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The Advisor

Our e-magazine

Newsletter 6 November 2020

Contents

Chairman's desk :

Dear all,

This is the month of Diwali and I wish you all a Happy Diwali! May this Diwali brings you more prosperity and happiness.

In this issue I wish to write about Team Work. Only through Team Work you can achieve success in life. Team Work plays an important role in developing your professional career. Interaction with people at various levels, helps you in completing your task in a timely manner. One can climb the ladder of the organization only if one is capable of working as a Team. If you work alone, you are limiting your growth potential. In order to work as a team, you should be able to delegate your work properly and efficiently. Delegation of work is an art, which you can learn and become an expert by experience. Only through delegation, you can expand your skill and competence. You should be able to extract work from others with their full willingness and commitment. This requires lots of patience and also understanding the strength and weakness of each members in your team.

I remember a Hindi Film I saw recently. Its name was "Gold". It depicts the story of independent India acquiring gold medal in hockey at the Olympics held in 1948. The national selectors entrusted the task of identifying and selecting some 20 or so talented individuals to play hockey for the country. The coach travelled through out the length and breadth of the country and selected the best talents in hockey from different States. Each individual player is excellent in his own way. Cannot be beaten. Each one is very proud of himself. Before starting for the Olympic match, the coach asked them to appear at a specific place for training and practice for the ensuing match. All the players gathered at the place for formal practice.

The practice started. The coach observed each of the players. At their individual levels, they were all playing very well. But, if any error occurs, the players started blaming each other for their lapses. The coach observed then, that, there is a lack of team work. He decided to test them.

He placed 1000 bricks at one end of the stadium. He called the players and asked them to take the bricks and place it at the opposite end of the stadium. Players started taking brick in their hands and started running to the other end. Some took two in their hands, some three, according to their capacity. When all the bricks were placed at the opposite end, they looked at the coach as if the work has been accomplished. The coach asked them to repeat the task, by taking the bricks and placing at the other end. The players again started and did as was told. In the first two rounds, they were running and placing. The coach asked them to repeat the process again and again. By the third round, they started walking as tiredness started affecting them. The coach never relented and continued asking them to repeat. Once the players completely got exhausted, they started talking to each other and complained about the coach's behavior, saying that instead of asking them to play, he asking them to take bricks and place it to the other end, a useless exercise. Finally, it dawned on one player and he explained how it can be done differently. He asked each player to stand in queue so that the distance between each player is not much. One player will take two bricks and will hand over to the next player in the queue who will pass it on to the next, and the next and so on so that the last player in the queue can place it on the opposite end. This way, they never felt tired and not only that they started enjoying what they were doing. They started singing also. The coach became happy and asked them to stop and told them – "This is what Team Work can achieve".

Such is the power of team work. So, hereafter, take up each task understanding the significance of team work.

Regards,
Mahadevan

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I. AUDIT :

Standard on Quality Control (SQC) 1 :

Contd….

In the previous two issues we were discussing on the elements of a good System of Quality Control. We had completed discussing on :

1. Leadership responsibilities for quality within the firm;
2. Ethical Requirements; and
3. Acceptance and continuance of client relationships and specific engagements.

In this issue, we will have brief look at the following remaining elements :

4. Human Resources;
5. Engagement Performance; and
6. Monitoring.

Human Resources :

Every audit firm should have sufficient personnel with the required capabilities, competence and commitment to ethical principles to perform its engagements as per professional standards and regulatory / legal requirements. Therefore, the policies and procedures should cover the following issues :

a) Recruitment;
b) Performance Evaluation;
c) Capabilities;
d) Competence;
e) Career Development;
f) Promotion;
g) Compensation; and
h) Estimation of Personal Needs.

Capabilities and competence can be developed through a) Professional education; b) Continuous professional development, including training, and e) work experience.

The firm should make its personnel aware of the firm's expectations regarding performance and commitment towards ethical principles.

Assignment of Engagement Teams :

Delegation of work and assignment of responsibility is of the important factor in determining the audit quality of the firm. Policies and procedures should include systems to monitor the workload and availability of the engagement team so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

It should be ensured that the Engagement Team has :

1. An understanding of the nature and complexity of the engagement;
2. An understanding of professional standards and regulatory / legal requirements;
3. An understanding of appropriate technical knowledge;
4. The ability to apply professional judgment;

   etc.

Engagement Performance :

The firm should have written or electronic audit manuals, software tools or other forms of standardized documentation.

There has to be a system of good documentation as well as supervision.

