

The Institute of Chartered Accountants of India

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NEWS LETTER

THE ANANTAPUR BRANCH OF SIRC OF ICAI CONTENTS

1.	Editorial
2.	Chairman speaks
3.	Know your ethics
4.	Case laws
5.	Guidelines for conducting Concurrent Audit of Commercial Banks (Part-3)
6.	FlashFlash
7.	Photographs
8.	Quotations for the month



EDITORIAL

It is heartening to note that the much waited implementation of GST is coming through. The long awaited constitution (122nd amendment bill, 2014) is passed by both the Rajyasabha and Loksabha. Fortunately, 50% of the states have to ratify the same in their respective state assembly and glad to note that the magic figure is given by more than seventeen state assemblies. Of course, the remaining states have to necessarily ratify for full support of implementation of GST. The single biggest reform is now given consent by the President of India.

Now, the ball has started rolling fast for implementing GST most probably from 01.04.2017. It is the noted mega tax reform which will definitely bring the Indian market into a uniform one and result in sizeable jump in tax collections, minimize the litigations, rationalize the prices of commodities and remove the cascading effect of taxes. Probably, our country may b the only country in the world which will have dual GST system consisting of CGST and SGST.

The expected benefits of the new GST regime may be basically benefit to consumers in the long run by rationalizing the prices, bringing all the business people including manufacturers into tax net, expected control over black money and corruption. The right implementation of GST may add another two points to the present GDP rate of 7.6. The only items which are not included in GST are Petroleum products, Alcohol, Electricity and Real estate transactions which are important sources of state taxes revenue. Probably, under GST, taxable person has to file a good number of returns on a periodic basis which may be laborious and the accounting software has to be properly tailored to meet this compliance.

In this process, to make this GST regime a grand success, the **role of Chartered Accountants** need not be over emphasized. Let us as a team, as usual, make this program a grand success.

With Best Wishes,
CA D.Aravind Rama
Chairman
News letter Committee
Anantapur branch of SIRC of ICAI

CHAIRMAN'S MESSAGE



- 1. Work hard in Silence: Silence is the strong fence around wisdom, if your foot slips, you can regain your balance, but if your tongue slips, you can never re-build your image again. Sometimes one creates a dynamic impression by saying something and sometimes one creates a significant impression by remaining silent. Remember that Silence is sometimes the best answer. When we have learned to listen to others, we can master the art of being quiet in order to be able to hear clearly what others are saying. I earnestly appeal to our Members and students to Work hard in Silence, Let your success make the noise.
- 2. The whole nation celebrates 5th September as Teacher's day which is the birthday of our second President Dr.Sarvepalli Radhakrishnan. He had said that teachers should be the best minds in the country. We are what our parents and teachers want us to be. 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. I offer my sincere wishes to our teachers for joining this noblest of noble profession and educating generations after generations.
- 3. In the CA curriculum, the relationship between Principle and Articled Trainee is that of a teacher and a student. As Principle, our members play a significant role in nurturing their articled trainees and moulding them to acquire professional skills that ultimately lead them to success-in examination as well as in their professional life post-examination. Swami Vivekananda said, "he alone teaches who has something to give, for teaching is not talking, teaching is not imparting doctrines, it is communicating". I request Principals to act as a true teacher and play an active role in helping their articled trainees in acquiring holistic knowledge and having diverse experience in various areas of the profession.
- 4. GST: Good and Service Tax is one indirect Tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition on each stage. The final consumers will thus bear only the GST charges by the last dealer in the supply chain, with set-off benefit at all previous stages.

Government of India has progressed one step forward to implement the much awaited reform in the indirect tax regime i.e., Introduction of GST. It will undoubtedly be a biggest tax reform since independence. With this development, while passing of the GST Constitution (122nd) Amendment Bill during the

monsoon session is awaited, industry, Professionals and other stakeholders will be able to provide their inputs and comments on the draft, which will form the basis for the eventual GST legislations. The expectation of implementation of GST by April, 2017 seems possible and the Indian economy is buoyant about it.

