impact	This lead to short payment of GST under RCM. The probable amount of GST to be discharged is Rs.2,23,523/- -(Refer annexure " RCM_URD " for details)
Recommendation	Discharge GST on all the supplies received from the unregistered persons at the earliest along with the interest. Further, as the due date of Sep'18 return has elapsed, the same cannot be availed as credit.

4.5 GST needs to be paid on the amount recovered from employees

Area	Impact/Recommendation
Observation	It was observed that the auditee is collecting some amount from the employees as insurance
Provisions under GST	As per Sec.7 of CGST Act,2017 Supply includes all forms of goods or services or both such as sale, barter, exchange license, rental etc., made or agreed to be made for a consideration by a person in the course or furtherance of business
Impact	Resulted in non payment of taxes. Total of the amount recovered is Rs.72,316/- GST on the same amounts to Rs.11,031/- -(Refer Annexure “ Other Insurance ” for details)
Recommendations	We suggest the auditee to pay GST on the amount collected from the employees along with interest at the earliest.

4.6 Interest needs to be paid for delayed payment of taxes

Area	Description
Observation	(i) Auditee in few cases has not filed the returns within due date. (ii) No interest is being discharged for delay in payment of tax.
Provisions under GST	Interest shall be paid @ 18% on the gross liability for delay in payment of tax
Impact	(i) The amount of Interest to be discharged by the auditee is amounting to Rs.977/- (Refer annexure “Interest payable for delay” for details) (ii) Penalty may also be demanded by the department.
Recommendations	Discharge interest at the earliest.



5.SYSTEMS REPORT

5.1 Various reconciliations to be maintained

- As per Sec 35(5) of CGST act, 2017, auditee is liable to get their BOA audited and get the certification done in GSTR-9C.
- It was observed there are differences between, BOA and returns and also among diff. returns of the auditee.
- Hence, we suggest the auditee to reconcile BOA and returns to avoid adverse remarks in GSTR-9C.

Sl.no	Differences
1	GST payable as per BOA and GSTR-3B, Excess disclosure of Rs.4,73,070/- for the period Jul'17-Mar'18. <i>(Refer annexure "BOA vs Returns - Payable" for details)</i>
2	ITC as per BOA and GSTR-3B, Excess disclosure of Rs.37,126/- in GSTR-3B for the period Jul'17-Mar'18. <i>(Refer annexure "BOA vs Returns – Credit" for details)</i>
3	ITC availed as per GSTR-2A and GSTR-3B. Excess availment for the review period is Rs. 1,96,307/- . <i>(Refer annexure GSTR-2A and GSTR-3B Comparison for details)</i>
4	Closing balance of credit as per BOA and Electronic credit ledger in the returns. Excess credit balance in the BOA is Rs. 11,69,908/- (Refer Annexure " BOA vs Returns – Credit" for details)

5.2 Discrepancies in filing returns

Sl.No	Observation	Recommendation
1	Documents issued is not disclosed in the returns	We suggest the auditee to disclose the documents issued during the month in the GSTR-1
2	Exempted income like bank interest is not disclosed in the returns	Must be disclosed in (a) Table-3 of GSTR-3B (b) Table- 8 of GSTR-1
3	HSN summary is not disclosed in the returns	We suggest the auditee to update the HSN summary in the GSTR-1
4	Non-GST inward supply, exempt inward supply and composition and NIL rated inward are not disclosed in the returns	Must be disclosed in Table 5 of GSTR-3B

5.3 Documentation

Sl.No	Observation / Suggestion	Impact/Recommendation
(a)	Receipt vouchers to be issued for advances received. [Ref. Sec 31(2) read with Rule 50]	We suggest the auditee to raise receipt voucher for advances in accordance with rules specified. <i>(Refer annexure "Receipt Voucher_Format" for details)</i>
(b)	Separate file needs to be maintained for the output invoices raised	It was observed that the auditee is maintaining any physical copies of the invoices issued to the customers. We suggest the auditee to file the invoices issued in a separate file.
(c)	GST invoice needs to be issued in duplicate	It was observed that the auditee is generating only one invoice for issuing to the customer. We suggest the auditee to generate the invoice in duplicate and issue the original invoice to the customer and the duplicate invoice needs to be filed for our reference

5.4 Sites to be added as additional place of business

Area	Description
Observation	Presently, auditee has multiple premises in state but it is noted that only one of them is registered as principal place of business and rest are not registered under GST.
Provisions under GST	Section 2(85) of CGST Act'2017, defines place of business and which includes the place where business is ordinarily carried on.
Impact	Non compliance of the same may attract a general penalty of Rs. 25,000/- .
Recommendations	We suggest the auditee amend the registration w.r.t place of business and add all sites under additional place of business to avoid departmental intervention in this regard.

