

BHUJ BRANCH OF WIRC OF ICAI

E-NEWSLETTER FOR THE MONTH OF SEPTEMBER-2020

(FOR PRIVATE CIRCULATION ONLY)

CA. Jitendra Thacker Chairman 9825537937	IN THIS EDITION
CA. Ramesh Pindolia Vice Chairman & WICASA Chairman 9825662808	CHAIRMAN'S COMMUNICATION
CA. Ashish Gadhavi Secretary 9925738543	CODE OF ETHICS Sections 600 BY CA KHUSHBU MORBIA
CA. Purvi Mehta Treasurer 9374338587	CODE OF ETHICS Sections 601, 602 and 603 BY CA RONAK SHAH
CA. Hardik P.Thacker Imm.Past Chairman 9825858580	CODE OF ETHICS Sections 605, 606, 607 and 608 BY CA JEEL SHAH
CA Jagrut Anjaria Newsletter Advisor 9426788728	SPECIAL SECTION Micro, Small and Medium Enterprises: An Overview BY CA POONAM MAICHA
Address:- Hall No. 2, Katira Complex-2 Sanskar Nagar Bhuj-Kachchh Phone:-258580; 9925738543 E-mail:- bhujbranch.wirc@gmail.com	INCOME TAX Section 271AAD of the Income Tax Act: An Overview CA RICHA PAVANI
DISCLAIMER The views and opinions expressed or implied in this newsletter are those of the authors and do not necessarily reflect those of the Branch. The Branch is not in any way responsible for the result of any action taken on the basis of views and opinions expressed in this newsletter.	GST UPDATES CA DEEP KORADIA
	EVENTS IN IMAGES



CHAIRMAN'S COMMUNICATION

Dear Professional Colleagues

Good rain fall in Kachchh after long period of time brings life and livelihood of Kachchh. Vast dry expanses of lands turn into beautiful greenery in Kachchh making pretty scenic views everywhere. Traveling through various places during this season one can see and capture some beautiful greenery landscapes. After the rain fall the grass which sprouts everywhere has a light fresh green color which absolutely soothes the eyes.

We are in india celebrating Teachers day on 5th September. Dr. A. P. J. Abdul Kalam said: If a country is to be corruption free and become a nation of beautiful minds, I strongly feel there are three key societal members who can make a difference. They are the father, the mother and the teacher. It is said that good teachers are like a candle who consume themselves to light the way for others. In our Chartered Accounting profession we have also learned lots from our principals during articleship. I offer my sincere wishes to our teachers & CA Principals for educating generations after generations.

The Tax compliance and audit season also started, all members are now busy in work of GST Annual/Monthly Returns, IT Return, Statutory Audit, Tax Audit and advising our clients considerig various regulatory changes and various incentive schemes declared by government. CAs are known for commitment and deliverables. Challenges are part and parcel of our profession. We are getting respect, recognition and reputation for our professional work with integrity.

The month that was – August 2020

-Bhuj Branch jointly with Gandhidham and Anand Branches organised Virtual CPE Meeting on **“Revenue Alternatives and Cost Management in**

Downturn” by expert speaker CA Robin Banerjee on 08-08-2020 attended by 70+ participants

-Bhuj Branch has organised Virtual Meet on **“Egyptology-Its Arts, Science & Commerce”** with speaker CA Tilak Keshwani our branch senior member on 09-08-2020 attended by 25+ participants

-Bhuj Branch has celebrated of **Independence day** at Income tax office on 15-08-2020 with Chartered Accountants Members, Tax Professionals and ITO and other of fice staff of Income tax as tradition of every years.

-Bhuj Branch has organised Virtual **Interaction with our Corona Conqueror** CA Hardik N. Thacker our branch member on 16-08-2020 attended by 35+ participants

-**Charity Activity whatsapp Group has been created for** Interested members to discuss activities to be done for the welfare of the society.

-Bhuj Branch jointly with Anand and Bhavnagar Branches organised Virtual CPE Meeting on **“4 Dimentional Personality”** under category of soft skill development by expert speaker & soft skill trainer Sandhya Anantani on 30-08-2020 attended by 68+ participants

GST Audit helpline

All members are busy in completion of GST audit for the financial year 2018-19 as last date of completion of audit 30-09-2020. Happy to inform you all that our own member CA Deep Koradia (Mob: 9429042996) having expertise in field of GST ready to serve/guide the members for their queries/issues of GST Audit 2018-19. We can call them between 06.00pm o 07.00pm from 01st Sep-2020 to 30th Sep 2020

Forthcoming Acadamic Program for Members (Virtual Mode)

Considering working seasons of members. We are planning to organise programs on relevant topics on core area of practice on virtual platform.

Forthcoming Acadamic Program for Students (Virtual Mode)

-Bhuj Branch is now allowing Students to join Members CPE program without any charges so interested students take the benefit.

SINCERELY YOURS

- Bhuj Branch of WICASA is also planning to arrange Orientation Course in Virtual mode.

