

# SIRC Newsletter

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Southern India Regional Council ▶ THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA ▶ SET UP BY AN ACT OF PARLIAMENT

## INTERNAL AUDIT

INAUGURATION OF ICAI CONVOCATION HELD AT CHENNAI ON 10TH MAY 2013



Seen in the Picture are from (L-R): CA. M. Devaraja Reddy, Central Council Member, ICAI, CA. V. Murali, Vice-Chairman, Board of Studies and Convenor of Convocation, Mr. R.C. Mishra, IRS, Chief Commissioner of Income Tax – I, Prof. R. Thandavan, Vice-Chancellor, University of Madras, CA. Subodh Kumar Agrawal, President, ICAI, CA. G. Sekar, Central Council Member, ICAI, CA. K. Raghuram, Vice-President, ICAI, CA. Babu Abraham Kalivayalil, Central Council Member, ICAI, CA. Gopal Krishna Raju, Treasurer, SIRC, CA. P.R. Aruloli, Secretary, SIRC and CA. D. Prasanna Kumar, Chairman, SIRC

## ICAI CONVOCATION HELD AT CHENNAI ON 10TH MAY 2013



CA. Subodh Kumar Agrawal, President, ICAI presenting the Credential – Others seen in the picture are [From L/R] – CA. Babu Abraham Kalliyavajil, Central Council Member, ICAI, CA. M. Devaraja Reddy, Central Council Member, ICAI, CA. V. Murali, Vice-Chairman, Board of Studies and Convener of Convocation, CA. K. Raghu, Vice-President, ICAI, CA. G. Sekar, Central Council Member, ICAI and CA. D. Prasanna Kumar, Chairman, SIRC of ICAI



Recipients of credentials at the Convocation



CA. V. Murali, Vice-Chairman, Board of Studies, ICAI and Convener of Convocation welcoming the Chief Guest Prof. R. Thandavan, Vice-Chancellor of Madras University with a bouquet.

## SIRC REGIONAL RESIDENTIAL COURSE HELD AT OOTY FROM 24TH TO 26TH MAY 2013



Group Photograph of Participants

## NATIONAL CONFERENCE ON DIRECT AND INDIRECT TAXES HELD AT COIMBATORE ON 17TH MAY 2013



Seen in the Picture are: CA. J.S. Ayub, Secretary, Erode Branch, CA. N. Thangavel, Chairman, Erode Branch, CA. B. Saravanan, SICASA Chairman, Coimbatore Branch, Dr. Grishu Ahuja, Resource Person, CA. K. Shanmukha Sundaram, Past Chairman, SIRC, CA. Gopal Krishna Raju, Treasurer, SIRC, CA. D. Prasanna Kumar, Chairman, SIRC, CA. K.P. Gobinath, Chairman, Coimbatore Branch, CA. P.R. Arulji, Secretary, SIRC, CA. B. Sekkizhar, Chairman, SICASA, CA. M. Robert Kennedy, Secretary, Coimbatore Branch, CA. N.N. Shanmugavadivel, Treasurer, Coimbatore Branch, CA. P. Balasubramani, Managing Committee Member, Coimbatore Branch, CA. S. Rajesh, Managing Committee Member, Coimbatore Branch and CA. K.S. Shanmugam, Managing Committee Member, Coimbatore Branch.



## OFFICIAL VISIT TO ERODE BRANCH BY CA. D. PRASANNA KUMAR, CHAIRMAN, SIRC

CA. D. Prasanna Kumar, Chairman, SIRC addressing the members of Erode Branch on 17<sup>th</sup> May 2013. Seated on the dais from [L/R]: CA. P.R. Arulji, Secretary, SIRC of ICAI, CA. N. Thangavel, Chairman, Erode Branch of SIRC of ICAI, CA. Gopal Krishna Raju, Treasurer, SIRC of ICAI, CA. B. Sekkizhar, Chairman, SICASA and CA. J.S. Ayub, Secretary, Erode Branch of SIRC of ICAI.

# Chairman writes ...



## **My dear Professional Colleagues, Continuous Professional Education Programme (CPE)**

The Institute, with a view to provide the members with the updates and to exhort them to have abreast knowledge of the various developments in the profession, three decades ago, gave fillip to the concept of Continuing Professional Education Programme. The principal aim of the Continuing Professional Education is to organize courses and seminars which will assist the professional development of members – both in employment and in practice. Over the years, the recommendatory concept evolved initially was made mandatory for all the members prescribing a minimum number of CPE hours a member should acquire by attending the programmes of the Institute organized through its Programme Organizing Units (PoUs) across the country. I am very happy to note that the members have been attending the programmes of SIRC in large numbers and I look forward to their continued participation in enhancing their competence. For the ready reference of members, the CPE credit Hours requirements for the block of 3 Calendar years from 01-01-2011 to 31-12-2013 to be complied with by different categories of members is published Page No. 9 of this Newsletter.

Whilst on this subject I recall few notable sayings which come to my mind to elucidate my point.

**“You gain knowledge by learning something new. You gain wisdom by learning and accepting something contradicting or altering things you'd learnt before” – Majdi Rabah.**

**“We want that education by which character is formed, strength of mind is increased, the intellect is expanded, and by which one can stand on one's own feet” – Swamy Vivekananda**

**“I pick up pebbles at the shore of knowledge” - Newton.**

This is precisely our intention that while planning to organize the programmes we steadfastly pursue with one and the only objective of structuring the programmes and identifying the best speakers to share their expertise to ensure value addition to Participants. Every Branch and other PoUs are in sync with SIRC and have been conducting numerous programmes for the benefit members.

By the time this Newsletter is in your hands, the present team at SIRC would have just completed 100 days in office. Though short a period for us to realize our objectives, sincere efforts have been taken to provide a number of programmes and one of the features during this period was that the SIRC organized Workshops on all Saturdays to facilitate members to attend in large numbers, besides regular CPE Study Circle Meetings and other events. SIRC would strive to organize more programmes to the benefit of members at large almost on every Saturday and I invite members to avail of the opportunity.

## **Chartered Accountants Day**

The months of June and July would continue to be programme-filled in months but I would like to emphasize one of the programmes of glory and important occasion to be held on 1st July as Chartered Accountants Day. As all of you know, our Institute was formed on 1st July 1949 and SIRC has been celebrating this momentous occasion as CA Day from 1993 in a befitting manner. This year too, SIRC has been planning to celebrate the occasion in a grand manner

in Chennai and in all Branches. SIRC has requested all the Branches to organize as part of the function the Blood Donation Camp in their places. I appeal to the members to come forward with family for the Blood Donation and also encourage their articled assistants for this social cause.

The celebration of Chartered Accountants Day is one occasion, when SIRC would be recalling and recognizing the services of senior members of our profession. The programme on 1st July 2013 commencing from Walkathon on Beach Road followed by ICAI Flag Hoisting at 9.00 a.m. at the SIRC Premises, Blood Donation Camp, Sports and Games for spouse and children of members and the main function at 6.00 p.m. are the highlights of the day-long function. The details of the programme are appearing in Page No. 9. and also hosted in the SIRC Website [www.sircoficai.org](http://www.sircoficai.org).

I, on behalf of SIRC and on my own behalf extend a warm welcome to the members to participate in the day long function with their spouse and children.

## **Regional Residential Courses (RRCs)**

During this year SIRC has focused on organizing Regional Residential Courses (RRCs) at different places in the Region at bimonthly intervals. The encouragement received from the members for the RRCs held at Yercaud and Ooty gave us motivation and further impetus to organize the RRCs every month. I am happy to inform that the RRCs will be held at Kodaikanal in Tamilnadu, Tirupati in Andhra Pradesh, Courtallam in Tamilnadu and Dindi, East Godavari District, Andhra Pradesh during the next three months. The details of these Courses are published in Page No 7. and 8. of this Newsletter. I invite members to participate in large numbers.

In addition to the above, SIRC is also planning to organize one RRC exclusive for Members in Industry, the details of which will be informed in due course.

These Residential Courses besides providing value addition through CPE and fellowship is an opportunity for the members to be away from their routine professional commitments and also could attend with their spouse and children. I would request the members to continue to encourage us by participating in these programmes. .

## **Video Conferencing with Hon'ble President and Vice-President of ICAI**

For the first time through video conferencing, our Hon'ble President CA. Subodh Kumar Agrawal and Vice-President CA. K. Raghu interacted with the Chairmen of all five regions as a sequel to the Regional Chairmen Meet held on 20th March 2013 at New Delhi. The interaction was very lively and purposeful as many of the points discussed at the meeting earlier were either resolved or taken forward and SIRC thanks both the President and Vice President for their positive attitude and timelines

## **Convocation**

Our beloved President CA. Subodh Kumar Agrawal presented credentials to 816 newly enrolled members in the presence of our beloved Vice-President CA. K. Raghu at the Convocation held on 10th May 2013 at Chennai. Chief Guest Prof. R. Thandavan, Vice-Chancellor of Madras University and Guest of Honour Mr. R.C. Mishra, IRS, Chief Commissioner of Income Tax – I presented the rank certificates