Consultation :

The firm should have policies and procedures to ensure :

a) that appropriate consultation takes place on difficult or contentious matters;
b) that sufficient resources are available to do the above; and
c) that the nature and scope of such consultations as well as their opinions are sufficiently documented.

Differences of opinion :

The firm should establish policies and procedures for dealing with and resolving differences of opinion occurring at various levels. Conclusions reached should be well documented.

The report should not be issued until the matter is resolved.

Engagement Quality Control Review :

For appropriate audit engagements, the firm should establish policies and procedures, for engagement quality control review, especially for audit engagements of listed entities.

The said review to be completed before the report is issued.

Engagement Quality Control Review involves discussion with the engagement partner, a review of the financial statements, a review of selected working papers relating to significant judgments. It may be noted that the review does not reduce the responsibilities of the engagement partner.

[contd….] **SQC-I**

II. Internal Audit – Verification of Sales :

Sales and distribution is one of the most important revenue generating department in an organization. Internal Audit Team needs to understand and learn the existing nature and process of sales happening in the organization. Sales can be of bulk, consumer packing, whole-sale, retail, export, interstate, local, etc.

The sales verification process by the Internal Audit Team shall include :

a) Nature of products / services dealth with :

The team should thoroughly understand the nature of products dealth with – manufacturing, trading, packing materials, spares & consumables, assets, etc. In the case of a service industry – Jobworks, Installation, Repairs & Maintenance, Consultancy charges, professional services, etc.

b) Nature of sales / services :

Sales / services can be domestic / local, interstate, export, wholesale, retail, etc. Each type of sales – should be verified separately.

c) Pricing :

The most crucial area of verification of sales is the "pricing" – (ie) the price at which the products / services are sold. Pricing is normally worked out by the Costing department in an organization. The working of pricing to be verified to check whether the products are being sold under priced / over priced, taking into account all the fixed and variable cost components and a comparative analysis of competitive products in the market. The frequency of pricing the products should also be verified by the audit team. Another important point to be verified is to check how the 'pricing' data is being updated in the software, for generation of sales invoices. The updation of pricing data in software should not be carried out by the Sales Department, who are executing the sales invoices, in order to restrict the malpractices in sales invoices. Once the sales invoice are generated, revenue of an organization is fixed and therefore any malpractices in price updation, will result in revenue loss to the company. Any findings by the Internal Audit Team, with respect to "Pricing", should be reported immediately to the Management, so that corrective measures can be taken by them at the earliest, without much damage / loss in future. The Internal Audit Team should verify the pricing, price updation in software thoroughly and should not allow any room for revenue leakage to the organsation.

d) Schemes & Circulars :

The schemes and circulars, issued by the costing department / management with respect to the sales promotion, should be collected and documented by the audit team. The team should verify the schemes announced, and verify the advantages of the same, with respect to increasing the volume of the sales. They should ensure and see that the benefit of schemes announced are provided by way of 'Credit Notes/ ' or in sales invoices itself and routed through accounts of the respective debtors and cash payments are not carried out, to restrict malpractices. Internal Audit \Team should report to the management in case any of the schemes announced are ineffective with respect to the revenue generating perspective and suggestion may be given to improvise the schemes with respect to increasing sales.

e) Terms of delivery :

The terms of delivery (i.e.) Freight given in the sales invoice should be verified along with the relevant documents of transportation like lorry receipt, railway receipt, etc. and the terms of payment of delivery / freight. In case any deviation observed, the same shall be reported and any suggestion to improvise the freight terms including the cost element to be given by the Internal Audit Team, for the revenue generation of the organization.

f) Terms of payment :

The terms of payment provided in the sales invoice, should be verified by the Internal Audit Team, by correlating the amounts received from the respective debtors against the respective Invoices. Bill to bill assignment, shall be verified for proper ageing reports on debtors. Any deviation on payment terms shall be reported by the Internal Audit Team, for better decision making by the management.

g) Statutory Compliances :

The statutory compliances with respect to GST rates, accounting of sales returns and tax credits, shall be verified in detail, along with the GST returns filed and any mismatch / variance shall be reported by the Internal Audit Teams for proper and timely compliances and correction of errors if any observed and to avoid future penal consequences in this regard.

Internal Audit Report on verification of sales shall be detailed and prepared with facts and figures, in order to help the management in taking strategic decisions and to increase the revenue growth of the organization and restrict revenue leakages if any observed during audit.

Srikala Renjith

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III. CRITICAL AUDIT MATTERS

As defined by the PCAOB, a **critical audit matter** (CAM) is any matter that the auditor communicated or was required to communicate to the company's audit committee, and is related to items that are material to the company's financial statements, as well as items that involved challenging, subjective, or complex judgment.