5.5 Self Invoice needs to be raised for the supplies received under RCM

Area	Impact/Recommendation
Observation	There is no self invoice raised for the supplies received from unregistered person on which GST is liable to be paid under RCM
Provisions under GST	A registered person receiving supplies from a unregistered person in terms of Section 9(3) or 9(4) of CGST Act, shall issue a self invoice in respect of such supplies received
Impact	Auditee shall be liable to a penalty which may extend to Rs.25,000/- for not raising such self invoice.
Recommendations	It is suggested to the auditee to issue a self invoice for the supplies received by them.

5.6 Proper output invoices needs to be issued

Area	Description
Observation	Presently, auditee is issuing the invoices with some particulars missing such as address of the customer and HSN.
Provisions under GST	As per Rule 46 of CGST Rules,2017 Tax invoice issued should contain particulars such as GSTIN of auditee and supplier, address of auditee and supplier, HSN and so on <i>(Refer annexure “Invoice contents” for details)</i>
Impact	Non compliance of the same may attract a general penalty of Rs. 25,000/- .
Recommendations	We suggest the auditee to issue the invoice as per the rules.

5.7 Other compliances

Sl. No.	Observation/ Recommendation	Description
(a)	Data required for annual returns must be captured	The auditee is in the practice of capturing all the required data to file GSTR-1 and GSTR-3B. However, to file annual return some additional data is required, which is not captured by the auditee. Suggest the auditee to work on the same immediately for the period and , so <i>(Refer annexure “Annual returns” for details)</i>
(b)	Display of registration certificate at prominent place and GSTIN on the name board.	As per the provisions in this regard, every assessee shall showcase registration certificate and display GSTIN on the name board exhibited at every place of business. Non compliance of the same attracts penalty up to Rs.25,000/-. We suggest to comply the same at the earliest.

5.8 ITC utilization entries needs to be passed in the BOA

Area	Description
Observation	It was noted that auditee has utilized the ITC for discharging GST liability however, such utilization entries was not passed in the BOA for the month of July'17 to Mar'18.
GST Provision	-
Impact	Non-passing of utilisation and reversal entries leads to difference in ITC balance as per books and returns.
Recommendations	Therefore, we recommend the auditee to pass the ITC utilization month of July'17 to Mar'18 at the earliest.

5.9 Accounting issues – Improper voucher references

Area	Description
Observation	While verification of BOA, it is observed that auditee is not in practice of maintaining voucher numbers serially for the transactions entered. In discussion with the concerned person, it is noted that the same is not followed because back dated entries are being posted very often.
Provisions under GST	-
Impact	No track of transactions and also voucher numbers in BOA do not match with the vouchers attached to invoice copies. It will be difficult to locate the base documents relevant for an entry in the books of accounts.
Recommendations	We strongly suggest the auditee to maintain a track of all the transactions by following voucher numbers and also avoid entering back dated transactions to maintain BOA more accurately.

5.10 Suggestions on accounting

Sl.No	Recommendation	Description
(a)	Liability under reverse charge must be accounted transaction wise	It suggested to account for the RCM liability for each transaction, so as to have better control on the transactions considered/ignored for payment of GST under RCM.
(b)	Separate ledger needs to be maintained for the GST input and output	We suggest the auditee to maintain separate accounts for the GST input and GST output which would ease the understanding and work while performing reconciliations
(c)	Proper narrations to be maintained for all the transactions	In few cases, there are no narrations for accounting entries, and in few cases the narrations are not inline with the entry passed.
(d)	Separate ledgers needs to be maintained for the RCM input and output	It was observed that the auditee is maintaining only one ledger for the RCM input and output. We suggest the auditee to maintain separate ledger for both input and output.

5.10 Suggestions on accounting

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Sl.No	Recommendation	Description
(e)	Bill to Bill accounting needs to be done	We suggest the auditee to maintain Bill to Bill accounting which will be helpful for tracking the invoice for which payment will be made after 180 days
(f)	Separate ledger needs to be maintained for the procurements from composition dealers	We suggest the auditee to maintain separate ledger for the procurements from the composition dealers.

Sl.No	Recommendation	Description
(b)	Proper computations needs to be maintained	We suggest the auditee to have proper computations before filing the returns which will be helpful for the future references. There are computations which are improper and no clarity on how such amounts are arrived for filing the returns.
(c)	GSTIN of the creditors to be updated in Tally. Also the correctness of the same to be ensured	We have observed that the GSTINs of all the suppliers are not accounted in Tally. Further, few of the GSTINs updated were incorrect. It is pertinent to note that maintaining all these details in the accounting software will lead to the easy generation of GST reports useful for filing returns. Further GSTIN of all the vendors can be updated with a tool. <i>(Refer annexure "Invalid GSTIN's" for details)</i>

Sl.No	Recommendation	Description
(d)	Entries relating to RCM credit should be passed correctly.	It was observed that the RCM credit was availed in the same month when it is paid as per the returns where the same was not accounted accordingly in the BOA
(e)	Utilised credit should not be shown as asset	As the total credit of RCM has been already availed in the returns and no such RCM credit is left without utilizing it should not be shown in the BOA as asset. We suggest the auditee to pass utilization entry for the same.

