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Chairman's desk:

Dear all,

The year 2020 is coming to an end and we look forward to the year 2021 with great optimism. Covid-19 still continuing, but, I find that the fear amongst the people across the world has reduced considerably. But, that doesn't mean that we should throw all cautions to wind and live in a careless manner. We should strictly follow the protocol of using sanitizer frequently or washing our hands, wearing mask, keeping social distancing, moving out only when it is an absolute necessity etc. We are hearing good news about covid vaccine that it will be ready soon, a matter of weeks only, which makes us very hopeful of a bright and prosperous New Year 2021. All my prayers for the same.

Myself and our partner Mr. Sivaraj had been to Bahrain to take stock of our Bahrain office operations last week. We had to undergo Covid test here before Departure and show the same to airline authority. On reaching Bahrain International Airport, we took Covid test there itself and we were asked to remain in house isolation till the results come. We got the results after 24 hours of tensed waiting. We ventured out only thereafter when the results were negative. What I am trying to say that, at Bahrain also, even though there is no lock-down and people are allowed to move freely, everyone is following the covid protocol, which may be the reason for their very low rate of covid in that country.



By following the protocols strictly, we can engage in our day-to-day activities along with good healthy habits. The tax audit season has started and I am sure all of you will be engaged in completing the audit assignments within the allotted time. While doing the audit, ensure that the same is done strictly in accordance with the professional standards as well as regulatory requirements.

You have to march towards professional excellence in your own individual unique manner. Each one of you is endowed with certain unique qualities and, hence, don't compare your working quality with others which will result in only slowing you down. Your competition is with yourself only. Do you now that the speed of a 'deer' is 60 km per hour and that of a 'tiger' is 50 km per hour? But still, the tiger catches the 'deer' and kills, why? Because, the 'deer' while running looks back frequently to see how near the 'tiger' has come and, because of that, its speed comes down.

So you must keep walking, and keep advancing. Do not stop, even if there are hurdles. Move on. Don't turn back,

*Regards,
Mahadevan*

I. AUDIT :

Standard on Quality Control (SQC) :Contd....

Engagement Quality Control Review :

In the previous article, we learned about the requirement of a good review of the firm's Engagement Quality Control. The firm should establish policies and procedures for the retention of the engagement documentation to meet the needs of the firm or as required by law or regulation. The engagement documentation is the property of the firm.

Monitoring :

Even though, the entity has established a good system of quality control in its firm, there has to be a continuous monitoring of the same, to ensure that, the system is working very well. The same has to be upgraded wherever a change has occurred in technology or compliance requirements. The monitoring should be done by a competent individual.

If any deficiencies were noticed during monitoring, immediate steps should be taken to address those deficiencies and remedial action taken.

In the case of small firms, the monitoring should be done at least once a year and the same to be discussed with the personnel of the firm.

Complaints &Allegations :

There should be established policies and procedures designed to provide it with reasonable assurance that it deals appropriately with :

- (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
- (b) Allegations of non-compliance with the firm's system of quality control.

If deficiencies are noticed in the above, the firm should take appropriate action.

Documentation :

The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

The manner of documentation is left to the discretion of the individual firms. It can be electronic data base or manual forms.

The firm should retain its documents for a period of time sufficient enough as required by law or regulations (Retention period is **no shorter than seven years** from the date of auditors' report).

Effective Date :

This Standard on Quality Control is **mandatory** for all engagements relating to accounting periods beginning on or after **1st April, 2009**.

Case Laws

Income - tax :

TDS Defaults - Time Limit for initiation of proceedings :

The Supreme Court in State of Punjab VsBhatinda District Co-operative Milk Producers Union Ltd [{2007] 11 Sec 363] has held that **4 years** would be a reasonable period of time for initiating action, in a case where no limitation is prescribed.