The disclosure of CAMs, as required by **AS 3101**, became effective for large accelerated filers with fiscal years ending on or after June 30, 2019, and on or after December 15, 2020, for all other required companies.

That being said, we've been coming across more and more CAM disclosures. After analyzing these disclosures, it's clear that this section of the auditor's report will be an extremely useful tool for investors, shareholders, and analysts when reading through financial statements.

The standardized form of the audit report was developed in the 1940s to provide uniform language that would make audit reports more comparable. Historically, these audit reports follow a pass/fail model, because, as the PCAOB has **described**, "the auditor opines on whether the financial statements are fairly presented (pass) or not (fail)."

However, the work that goes into an audit is notoriously complex – more complex than a simple pass/fail model. The complexities of an audit may not be adequately represented using a standardized model for an audit report, as the finished product of an audit consists of an opinion that is typically only a few paragraphs in length. And those few paragraphs are often tucked away in lengthy annual financial statements, sometimes hundreds of pages in length.

Furthermore, audit opinions often consist of dense language with boilerplate disclosures, and the average investor or reader of financial statements without a CPA background or a familiarity with audits may not be able to easily derive meaning or understand the complexities of the audit.

Since CAMs are related to accounts or disclosures that are material to the financial statements, as well as areas of the audit that were particularly challenging for the auditor, those reading the financial statements will be provided clues – through the CAM disclosures – of what areas may need more scrutiny prior to making important decisions.

However, it is important to note that CAMs are only identified if the matter relates to accounts or disclosures that are material to the financial statements. There may be important matters that would not constitute CAMs because they are not related to material accounts or disclosures. As the PCAOB has **advised**:

CAMs are required to relate to accounts or disclosures that are material to the financial statements. Materiality is not solely based on quantitative factors; it also reflects qualitative factors.

This element of the CAM definition is grounded in the financial statement presentation and disclosures of the applicable financial reporting framework. Matters that meet the other elements of the CAM definition may or may not be CAMs, depending on whether they relate to accounts or disclosures that are material to the financial statements.

As an example of the usefulness of CAM disclosures, consider the example of Procter & Gamble [PG]. P&G recently filed their **annual report** containing CAMs, one of which was "**Goodwill and Intangible Assets – Shave Care Goodwill and Gillette Indefinite Lived Intangible Asset**". After reading the CAM in the annual report, an investor would be signalled to give additional attention to the company's goodwill and intangible assets – particularly as it relates to P&G's shave care.

This CAM is particularly notable, as a week prior to filing its annual report, P&G **disclosed** a large impairment charge of $8.0 billion ($8.3 billion before tax) to adjust carrying values of goodwill and trade name intangible assets in its Gillette Shave Care business.

Although the impairment was disclosed prior to the annual report in this case, CAMs will provide invaluable information; sharing important aspects of a company's financial statements, making it easier for investors to understand the whole picture.

Sruthi K - Article
M&S Palakkad

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CORPORATE LAW :

IV. CSR

India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to the Companies Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance.

Amid the COVID-19 (coronavirus) outbreak, the Ministry of Corporate Affairs has notified that companies' expenditure to fight the pandemic will be considered valid under CSR activities. Funds may be spent on various activities related to COVID-19 such as promotion of healthcare including preventive healthcare and sanitation, and disaster management. Follow the latest India COVID-19 updates here.

The amendment notified in the Companies Act, 2013 requires companies with a net worth of INR 5 billion (US$70 million) or more, or an annual turnover of INR 10 billion (US$140 million) or more, or net profit of INR 50 million (US$699,125) or more, to spend 2 percent of their average net profits of three years on CSR.

Prior to that, the CSR clause was voluntary for companies, though it was mandatory to disclose their CSR spending to shareholders. CSR includes but is not limited to the following:

- Projects related to activities specified in the Companies Act; or
- Projects related to activities taken by the company board as recommended by the CSR Committee, provided those activities cover items listed in the Companies Act.

Businesses must note that the expenses towards CSR are not eligible for deduction in the computation of taxable income. The government, however, is considering a re-evaluation of this provision, as well as other CSR provisions recently introduced under the Companies (Amendment) Act, 2019 ("the Act").

CSR amendments under the Companies (Amendment) Act, 2019

Until now, if a company was unable to fully spend its CSR funds in a given year, it could carry the amount forward and spend it in the next fiscal, in addition to the money allotted for that year.

The CSR amendments introduced under the Act now require companies to deposit the unspent CSR funds into a fund prescribed under Schedule VII of the Act within the end of the fiscal year. This amount must be utilized within three years from the date of transfer, failing which the fund must be deposited in to one of the specified funds.