5.12 Suggested changes in the system

Sl. No.	Observation/ Recommendation	Description
(b)	Changes required in GST workings	▪ In case of auditee, it is difficult to retrieve the source of GST workings and the adjustments made thereto.GST workings must be self explanatory with proper notes and links to the base file from where they are taken. ▪ A “Reconciliation statement” must be prepared for incomes and expenses at the end of every month. ▪ Expenses register capturing all the expenditure made by the auditee needs to be maintained in the format prescribed (<i>Refer annexure “Inward register” for details</i>)

5.12 Suggested changes in the system

...Contd.

Sl. No.	Observation/ Recommendation	Description
(b)	Proper maintenance of departmental correspondence file.	Auditee is not in practice of maintaining such file, it is suggested to maintain such file with a proper index and also document even the communications made through e-mails in such file.
(c)	MIS must include the information relating to GST	The MIS sent to top management must include the following data relating to GST ▪ GST liability, % of credit availed to total revenue ▪ Credit availed, % of credit availed to total expenses ▪ Tax paid in cash, % of total liability ▪ Date of filing returns, reasons for delay in filing return(if any) ▪ Interest and late fees discharged

5.12 Suggested changes in the system

...Contd.

Sl. No.	Observation/ Recommendation	Description
(d)	Appropriate training to be given to employees in order to comply with law	Upon discussion, we observed that the employees looking after compliance are not being trained at regular intervals. The training empowers the employees to comply with the law in a better manner. We suggest the auditee to take appropriate action in this regard.

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6.TRANSACTIONAL REPORT

6.1 Ineligible ITC needs to be reversed

Area	Description
Observation	It was observed that the auditee has availed ITC on the provisional expenditure created for audit fees.
Provisions under GST	As per Sec.16(2) of CGST Act,2017, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both h to him unless,-- (a) he is in possession of a tax invoice (b) he has received the goods or services or both.
Impact	Probable credit taken amounts to Rs.5,470/-
Recommendations	It is suggested to the auditee reverse the ITC availed along with interest.

6.2 Appropriate rate to be considered for payment of RCM

Area	Impact/Recommendation
Observation	During our audit it was observed that the auditee has paid RCM on all the unregistered procurements at the rate of 12%
Provisions under GST	As per Sec.9 of CGST Act,2017 Tax should be paid on the value determined as per Sec.15 of CGST Act,2017 at such rates as may be notified by the Government on the recommendations of the council
Impact	This has lead to payment of GST at the incorrect rate. We are unable to quantify the same as the detailed RCM workings are not given.
Recommendations	We suggest the auditee to pay the GST at the proper rates.

6.3 Other compliances

Sl. No.	Observation/ Recommendation	Description
(a)	ITC availed needs to be shown in the Table – 4A(5) of GSTR- 3B	▪ It was observed that the auditee has disclosed the ITC available in the Table – 4A(4) of the GSTR-3B in the month of December’17. Net ITC available needs to be disclosed in the Table – 4A(5) of GSTR- 3B. We suggest the auditee to have proper checks before filing the returns in order to avoid such mistakes in the near future.

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Key assumptions & limitations

GST compliance review has been conducted with following assumptions:

- Our review is based on CGST Act 2017, IGST Act 2017, SGST Act 2017 and CGST and IGST rules,2017 and other notifications, instructions and circulars issued under GST provisions.
- The limited review was carried out using the principles laid down by the Standards on Auditing issued by the Institute of Chartered Accountants of India from time to time
- Our review was carried out on the BOA (Tally) provided to us as on 31st oct'18.
- Our observations are subject to the records furnished, explanations and information given to us and certain limitations as set out in this report.
- As the GSTR-2 and GSTR-3 returns have been temporarily deferred, the audit review is carried out based on the GSTR-1 and GSTR-3B returns
- Input invoices are not provided to us for our verification hence we are not able to comment on the ITC eligibility on the same. ***(Refer Annexure “Invoices not provided” for details)***



For clarifications

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Note: Our report is based on documents, information and explanation provided to us in writing and also orally. No assurance is given that the revenue and statutory authorities/courts would concur with the view expressed herein. In view of our having opined based on the existing provisions of law and its interpretation, which are subject to change from time to time, we do not assume any responsibility to update the views consequent to such changes.