Quoting the above decision, the Karnataka High Court has recently held in the case of Director of income-tax (international Taxation) and Another Vs Executive Engineer [428 ITR 294 (Karn)] that the proceedings u/s 201 (1) and (1A) of the Income-tax Act, 1961 initiated after a period of 4 years, could not be held to have been initiated within a reasonable time and consequently, the proceedings could not be sustained in the eye of law.

II. Internal Audit – Reconciliations:

Another important part of Internal Audit verification is 'Reconciliations'. Reconciliation includes reconciliation of bank accounts, major supplier accounts and high value debtor accounts.

a) Bank Reconciliation :

Internal Audit Team shall verify the reconciliation of all bank accounts of the organization. Bank accounts include overdraft, cash credit, current, savings and fixed deposits. Bank statements of the period of verification should be collected and each transaction of the same shall be reconciled with the ledger account of the particular bank account in the books of account. The main reason for reconciliation may be due to "cheques issued but not presented for payment, cheque deposited but not cleared, bank charges not accounted in books, interest credited / debited not accounted in books, etc. For these differences, Internal Audit Team should collect the subsequent period's bank statements and obtain all the clearing dates of the reconciliation entries.

To go deeper into reconciliation, the Internal Audit Team shall check and ensure the following, to see that internal control is intact and no manipulations are made in accounts.

- i) All the cheques issued towards payments to suppliers / any external party for expenses / salary, etc. are first accounted in the books of account of the organization, prior to issuing of cheques. The same may be cross verified with the cheque issue register maintained by the concern. If its not maintained, Internal Audit Team shall report and insist for maintaining the same.
- ii) Internal Audit Team shall also verify during audit, that account payee cheques are issued for all payments exceeding Rs. 10,000/- or are done through banking channels.
- iii) Cancelled cheques if any found during audit, audit team should see that the same is not accounted in books, and, if accounted the same is reversed. This is an important area to be counter checked. During year ends, organization issue cheques to suppliers and

account for the same in books of account and subsequently cancel / reverse the same in the beginning of next year – in order to manipulate the supplier account balances in the books of account.

- iv) Similarly cheques deposited for clearance are also accounted in the debtor's ledger account and subsequently reversed / cancelled in the beginning of next financial year – in order to reduce the debtor account balances in the previous financial year.
- v) All the cash withdrawals / deposits shall be cross checked with the cash book of the organization and that they are duly authenticated.
- vi) Any cheques issued / deposits not cleared, in the bank account within three months of cheque date shall be stale and the same should be reversed in the books of account and should be part of Internal Audit Report.

Hence, the Internal Audit Team should be vigilant enough to cross check accounting entries of bank statement and books of accounts, with reference to the subsequent clearance dates. All these documents should form part of audit records and shall be properly filed as a part of Internal Audit documentation. Hence, verification of Bank Reconciliation is one of the crucial areas of Internal Audit and the same shall be carried out with utmost care, since any omission in verification by the Internal Audit Team will lead to a serious misreporting and thereby frauds can be carried out in an organization.

[Supplier Reconciliation & Debtors Reconciliation will be continued the next edition].

SrikalaRenjith

III. INCOME-TAX

Sec 206 (1H) Levying Tax collected at source on Sale of Goods (w.e.f 1.10.2020)

Sec 206C of the Income Tax Act provides for Tax collected at source in respect of sale of certain goods like Timber, Bullion /Jewellery, Alcoholic liquor for human consumption etc. In order to widen and deepen the tax net, with effect from 1.10.2020 new provisions of TCS on sale of Goods under Sec 206(1H) was introduced by the Finance Act 2020.

Section 206C (1H) prescribing collection of Tax on the sale of goods states as follows:-

Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax:

Provided that if the buyer has not provided the Permanent Account Number or the Aadhaar number to the seller, then the provisions of clause (ii) of sub-section (1) of section 206CC shall be read as if for the words "five per cent", the words "one per cent" had been substituted:

Provided further that the provisions of this sub-section shall not apply, if the buyer is liable to deduct tax at source under any other provision of this Act on the goods purchased by him from the seller and has deducted such amount.