# SIRC CALENDAR

# JUNE, JULY & AUGUST 2013

| Contact: Dr. T. Paramasivan, Senior Deputy Director [Tech.] – ICAI – Phone: 044 – 30210361 / 320 – E-mail: sirc@icai.in |   |   |  |                        |                               |  |   |
|---|---|---|--|------------------------|-------------------------------|--|---|
| S. No.  | Date and Day                              | Programme Name  | Resource Persons   | Timings                | Venue                         | Page No                                |   |
| 1   | June 8, 2013<br>Saturday                  | Workshop on International Taxation  |  | 10.00 a.m. – 5.00 p.m. | P. Brahmayya<br>Memorial Hall | Details in Page 6 of May<br>2013 Issue |   |
| 2   | June 12, 2013<br>Wednesday                | Study Circle Meeting on<br>FCRA - Precautions                                       | CA. Dural Rangasamy<br>Chennai   | 6.15 p.m. – 8.30 p.m.  | P. Brahmayya<br>Memorial Hall | -                                      |   |
| 3   | June 14, 2013<br>Friday                   | Study Group Discussion on<br>Employee Contributions [Proposed amendments to IAS 19] | Exposure Draft: Defined Benefit Plans:<br>Employee Contributions [Proposed amendments to IAS 19] | 4.30 p.m. – 6.30 p.m.  | SIRC Premises                 | -                                      |   |
| 4   | June 15, 2013<br>Saturday                 | Workshop on Forensic Accounting and Fraud Detection                                 |  | 10.00 a.m. – 5.00 p.m. | P. Brahmayya<br>Memorial Hall | Details in Page 7 of May<br>2013 Issue |   |
| 5   | June 19, 2013<br>Wednesday                | CPE Teleconference  | Details will be hosted<br>in the website www.<br>sircoficai.org                                  | 11.00 a.m – 1.00p.m.   | SIRC Premises                 | -                                      |   |
| 6   | June 19, 2013<br>Wednesday                | Study Circle Meeting<br>Reverse Charge Mechanism                                    | CA. Hari Govind<br>Pondicherry   | 6.15 p.m. – 8.30 p.m.  | P. Brahmayya<br>Memorial Hall | -                                      |   |
| 7   | June 22, 2013<br>Saturday                 | Half Day Seminar<br>Valuation of Shares using DCF                                   | CA. V Manoj<br>Chennai   | 10.00 a.m. – 1.00 p.m. | P. Brahmayya<br>Memorial Hall | -                                      |   |
| 8   | June 26, 2013<br>Wednesday                | CPE Teleconference  | Details will be hosted<br>in the website www.<br>sircoficai.org                                  | 11.00 a.m – 1.00p.m.   | SIRC Premises                 | -                                      |   |
| 9   | June 26, 2013<br>Wednesday                | Study Circle Meeting on<br>Transfer Pricing Assessment                              | CA. S. Chandrakumar<br>Chennai   | 6.15p.m. – 8.30 p.m.   | P. Brahmayya<br>Memorial Hall | -                                      |   |
| 10  | June 28-30, 2013<br>Friday – Sunday       | Regional Residential Programme at Kodaikanal  |  |                        |                               |  | 7 |
| 11  | June 29, 2013<br>Saturday                 | Workshop on Derivatives & Equity  |  | 10.00 a.m. – 5.00 p.m. | P. Brahmayya<br>Memorial Hall | 6                                      |   |
| 12  | June 30 & July 1, 2013<br>Sunday & Monday | Blood Donation Camp   |  | 9.00 a.m. – 2.00 p.m.  | SIRC Premises                 | 8                                      |   |
| 13  | July 1, 2013<br>Monday                    | Chartered Accountants Day   |  |                        |                               |  | 9 |
| 14  | July 3, 2013<br>Wednesday                 | Study Circle Meeting on<br>Fraud Risk Factors in Corporate<br>Governance            | CA. Surya Pawan Kumar<br>Chennai   | 6.15 p.m. – 8.30 p.m.  | P. Brahmayya<br>Memorial Hall | -                                      |   |
| 15  | July 6, 2013<br>Saturday                  | Seminar on<br>Practical Insights into Accounting Standards                          |  |                        |                               |  | 6 |
| 16  | July 8-10, 2013<br>Monday- wednesday      | Regional Residential Course at Tirupati   |  |                        |                               |  | 7 |
| 17  | July 10, 2013<br>Wednesday                | Study Circle Meeting on<br>Capital Gains – Residential<br>Property                  | CA. S. Krishnan<br>Chennai   | 6.15 p.m. – 8.30 p.m.  | P. Brahmayya<br>Memorial Hall | -                                      |   |

## SIRC CALENDAR [Contd..]

|    |   |   |                        |                                    |    |                 |   |
|----|---|---|------------------------|------------------------------------|----|-----------------|---|
| 18 | July 12, 2013<br>Friday                   | One Day Seminar on Taxation   | 10.00 a.m. – 5.00 p.m. | P. Brahmayya<br>Memorial Hall      | 6  | 750             | 6 |
| 19 | July 17, 2013<br>Wednesday                | Study Circle Meeting on<br>Voluntary Compliance<br>Encouragement Scheme, 2013 | 6.15 p.m. – 8.30 p.m.  | CA. R. Palamalai<br>Chennai        | 2  | No Delegate Fee |   |
| 20 | July 20, 2013<br>Saturday                 | Workshop on Indirect Taxes  | 10.00 a.m. – 5.00 p.m. | P. Brahmayya<br>Memorial Hall      | 6  | 750             | 6 |
| 21 | August 3 & 4, 2013<br>Saturday & Sunday   | Regional Residential Course at Courtallam                                     |                        | The Kuttalam<br>Heritage, Ilangi   | 12 | Details inside  | 8 |
| 22 | August 10 & 11, 2013<br>Saturday & Sunday | Regional Residential Course at Dindi [East Godavari Dist., A.P]               |                        | Haritha Coconut<br>Country Resorts | 12 | Details inside  | 8 |

Unless otherwise specified, the delegate fee for SIRC Programmes may be paid by way of Cash or by Cheque / DD drawn in favour of 'SIRC of ICAI' payable at Chennai shall be sent to SIRC of ICAI, 'ICAI Bhavan', No.122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600034. Phone: 044-30210320; Fax: 044-30210355; Email: sirc@icai.in

## CHAIRMAN WRITES [Contd..]

to the 13 Rank Holders. The function was well co-ordinated by the Convener of the Convocation and Vice-Chairman, Board of Studies, CA. V. Murali.

SIRC congratulates all the newly enrolled members and wish them all success in their career.

## Visit to Branches

I had the proud privilege to be the Chief Guest at the Inaugural Function of the Two Day National Conference on Direct and Indirect Taxes hosted by Coimbatore Branch of SIRC on 17th May 2013 at Coimbatore. I congratulate CA. K.B. Gobinath, Chairman, Coimbatore Branch and his team for making excellent arrangements and organizing the Conference in a grand manner.

On the same day, I had the pleasant privilege to be amongst the members of Erode Branch of SIRC during my Official Visit. The occasion gave me an opportunity to share matters of professional interest and it was very lively and purposeful. I congratulate CA. S. Thangavel, Chairman of Erode branch and his team for their hospitality shown and their untiring efforts in the service of Members and Students.

SIRC organized yet another Regional Residential Course at Ooty hosted by Tirupur Branch of SIRC. The Course was well attended by the members and the deliberations were of high standard. I congratulate CA. K. Chinnasamy, Chairman, Tirupur Branch and his team for organizing in a befitting manner.

## Sharing of Thoughts

My interaction with the members through this column has given immense satisfaction in the sense that I could disseminate the activities of SIRC though not exhaustively but in a nutshell. During my visits to Branches I had the pleasant opportunity to interact with the members and gained valuable input and received suggestions for the furtherance of activities of SIRC. My recent visit to Coimbatore and Erode is no exception and I treasure it.

When exchanging matters of professional interest with professional fraternity I recall a Chinese proverb on "sharing of knowledge" which states:

**"A new philosophy emerged called quantum physics, which suggest that the individual's function is to inform and be informed. You really exist only when you're in a field of sharing and exchanging information. You create the realities you inhabit. Learning is a treasure which accompanies its owner everywhere."**

Let us join together in keeping the Flag of the Institute fly high. On the occasion of Chartered Accountants Day, let us re-dedicate ourselves to the cause of our profession.