I would like to conclude with the thought,

"Good teaching is more a giving of right questions than a giving of right answers." - Josef Albers

Stay Safe. Stay Happy. Stay Updated

Thanks and Regards

CA Jitendra Thacker

Chairman,

Bhuj Branch of WIRC of ICAI

Date: 01-09-2020

Provision of Non-Assurance Services to an Audit Client: Section 600

CA Khushbu Morbia
M.Com., ACA

The Institute of Chartered Accountants of India (ICAI) has notified the applicability of the revised 12th edition of code of ethics with effect from 1st July 2020.

The revised edition of the Code has been made compatible with Indian conditions so that it does not contradict with Indian domestic law. Further, the provisions of the Revised Code have been aligned with the provisions of Companies Act, 2013. While the revised Code retains the fundamental ethical principles from the earlier code, it covers a refreshed approach and contains certain new or substantially revised requirements.

Section 600 requires to apply the enhanced conceptual framework to identify, evaluate and address threats when providing non-assurance services (NAS) to audit clients. In addition to that, Section 600 of the Code also contains general and specific requirements and application material that apply to firms and network firms when providing NAS to audit clients.

The term non-assurance services (NAS) is used throughout the Code when referring to engagements that do not meet the definition of an assurance engagement. An assurance engagement is an engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

The general provisions set out in paragraphs 600.1 to R600.10 apply in all situations when a NAS is provided to an audit client. Additional and more specific provisions are set out in subsections 601-610 and apply when providing certain types of NAS to audit clients.

Section 600.1 to 600.3 gives introduction of this provision.

At **Section 600.1**, the code requires the firms to comply with fundamental principles (as given in clause 110.1 A1, which is already discussed in detail in

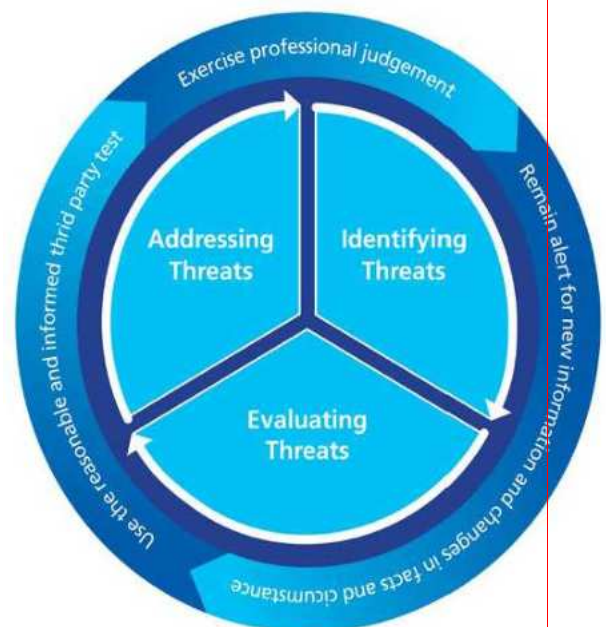
our July, 2020 newsletter) and be independent. Firms are also required to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Section 600.2 explains, firms or network firms might provide a range of non assurance services to their audit clients. The term "might" used in the code denotes the possibility of an event occurring, in consistent with their skills and expertise. It further provides that, these services might create threats to compliance with the fundamental principles and threats to independence.

Section 600.3 sets out requirements and application material relevant to applying the conceptual framework as described in section 120. Firms are required to apply the framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients.

The subsections following to this section, sets out,

- some specific requirement and application material relevant when a firm or network firm provides certain NAS to audit clients.
- types of threats that might be created as a result.
- in certain circumstances, when threats created cannot be addressed by applying safeguards, those certain services to an audit client are expressly prohibited by a firm or network firm.



There is the emphasis that if threats cannot be addressed, the professional Accountant must decline or end the specific professional activity. The Accountant is required to form an overall conclusion about whether the actions he takes, or intends to take, to address the threats created to eliminate those threats or reduce them to an acceptable level.

From Section 600.4 Requirements (R) and Application Material (A) starts

Section R600.4 requires that before accepting an engagement to provide NAS to an audit client, a firm or a network firm shall determine whether providing such a service might create a threat to independence.

Section 600.4 A1 assists the firm in analyzing certain types of NAS and the related threats that might be created if a firm or network firm provides non-assurance services to an audit client.

This section has been aligned with Section 141(3)(i) and Section 144 of the Companies Act, 2013.

Section 141(3)(i) provides that,

- A person who, directly or indirectly, renders any service referred to in section 144
 - ✓ to the company or
 - ✓ its holding company or
 - ✓ its subsidiary company
- shall not be eligible for appointment as an auditor of a company.

Further, Section 144 requires that,

- An auditor appointed under the Companies Act 2013 shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be..
- But such other services shall not include any of the following services, directly or indirectly rendered to the company or its holding company or its subsidiary company,
 - a) accounting and book keeping services;
 - b) internal audit;
 - c) design and implementation of any financial information system;
 - d) actuarial services;
 - e) investment advisory services;
 - f) investment banking services;
 - g) rendering of outsourced financial services;
 - h) management services; and

- i) any other kind of services as may be prescribed.