Explanation.—For the purposes of this sub-section,—

- (a) "buyer" means a person who purchases any goods, but does not include,—
- (A) the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
 - (B) a local authority as defined in the Explanation to clause (20) of section 10; or
 - (C) a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein;
- (b) "seller" means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ten crore rupees during the financial year immediately preceding the financial year in which the sale of goods is carried out, not being a person as

the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein.

Salient features of Sec 206C (1H) are as follows.

1. TCS obligation shall be on the seller of goods whose total sales, gross receipts from the business carried on by him exceeds 10 Crores during the financial year immediately preceding the financial year in which the sale of goods is carried out i.e for the FY 2020-21 turnover of FY 2019-20 is to be considered .
2. Sec 206C(1H) of the act applies on receipt of sale consideration .The provision of this sub-section shall not apply on any sale consideration received before 1st October 2020. Consequently it would apply on all sale consideration (including advance for sale) received on or after 1st October 2020 even if the sale was carried out before 1st October 2020.
3. Obligation to collect tax triggers on sale consideration exceeding Rs 50 lakhs. (i.e if the sale during the financial year are of Rs 65 lakhs then TCS would be required to be collected on Rs 15 lakhs. (65 lakhs -50 lakhs).
4. For the purpose of calculation of threshold of 50 lakhs, sale consideration shall be computed from 1st April 2020. Hence, if a person being seller has already received fifty lakh rupees or more up to 30th September 2020 from a buyer, the TCS under sub-section (1 H) of section 206C shall apply on all receipt of sale consideration during the previous year, on or after 1st October 2020, from such buyer.
5. Sec 206C(1H) does not apply to export of goods.
6. Circular No.17 of 2020 further clarifies that no adjustment on account of sale return or discount or indirect taxes including GST is required to be made for collection of tax under sub-section (1H) of section 206C of the Act since the collection is made with reference to receipt of amount of sale consideration.
7. Tax collected during the month shall be deposited on or before the **seventh day** of the next month in which tax has been collected vide Challan No.6CR
8. If a deductor fails to collect or after collection fails to pay it to the credit of the Central Government ,he shall be liable to pay interest at the rate of 1% for every month or part thereof on the amount of tax he failed to pay or collect.
9. A quarterly return of all the tax collected at source during the quarter needs to be submitted within 15 days from the end of the quarter in Form .No.27EQ.

MantyAnto

IV. NEWS :

I. Income-tax :

The CBDT has clarified that investors need not furnish script-wise details (for day trading and short-term sale or purchase of listed shares), while filing of tax returns for the assessment year 2020-21. However, script-wise details will be required for reporting long-term capital gains for shares / units.

II. GST :

E-Invoicing :

E-invoicing has been made mandatory with effect from 01.01.2021 for all registered persons whose turnover in the previous year was Rs. 100 Cr or more for all B2B transactions. And, further intends to make it mandatory for all B2B transactions w.e.f. 01.04.2021.

Fake Invoices:

The finance Ministry has indicated that issuers and beneficiaries of GST invoices can be detained under COFEPOSA. At present, actions are being initiated under the GST Law, Income-tax Law and PMLA Law. It was explained that this action is being taken "considering the menace of fake invoices and hawala racket and their damaging impact on the stability of the economy. It may be noted that the procedure for new registration is tightened. The businesses whose owners or promoters do not have commensurate income-tax payment records will require physical and financial verification before giving GST Registration.

[Source : Business Line : 16.11.2020]

III. 'Professional' Dress Code for CA students :

The CA Institute has come up with code of conduct for students (articled clerks and audit assistants) which specifies a "formal dress code" for those pursuing the CA course. The advisory dress code for male students is full sleeves shirts and trousers. For female students, it is sarees / salwarKurta / suit. The view is that this will bring professionalism during student life itself. The code will be applicable to all students including those in foundation, intermediate and final course.