5. Let's Perform Tax Audit as a National Duty.

Tax audit season that is at its peak gives us enough opportunity to test and make the best use of our expertise to the core. Rightly go the sayings, we all are aware that taxes are what we pay for civilized society' and these are the fuel which move the wheels of growth and progress. In this backdrop, Chartered Accountants have been entrusted with a very important responsibility to keep the wheel of growth running while ensuring compliance with the provisions of Income Tax act and Rules thereof of certain class of assesses by way of tax audit. As such, it is an important national and social duty for the CAs and this has to be performed to the expectation of both the clients and the Government. Let's perform this onerous task efficiently and effectively. I wish success to all of you for an effective completion of tax audits.

6. Block Your Dates for Hyderabad International Conference

As you know, ICAI will organize a two-day International Conference Jnana Yajna- The Quest for Excellence on 22nd 23rd October, 2016 in Hyderabad. Let me tell you that this Conference will give you an apt platform to exchange your ideas and an opportunity to meet global accountancy experts. The Conference will cerebrate new thought leadership in the areas of governance, standards-setting, financial reporting, regulatory/societal expectations, technological evolution, etc., to augment growth for meeting the aspirations and expectations of society at large. I would request you all to block your dates and make it a point to attend and actively participate in the Conference.

7. CBDT extends due date for filing of Income Tax Returns:

The due date for filing of Income Tax Returns by tax payers whose accounts are required to be audited under the Income Tax Act is the 30th September of the following year. The tax payers whose business receipts exceed Rupees One Crore or professional receipts exceed Rupees Twenty five Lakhs during the previous year 2015-16 are required to file an Income Tax Return accompanied by an audit report by the above mentioned due date.

However, taking into consideration that the last date for making declaration under the Income Declaration Scheme 2016 is also 30th September, 2016, the Central Board of Direct Taxes has decided to extend the last date for such returns which were due on 30th September,2016 to 17th October,2016 in order to remove inconvenience and to facilitate ease of compliance.

Dr.CA.A.G.Venugopal Reddy Chairman

KNOW YOUR ETHICS

✓ Is there any ceiling on the number of tax audit assignments that can be taken up by a member in practice?

Yes, in exercise of the powers conferred by Clause(1) of part II of the Second Schedule to the Chartered Accountants Act, 1949, the Council of the Institute has issued Chapter VI of Council General Guidelines, 2008 which specify that a member of the institute in practice shall be deemed to be guilty of professional misconduct, if he accepts, in a financial year, more than the specified number of tax audit assignments under section 44AB of the Income Tax Act,1961 (The limit has been raised from 45 to 60 audits w.e.f 2014-15).

✓ Whether the audits conducted under Section 44AD, 44AE and 44AF of the Income Tax Act, 1961 shall be taken into account for the purpose of reckoning the specified number of tax audit assignments?

No. Please refer the Code of Ethics, 2009 (Chapter-6 of the Council General Guidelines, 2008 issued under clause (1) of Part II of the Second Schedule) to the Chartered Accountants Act, 1949.

✓ Can a Concurrent Auditor of a Bank also undertake the assignment of quarterly review of the same bank?

No, the Concurrent audit and the Assignment of quarterly review of the same entity cannot be taken simultaneously as the concurrent audit is a kind of internal audit and the quarterly review is a kind of statutory audit. It is prohibited in terms of the Guidance Note of Independence of Auditors.

✓ Whether the members are required to intimate his website address to the Institute?

No, members are not required to intimate the website address to the Institute. However, the website has to comply with the Guidelines issued by the Institute in this regard.

✓ Can a Chartered Accountant receive his professional fees in advance partly or in full?

Yes, as such there is no bar in the Act or in the Chartered Accountants Regulations as well as Code of Ethics in taking the fees in advance.

✓ Can a member act as an Insurance Surveyor?

As per Appendix (9) of the Chartered Accountants Regulations, 1988, a member of the Institute in practice is generally permitted to act as a Surveyor and Loss Assessor under the Insurance Act, 1938 provided he is otherwise eligible. While doing so he can also simultaneously perform attest functions.

✓ Can a member in practice be Promoter / Promoter Director of the Company? Yes, there is no bar for a member to be a promoter/signatory to the Memorandum and Articles of association of any company. There is also no bar for such a promoter/ signatory to be a Director Simplicitor of that company irrespective of whether the objects of the company include areas, which fall within the scope of the profession of Chartered Accountants. Therefore members are not required to obtain specific permission of the council in such cases. There is also no bar on holding any number/ percentage of shares in the company.