Section 600.4 A2 broadens the coverage of NAS. It explains that developments like new business practices, the evolution of financial markets and changes in information technology, make it impossible to draw up an all-inclusive list of NAS that might be provided to an audit client. As a result, the Code does not include an exhaustive list of all such NAS.

Instead, it provides how to identify the threats, evaluate their impact and address them by minimizing them to an acceptable level.

Evaluating Threats

Section 600.5 A1 describes the factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit client:

- The nature, scope and purpose of the service.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The legal and regulatory environment in which the service is provided.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent of the client's involvement in determining significant matters of judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.

- Internal controls over financial reporting.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.

At **Section 600.5 A2**, it is given that to evaluate the level of threats created by providing the NAS, examples of additional relevant factors are set out in subsections 601 to 610.

Materiality in Relation to Financial Statements

At **Section 600.5 A3**, the Code gives importance to materiality in relation to an audit client's financial statements and refers the same in Subsections 601 to 610.

To explain the concept of materiality in relation to an audit, the Code aligns this Section with SA 320, Materiality in Planning and Performing an Audit, and in relation to a review in SRE 2400 (Revised), Engagements to Review Historical Financial Statements.

It emphasizes that, how to determine materiality is exercise of professional judgment. It is affected by both quantitative and qualitative factors. It is also impacted by perceptions of the financial information needs of users.

Multiple Non-assurance Services Provided to the Same Audit Client

At **Section 600.5 A4**, it is again stated that A firm or network firm might provide multiple non-assurance services to an audit client. While doing so, to evaluate firms' threats, the combined effect of threats created by providing all those services should be taken into consideration.

Addressing Threats

After evaluating the effects, when such threats are not at an acceptable level, **Section 600.6 A1** provides for safeguards to address the threats to independence, which are created by providing those non-assurance services. Subsection 601 to 610 includes such safeguards with examples of actions. But

again those examples are not exhaustive as it is a matter of professional judgment.

When the threats created cannot be addressed by applying safeguards, **Section 600.6 A2** prohibits the firm or network firm from providing certain services to an audit client. Circumstances in which it is expressly prohibited, are required in some of the subsections.

Section 600.6 A3 of the Code requires the firm or network firm to apply safeguards. Such safeguards are described in paragraph 120.10 A2 of the Code.

Para 120.10 A2 states that for providing NAS to audit clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level.

In some situations, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.

Prohibition on Assuming Management Responsibilities

Section R600.7 restricts a firm or network of firm from assuming a management responsibility for an audit client.

Further, it is aligned with Section 144 of the Companies Act. According to it, where applicable, the restriction also applies to the holding company and subsidiary company of such audit client.

Section 600.7 A1 describes management responsibilities. It involves controlling, leading and directing an entity. It also includes making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

Section 600.7 A2 states if the firm or network firm assumes a management responsibility while providing a NAS to an audit client, it creates self-review and self-interest threats. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

Section 600.7 A3 explains that determining whether an activity is a management responsibility, again requires the exercise of professional judgment and it depends on the circumstances.

Some examples of activities that would be considered a management responsibility are explained in this Section:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

Further, **Section 600.7 A4** provides that to give advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.

Section R600.8 requires the firm or network firm to avoid assuming a management responsibility when providing any NAS to an audit client. Subject to applicable restrictions under Companies Act, 2013, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management.

This includes ensuring that the client's management:

- a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to

oversee the services. Such an individual, preferably within senior management, would understand:

- i. The objectives, nature and results of the services; and
 - ii. The respective client and firm or network firm responsibilities.
 - iii. However, the individual is not required to possess the expertise to perform or re-perform the services.
- b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose.
- c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Providing Non-Assurance Services to an Audit Client that Later Becomes a Public Interest Entity

At **Section R600.9**, the Code provides that if an audit client to whom a NAS is provided, either currently or in previously, becomes a public interest entity, it compromises a firm or network of firm's independence.

The firm's independence will not be compromised if,

- The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and
- The firm addresses threats that are created that are not at an acceptable level.

Considerations for Certain Related Entities

Section 600, as such, prohibits firms or network firms from assuming management responsibilities. It also forbids the firm from providing certain NAS to audit clients.

Now **Section R600.10** gives an exception to the above general requirement. As we emphasize it, the firm may assume management responsibilities as well as

provide NAS in certain circumstances. This can be done when assumption of management responsibility and provision of NAS, which are prohibited generally, are provided to certain related entities of the client, subject to prescribed conditions.

The exact words of this section are,

A firm or network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- An entity that has direct or indirect control over the client;
- An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- An entity which is under common control with the client,

provided that all of the following conditions are met:

- The firm or a network firm does not express an opinion on the financial statements of the related entity;
- The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
- The firm addresses other threats created by providing such services that are not at an acceptable level.