[Source : Business Line : 05.12.2020]

IV. For Your Knowledge :

Income-tax :

Charitable Trust – utilization of capital Gains :

It has been advised by the Board Via Instruction No. 883 dt. 24.09.1975 that the investments of the net consideration on the transfer of a capital asset in fixed deposits with a Bank for a period of 6 months or above would be regarded as utilization of the net consideration for acquiring another capital asset within the meaning of Sec. 11 (1A) of the Income-tax Act, 1961.

V. TEST YOUR SKILL :

1. As per section _____, long-term capital gain arising in excess of Rs. 1 Lakh on transfer of equity shares or units of equity oriented mutual fund or units of business trust is chargeable to tax @ ___ in the hands of any person, if specific conditions are satisfied in this regard.
 - a. 10(38), 10%
 - b. 112A, 20%
 - c. 112A, 10%
 - d. 111A, 15%
2. The presumptive taxation scheme of Sec 44AD can be adopted by
 - a. Resident Individual
 - b. Non Resident Individual
 - c. Private Limited Company
 - d. Limited Liability Partnership Firm
3. As provided under section 269ST, no person shall receive an amount in respect of from a person otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account.
 - a. Exceeding Rs 200000 transactions
 - b. of two lakh rupees or more, a single transaction
 - c. of Rs 20000 or more transactions
 - d. Exceeding Rs 20000, a single transaction
4. Financial Institutions as per clause c of section 45 I of the Reserve Bank of India Act, 1934 include
 - a. A chit fund company
 - b. Housing finance Institutions
 - c. Non-Banking financial company
 - d. All of the above
5. Which of the following acts can be considered as acts of Money Laundering in the act?
 - a. Illegal arms sales
 - b. Drug trafficking
 - c. Insider trading
 - d. All of the above
6. 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
7. Who can form the Producer Company
 - a. 10 Individual Producers
 - b. 2 Producer Institutions
 - c. combination of 10 or more individuals and producer companies
 - d. a or b or c
8. PQR Producer Company Limited has a Paid-up capital of Rs.4,00,00,000 and average annual turnover of Rs. 6,00,00,000 of preceding 3 financial years. Does the company need to appoint a company secretary under Sec 203 of companies Act or under section 581K?
 - a. No the requirement of Company Secretary is not mandatory to Producer companies
 - b. The company needs to appoint company secretary under section 581K of companies Act, 1956
 - c. No the requirement of Company Secretary is not mandatory to Producer companies
 - d. None of the above
9. Whether the limits of internal audit of sec. 138 is applicable to Producer Companies or is it mandatory for producer companies to get the Internal audit done by a Chartered Accountant?
 - a. Every producer company needs to carry out the internal audit of the producer company
 - b. If the limits specified for the applicability of internal audit under section 138 gets attracted, then only internal audit is applicable.
 - c. Internal audit is applicable only to the companies whose turnover is more than Rs. 3 Crores
 - d. Producer company are exempted from provisions of Internal audit
10. PQR Ltd, incorporated outside India, having place of business in India and 45 % of its Paid up capital is held by Indian Body Corporate. State the type of company and laws applicable to it.
 - a. Indian Company, Companies act 2013
 - b. Foreign company, Chapter of Foreign Company
 - c. Deemed Indian Company, Companies act, 2013
 - d. None of the above
11. In case of an IPO, aggregate of proposed and previous issue in same FY shall not exceed 5 times of its-----
 - a. Share capital
 - b. Net worth pre issue
 - c. Reserve and Surplus
 - d. Loans and borrowings

12. Pooling of funds under any scheme or arrangement, which is not registered with the Board or is not covered under sub section (3), involving a corpus amount of Rs. 100 crore or more shall be

- | | |
|--|-----------------------------|
| a. Deemed to be a collective investment scheme | c. Deemed to be Bonus issue |
| b. Called as ESOP | d. Venture Capital fund. |