Penalty for non-compliance of CSR provisions under Companies Act, 2013

There is no specific penal provision for non-compliance under **section 135** of the Act. However, there is risk exposure under two different provisions.

A. Section 134(3)(o)& Section 134(8)
(Non-disclosure or absence of the details about the CSR policy and its implementation in the Boards' report would attract penalties)

- Section 134(3)&(o): to disclose all the relevant information about its **CSR policy** and its implementation on an annual basis.
- Section 134(8): Penalties for not discharging the duty as mentioned above are:

  1. Fine, not less than fifty thousand rupees, may extend to twenty-five lakh rupees; and
  2. Every officer of the company in default shall be:

     √ punishable with imprisonment for a term which may extend to three years; or with fine which shall not be less than fifty thousand rupees but which may extend to five lakhs rupees, or with both.

The methodology of CSR

CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the following aspects of each business:

- Customers;
- Suppliers;
- Environment;
- Communities; and,
- Employees.

The most effective CSR plans ensure that while organizations comply with legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be sustainable – involving activities that an organization can uphold without negatively affecting their business goals.

Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes.

It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large.

Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs and set separate budgets to support them. Most of the time, these programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain.

Athira Article
M&S Palakkad

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V. NEWS :

I. Income-tax :

Faceless Assessment Scheme & Faceless Appeal Scheme :

Launched by the Central Government in August, 2020 and September, 2020 is definitely going to be a game changer in the way assessment are made and appeals are decided. Faceless assessment covers all assessment orders. Last year, we had e-assessments. Under the faceless assessment system, draft order is issued in one place, review is done at another place and finalization is in some other place. The notice will be issued by the National e-Assessment Centre.

However, in certain special cases, the assessments will be continued to be done by the jurisdictional assessing officer himself. For eg. where serious frauds are involved, or major tax evasions, or sensitive and search matters. It also include matter pertaining to International Taxation, Black Money Act and Benamy Law.

Personal hearing is allowed, but, only through video conferencing.

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II. Insurance claim for Loss of Stock in Transit :

Loss of stock in transit cannot be said to be supply of goods in the course of furtherance of business and the receipt of insurance claim cannot be said to be part of value of supply. Hence, the insurance claim for loss of stock-in-transit is not chargeable to GST. However, by virtue of Section 17 (5) (h) of the CGST Act, the ITC availed on the stock lost in transit has to be reversed.

[Source : Indirect Taxes Practice Journal : Vol. 95. No. 3 5th October, 2020]

VI. Save the Dates – NOVEMBER 2020

STATUTORY DATES	
INCOME TAX	
07/11/2020	Due date for E-payment of TDS deducted for October, 2020
GST	
11/11/2020	Taxpayers having an aggregate turnover of More than Rs. 1.50 Crores (> Rs 1.50 Cr) or opted to file Monthly Return of GSTR 1
20/11/2020	Taxpayers having an aggregate turnover of More than Rs. 5 Crores (> Rs 5 Cr) or opted to file Monthly Return of GSTR 3B
22/11/2020	Taxpayers having an aggregate turnover of upto 5 Crores or opted to file Monthly Return of GSTR 3B

VII. TEST YOUR SKILL :

1. Appointment of woman Directors is mandatory for following companies:

a. Listed Companies
b. Public Companies with PUC ≥ 10 Cr. or Turnover ≥ 300 Cr
c. Public Companies with PUC ≥ 100 Cr. or Turnover ≥ 300 Cr.
d. (a) or (c)

2. Casual Vacancy Director appointed under sec 161(4) shall hold office up to

a. Next AGM
b. Period of 5 years
c. Date up to which director in whose place he is appointed would have held office if had not been vacated
d. Tenure for which he has be appointed

3. Who shall mandatorily appoint Independent Directors?

a. Listed Public Company
b. Public Company having: PUC ≥ Rs. 10 Cr.; or Turnover ≥ Rs. 100 Cr.; or Outstanding Loans, Debentures & Deposits ≥ Rs. 50 Cr
c. (a) and (b)
d. None of the above

4. Mr. Hardik is Director of KP Limited, who has not filed the company annual return pertaining to the annual general meeting held in the calendar years 2016, 2017 and 2018. Is Mr. Hardik disqualified from acting as director?

a. Disqualified from continuing as Director in KP Ltd
b. Disqualified from being appointed as Director in companies other than KP Ltd for 5 years
c. Shall continue in defaulting company until default is made good and disqualified from being appointed as Director in companies other than KP Ltd for 5 years
d. None of the above