Provision of Non-Assurance Services to an Audit Client

Accounting and Bookkeeping Services: Section 601

Administrative Services: Section 602

Valuation Services: Section 603

CA Ronak S. Shah

B.Com., ACA

Introduction:-

The revised code is based on the 2018 edition of the Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA). Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to **identify, evaluate and address threats** to independence.

By following the principals laid down in code firms can maintain independence and reduce threats while performing audit engagements. The subsections discussed below set out **specific requirements and application** material relevant when a firm or network firm **provides certain non assurance services** to audit clients and indicate the **types of threats** that might be created as a result.

SUBSECTION 601 – ACCOUNTING AND BOOK KEEPING SERVICES

- Accounting and book keeping services comprise broad range of services including
 - Preparing Financial statements and accounting records
 - Payroll services
 - Recording transactions
- Providing accounting and book keeping services to an audit client might create **self-review threat**.

➤ **Requirements of said subsection:-**

- Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service might create a threat to independence.

- Overall responsibility of preparation and presentation of fair financial statement in accordance with applicable reporting framework is of management.
- While audit procedure proposing adjusting journals, guiding on disclosure requirements and assessing appropriateness of financial and accounting controls are treated as normal part of audit procedure and do not usually create threat as long as management is responsible for making decision in preparation of financial statements.
- Client might ask **technical assistance** on various matters like account reconciliation problems, complying with group accounting policies, transitioning into different framework such as International Financial Reporting Standards. Such services **do not usually create threat unless** firm assumes a management responsibility of client.
- There are certain accounting and book keeping services which require **little or no professional judgment**. Some of such services are as below:-
 - Preparing payroll calculations or reports based on client originated data for approval and payment by client.
 - Calculating depreciation on fixed assets when client determines accounting policy , useful life and residual value.
 - Posting client approved entries to the trial balance.
 - Preparing financial statements based on information in client – approved trail balance and preparing related notes to accounts based on client-approved records.
- **Specific requirement when clients are Public Interest Entities:-**
 - As per **clause i of subsection 3 of section 141 of Companies Act,2013** a chartered accountant is not eligible for appointment if he directly or indirectly provides any services referred under **section 144** to the company or its holding or its subsidiary company. One of the services specified in section 144 is accounting and book keeping service. Few other services mentioned under section 144 are internal audit, investment banking/advisory services, management services.

- A firm or network firm shall not provide to an audit client which is a public interest entity accounting and book keeping services including preparing financial statements on which firm will express an opinion or financial statements which shall form basis of such financial statements.
- However a firm or network may provide accounting and book keeping services **subject to Section 141(3)(i)** of Companies Act, 2013 which are of routine and mechanical nature means such services which require little or no professional judgments as discussed earlier for related entities of audit client if the personnel providing the said services are not audit team members and:
 - The related entities for which services are rendered are collectively immaterial to financial statement on which opinion will expressed by firm; or
 - The services related to matters that are collectively immaterial to financial statements of the related entity.

SUBSECTION 602- ADMINISTRATIVE SERVICES

➤ **Meaning of Administrative Services:-**

- Administrative services involves assisting clients with their **routine or mechanical tasks** within the normal course of operations and requires **little or no professional judgment** and are **clerical** in nature.
- Examples of administrative services:-
 - Word Processing Services
 - Preparing administrative and statutory forms for client approval.
 - Submitting such forms as instructed by the client
 - Monitoring statutory filling dates, and advising clients of those dates.
- Providing administrative services to an audit client **does not usually create a threat**.
- While providing administrative services one needs to take care of general requirements and principals.

SUBSECTION 603 – VALUATION SERVICES

- A valuation comprises making assumptions with regards to future development, the application of suitable techniques & methodologies, and combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- Providing valuation services to an audit client might create a **self-review or advocacy threat**.
- This subsection even includes requirements that prohibit firms from providing certain valuation services to audit client in some circumstances because threats created by such engagements cannot be addressed by applying safeguards.
- In cases when underlying assumptions are established by law or regulations or are widely accepted and when techniques as well as methodologies used are based on generally accepted standards or prescribed by laws, it does not involve significant degree of subjectivity and hence results of such valuations are likely to be not materially different.

➤ **Factors to be considered:-**

Factors that are relevant for evaluating level of threat caused by providing valuation service to an audit client includes:-

- Purpose & Use of Valuation.
- The extent and clarity of disclosures related to valuations in the financial statements.
- Whether the same will be made public.
- The extent of client's involvement in deciding and approving valuation techniques, methodologies and other matters of judgments.
- The degree of subjectivity.
- Whether valuation will have material impact on financial statements.
- The level of dependence on future events of such a nature that might create significant volatility inherent in the amounts involved.

➤ **Safeguards to address threats:-**

Firm can take certain actions that might be safeguard against threats, which are as follows:-

- Use of expertise of professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing service, review the audit work or service rendered might address a self – review threat.

➤ **When not to provide valuation service:-**

● **If audit clients are not public interested entities:-**

A firm or a network shall not render valuation service to audit client which is not a public interest entity if :-

- a) The valuation involves a significant degree of subjectivity: &
- b) The valuation will have a material impact on the financial statements on which the firm will express an opinion.