13.----- prepare an annual statement of Accounts. The accounts of the SEBI shall be audited by----. The certified accounts of the Board shall be forwarded annually to the-----

- | | |
|-------------------------------------|---------------------------------|
| a. SEBI, CAG, Central Government | c. CAG, CAG, Central Government |
| b. Central Government, CA, Ministry | d. None of the Above |

14. Exceptions to section 40A(3) includes where the payment is made to:

- | | |
|--|---|
| a. any primary agricultural credit society or any primary credit society | c. where the payment is made to the Government and, under the rules framed by it, such payment is required to be made in legal tender |
| b. the Life Insurance Corporation of India | d. All the above |

15. In cases where an assessee becomes ineligible to claim the benefit of the provisions of section 44AD(1) for _____ assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance with the provisions of 44AD(1) and his income exceeds the basic exemption limit during the previous year.

- | | |
|------|------|
| a. 2 | c. 4 |
| b. 3 | d. 5 |

VI. Save the Dates – DECEMBER 2020

STATUTORY DATES	
INCOME TAX	
07/12/2020	Due date for E-payment of TDS deducted for November, 2020
15/12/2020	Third instalment of advance tax for the assessment year 2021-22
31/12/2020	Return of income for the assessment year 2020-21 (FY 19-20) for all assessee other than :
	(a) corporate-assessee or
	(b) non-corporate assessee (whose books of account are required to be audited) or
	(c) Partner of a firm whose accounts are required to be audited or
31/12/2020	(d) An assessee who is required to furnish a report under section 92E.
	Due date for furnishing of various audit reports including tax audit report and report in respect of international/specified domestic transaction for the Assessment Year 2020-21.
Limited Liability Partnership Act, 2008	
31/12/2020	Filing of Statement of Account and Solvency (Form : 8)
GST	
Due Date	Statement/Return/Certificates to be issued/Furnished
11/12/2020	Due date of filing GSTR 1 for the month of November 2020
20/12/2020	Taxpayers having an aggregate turnover of More than Rs. 5 Crores (> Rs 5 Cr) or opted to file Monthly Return of GSTR 3B (November 2020)
22/12/2020	Taxpayers having an aggregate turnover of upto 5 Crores or opted to file Monthly Return of GSTR 3B (November 2020)
31/12/2020	GSTR 9 FY2018-19
31/12/2020	GSTR 9C FY2018-19
31/12/2020	GSTR 9A FY 2018-2019

VII. CROSSWORD PUZZLE

1		5												4
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16														
20														

ACROSS

- The auditor of a government company is appointed by the C&AG . His remuneration is fixed by the
- Before the work of audit is commenced, the auditor plans out the whole of audit work is called Audit
- Vouching of the balances of all incomes and expense account is known as vouching of ledger.
- The application for registration of a company should be presented to the of the state appointed under companies Act,1956.
- The most comprehensive type of audit is the system audit, which examines the suitability and effectiveness of the system as a whole.
- The kind of audit is conducted generally between two annual audit audit
- The most difficult type of misstatement to detect fraud is based on omission of a transaction from being recorded.
- When a transaction has not been recorded in the books of account either wholly or partially such errors are called as error of

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- The prospectus must be issued to the public within days of its date.
- The liabilities of an auditor can beand criminal
- Confirmation of theis necessary for reduction of share capital.
- Instruction of audit issued by controller and auditor general of India is audit.

Downward

- Minimum Number of members required to apply for incorporation certificate in a public Ltd company is
- Secret reserve can be created byand financial companies only
- Preliminary expenses are the best example of asset
- is a systematic examination of the books and records of a business.
- Number of clause in Memorandum of Association is
- The auditor of a government company shall be appointed by government
- PAR value of shares means thevalue of the shares.
- In India balance sheet audit is synonymous to audit.
- The board of directors shall appoint first auditor of a company within month of incorporation of the company.

AmruthaThilakan- Article