**I wish you all "Happy CA Day" on 1st July 2013.**

Until we meet through this column, my warm regards,

*Yours in professional service*



CA. D. PRASANNA KUMAR  
chairmansirc@gmail.com

## EDITORIAL BOARD

|                  |  |
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| <b>Editor :</b>  | CA. D. Prasanna Kumar  |
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|   |  |  |   |                                 |
|---|--|--|---|---------------------------------|
| <b>WORKSHOP ON FINANCE &amp; CAPITAL MARKET</b><br>WITH SPECIAL REFERENCE TO DERIVATIVES & EQUITY   |  | <b>Saturday</b><br>June 29, 2013               | <b>P. Brahmayya Memorial Hall,</b><br>'ICAI Bhawan'<br>No.122, MG Road, Nungambakkam<br>Chennai - 600 034 | CPE Credit<br><b>6</b><br>HOURS |
| Timings: 10.00 AM to 5.00 PM  |  |  | DELEGATE FEE: ₹ 750   |                                 |
| <b>Topics</b>   | <b>Resource Persons</b>                    | <b>Timings</b>                                 |   |                                 |
| Derivatives: Futures and Options – An Insight<br>Derivatives- Strategies and Tips for Wealth Creation   | <b>CA. V. Pattabhi Ram</b><br>Chennai      | 10.00 a.m - 1.00 p.m                           |   |                                 |
| Equity Markets- An Insight<br>Equity - Strategies & Tips for Wealth Creation  | <b>CA. A.P.Prakasan</b><br>Chennai         | 2.00 a.m - 5.00 p.m                            |   |                                 |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC  |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC |   |                                 |
| <b>SEMINAR ON</b><br><b>PRACTICAL INSIGHTS INTO ACCOUNTING STANDARDS</b>  |  | <b>Saturday</b><br>July 6, 2013                | <b>P. Brahmayya Memorial Hall,</b><br>'ICAI Bhawan'<br>No.122, MG Road, Nungambakkam<br>Chennai - 600 034 | CPE Credit<br><b>6</b><br>HOURS |
| Timings: 10.00 AM to 5.00 PM  |  |  | DELEGATE FEE: ₹ 750   |                                 |
| <b>Topics</b>   | <b>Resource Persons</b>                    | <b>Timings</b>                                 |   |                                 |
| AS – 11 The Effect of Changes in Foreign Exchange Rates   | <b>CA. Chinnsamy Ganesan</b><br>Chennai    | 10.00 a.m - 12.00 Noon                         |   |                                 |
| AS-9 Revenue Recognition  | <b>CA. Mohan Ramakrishna</b><br>Chennai    | 12.00 Noon - 1.00 p.m<br>2.00 p.m - 3.00 p.m   |   |                                 |
| AS-10 Accounting for Fixed Assets   | <b>CA. K. Sudhakar</b><br>Chennai          | 3.00 p.m - 5.00 p.m                            |   |                                 |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC  |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC |   |                                 |
| <b>SEMINAR ON</b><br><b>TAXATION</b>  |  | <b>Friday</b><br>July 12, 2013                 | <b>P. Brahmayya Memorial Hall,</b><br>'ICAI Bhawan'<br>No.122, MG Road, Nungambakkam<br>Chennai - 600 034 | CPE Credit<br><b>6</b><br>HOURS |
| Timings: 10.00 AM to 5.00 PM  |  |  | DELEGATE FEE: ₹ 750   |                                 |
| <b>Topics</b>   | <b>Resource Persons</b>                    | <b>Timings</b>                                 |   |                                 |
| TDS & Sec. 44 AD – Recent Developments  | <b>CA. N S Srinivasan</b><br>Chennai       | 10.00 a.m - 12.00 Noon                         |   |                                 |
| Survey, Interest & Penalties  | <b>CA. P. Anand</b><br>Chennai             | 12.00 Noon - 1.00 p.m<br>2.00 p.m - 3.00 p.m   |   |                                 |
| Assessment and Re-assessment under Income Tax Act   | <b>CA. J. Prabhakar</b><br>Chennai         | 3.00 p.m - 5.00 p.m                            |   |                                 |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC  |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC |   |                                 |
| <b>WORKSHOP ON</b><br><b>INDIRECT TAXES</b>   |  | <b>Saturday</b><br>July 20, 2013               | <b>P. Brahmayya Memorial Hall,</b><br>'ICAI Bhawan'<br>No.122, MG Road, Nungambakkam<br>Chennai - 600 034 | CPE Credit<br><b>6</b><br>HOURS |
| Timings: 10.00 AM to 5.00 PM  |  |  | DELEGATE FEE: ₹ 750   |                                 |
| <b>Topics</b>   | <b>Resource Persons</b>                    | <b>Timings</b>                                 |   |                                 |
| <b>Central Excise</b><br>Excise Valuation - What a CA should know<br>Central Excise - Value Added Service by a CA during finalisation of accounts | <b>CA. V. Prasanna Krishnan</b><br>Chennai | 10.00 a.m - 1.00 p.m                           |   |                                 |
| <b>Service Tax</b><br>Service Tax Intricacies in Composite Transactions   | <b>CA. K. Sivarajan</b><br>Chennai         | 2.00 p.m - 5.00 p.m                            |   |                                 |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC  |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC |   |                                 |

| REGIONAL RESIDENTIAL COURSE AT KODAIKANAL   |   | Friday - Sunday<br>June 28 - 30, 2013  | Hotel Kodai International<br>Kodaikanal  | CPE Credit<br><b>12</b><br>HOURS                               |
|---|---|--|--|--|
| Hosted by Tiruchirapalli Branch Jointly with<br>Madurai Branch of SIRC of ICAI  |   | Inaugural Address : CA. D Prasanna Kumar, Chairman, SIRC of ICAI<br>Guest of Honour : CA. G. Ramaswamy, Past President, ICAI                     |  |  |
| June 28, 2013<br>Inaugural Session 5.30 p.m.  |   |  |  |  |
| <b>DAY - 1</b>  | <b>Resource Persons</b>   |  |  |  |
| Taxation of Charitable Trusts, Societies &<br>Educational Trusts  | CA. G. Ramaswamy, Coimbatore  |  |  |  |
| <b>DAY - 2</b>  |   |  |  |  |
| TDS/TCS<br>Real Estate Tax Implications & Joint Development Agreement<br>NBFC New Avatar  | CA. R. Srivatsan, Tiruchirapalli<br>CA. R. Marimuthu, Chennai<br>CA. A. John Moris, Chennai |  |  |  |
| <b>DAY - 3</b>  |   |  |  |  |
| Service Tax<br>Parenting & Adulthood- Professional Service Firms  | CA. V. Alagappan, Tiruchirapalli<br>CA. P.R. Aruloli, Chennai                               |  |  |  |
| <b>DELEGATE FEE: ₹</b>  |   | Pickup Point<br>Kodai Road Rly. Stn./<br>Madurai Rly. Stn.<br>Check in at Hotel : 5.00 p.m.  |  |  |
| Residential Members : 7000  | Spouse Registrations: 6000  |  |  |  |
| Non Residential Members : 3000  |   |  |  |  |
| Delegate fee by way of Cash or by Cheque / DD drawn in favour of 'Tiruchirapalli Branch of SIRC of ICAI' payable at Tiruchirapalli shall be sent to Tiruchirapalli Branch of SIRC of ICAI No.28, Green House Apartments, MC Donalds Road, Tiruchirapalli-620001. Ph:-0431-2463166 ; Fax: 0431 – 2463166; e-mail:tiruchirapalli@icai.org; (or) |   |  |  |  |
| Delegate fee by way of Cash or by Cheque / DD drawn in favour of 'Madurai Branch of SIRC of ICAI' payable at Madurai shall be sent to Madurai Branch of SIRC of ICAI, ICAI Bhawan, Old Natham Road, Opp: Bala Mandir School, Visalakshipuram, Madurai-625014. Ph:-0452-2640968 e-mail:madurai@icai.org;                                       |   |  |  |  |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC<br>Ex-officio Member, Tiruchirapalli Branch  |   | <b>CA. P. V. Rajarajeswaran</b><br>Ex-officio Member, Madurai Branch   |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC                 |
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| <b>CA. A. Victor D Samuel</b><br>Secretary, Tiruchirapalli Branch   |   |  |  |  |
| REGIONAL RESIDENTIAL COURSE AT TIRUPATI   |   | Monday - Wednesday<br>July 8 - 10, 2013  | Hotel BLISS<br>Tirupati  | CPE Credit<br><b>12</b><br>HOURS                               |
| Organised by Committee for Members in Industry of<br>The Institute of Chartered Accountants of India Jointly with SIRC of ICAI  |   | Eminent resource persons would be sharing their thoughts and wisdom on varied topics of professional interest.                                   |  |  |
| Hosted by Tirupati Branch of SIRC of ICAI   |   | The detailed programme schedule will be hosted in ICAI Website www.icai.org, Committee Website cmii@icai.in and SIRC Website www.sircoficai.org. |  |  |
| <b>DELEGATE FEE: ₹</b>  |   | Limited Seats<br>Registration on First<br>Come First Serve<br>Basis  |  |  |
| Residential Members : 11,000 (Twin Sharing basis)   | Club Rooms : 9,000  | } Standard Room  |  |  |
| Non Residential Members : 4,000   | Club Rooms : 9,000  |  |  |  |
| Spouse : 10,000   |   |  |  |  |
| Delegate Fee by way of Cash or by Local Cheque/Demand Draft drawn in favour of "Tirupati Branch of SIRC of ICAI" payable at Tirupati may be sent to Chairman, Tirupati Branch of SIRC, Door No. 1-5-599/N, Adithya Towers, Flat No. 10, Ground Floor, Balaji Colony, Tirupati – 517 502 [E-mail tirupathi@icai.in]                            |   |  |  |  |
| <b>CA. Vijay Kumar Gupta</b><br>Chairman<br>CMII of ICAI<br>09810050029   |   | <b>CA. M. Devaraja Reddy</b><br>Member,<br>CMII of ICAI<br>09440681288   |  | <b>CA. D. Prasanna Kumar</b><br>Chairman, SIRC<br>098481 92636 |
| <b>CA. P.R. Aruloli</b><br>Secretary, SIRC<br>098840 61348  | <b>CA. G.V. Pradeep Kumar</b><br>Secretary,<br>Tirupati Branch.<br>098492 41022             | <b>CA. E. Phalgun Kumar</b><br>Ex-officio Member,<br>Tirupati Branch<br>09441886303  | <b>CA. B. Krishna Murthy</b><br>Chairman,<br>Tirupati Branch.<br>099639 71685  |  |
| Invitation for Contribution of Articles   |   |  |  |  |
| SIRC of ICAI invites Articles from Members for publication in the SIRC Newsletter. SIRC is releasing Theme Based monthly Newsletter. The theme finalized for the next three months as follows:  |   |  |  |  |
| Month   | Theme   | Articles to reach SIRC on or before  | Members may send the soft copy of their article, profile and passport size colour photograph to SIRC by email to <a href="mailto:sirc@icai.in">sirc@icai.in</a> and <a href="mailto:sircnewsltr@icai.in">sircnewsltr@icai.in</a> for consideration by the Editorial Board on or before the above said dates. |  |
| July 2013   | Direct Taxes  | June 10, 2013  |  |  |
| August 2013   | Indirect Taxes  | July 10, 2013  |  |  |
| September 2013  | Tax Audit under Sec. 44 AB  | August 10, 2013  |  |  |

**REGIONAL RESIDENTIAL SEMINAR AT COURTALLAM****Host: Tirunelveli Branch of SIRC of ICAI****Saturday - Sunday  
August 3 & 4, 2013****The Kuttalam Heritage  
Shengottai Courtallam  
Main Road, Ilangi.**CPE Credit  
**12**  
HOURSInaugural at 09.00 a.m. by **CA. D. Prasanna Kumar, Chairman, SIRC of ICAI****Day - 1**

- TDS Issues on Tax Audit
- Talent Strategy for Professional Service Firms
- Managing Audit Risk

**Day - 2**

- Input Tax Credit under TNVAT
- TNVAT Audit
- Service Tax – Issues on Negative List Regime

Delegate Strength – 50 Persons only

**Residential**

(On First Come First Served )

|                                | Non A/c Room | A/c Room |
|--------------------------------|--------------|----------|
| Members                        | Rs. 4250     | Rs. 4750 |
| Accompanying Spouse            | Rs. 3750     | Rs. 4250 |
| Children above 12 years        | Rs. 3750     | Rs. 4250 |
| Children between 6 to 12 years | Rs. 2000     | Rs. 2500 |

**Non –Residential** Members Rs. 2000**BATH ARRANGED AT PRIVATE FALLS**

Trains connected to Tenkasi : Pothigai Express

From Chennai – Train No. 12661 – Aug 2, 2013 – Time 08.05 p.m.