✓	Can a member in practice be a sleeping partner in family business concern? Yes, a member in practice can be a sleeping partner in a family business concern provided he takes specific and prior permission from the Council in terms of Regulation 190A of Chartered Accountants Regulations, 1988.



CASE LAWS

Income-Chargeability-AOP or Firm-Whether a firm cannot be a partner in another firm.

Mita Kalpesh Patel v. CIT(2016) 150 TR (A) 624 (Mad-HC) © 2016) 70 (I) ITCL 323 (Mad-HC): 2016 Taxpub(DT)1886 (Mad-HC): (2016) 383 ITR 53 (Mad) FOLLOWED: Central Coalfields Ltd. v. CIT [W.P.(T).No. 1293of 2013, dt. 10-12-2013]

Assessee's assessment was completed under section 143(3), in which he was assessed as a partnership firm. However, CIT(A) thought that a firm cannot be a partner in another firm and that only natural legal persons can be partners in partnership firm, therefore, he issued a show cause notice, calling upon the assessee to show cause as to why their status should not be changed to that of 'Association of Persons' and proceeded to disallow an expenditure towards remuneration and interest paid to partners. Assessee filed writ petition against the same. But the judge dismissed the writ petition. Assessee filed writ appeal.

HELD: The writ appeal was allowed and the impugned order in the writ petition was set aside on the sole ground that the finding that a firm cannot be a partner in partnership firm was contrary to law.

Head of Income-Business Income or Income from Other Sources-Bank Interest

Digital Radio (Delhi) Broadcasting Ltd. v. ACIT(2016) 150 TR (A) 629 (Del-Trib_:2016 Taxpub(DT) 2406 (ITAT-Del)

HELD: In the assessment order, AO had not mentioned the reason for changing the head of bank interest income from "Business Income" offered by assessee to "Income from Other Sources". Therefore, in the interest of justice, appeal of the assessee was remanded back to the file of AO to decide the same on merit after affording reasonable opportunity of hearing to assessee.

♣ Head of Income-Business Income or Income from Other Sources-Income from Fixed deposit-Fixed deposits kept as security to borrow money.

Dy. CIT. v. Britannia Engineering Ltd. (2016) 150 TR (A) 629 (kol 'C' Trib) : 2016 Taxpub (DT) 2129 (Kol 'C'-Trib)

Assessee had kept money in fixed deposits which were used to borrow monies by way of overdraft. The interest on FD was offered as business income. AO held it as other sources. CIT(A) held it as business income.

HELD: The holding of FD had nexus with the borrowing activity of the assessee proximately thus, was business income.

♣ Business deduction under section 36(1)(viia)- Provision for bad and doubtful debts-Computation-Percentage of balance on last day of year or netted figure from amount in provision account

Dy.CIT v. Gondal Nagarik Sahakari Bank Ltd. (2016) 150 TR (A) 634 (Raj-Trib):2016 Taxpub(DT) 2359 (Rkt-Trib)

Assessee was a co-operative bank. It had claimed certain amount as provision for bad debts u/s 36(1)(viia). Assessee calculated the provision amount at the rate of 5% of the assets classified as per RBI guidelines as doubtful assets. A0 had reduced the amount of reserve for bad debts from the total bad debts as on last day of the previous year. Thus, by reducing the provision amount, A0 made the addition.

HELD: As per sec 36(1)(viia), a scheduled bank will be allowed deduction in respect of any provision made by it for any asset classified by the RBI as doubtful asset, for an amount not exceeding 5% amount of such assets shown in the books of account of the bank on the last day of the previous year. From plain reading of the Act, it is clear that it allows a deduction of 5% of the bad debt figure as on the last day of the previous year and does not talk of the net figure arrived at by reducing the reserve for bad debts from the same. Therefore, disallowance made by AO was deleted.

Business Expenditure- Revenue or Capital Expenditure- Expenditure on furniture and fixtures, machine spares, repairs and maintenance.

ITO v. Bhat metals (2016) 150 TR (A) 637 (Del-Trib): 2016 TaxPub(DT) 2563 (ITAT-Del).

Assessee debited expenses towards furniture and fixtures, machine spares, repairs and maintenance and same were claimed as revenue expenditure. Thereafter, AO show caused the assessee as to why these expenses be not capitalized and depreciation allowed thereon.