● **If audit clients are public interested entities:-**

A firm or a network shall not render valuation service to audit client which is not a public interest entity if the valuation service would have material effect, individually or in aggregate, on the financial statements on which the firm will express opinion.

Provision of Non-Assurance Services to an Audit Client
Internal Audit Services: Section 605
Information Technology Systems Services: Section 606
Litigation Support Services: Section 607
Legal Services: Section 608

CA Jeel Dinesh Shah
 B.Com., ACA

Introduction:

Following sections are relevant to apply the conceptual framework while providing certain services to an audit client. Following sections include requirements that prohibit firms and network firms from providing certain services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.

➤ **Section 605: Internal Audit Services**

Providing internal audit services to an audit client might create a self-review threat.

Internal Audit activities includes:

<p>Monitoring of Internal Control:</p> <ul style="list-style-type: none"> -Reviewing controls, -Monitoring operations -Recommending improvements <p>For example: Recommending Maker should be not the Checker concept</p>	<p>Examining financial and operating information by:</p> <ul style="list-style-type: none"> -reviewing the means used to identify, classify and report the information -Inquiring specifically into individual items <p>Including detailed testing of transactions, procedures and balances</p> <p>For example: -detailed verification of the outstanding debtors of more than 1 year</p>	<p>Reviewing the</p> <ul style="list-style-type: none"> -economy -efficiency -effectiveness of operational as well as non financial activities <p>For example: Reviewing over budget/schedule activities, understanding the reasons and recommending the solutions</p>	<p>Reviewing compliance with</p> <ul style="list-style-type: none"> -Laws, regulations and other external requirements -Management policies, directives and other internal requirements. <p>For example: - Reviewing the complying of various returns due dates , maintenance of various reports as required by the management</p>
--	---	---	--

Scope and objectives of the internal audit:

It depends upon the *size and structure of the entity* and *requirements of the management*/who are charged with governance.

Prohibition:

A statutory auditor of an entity (including its holding or subsidiary co.) cannot be its internal auditor as it will not be possible for him to give an independent and objective opinion.

➤ ***Section 606:Information Technology Systems Services***

Cause: A self-interest or intimidation threat is created when services related to IT systems which include the **design or implementation of hardware or software systems** are provided. The IT Systems might (1) aggregate source data, form part of internal control over financial reporting or generate information that affects the accounting records or financial statements, including related disclosures or (2) involve matters that are unrelated to the audit clients' accounting records or the internal control over financial reporting or financial statements.

Evaluation: Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit client include:

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client's accounting records or financial statements
- The degree of reliance that will be placed on the particular IT systems as part of the audit

Mitigation: If the professionals who are not from the audit team provide the information system related services than it might be a safeguard to this self review threat.

Activities that do not create any self review threat:

- (a) Designing or implementing IT systems that are ***unrelated to internal control over financial reporting***;
- (b) Designing or implementing IT systems that ***do not generate information forming a significant part of the accounting records or financial statements***;
- (c) Implementing "off-the-shelf" accounting or financial information reporting software ***that was not developed by the firm or network firm***, if the ***customization required to meet the client's needs is not significant***; and
- (d) Evaluating and making recommendations with respect ***to an IT system designed, implemented or operated by another service provider or the client***.

Ensured before accepting the engagement:

When providing IT systems services to an audit client the firm or network firm and operation shall be satisfied that the client:

- (a) acknowledges its responsibility for ***establishing and monitoring a system of internal controls***;
- (b) ***assigns the responsibility to make all management decisions*** with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) ***makes all management decisions*** with respect to the design and implementation process;
- (d) ***evaluates the adequacy and results*** of the design and implementation of the system; and
- (e) is ***responsible for operating the system*** (hardware or software) and for the data it uses or generates.

Prohibitions when the audit client is Public Interest Entity:

A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity **if the services involve designing or implementing IT systems that:**

- (a) Form a **significant part of the internal control over financial reporting**; or
- (b) Generate information that is **significant to the client's accounting records or financial statements on which the firm will express an opinion**.

➤ ***Section 607: Litigation Support Services***

Cause: Providing certain litigation support services to an audit client might create a self-review or advocacy threat. Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
-

Evaluation: Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:

- The legal and regulatory environment in which the service is provided. For example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion.

Mitigation: If the professionals who are not from the audit team provide the information system related services than it might be a safeguard to this self review threat.

Prohibition: Also section 603 prohibits members to carry out audits of clients to whom valuation services involving estimating damages or other amounts that affect the financial statements on which the firm will express an opinion are provided.

➤ **Section 608:Legal Sevices**

Legal services are **defined** as any services for which the individual providing the services must either: (a) Have the required legal training to practice law; or
(b) Be admitted to practice law before the courts of India.

Cause: Providing legal services to an audit client might create a self review or advocacy threat. Legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

Evaluation: Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advisory services to an audit client include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

Mitigation:

- Having professionals who are not audit team members to perform the service
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed

Acting as General Counsel

- ✓ A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.