From Tenkasi – Train No. 12662 – Aug 4, 2013 – Time 07.16 p.m.

Pick-up and Drop-at Tenkasi Railway Station

Delegate fee by way of Cash or by Cheque/Demand Draft drawn in favour of **'Tirunelveli Branch of SIRC of ICAI'** payable at Tirunelveli shall be sent to: Tirunelveli Branch of SIRC of ICAI, 38-A, Angu Vilas Building, V.K. Road, Tirunelveli Jn. – 627 001. Phone : 0462 – 2339554 Email: tirunelveli@icai.org

**SIRC REGIONAL RESIDENTIAL COURSE AT DINDI (EG. Dist)**

Hosted by Rajamahendravaram and Kakinada Branches of SIRC of ICAI

**Saturday - Sunday  
August 10 & 11, 2013****Haritha Coconut Country Resorts  
DINDI, East Godavari Dist., AP**CPE Credit  
**12**  
HOURS**Inaugural Session : 9.30 a.m. – 10.00 a.m.****Inaugural Address : CA. D Prasanna Kumar, Chairman, SIRC of ICAI****Topics August 10 & 11, 2013**

- Practical Issues in Taxation of Residential & Commercial Complex Service and Works Contract Service under Negative List Regime.
- Practical Issues in Online filing of Income Tax and TDS Returns and Uploading of Tax Audit Reports.
- Recent Development in FCRA Act
- Practical Issues in Tax audit under Sec 44AB of the Income Tax Act 1961.

**Residential Members : Rs.3000****Non Residential Members : Rs.2000**

Limited Seats  
Registration on First  
Come First Serve  
Basis

Pick-up at Rajahmundry / Bhimavaram Railway Station

Delegate fee by way of Cash or by Cheque / DD drawn in favour of **'Rajamahendravaram Branch of SIRC of ICAI'** payable at Tiruchirapalli shall be sent to Rajamahendravaram Branch of SIRC of ICAI, Door No.29-2-3, Sommina Building, Opp: State Bank of India, Pushkar Ghatt Branch, Near Gokavaram Bus Stand, Rajamahendravaram -533104. Ph:-0883-2472488, e-mail: rajamahendravaram@icai.org; {or}

Delegate fee by way of Cash or by Cheque / DD drawn in favour of **'Kakinada Branch of SIRC of ICAI'** payable at Madurai shall be sent to Kakinada Branch of SIRC of ICAI, ICAI Bhawan, Door No. 70-10-7/A, Beside Satya Bhaskar Public School, Near Nagamallithotta Jn., NFCL Road, East Godavari, Kakinada - 533003, Ph:-0884-2364402, e-mail:kakinada@icai.org;

**SIRC OF ICAI & MADRAS EGMORE LIONS BLOOD BANK AND RESEARCH FOUNDATION  
ORGANIZES BLOOD DONATION CAMP**

**OUR SOCIAL RESPONSIBILITY - DONATE BLOOD SAVE LIVES**Days of Camp: **Sunday & Monday**Dates of Camp: **30th June and 1st July 2013**Venue: **SIRC Premises** (Council Hall-Air-conditioned), Main Building First Floor, No. 122, Mahatma Gandhi Road, Nungambakkam, Chennai – 600 034Timings: **0900 a.m. to 02.00 p.m.**

Who can Donate: Any person 18 years and above but below 65 years, with a minimum weight of 45 Kgs, Hemoglobin Level above 12.5 Grams, Blood Pressure Normal Between 100-140 and 60-90) and can donate after every three months for Gents and after every four months for Ladies.

Registration: Please register early giving your suitable date (June 30 and July 1, 2013) and preferred time (e.g. 09.00 a.m. 09.30 a.m. 10.00 a.m. and so on.) with any of the following:

**For Donating Blood please register with**

1. SIRC of ICAI E-mail: sirc@icai.in Phone: 044 - 3021 0320 / 3021 0323

1.Madras Egmore Lions Blood Bank and Research Foundation: E-mail: savelives@lionsbloodbank.net; sirc@icai.in – Phone: 44 28414949

For each donor after the donation they will be given one energy drink [Frooti], a small biscuit packet of Good Day Biscuit [06 pcs] and one key chain with Lions Blood Bank Logo and on the spot Appreciation Certificate signed by the Medical Officer, and after 15 days time Plastic Donor Card, with Registration Number, Name, Date of Birth and Blood Group of the donor can be obtained at SIRC Office. After screening of the blood, medical report of the individual donor's will be sent to their respective e-mail id.

SIRC appeals to Members and Students to donate blood for a noble cause. SIRC also requests members and students to kindly encourage and register other eligible relatives, friends & neighbours to enable us to reach a milestone in blood collection.

**[EARLY REGISTRATION WILL BE HELPFUL]****DO NOT FORGET JUNE 30 AND JULY 1, 2013****LET US SAVE VALUABLE LIVES BY DONATING BLOOD**



**CHARTERED ACCOUNTANTS DAY CELEBRATIONS****Monday  
July 1, 2013****SIRC Premises, 'ICAI Bhawan'**  
No.122, MG Road, Nungambakkam  
Chennai - 600 034**Programmes for the Day at Chennai**

- 06.00 a.m. Walkathon by the Members, Students and Staff of ICAI with their family starting at Beach (Gandhi Statue), Opp: All India Radio, Chennai. (Wearing T-Shirts with ICAI Logo)
- 08.00 a.m. Special Programme for Students at ICAI Bhawan, Chennai
- 09.00 a.m. Institute's Flag Hoisting at ICAI Bhawan, Chennai by **CA. D. Prasanna Kumar, Chairman, SIRC of ICAI**
- 09.15 a.m. Blood Donation Camp at ICAI Bhawan.
- 01.00 p.m. Providing one day meals and distributing Cloths to the poor
- 04.30 p.m. Sports & Games for Children and Spouse of Members at 'ICAI Bhawan' Chennai.  
Children : Book Balancing, Lemon and Spoon, Observation Test and Musical Chair  
Spouse of Members: Musical Bus Stop.
- 06.00 p.m. CA Day Function and Honouring of Senior Members of the Profession followed by Grand Entertainment Programme.

**Guests of Honour****CA. P.S. Kumar, Past Chairman, SIRC (1984-85)****CA. K.N. Ramasubramanian, Past Chairman, SIRC (1989-90)****All are Welcome****Come with family****Let us celebrate together.**

SIRC on the occasion of CA Day, and as part of social responsibility, would be providing one day meals and distribute clothes to the poor. Members may contact CA. P.R. Aruloli, Secretary, SIRC (9884061348) for joining in this noble cause

**CA. P.R. Aruloli**  
Secretary, SIRC**CA. D. Prasanna Kumar**  
Chairman, SIRC**CPE HOURS REQUIREMENT FOR MEMBERS**

CPE credit Hours requirements for the block of 3 years from 01-01-2011 to 31-12-2013 to be complied with by different categories of members

| <b>Holding Certificate of Practice</b>  | <b>Not Holding Certificate of Practice</b>   |
|---|--|
| <b>A. All the members (aged less than 60 years) who are holding Certificate of Practice (except all those members who are residing abroad) are required to:</b>   | <b>B. All the members (aged less than 60 years) who are not holding Certificate of Practice or all the members who are residing abroad (whether holding Certificate of Practice or not) are required to:</b>   |
| <ul style="list-style-type: none"> <li>a. Complete at least 90 CPE credit hours in each rolling three-year period of which 60 CPE credit hours should be of structured learning.</li> <li>b. Complete minimum 20 CPE credit hours of structured learning in each year.</li> </ul>   | <ul style="list-style-type: none"> <li>a. Complete at least an aggregate of 45 CPE credit hours of either structured or unstructured learning (as per their choice) in each rolling three-year period (i.e. from 1/1/2011 to 31/12/2013)</li> <li>b. Complete minimum of 10 CPE credit hours being an aggregate of either structured or unstructured learning (as per their choice) in each calendar year.</li> </ul>  |
| <b>C. All the members (aged 60 years &amp; above) who are holding Certificate of Practice, are required to:</b>   | <b>D. All the members (aged 60 years and above) who are not holding Certificate of Practice are required to:</b>   |
| <ul style="list-style-type: none"> <li>a. Complete at least an aggregate of 70 CPE credit hours of either Structured or Unstructured Learning (as per their choice) in each rolling three-year period (i.e. from 1/1/2011 to 31/12/2013).</li> <li>b. Complete minimum of 10 CPE credit hours being an aggregate of either Structured or Unstructured Learning in the first calendar year i.e. 2011.</li> <li>c. Complete minimum of 20 CPE credit hours being an aggregate of either Structured or Unstructured Learning (as per their choice) in the second and third calendar years i.e. 2012 &amp; 2013.</li> </ul> | <ul style="list-style-type: none"> <li>a. Complete at least an aggregate of 35 CPE credit hours of either Structured or Unstructured Learning (as per their choice) in each rolling three-year period (i.e. from 1/1/2011 to 31/12/2013).</li> <li>b. Complete minimum of 5 CPE credit hours being an aggregate of either Structured or Unstructured Learning in the first calendar year i.e. 2011</li> <li>c. Complete minimum of 10 CPE credit hours being an aggregate of either Structured or Unstructured Learning in the second and third calendar year i.e. 2012 &amp; 2013.</li> </ul> |

**For checking the CPE Credit hours earned, members are requested to login in [www.cpeicai.org](http://www.cpeicai.org)**

## Case Study on Wind Generation



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The modern Internal Audit has evolved from traditional transaction audit to a process whereby the management examines the information gathered to conduct themselves in a better manner aimed at maximizing enterprise value. As it has evolved, new dimensions are being added such as corporate governance, public accountability. Although one might describe the addition of new dimensions as a matter of enlightened self-interest since empirical study proves that these aspects of management will ultimately enhance the enterprise's and the shareholders' value they do act as checks and balances. Peer pressure, regulatory pressures will no doubt ensure that there is improvement in performance and compliance. Risk management is the new mantra. Add to this there are statutes that prohibit corrupt practices enacted by USA and the UK which extend to subsidiaries of corporations incorporated in those countries no matter where they operate. All these aspects are continuously monitored in order to improve the business performance. The process of monitoring generates huge amounts of information.