HELD: It was obvious that the items loaded in furnace could suffer major damage due to extreme temperature and fixtures were mostly those items on which the products whose heat treatment was to be carried out was loaded and then both the fixture and product was put inside the furnace. The fixture would suffer major damage and, therefore, the assessee's claim that they could last only for 2-3 times because assessee had used only mild steels and graphite items. However, this could not be a basis for conducting that fixture would have a very long life because the life of the item would depend on the use to which it was put. It was pointed out that the items of fixtures were mostly cables, pipes MCB etc, which did not have any independent existence and would be a part of other machineries. Therefore, merely they bring grouped under fixture, it could not be concluded that the related expenditure was capital in nature.

Best wishes, CA Dr. D.Harischandra Rama Vice-Chairman



CONCURRENT AUDIT - PART - III

Concurrent Audit - Risk Based Internal Audit:

- 1. A sound internal audit function plays an important role in contributing to the effectiveness of the internal control system. The audit function should provide high quality counsel to management on the effectiveness of risk management and internal controls including regulatory compliance by the bank. Historically, the internal audit system in banks has been concentrating on transaction testing, testing of accuracy and reliability of accounting records and financial reports, integrity, reliability and timeliness of control reports, and adherence to legal and regulatory requirements. However, in the changing scenario such testing by itself would not be sufficient. There is a need for widening as well as redirecting the scope of internal audit to evaluate the adequacy and effectiveness of risk management procedures and internal control systems in the banks.
- 2. To achieve these objectives, banks will have to gradually move towards risk-based internal audit which will include, in addition to selective transaction testing, an evaluation of the risk management systems and control procedures prevailing in various areas of a bank's operations. The implementation of risk-based internal audit would mean that greater emphasis is placed on the internal auditor's role in mitigating risks. While focusing on effective risk management and controls, in addition to appropriate transaction testing, the risk-based internal audit would not only offer suggestions for mitigating current risks but also anticipate areas of potential risks and play an important role in protecting the bank from various risks.
- 3. The risk-based internal audit, on the other hand, undertakes an independent risk assessment *solely for the purpose of formulating the risk-based audit plan* keeping in view the inherent business risks of an activity/location and the effectiveness of the control systems for monitoring the inherent risks of the business activity. It needs to be emphasized that while formulating the audit plan, every activity/location of the bank, including the risk management function, should be subjected to risk assessment by the risk-based internal audit.

Policy for risk-based internal audit

a. Under risk-based internal audit, the focus will shift from the present system of full-scale transaction testing to risk identification, prioritization of audit areas and allocation of audit resources in accordance with the risk assessment. Banks will, therefore, need to develop a well defined policy, duly approved by the Board, for undertaking risk-based internal audit. The policy should include the risk assessment methodology for identifying the risk areas based on which the audit plan would be formulated. The policy should also lay down the maximum time period beyond which even the low risk business activities/locations should not remain unaudited.

Functional independence

- 1. The Internal Audit Department should be independent from the internal control process in order to avoid any conflict of interest and should be given an appropriate standing within the bank to carry out its assignments. It should not be assigned the responsibility of performing other accounting or operational functions. The management should ensure that the internal audit staff performs their duties with objectivity and impartiality. Normally, the internal audit head should report to the Board of Directors/Audit Committee of the Board¹.
- 2. The Board of Directors² and top management will be responsible for having in place an effective risk-based internal audit system and ensure that its importance is understood throughout the bank. The success of internal audit function depends largely on the extent of reliance placed on it by the management for guiding the bank's operations.

Risk assessment

- . The risk assessment process should, inter alia, include the following:-
- · Identification of inherent business risks in various activities undertaken by the bank.
- Evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business activities ('Control risk').
- Drawing up a risk-matrix for taking into account both the factors viz., inherent business risks and control risks. An illustrative risk-matrix is shown as a box item.

The basis for determination of the level (high, medium, low) and trend (increasing, stable, and decreasing) of inherent business risks and control risks should be clearly spelt out. The risk assessment may make use of both quantitative and qualitative approaches. While the quantum of credit, market, and operational risks could largely be determined by quantitative assessment, the qualitative approach may be adopted for assessing the quality of controls in various business activities. In order to focus attention on areas of greater risk to the bank, an activity-wise and location-wise identification of risk should be undertaken.