- ✓ The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

Acting in an Advocacy Role

A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

Micro, Small and Medium Enterprises: An Overview

CA Poonam Maicha
B.Com., ACA

The MSME industry is growing significantly due to the constant support from the Indian Government. This has further inspired everyone, especially the youth, to explore their entrepreneurial side and start their own venture. However, in such cases, knowledge regarding MSME and MSME registration benefits are a must to know.

What are MSMEs? What is the new definition of Micro, Small, and Medium Enterprises?

For a country to grow, the government should actively promote business enterprises. Among business enterprises, the Micro, Small and Medium Enterprises (MSME) deserve special attention. Though MSMEs are small investment enterprises, their contribution to the Indian economy is incredibly significant.

What are MSMEs?

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which was notified on October 2, 2006, deals with the definition of MSMEs. The MSMED Act, 2006 defines the Micro, Small and Medium Enterprises based on

1. the investment in plant and machinery for those engaged in manufacturing or production, processing, or preservation of goods and
2. the investment in equipment for enterprises engaged in providing or rendering of services.

Original Definition of MSMEs (as per MSMED Act 2006)

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

Classification	Investment in plant and machinery excluding land and building for enterprises engaged in manufacturing or production, processing or preservation of goods	Investment in equipment excluding land and building for enterprises engaged in providing or rendering of services
Micro	Not exceeding Rs.25.00 Lakhs	Not exceeding Rs.10.00 Lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

Note: The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.

New Definition of MSMEs

Revised Classification applicable w.e.f. 01st July 2020

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment:		
	- not more than 1cr,	- not more than 10cr,	- not more than 5 cr,
	and Annual Turnover		
	- not more than 5cr,	- not more than 50cr,	- not more than 250 cr,

Distinction between manufacturing and service MSMEs removed.

Benefits provided to MSMEs

1. Loans without collaterals:

One of the best MSME registration benefits, the initiative to provide collateral-free loan is undertaken by GOI (Government of India), SIDBI (Small Industries Development Bank of India) and the Ministry of Micro, Small and Medium Enterprise under the name The Credit Guarantee Trust Fund Scheme. This is by far the best MSME registration benefits for small business owners.

2. Subsidy on Patent Registration & Industrial Promotion:

Business enterprises registered under the MSME Act are given a hefty subsidy of 50 per cent for patent registration.

3. Overdraft facility along with Interest Rate Exemption:

Businesses or enterprises registered as MSME/SSI under the MSME Act are eligible to avail a benefit of 1% on the overdraft as part of the Credit Guarantee Trust Fund Scheme.

4. Concession on Electricity:

One of the simplest MSME registration benefits, businesses registered under the MSME Act can avail a concession on electricity bills.

5. ISO Certification Charges Reimbursement:

A registered small or medium enterprise can claim the expenses for reimbursement that were spent on ISO certification.

What is the Importance and role of MSMEs in the Indian Economy?

MSME and Indian Economy

1. **To generate large scale employment:** It is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
2. **Contribution to GDP:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities. MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a \$5 trillion economy.
3. **To sustain economic growth and increase exports:** It contributes around 45% of the overall exports from India.
4. **Making Growth Inclusive:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
For example: Khadi and Village industries require low per capita investment and employs a large number of women in rural areas.
5. **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.

6. **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

Worldwide Trends in the SME Sector

Japan – SMEs employ 70% of the wage earners and contribute 55% of the value-added.

Thailand – SMEs employ 60.7% of the population while contributing 38% to the GDP.

China – SMEs contribute to over 68% of the exports – in the last 20 years created more SMEs than the total number of SMEs in Europe and the US combined.

Key announcements of Atma-nirbhar Bharat Abhiyaan

- Rs 3 lakh crore collateral-free automatic loans for MSMEs under the package will help this finance-starved sector and thereby provide a kickstart to the economy having 12 month moratorium on payment of principal, No guarantee fee, for 4 years tenor.
- Rs 50,000 crore equity infusion through MSME Fund
- Rs 20 crore subordinate debt for MSMEs being in nature of credit guarantee and liquidity infusion into the banks, Stressed MSME or MSMEs with NPA Loans will be eligible.
- Special Liquidity Scheme for Non-Banking Financial Companies, Micro-Finance Institutions, Housing Finance Companies worth Rs.30,000 crore.

Summary

There are around 6.3 crore MSME units in the country, with over 99% categorised as small units (as per original definition). The sector contributes over 28% of the GDP in 2017 and almost 45% to the manufacturing output. The sector acts as the instrument of inclusive growth empowering the most vulnerable and marginalized groups.

Section 271AAD of The Income Tax Act, An Overview

CA Richa Pavani
M.Com., ACA

Section 271AAD of the Income Tax Act came into existence to provide penalty. Clause 98 of finance bill has given suggestion to insert a new section which provides penalty. This section came into force from April 1st 2020.