A wide filter is required to separate the most relevant information from the various data streams to enable corporate executives to make informed decisions and also necessarily assure them that the information is generated in a controlled and accurate manner. Traditionally, managements receive reports on specific areas in the organization but not a report summarizing all the activities taking place across the enterprise. The multiple reports force them to make decisions based on incomplete or fragmented information thereby, increasing business risks.

Consolidated assurance about the control and risk environment supports all the facets of a robust governance, risk and compliance program.

The exposure which internal auditors have to the process and audit activities across the enterprise gives them the edge to play the critical role of assurance aggregators. By widening the internal auditor's scope to include systemic assurance activities, internal audit is reversing a decade-long trend toward more specifically defined, delivery-oriented audits that primarily have been focused on mandates like the Sarbanes-Oxley Act (SOX) and validating financial statement balances.

To illustrate the concept we will consider an example of a wind energy company; the turbine technology and its requirement of internal audit to give a consolidated assurance to the management.

The potential for wind power has grown considerably in the last few decades due to advances in technology. Utilities are now building large-scale wind farms that produce hundreds of megawatts of power. Worldwide there are now over two hundred thousand wind turbines operating, with a total nameplate capacity of 282,482 MW as of end 2012. The European Union alone passed some 100,000 MW nameplate capacity in September 2012, while the United States surpassed 50,000 MW in August 2012 and China passed 50,000 MW the same month. In India new capacity added in 2012 was 2,336 MW, bringing the total installed wind energy production to 18,421 MW (6.5% of the world total).

Modern wind energy technology has an extremely good energy balance. All of the Co2 emissions related to the manufacturing, installation, servicing and decommissioning of a turbine are generally 'paid back' after the first 3 to 9 months of operation. For

the rest of its 20 year design lifetime, the turbine operates without producing any of the harmful greenhouse gases which are already disrupting life on earth. Annual reductions in Co2 from existing wind power plants were about 350 million tons in 2011. In India, wind energy is expected to generate up to 338 TWh of electricity in 2020, which would reduce CO2 emissions by 203 tons. Again based on a reduction of 15% from the business-as-usual scenario by 2020, India could achieve 46-74% of the emissions reductions required in the energy sector by wind energy only (estimates from EIA, IEA and POLES).

All wind turbines have cut-in and cut-out limits. Cut in refers to the minimum amount of wind necessary to enable the turbine to output power; there needs to be a certain amount to overcome the friction of the turbine. Cut out means the maximum amount of wind that is safe for operation. Below cut-in the turbine produces no electrical power. Above cut-out the turbine is stopped and faced out of phase with the wind so as to reduce the possibility of damage. Optimal speed is usually just a little lower of the cut-out speed, so turbines are generally spinning very fast. The gearbox and controller ensures this optimal speed.

Heavy duty-scale wind turbines are mounted on tall towers, anywhere between 160 feet and 280 feet high. They are typically fixed into huge masses of concrete embedded deep into the ground. The torques on the towers can be immense, and some early experiments ended in disaster. Many towers are guyed (further stabilized using heavy steel cables attached into the ground around the turbine tower).

The blade bearings, electrical generator, and cooling means are mounted in a housing referred to as a nacelle. Cooling means are necessary due to the high power outputs generated in such a small volume. Inefficiencies create heat, which must be removed.

Typical systems are designed to rotate at a constant angular velocity of around 20 revolutions per minute (RPM) for the entire workable range of wind speeds. A constant rotational velocity is desired in order to maintain optimum aerodynamic performance. As the wind velocity varies, the power output varies but the rotational velocity remains the same. This is accomplished by using a gear box (much like the transmission in a car). As a result, the electrical output of the generator operates at a constant 50 cycles per second, which is the Indian (and incidentally European standard also) electrical power standard. In the US, the outputs are at 60 Hz, or cycles per second.

In order to work optimally, the turbine must be pointed directly into or away from the wind. The blades and nacelle rotate to accommodate changes in wind direction. Wind speed and direction are determined by an anemometer (a device that measures wind speed and direction), which is similar to the device that meteorologists use to predict weather patterns. Motors and gears rotate the nacelle to ensure it is facing into or away from the wind. Wind directions vary on a micro level, and the processor determines the most optimal azimuth (the orientation with respect to north/south — by definition, 0 degrees is due north, and 180 degrees is due south) at any given time. In particularly strong winds, the blades are locked into place and the nacelle/blade assembly is rotated 90 degrees out of phase with the wind in order to minimize the torque forces that result from the wind.

Most heavy duty wind turbines operate with the blades facing

into the wind. This is called an upwind design. Other systems are leeward, or downwind, designs. However, there is no consensus as to which type produces more output electrical power.

There are incentives offered by the Indian government and regulatory bodies in the form of incentives (Generation Based Incentive Schemes-GBIS) and Renewable Energy Certificates (REC) which can be traded.

#### A typical Audit Universe is shown below:

The following are the key identified systems that make up the operations

#### Auditable Unit (System)

##### Control Environment

- Governance - Compliance with Good Practice
- Financial Regulations
- Policies and Procedures
- Compliance with Memorandum and Articles of associations
- Fraud Policy
- Whistleblowing
- Risk Management
- Complaints

##### Corporate Planning

- Organisational Structure
- Resource Allocation
- Performance Monitoring and Review
- VFM Strategy and Planning

##### Risk Management

- Identification and Assessment
- Contingency Planning

##### Property Management

- Space Management/ Timetabling
- Rent/Rates/Leases
- Energy, Utilities Management
- Maintenance of Premises
- Services Maintenance
- Emergency Procedures

##### Finance

- Strategy
- Financial Planning

##### Finance Income

- Interest Income
- Sales Revenue, REC, GBIS

##### Finance Debtors

- Policy & Management
- Credit Management
- Sundry Debtors
- Debt Accounting & Collection
- Debt Review & Write off

##### Finance Expenditure

- Payments to suppliers
- Reimbursement of Expenses
- Cheque Control
- RTGS Payments and Controls

##### Finance Cash & Banking

- Cash Office Accounting Procedures
- Cash Collection
- Cash Security & Banking Procedures
- Petty cash & Imprests
- Post Opening Procedures
- Foreign Currency Accounting Policy & Practices
- Banking Arrangements
- Bank Account Reconciliations

##### Finance Treasury Management

- Short Term Investments/Loans
- Long Term Investments
- Capital Loans/Other Financing
- Compliance with ongoing obligations under financing agreements.

##### Finance Management Accounting

- Preparation of Year End Accounts
- Control & Reconciliation Accounts
- Financial Management Information Systems
- Budgetary Control & Forecasting
- External Returns and Certification

##### Finance Financial Accounting

- Accounting Policy & General Ledger Operations
- Journal Transfers & Internal Invoices
- Suspense & Control Accounts

##### Finance Other

- Insurance
- Tax Management
- VAT Accounting and Management

##### Personnel and Payroll

- Organisation & Management
- Human Resources Strategy
- Staff Planning & Control
- Recruitment, Appointment, Induction and Probation
- Employment Contracts and Job Descriptions
- Staff Training & Development
- Welfare, Discipline, Industrial Relations
- Salary Review, Promotion Procedures
- Starters/Amendments/Resignations & Retirements
- Pay Negotiations
- Annual Leave
- Staff Benefits
- Hospitality and Gifts
- Voluntary Severance/Early Retirement/Redundancy
- Health and Safety
- Occupational Health
- Equal Opportunities
- Payroll - Weekly, Monthly, Temps, Casuals
- Payment Methods: RTGS, Cheque, Cash
- Overtime/Other Additions
- Sickness, Maternity, and other absences

##### Operations

- Monitoring generation through DGR (Daily Generation Reports) and monthly meter readings.
- Apportionment of units of power generated in the case of pooled meter readings (assets belonging to more than one owner in pooled environment requiring allocation of revenue to different owners)
- Clean Development Mechanism Credits
- Project Planning
- Project Management
- Remote site monitoring
- Energy generation and distribution equipment maintenance contracts
- Wind farm management
- Asset safeguards
- Software maintenance contracts

##### Support Services

- Security
- Caretaking & Maintenance
- Cleaning
- Telecommunications
- Central Filing and Archives Management
- Postal Services
- Vehicle Fleet Management
- Reprographics
- Audio Visual Services
- Photographic & Illustration