5. Bosch Ltd is a listed public company having PUC of 5 crores, turnover of 50 crore and aggregate borrowing and debt of 50 crores: .Will it be required to form a Nomination and Remuneration Committee?

a. Yes, as the PUC is above 1 crore
b. Yes, as the turnover is above 10 crores
c. Yes, as aggregate borrowings are equal to or exceed 50 crores
d. Yes as all listed public comp Nomination and Remunera

6. A Public Company having net worth ………… Or turnover…………are eligible to accept deposits from Public

a. Net worth ≥ Rs. 100 Cr. or Turnover ≥ Rs. 500 Cr.
b. Net worth ≥ Rs. 50 Cr. or Turnover ≥ Rs. 500 Cr.
c. Net worth ≥ Rs. 100 Cr. or Turnover ≥ Rs. 1000 Cr.
d. Net worth ≥ Rs. 50 Cr. or Tu

7. Anonymous donations received by a charitable trust is chargeable to tax at the rate of

a. 30%
b. 15%
c. 20%
d. 10%

8. A company accepting deposits shall deposit such sum which shall not be less than ………. % of the amount of its deposits maturing during a financial year and the financial year next following, and keep it in a scheduled bank in a separate bank account.

a. 10
b. 15
c. 20
d. 25

9. Internal audit is mandatory for every private company having-

a. Turnover of 200 crore /outstanding Loan & advance exc. 100 crore
b. PSC of 50 crore /Turnover of 100 crore /outstanding Loan& advance exc. 100 crore
c. PSC of 25 crore /Turnover of 100 crore /outstanding Loan& advance exc. 50 crore
d. PSC of 50 crore /Turnover of 100 crore /outstanding Loan& advance exc. 10 crore

10. CSR Committees of the Board shall consists of:

a. Directors forming 1 /3rd of the total number of directors
b. At least 2 directors
c. 3/more directors
d. 3/more directors, out of which at least 1 director shall be an Independent.

11. For making an IPO, the company should have minimum average pre-tax operating profit of Rs. ----------during 3 profitable years out of immediately preceding ---------- years.

a. Rs. 15 Cr. & 2 years
b. Rs. 10 Cr. & 4 years
c. 15 Cr. & 5 years
d. 20 Cr. & 5 years

12. Which form is filed by Trust to claim benefit of accumulation of 15%,before the due date of return of income.

a. Form29B
b. Form10
c. Form10A
d. Form10B

13. Taxpayer can apply in ………..to the Assessing Officer to give him a certificate authorizing the payer not to deduct tax or deduct tax at lower rate ,as may be appropriate .

a. Form No.13
b. Form.No.15
c. Form.No.15G
d. Form.No.27C

14. In the case of resident individuals or HUF, if the basic exemption is not fully exhausted by any other income, then such long-term capital gain exceeding 1 lakh will be reduced by the unexhausted basic exemption limit and only the balance would be taxed at 10%.

a. True
b. False

15. ''Equalisation Levy", provides for an equalisation levy of __________% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.

a. 5
b. 6
c. 7
d. 8

VIII. CROSSWORD PUZZLE

2							**4**	**5**	**6**	**7**
3										
	8			**11**	**12**					
10			**14**							
9		**13**				**15**	**16**			
17										
18										
19										

ACROSS

1. Expenditure on …………………… research is in the section 35.
2. Assessee is having stock existing in the business. Valuation of stock will be at cost or market price whichever is …………………
3. For computation of Gross Annual Value , if Actual rent is more than expected rent, then we select the ……………….. Rent.

10. The periodic payment of money for the past service is known as ……………..

17. The chair of GST council : …………………… finance minister.

18. Lease, tenancy , easement or license to occupy land is a supply of ……………………...

19. Any payment made outside India and TDS is not paid , then it is ……………...

Downward

4. An act of the parliament of India which sets out the rules and procedures regarding citizens right to know.
5. Form GST-EWB 04 is used for report of ……………………
6. …………….. includes any arrangement or understanding or action in concert whether or not its formal or in writing or whether or not it is intended to be enforceable by legal proceedings.
7. Payment made by an employer to employee monthly other than salary is called…………...
8. ……………………. Of income tax is defined as per section 87A.
9. One of the two highest earner of foreign exchange for India and India's largest public sector body.

11. Interest for pre-acquisition period is deductible in ……………….. Installments.

12. Sum paid to author for each copy sold.

13. Currency of IRAN

14. The country with the third largest number of UNESCO world heritage sites, after Italy and China.

15. WTO replaced by

16. In the case of import or export of goods, using ……………... digit HSN code is compulsory.

Amrutha Thilakan – Article

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