The risk assessment methodology should include, inter alia, the following parameters:

- Previous internal audit reports and compliance
- · Proposed changes in business lines or change in focus
- · Significant change in management / key personnel
- · Results of latest regulatory examination report
- · Reports of external auditors
- · Industry trends and other environmental factors
- · Time lapsed since last audit

- Volume of business and complexity of activities
- · Substantial performance variations from the budget
- 4. For the risk assessment to be accurate, it will be necessary to have in place proper MIS and data integrity. The internal audit function should be kept informed of all developments such as introduction of new products, changes in reporting lines, changes in accounting practices/policies etc. The risk assessment should invariably be undertaken on a yearly basis. The assessment should also be periodically updated to take into account changes in business environment, activities and work processes, etc.

		Risk Mat	rix	
***	High	A High Risk	B Very High risk	C Extremely High risk
ss risks	Medium	D Medium risk	E High risk	F Very High risk
Inherent business risks	Low	G Low risk	H Medium risk	I High Risk
eut		Low	Medium	High
Inhe		Co	ontrol Risks	> 1

Risk matrix

Inherent business risks indicate the intrinsic risk in a particular area/activity of the bank and could be grouped into low, medium and high categories depending on the severity of risk. Control risks arise out of inadequate control systems, deficiencies/gaps and/or likely failures in the existing control processes. The control risks could also be classified into low, medium and high categories. In the overall risk assessment both the inherent business risks and control risks should be factored in. The overall risk assessment as reflected in each cell of the risk matrix is explained below:

- A High Risk- Although the control risk is low, this is a High Risk area due to high inherent business risks.
- B Very High Risk- The high inherent business risk coupled with medium control risk makes this a Very High Risk area
- C Extremely High Risk Both the inherent business risk and control risk are high which makes this an Extremely High Risk area. This area would require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the bank's top management.
- D Medium Risk Although the control risk is low this is a Medium Risk area due to medium inherent business risks.
- E High Risk Although the inherent business risk is medium this is a High Risk area because of control risk also being medium.

- F Very High Risk Although the inherent business risk is medium, this is a Very High Risk area due to high control risk.
- G Low Risk Both the inherent business risk and control risk are low.
- H Medium Risk The inherent business risk is low and the control risk is medium.
- I High Risk Although the inherent business risk is low, due to high control risk this becomes a High Risk area.

The banks should also analyse the inherent business risks and control risks with a view to assess whether these are showing a stable, increasing or decreasing trend. Illustratively, if an area falls within cell 'B' or 'F' of the Risk Matrix and the risks are showing an increasing trend, these areas would also require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the bank's top management (as applicable for cell 'C'). The Risk Matrix should be prepared for each business activity/location.

3. All banks need to put in place an independent risk assessment system in the internal audit department for focusing on the material risk areas and prioritizing the audit work. The methodology may range from a simple analysis of why certain areas should be audited more frequently than others in the case of small sized banks undertaking traditional banking business, to more sophisticated assessment systems in large sized banks undertaking complex business activities.

Best wishes.

CA. J. Chandramouli Gupta Chartered Accountant

Flash..Flash.. > The date for filing of tax audit reports is extended from 30.09.2016 to 17.10.2016. > For practicing members, application for multi parallel empanelment is extended up to 20th of September, 2016.



Felicitation to Dr.P.Ramesh Narayana on Teachers Day conducted at branch office on 05.09.2016.



Seminar on TALLY Accounting Software conducted at the SS Paradise Conference Hall on 27.08.2016.



Lighting of lamp by the Anantapur branch members of the ICAI on GST and Tax Audit Seminar.



GST Seminar by CA.Hari Ganesh on 20.08.2016.



Investors' awareness programme organized at z.p. office conference hall on 03.09.2016.

QUOTATIONS FOR THE MONTH

- Satisfaction is the highest level of happiness and it is easily attained when you have no expectations from anyone.
- ❖ Your mind is a magnet. If you think of blessings, you attract blessings and if you think of problems, you attract problems. So, always try to cultivate good thoughts and always remain positive and optimistic.
- ❖ No teacher, no professor nor a mentor can teach the important lessons in life better than a hungry stomach and an empty pocket.
- ❖ Failure will never overtake the person if one's determination to succeed is strong enough.