##### Legal

- Contracts
- Agreements
- Compliance with legislations and regulations

**A typical internal audit plan (which is a blend of Operational Audit, Financial Audit, Compliance Audit and Information Systems Audit) is shown below:**

| S.No. | Planned Reviews Apr 20xx to March 20yy     | Description  | Planned Review Frequency   | Month In which review is to be undertaken |
|-------|--|--|--|---|
|       | Input Controls                             | Checking if proper validation systems are in place to ensure accuracy of the data entered into the ERP and other allied systems  | On-going throughout the audit period   | Sep 'xx, Dec'xx, Mar'yy and Jun'yy        |
|       | Process Review                             | Checking if necessary manual and system controls are in place.   | Will be done once in July 20xx and periodic review will be conducted for changes in the system | Dec'xx and Jun'yy                         |
|       | Statutory compliances                      | Verifying controls over identification and compliance with the various statutes that are applicable to the organisation.   | On-going throughout the audit period   | Sep 'xx, Dec'xx, Mar'yy and Jun'yy        |
|       | Cash and Bank                              | Checking the process of opening and closure of letter of credit, and agreements entered with banks in relation to loans and bank guarantees.   | Will be done in July 20xx and periodic review will be carried out for new developments.        | Each month for new developments           |
|       | Investments                                | Verification of the existence of investments and compliance with board directives  | On-going throughout the audit period.  | Each month                                |
|       | Receivables                                | Ensuring accuracy of the amount due to the company (compliance with Power Purchase Agreement-PPA terms). Reconciliation of meter readings and apportionment if applicable. Monitoring escrow accounts where applicable.  | On-going throughout the audit period.  | Each month                                |
|       | Payables                                   | Review of creditors and ensuring advances are properly handled   | Will be done in July 20xx and reviewed once a month  | Each month                                |
|       | Inter Company Transactions/ Reconciliation | Reconciliation of intercompany transaction. Identify if the transactions goes against the interest of the company  | Reviewed quarterly   | Jul'xx, Oct'xx, Jan'yy and Apr'yy         |
|       | Contingency Planning                       | Contingency plans include specific strategies and actions to deal with specific variances to assumptions resulting in a particular problem and emergency. [Accidents, shortfall in power generation]   | Will be done annually  | August'xx                                 |
|       | Human Resources                            | Review of HR policies including calculation of Leave Travel Assistance, Gratuity, and Leave Encashment and so on. Ensuring compliance with statutory requirements.   | Will be done in July and reviewed every 3 months.  | Jul'xx, Oct'xx, Jan'yy and Apr'yy         |
|       | Administration                             | Ensuring propriety of expenditure. Analysis of agreements with service providers and traders. Comparison of budgets with actual.   | Monthly  | Monthly                                   |
|       | MIS reports                                | Ensuring adequacy of MIS. Control over access to reports, time lag between events and reporting.   | Will be done every quarter.  | Aug 'xx, Nov'xx, Feb'yy and May'yy        |
|       | Companies Act Compliance                   | Ensuring all requirements of Companies Act is met.   | Will be done every quarter   | Aug 'xx, Nov'xx, Feb'yy and May'yy        |
|       | General Ledger Review                      | How suspense, contra and variance accounts are handled. Overview of general ledger.  | Monthly  | Monthly                                   |
|       | Project Planning                           | Review if all plans have been approved by the appropriate authority and comply with the long term strategic objectives of the organisation.  | Will be done every quarter   | Aug 'xx, Nov'xx, Feb'yy and May'yy        |
|       | Project management / monitoring            | Evaluate adequacy of controls over project execution. Examine project completion reports and ensure projects have met the planned results.   | Will be done every quarter   | Jul'xx, Oct'xx, Jan'yy and Apr'yy         |
|       | Operation and maintenance                  | Review of the control over operations of the wind turbines and ensure the maintenance procedures comply with the management's guidelines. Review of safety and accident records.   | Will be done every quarter   | Sep 'xx, Dec'xx, Mar'yy and Jun'yy        |
|       | Fixed Assets                               | The capital acquisition process review and compliance. The organisation possesses information and physical assets under the ownership of various functional areas and for each functional area in the plan all assets belonging to that area will be verified for existence along with other test procedures. Land agreements –own, leased. Registration of turbines under GBIS. | Will be done every quarter   | Sep 'xx, Dec'xx, Mar'yy and Jun'yy        |
|       | Data analytics                             | Examination of the controls of an organization's information systems, operations and processes. Data analysis is used to determine whether the systems in place effectively protect data, operate efficiently and succeed in accomplishing an organization's overall goals.  | Will be done annually  | Dec'xx                                    |
|       | Fraud and Corruption                       | Review the adequacy of policies and controls in place to manage fraud risk and compliance and undertake sufficient analytics to give reasonable assurance that payments are in line with operational activity.   | Will be done annually  | Jan 20yy                                  |

**Typical Audit Working Procedures and Practices**

**The Audit Toolbox**

1.1. The internal audit function may deploy the following range of audit reviews in the delivery of its plan:

**1.2. Corporate Governance Definition:**

A high level overview covering the client's key corporate systems.

**Application:** Corporate level review will be conducted at least once during the lifetime of the plan.

**1.3. Systems Audit Definition:**

A "full" audit in which every aspect and stage of the audited area is fully considered. It will include review of both the design and operation of controls.

**Application:** All critical and high risk systems will be subject to full systems audit at least once during the lifetime of the plan.

**1.4. Compliance Audit Definition:**

A summary review which tests compliance with established controls within a system.

**Application:** Certain high risk systems that have been subject to a full system review during the period and where compliance failures would materially affect the client's risk management, control and governance arrangements.

**1.5. Key Controls Audit Definition:**

A limited review which tests compliance with key controls within a system.

**Application:** Certain high or medium risk systems that have been subject to a full system review during the period and where non compliance in key aspects would materially affect the client's risk management, control and governance arrangements.

**1.6. Systems Development Definition:**

Review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control before the plans and designs are fully implemented.

**Application:** Developments in the client's IT / IS systems or significant changes to working practices will be subject to this kind of review.

**1.7. Analytical Review Definition:**

This type of review is employed to complement systems audits. It follows up on the critical controls identified in the last systems audit, and supplements this with a critical look at data and data relationships.

**Application:** Usually used in areas where there is a high volume of transaction processing and allows a cross organisation view of critical controls.

**1.8. Follow-Up Definition:**

Short review designed to revisit areas previously subject to audit. It provides assurance that accepted recommendations in internal audit reports have been implemented effectively resulting in improvements in the management of identified risks.

**Application:** All reviews conducted during the program period will be subject to regular, appropriate follow-up action.

Thus, the modern internal audit is a process that requires a complete understanding of the business and the business processes. As stated at the beginning it is a means to an end the end being an enabler for the decision-makers to base their decisions on processed and reliable information. ■

**DISCLAIMER**

The SIRC/ICAI does not accept any responsibility for the views expressed in different contributions/ advertisements published in this Newsletter.

"KS Aiyar & Co, requires following CAs for Chennai Office:- Partners–Audit and Tax, Manager–Audit. Practicing professionals wishing to merge are welcome to write. Kindly send profile in strict confidence addressed to the Senior Partner by email to KDhanraj@KSaiyar.com. Kindly confirm receipt. More about us available at www.ksaiyar.com. Candidates must demonstrate highest standards of quality/ethics and an entrepreneurial outlook" Advt.

**FOR THE INFORMATION OF MEMBERS****STATISTICS OF MEMBERS AND FIRMS FROM SOUTHERN REGION AS ON 1.4.2013**

|                    |       | Type of Firms  | No. of Firms |
|--------------------|-------|----------------|--------------|
| Full-Time-Practice | 18382 |                |              |
| Part-Time-Practice | 1985  |                |              |
| Not in Practice    | 24641 | Proprietorship | 5338         |
| Total Members      | 45008 | Partnership    | 3031         |

| No. of Partners | No. of Firms | No. of Partners | No. of Firms |
|-----------------|--------------|-----------------|--------------|
| 2               | 1733         | 12              | 8            |
| 3               | 630          | 13              | 3            |
| 4               | 252          | 14              | 1            |
| 5               | 132          | 15              | 1            |
| 6               | 71           | 16              | Nil          |
| 7               | 62           | 17              | 5            |
| 8               | 55           | 18              | Nil          |
| 9               | 33           | 19              | Nil          |
| 10              | 26           | 20              | 3            |
| 11              | 16           | <b>Total</b>    | <b>3031</b>  |

**Membership and Certificate of Practice Fee for the year 2013-2014**

Annual Membership Fee and Certificate of Practice Fee for the year 2013-2014 is payable on 1st April 2013. The schedule of fee is as under:

**For Members below age of 60 years**

|                             |   |          |
|-----------------------------|---|----------|
| Associate Membership Fee    | : | ₹ 800/-  |
| Fellow Membership Fee       | : | ₹ 2200/- |
| Certificate of Practice Fee | : | ₹ 2000/- |

**For Members above age of 60 years**

|                             |   |          |
|-----------------------------|---|----------|
| Associate Membership Fee    | : | ₹ 600/-  |
| Fellow Membership Fee       | : | ₹ 1600/- |
| Certificate of Practice Fee | : | ₹ 1500/- |

Individual circulars have been despatched to members giving details of scale of fee and also the manner of remittance of the fee. The fee can, therefore, be remitted to the concerned Decentralised Office of the Institute.

It may be noted that remittance of fee has to be made by local cheque (in case of Members who are residing in the cities in which respective Decentralised Office is situated) or by way of demand draft in favour of 'Secretary, The Institute of Chartered Accountants of India', payable at the place where the concerned Decentralised Office is located. **It may also be noted that under no circumstances out-station cheques will be accepted.** No remittance should be made directly to the Head Office or to a different Decentralised Office.

Members can also pay fee in advance in accordance with details given in the communication being mailed to the members.

Members are advised to remit the fee immediately. For more details visit our website [www.icaai.org](http://www.icaai.org).

## CHANGING ROLE OF INTERNAL AUDITORS

Historically it was always held that internal auditing is confined to merely ensuring that the accounting and allied records have been properly maintained, the assets management system, policies and procedures are in place and are duly being complied with.

With changing times this concept has undergone a change with regard to its definition and scope of coverage. Modern approach suggests that it should not be restricted to financial issues alone but also on issues such as cost benefit analysis, resource utilization and their deployment, internal controls, effectiveness of the management, identification of fraud etc.

The focus of the audit has been changing from **transaction audit to value addition**.

All organisations are subject to fraud risks. Senior Management is considered the most susceptible to committing fraud by virtue of their ability to override existing controls.

Large frauds have led to the downfall of entire organisations, massive investment losses, significant legal costs, incarceration of key individuals, and erosion of confidence in capital markets. Publicized fraudulent behavior by key executives has negatively impacted the reputations, brands, and images of many organisations around the globe.

Reactions to recent corporate scandals have led the public and stakeholders to expect organisations to take a “no fraud tolerance” attitude. The Board/Management are also now increasingly concerned about the vulnerability and exposure of their organisations to frauds and whether or not they are adequately protected.

The **role of internal audit in fraud risk management** by way of preventing, detecting and investigating fraud has amplified as a result of such economic uncertainty and increased focus of certain organisations’ management on fraud risks.

“How could this have happened?” is the usual response when fraud is discovered. “Where were the auditors?” is often the next question.