There was a need to provide penalty on some false transactions. After launching of GST, it has been seen by the authorities that applicants were taking excess Input Tax Credit (ITC). Applicants were doing this by showing false transactions E.g. by obtaining fake purchase invoices from supplier & claiming Fake ITC, Which reduces their liability to pay tax. These invoices are found to be issued by racketeers who do not actually carry on any business or profession. They only issue invoices without actually supplying any goods or services. So there was a need to insert a new section which provides penalty on such transactions. So section 271AAD came into force.

SECTION 271AAD

271AAD (1) Without prejudice to any other provisions of this Act, if during any proceeding under this Act, it is found that in the books of account maintained by any person there is—

- (i) a false entry; or
- (ii) an omission of any entry which is relevant for computation of total income of such person, to evade tax liability,

the Assessing Officer may direct that such person shall pay by way of penalty a sum equal to the aggregate amount of such false or omitted entry.

(2) Without prejudice to the provisions of sub-section (1), the Assessing Officer may direct that any other person, who causes the person referred to in sub-section (1) in any manner to make a false entry or omits or causes to omit

any entry referred to in that sub-section, shall pay by way of penalty a sum equal to the aggregate amount of such false or omitted entry.

Sub section (1) of this section says that this section can be invoked by Assessing Officer. This section says that Assessing officer has the power to provide penalty if he found any fraudulent transactions. There can be transactions on which Assessing officer can levy penalty. Such transactions say false entry or omission of any entry. If Assessing officer found that any person has made any false entry or has omitted any entry then he can direct that person to provide penalty.

“False entry” for this section means

- 1) Forged or falsified documents such as a false invoice or, in general, a false piece of documentary evidence, or
- 2) Invoice in respect of supply or receipt of goods or services or both issued by the person or any other person without actual supply or receipt of such goods or services or both, or
- 3) Invoice in respect of supply or receipt of goods or services or both to or from a person who does not exist.

Omission of any entry means any entry through which income of that person or liability to pay tax of that person decreases. This can be done fraudulently by any person to avoid or to decrease the liability to pay tax.

In the above cases Assessing officer can direct the person to pay penalty. Amount of penalty can be less than or equal to the amount of false entry or omitted entry. Provided that such amount of penalty can be in aggregate of false entry & omitted entry.

Sub section (2) of this section says that Assessing officer can invoke penalty to any other person also. Provided that if assessing officer found that any other person is a reason behind such false entry or omission of entry regarding to that first mentioned person, he can direct that other person also to pay penalty to the extent of such amount of false entry or omitted entry.

Sub section (1) of this section gives permission to assessing officer to invoke penalty on a person without being worried about any other penalties provided

on such person under any sections of the Income Tax Act. Assessing officer can direct such person to pay penalty in addition to the other penalties invoked on him under the Income Tax Act.

Same as above, sub section (2) of this section also working on same norms. Sub section (2) of this section says that assessing officer has power to invoke penalty under this section on any other person too without being worried about the fact that penalty has been invoked on first person. Assessing officer can invoke penalty on another person too on addition to the first mentioned person.