Because of the “expectation gap”, many investors expect a foolproof audit with a guarantee as to the non-existence or absence of fraud or misstatements, irrespective of how immaterial they are, whereas audit firms have taken it upon themselves to educate the public as to their actual role in the audit, which does not include guaranteed fraud detection. Because auditors do not examine every transaction or event that occur in a company’s fiscal year, there is no guarantee that all material misstatements, whether caused by error or fraud, will be detected.

Closing the expectation gap requires efforts from all the involved parties. Management should be held accountable for the effectiveness of the internal controls, shareholders need to accept the fact that it is neither the auditors’ responsibility nor capability to uncover all incidents of fraud and finally the auditors themselves should conduct their audit whilst keeping an eye out for fraudulent activity.

This entails investigating any warning signs and red flags that may appear during the course of the audit and reporting them in a timely manner. Part of the audit scope should include assessing



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the control environment in place and its effectiveness for the purpose of designing the audit approach.

Internal auditors should consider the organisation’s assessment of fraud risk while developing their audit plan and review management’s fraud management capabilities periodically. They should interview and communicate regularly with those conducting the organisation’s risk assessments, as well as others in key positions throughout the organisation, to help them ensure that all fraud risks have been considered appropriately.

When performing engagements, internal auditors should spend adequate time and attention in evaluating the design and operation of internal controls related to fraud risk management. They should exercise professional skepticism when reviewing activities and be on guard for the signs of fraud. Potential frauds uncovered during an engagement should be treated in accordance with a well-defined response plan consistent with professional and legal standards.

Internal auditors should also take an active role in support of the organisation’s ethical culture. The importance an organisation attaches to its internal audit function is an indication of the organisation’s commitment to effective internal control.

Specific internal audit roles in relation to fraud risk management could include initial or full investigation of suspected fraud, root cause analysis and control improvement recommendations. Effective internal audit teams are adequately staffed and trained with appropriate specialized skills, given the nature, size, and complexity of the organisation and its operating environment.

### **Internal audit’s main fraud responsibilities during an engagement include:**

- Help management identify, assess risk and determine the adequacy of the control environment
- Be alert to fraud opportunities
- Identify red flags
- Recommend investigation when appropriate

The Institute of Internal Auditors (IIA) has released guidance notes to help organisations deal with fraud risks.

The first guide – **Internal Auditing and Fraud** – is aimed at increasing the internal auditors’ awareness of fraud and provides guidance on how to address fraud risks during internal audit engagements.

The second – **Fraud Prevention and Detection in an Automated World** – is specific to fraud within the technology environment.

- To help organisations and internal auditors combat fraud, the guide discusses:
- Fraud awareness (e.g., reasons and examples for fraud and potential fraud indicators).
- Fraud roles and responsibilities.
- Internal audit responsibilities during audit engagements (e.g., execution responsibilities and communicating with the board).
- Fraud risk assessment (e.g., identifying relevant fraud risk factors and mapping existing controls to potential fraud schemes and identifying gaps).
- Fraud prevention and detection.

- Fraud investigation.
- Forming an opinion on internal controls related to fraud.

**The Institute of Internal auditors(IIA) in the "Pulse of the Profession" 2013 survey highlights the changes in Audit focus as below,**

| AREA OF FOCUS                  | RESPONDENTS |
|--------------------------------|-------------|
| Information Technology         | 38%         |
| Compliance/Regulatory          | 36%         |
| Risk Management Effectiveness  | 35%         |
| Operational                    | 34%         |
| Business Strategy              | 30%         |
| Corporate Governance           | 20%         |
| Cost Reduction/Containment     | 18%         |
| Fraud                          | 17%         |
| Financial                      | 12%         |
| Sarbanes-Oxley Testing/Support | 11%         |
| Crisis Management              | 6%          |
|                                |             |

CAEs of 38 % of overall respondent organisations plan to increase their focus on Information technology during the course of their audits.

This focus shift is a response to emerging technology risks, notably those arising from adoption of social media, cloud computing, and "big data" collection and analytics as well as the increasingly common practice of allowing employees to use their smartphones and other devices to access business networks and data.

**In this regard the most desirable Audit skills have emerged as,**

Analytical Thinking  
 Effective Communication  
 Data Mining and Analytics  
 General Information Technology  
 Business Acumen  
 Industry-specific Knowledge  
 Accounting  
 Risk Management Assurance

In PwC's 2012 State of the Profession survey, data privacy and security is one of the main risks identified by senior executives and heads of internal audit.

The bi-annual KPMG Fraud Survey - surveying 281 private and public sector organisations across Australia and New Zealand pinpoints a lack of objective and independent internal audit, inadequate oversight of senior management's activities by the audit committee, and weak regulatory environment as culprits for the spike in financial statement frauds.

According to KPMG's India Fraud Survey 2012, "71% of respondents believe that Fraud is an inevitable cost of business. Bribery and corruption (83%) is perceived to be a major concern followed by E-commerce/cyber related frauds (71%) and Diversion/theft of funds (65%)."

The most effective methods for detecting such frauds are seen as the whistleblowers, internal audits and data analytics.

Use of data analytics on a continuous or real-time basis, helps the auditing team to identify and report fraudulent activity more rapidly.

For example, Benford's Law analysis (It is a process of comparing actual results vs. expected results by looking for unusual transactions that do not fit on expected pattern) can examine expense reports, general ledger accounts, and payroll accounts for unusual transactions, amounts, or patterns of activity that may require further analysis.

Similarly, continuous monitoring of transactions subject to certain "flags" may promote quick investigation of higher-risk transactions.

Various softwares are available for this purpose like ACL and TeamMate solutions.

Data analysis, data mining, and digital analysis tools/softwares can,

- Identify suspicious transactions
- Assess the effectiveness of internal controls
- Monitor fraud threats and vulnerabilities
- Consider and analyze thousands or millions of transactions

With data breaches in the headlines these days, organisations are increasingly concerned about data privacy and security issues and hence are turning to internal audit seeking for help on managing the seemingly new and specific risks of emerging technologies.

In the course of their role, internal auditors now-a-days work across all areas of an organisation. In addition to core areas of financial control and IT, they review the tangible aspects of operations such as an organisation's supply chain, IT systems as well as more intangible aspects such as organisational culture and ethics.

In fact, any system that has an impact on the effective operation of an organisation may be included in the internal audit's scope. ■

#### BE A PART OF DEVELOPING WORLD CLASS CA PROFESSION INVITATION TO BECOME CPE RESOURCE PERSON

In line with international best practices, ICAI has made Continuing Professional Education (CPE) as a regulatory measure. SIRC and its branches are in the forefront in conducting various programmes focusing on the topics containing in CPE Calendar ([http://www.icaai.org/new\\_post.html?post\\_id=962&c\\_id=54](http://www.icaai.org/new_post.html?post_id=962&c_id=54)) for the benefit of the members of our profession.

With a view to develop the resource persons base and to enable the Continuing Professional Education Programme organizing Units (POUs) to utilize the valuable services of experts for the benefit of the members, SIRC invites members who have competencies in the areas of Accounting, Auditing, Corporate Law, International Taxation, Direct, indirect Tax or any other subject to volunteer as CPE Resource person primarily for CPE Programmes for members at SIRC, Branches of SIRC of ICAI, CPE Chapters, CPE Study Circles etc. Please forward your details in the format given below to [sircspe@icaai.in](mailto:sircspe@icaai.in)

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# Changing the role of an Internal Audit(or)



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Let's face it, if you are reading this Article, you are probably either already an auditor, preparing to become one or responsible for managing or overseeing the function. The other possibility is that you are considering a role in Internal Audit – if this is the case I hope to be able to whet your appetite and show you what a wonderful opportunity it brings. Whichever category of reader you are I hope this article will help you understand the changing role of an Internal Audit(or) (IA) In the current age of deregulation, Industrialization and liberalization.

Let's take a look at the definition from the Institute of Internal Auditors (IIA) that has been around for a couple of years.

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists an organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

IA has seemingly attempted a number of changes in approach over the years, but has any approach made a real difference?

**Change in approach and focus:** Many organizations' Internal Audit functions still mainly focus on the traditional issues and concentrate their efforts on compliance related activities. It is still a valid approach but is rather limited in its focus. Here are some, if not all, **traits and trends** that an Internal Auditor can acquire:

- **Risk Based Internal auditing framework**– It is a process, an approach, a methodology and an attitude of mind rolled into one. The simplest way to think about risk-based audit conceptually is to audit the things that really matter to your organization. Which are the issues that really matter? Probably those areas that pose the greatest risks. What else would you really want to review? If your organization has already identified its key risks then you already have the basis for risk-based auditing. Clearly, if risks (Financial and non-Financial) have not been formally identified and assessed then there is a real opportunity for you to work with management to help create this information.
- **Enterprise Risk Management (ERM)** – It is a structured and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives”.
- **Information Systems and Security Audits** – Ever-increasing information technology and extensive use of computer by organization for maintaining its accounts and other information requires auditors to use of electronically obtained information as audit evidence. It also requires them to be updated with latest happenings in IT and Security world by obtaining key certifications such as CISSP, CISA, DISA, etc. A few examples if IS and IT Audits are:

- Operating Systems Audit
- Networking Audit
- IDS Audit
- Internet Banking, Core Banking Audit
- Application Systems - Functional review
- Application Systems - Security review
- BS 7799 / (ISO 27001) Implementation
- Compliance with IS Policies & Procedures
- Database Audit
- Firewall Audit
- Web Application, Data Center Audit
- Performance & Forensic Auditing
- Compliance with IS Policies & Procedures
- Review of IS / ITGC Controls
- Formation of IS Security Policy
- Segregation Of Duty Analysis (SOD)

- **CAAT's and Data Analytics** – The use of word Computer Aided Audit Techniques (CAAT's) is gaining popularity with Audit departments and the clients they serve. Today, in most large and medium-sized enterprises, business processes that are driven by computers. Hence, performing audits without using information technology is hardly an option. When all the information needed for doing an audit is on computer systems, how can one carry out an audit without using the computer?