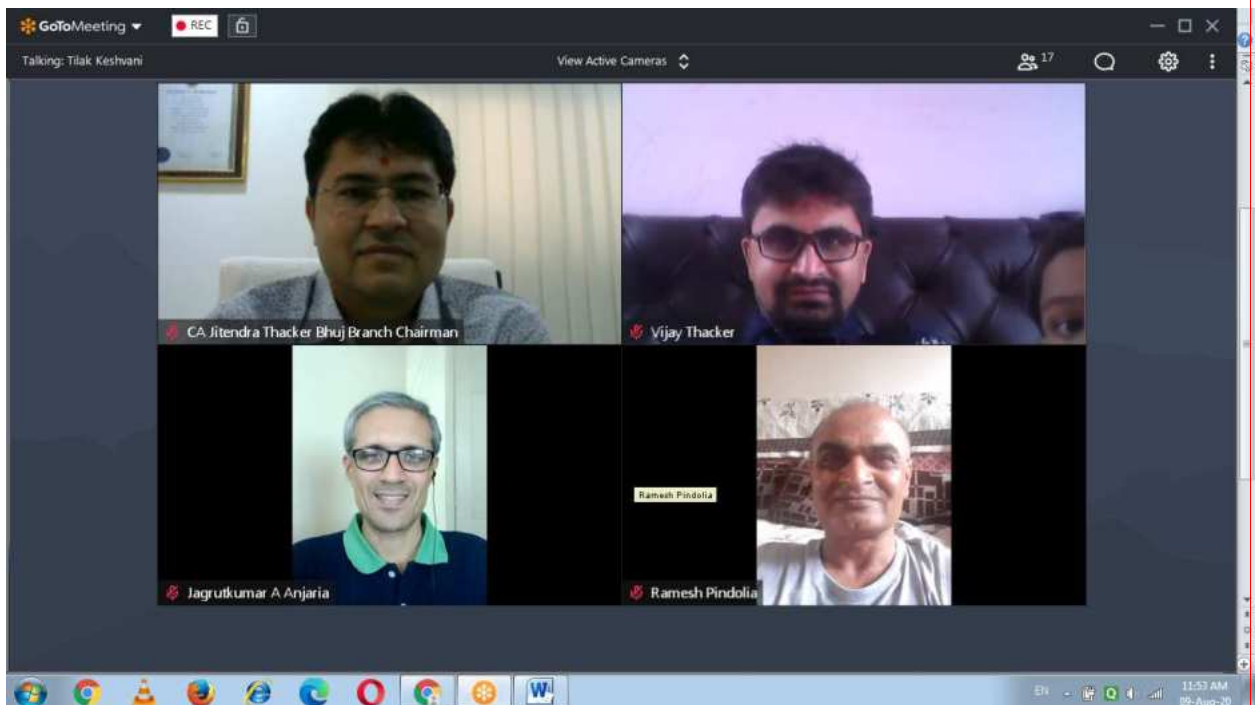
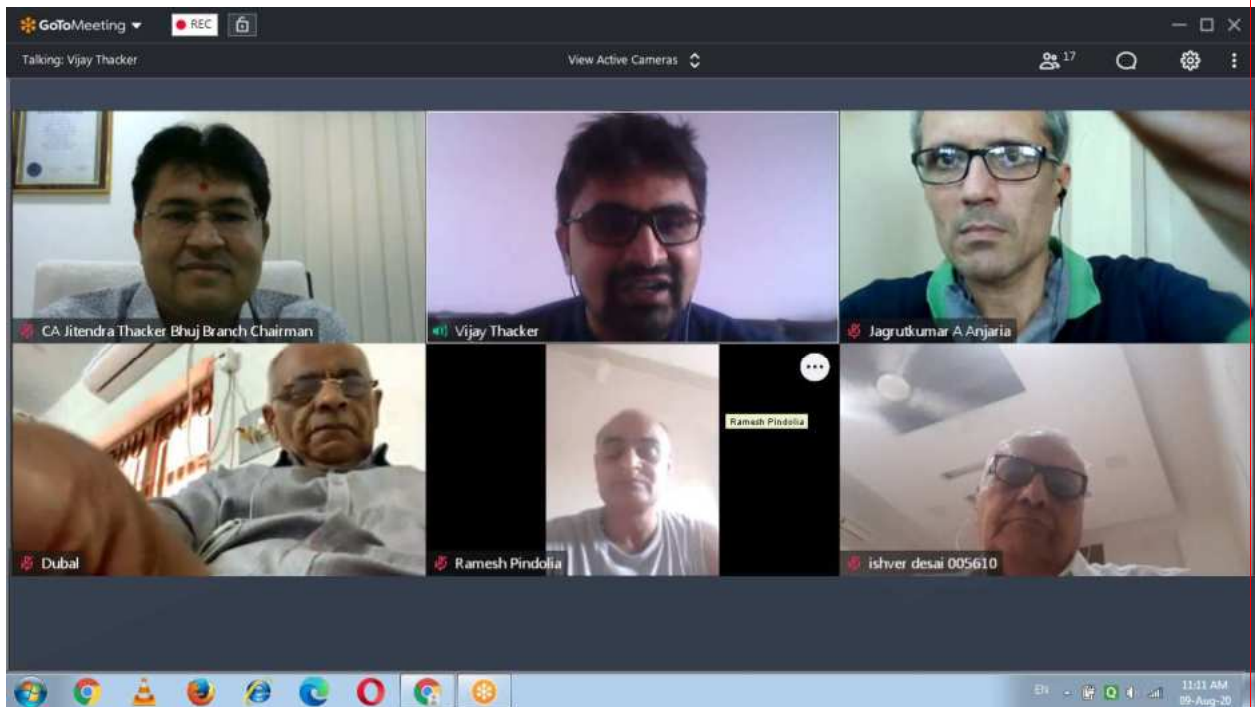
**Contributed by CA Deep Koradia
B.Com., FCA, DISA(ICAI)**

Sr No	Notification No	Category	Date	Description	Keyword / Reference / Comment	Link
1	62/2020	Central Tax	20-08-2020	Seeks to make Tenth amendment (2020) to CGST Rules	Aadhar Authentication for GST Registration prescribed	Click Here
2	63/2020	Central Tax	25-08-2020	Seeks to notify the provisions of section 100 of the Finance (No. 2) Act, 2019 to amend section 50 of the CGST Act, 2017 w.e.f. 01.09.2020	Interest on Net basis notified from 01-09-2020	Click Here
3	64/2020	Central Tax	31-08-2020	Seeks to extend the due date for filing FORM GSTR-4 for financial year 2019-2020 to 31.10.2020	GSTR-4 for the FY 2019-20 Extended to 31-10-2020	Click Here

INDEPENDENCE DAY CELEBRATION



Egyptology-Its Arts, Science & Commerce"
BY CA Tilak Keshvani



Alternative Revenues and Cost Management During Downturns”
CA Robin Banerjee (FCA,CMA,ACS,M.Com)



Interaction with our CORONA CONQUEROR CA Hardik N.Thacker



4 Dimensional Personality Sandhya Anantani