|                           |                              |
|---------------------------|------------------------------|
| • Filter/Display Criteria | • Aging                      |
| • Expressions/Equations   | • Join/Relate                |
| • Gaps                    | • Trend Analysis             |
| • Statistical Analysis    | • Regression Analysis        |
| • Duplicates              | • Parallel Simulation        |
| • Sort/Index              | • Benford's Law              |
| • Summarization           | • Matching                   |
| • Stratification          | • Combination of One or More |

To put in simple words, CAATs or Data Analytics is the process of simplifying the process of Data analysis on financial and non-financial data of an organization by using Computer and various Data Analytics software. There are many analysis techniques that may be performed using this software. Some of these techniques include the following:

Though some may argue that the cost and time involved in acquiring these techniques is not justifiable, it still remains true that these provide added Value to the Client because they present a complete picture of a system and/or and organizations transactions. A few examples of CAATs that IA can perform are:

|                          |                             |                                |
|--------------------------|-----------------------------|--------------------------------|
| • Journal Entry CAATs    | • Payroll CAATs             | • Commissions CAATs            |
| • Accounts Payable CAATs | • Accounts Receivable CAATs | • Inventory CAATs              |
| • Fixed Assets CAATs     | • Access Logs CAATs         | • Products and customers CAATs |

- **Social Media and Cloud Computing audits:** The broad and rapid adoption of Social media and cloud computing by all sorts of businesses and organizations is quickly reshaping the way many key internal functions are expected to operate in — and adapt to— the new paradigm. That includes



procurement, IT, risk management, governance, compliance, and audit, to name but a few. IA that resist or drag their heels risk losing whatever autonomy they may possess. They may even risk becoming irrelevant. Some of the popular Social media and Cloud Applications widely used by business are:

- **Social Media** – Facebook, You tube, Twitter, LinkedIn, etc
- **Cloud** – Amazon, Google, Sales Force, Microsoft, etc

To name a few, IA can provide the following services such as:

- Documentation for Procedures, Standards, policies, etc
- Data migration Audits
- Review of Security configurations
- Log and monitoring audits
- Big data analytics on the data received from Social media and Cloud.
- A few other Opportunities:
  - Monitoring XBRL Implementation & Reporting Results
  - Audit of IFRS Convergence
  - Forensic Audits
  - Fraud detection Audits
  - Software Licensing Audits
  - CSR Audits
- **Personal Skills and Capabilities:** Apart from acquiring above technical skills IA should also concentrate on acquiring a few emerging personal skills among others such as:
  - Developing Outside contacts / networking
  - Negotiation
  - Persuasion
  - Dealing with Confrontations
  - Presenting (Public Speaking)
  - Leadership
  - Strategic and analytical Thinking
- **Corporate Governance and Internal Audit role:** Some of the key amendments introduced in the Companies Bill 2012 as compared to Companies Bill 2011 related to the topic in light and which brings in enormous Opportunities to Auditors are:

- Electronic form of book keeping and documentation is now recognized under the Bill 2012. [Proviso to Cl. 128]

- The requirement relating to laying down internal financial controls and their effectiveness would be applicable to the listed companies [clause 134 (5) (e)] The requirement talks about:

- **Laying down** Internal Financial Controls
- **Adequacy** of these Controls and
- Their **Effectiveness in operations.**

The explanation given to the clause 134 (5) (e) defines the term 'internal financial controls' as **the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, safeguarding its assets, prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.** This clause would be creating a two-fold challenge (opportunity) for the Auditors. First, ensuing completeness of compliance with provisions of all applicable statutes and second – evaluation of these systems for adequacy and operating effectiveness.

Contrasting with earlier years and the requirements of the Sarbanes-Oxley Act - Section 404 which only talks about controls over financial reporting, the proposed requirements cover controls over and above financial reporting. New challenges (opportunities) await the internal auditors of the listed companies.

Like, the Best Performing team in the Indian Premier league 2013 (IPL) is the one which excels in all three departments of the game - Bowling, Batting and Fielding. Similarly to make a real difference and gain its losing identity, Internal Auditors should acquire all round skills (both technical and Personal) and change its approach to concentrate more on performing audits which add value to improve the operations of the organization and help organizations achieve its objective.

**For Attention of Members  
AUDITOR'S REPORT – NEW FORMAT**

Members may please note that **SA 700** – “Forming an opinion and reporting on Financial Statements” has been made mandatory for reporting on accounting periods starting on or after 01.04.2012.

This standard deal with revised form and content of the Auditor's report illustrated in the appendix to the standard. SA 700 “Forming an opinion and reporting on Financial Statements” has been written in the context of a complete set of general purpose financial statements. The salient features of the revised format are:

- the title which states that it is an independent auditor's report
- separate paragraphs for management's responsibility and auditor's responsibility
- a general opinion paragraph and
- a separate paragraph to report on other legal and regulatory requirements.

**SA 705** – Modifications to the Opinion in the Independent Auditor's Report and **SA 706** – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report are two standards which have been released to deal with the format and content of the auditor's report when an auditor expresses a modified opinion or include an emphasis of a matter or other matter paragraphs in the auditor's report.

**SA 705** – Modifications to the Opinion in the Independent Auditor's Report The formats of the respective reports are laid out in the appendices to this standard. While issuing the auditor's report the auditor has to use his judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed:

| Nature of Matter Giving Rise to the Modification          | Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements |                        |
|---|---|------------------------|
|   | Material but Not Pervasive  | Material and Pervasive |
| Financial statements are materially misstated             | Qualified opinion   | Adverse opinion        |
| Inability to obtain sufficient appropriate audit evidence | Qualified opinion   | Disclaimer of opinion  |

**SA 706** – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report deals with the auditor's report when the auditor considers it necessary to:

- Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; [Emphasis of Matter Paragraph] or
- Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. [Other Matter Paragraph]

# A Guide to Service Tax Voluntary Compliance Encouragement Scheme, 2013



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The Finance Minister in his Budget, 2013 speech has mentioned that while there are nearly 17,00,000 registered assesses under service tax, only about 7,00,000 file returns. Many have simply stopped filing returns. We cannot go after each of them. I have to motivate them to file returns and pay the tax dues. Hence, I propose to introduce a one-time scheme called "Voluntary Compliance Encouragement Scheme". I hope to entice a large number of assesses to return to the tax fold. I also hope to collect a reasonable sum of money.

- The Service tax Voluntary Compliance Encouragement Scheme (VCES) has come into force from 10<sup>th</sup> May, 2013.
- The scheme shall be in force till 31<sup>st</sup> December, 2013.
- The scheme shall be covered by the tax dues for the period from 1<sup>st</sup> Oct, 2007 to 31<sup>st</sup> Dec, 2012.
- Such tax dues shall not be paid on the 1<sup>st</sup> March, 2013.
- Any person may file declaration of his tax dues in Form VCES-1 in duplicate along with calculation sheet in respect of tax dues for tax return period wise as per Form ST 3.
- Such declaration shall be made subject to that no notice or order of determination of tax has been issued or made before the 1<sup>st</sup> March, 2013.
  - No order is passed under Best Judgment Assessment [Section 72]
  - No notice for recovery of service tax [Section 73]
  - No order is passed for payment of excess collection of service tax [Section 73A]
- A person who has filed ST3 Return and disclosed true liability but not paid the disclosed service tax shall not be eligible to make declaration (Form VCES-1) for the period covered by the said return.
- Declaration in Form VCES-1 can be filed for tax dues not covered in the ST 3 return filed.
- Declaration in Form VCES -1 can be rejected if any inquiry or investigation for payment of service tax has been initiated and such inquiry or investigation or audit is pending as on the 1<sup>st</sup> March, 2013 with reasons to be recorded in writing.
  - Search of Premises
  - Issue of Summons
  - Requiring production of books and records
  - Audit
- Those who are not having Service Tax Code, they can apply for registration and obtain STC before filing declaration in Form VCES- 1.
- Schedule for payment of tax dues
  - Minimum amount to be paid on or before the 31<sup>st</sup> Dec, 2013 (50% of tax dues)
  - Remaining tax dues to be paid on or before the 30<sup>th</sup> June, 2014.
- Any tax dues remaining unpaid as on 1st July, 2014 shall be paid before 31<sup>st</sup> Dec, 2014 along with interest @18% pa (@15% pa if taxable service is less than Rs.60 lakhs).
- No CENVAT Credit shall be utilized for payment of tax dues under the scheme.
- On receipt of Declaration in Form VCES- 1 an acknowledgement in Form VCES -2 will be issued within 7 working days from the receipt of declaration.

- The declarant shall furnish the details of payments made from time to time along with copy of Form VCES-1.
- On furnishing of details of full payment of declared tax dues and any interest, if any, the Assistant Commissioner (designated authority) shall issue an acknowledgement of discharge of tax dues in Form VCES- 3.
- Form VCES-3 shall be issued within a period of 7 working days from the date of furnishing details of payment of tax dues in full along with interest, if any, by the declarant.
- Declarant shall get immunity from penalty, interest or any other proceedings under the chapter upon receipt of Form VCES-3.
- No proceedings shall be opened thereafter before any authority or court relating to the period covered by such declaration.
- Any amount paid under this scheme shall not be refunded under any circumstances.
- If declaration filed under this scheme was substantially false, show cause notice can be issued for recovery of tax not paid.
- No such action can be taken after the expiry of 1 year from the date of declaration. ■

## HAPPENINGS IN BANKING AND INSURANCE FRONT

The Financial Sector Legislative Reforms Commission has suggested a new legislative structure by which a drastic overhaul is being contemplated. If introduced, it would effectively mean that RBI would have no role to play in Financial markets. While Ministry of Finance would take care of capital controls, public debt and NBFCs would no longer be in the RBI's radar. RBI would be left with banking regulations and supervision and with payments and settlements. A Monetary Policy Commission- a statutory body, would be set up to take executive decisions on monetary policy.

This quarter also saw results pouring in from the banking sector. While public sector banks reported poor results, the New Gen Banks reported results almost as in the previous period and the old Private Sector banks returned steady results. A view that high cost funds were the cause for banks to look for greener pastures which in reality opened up the possibilities for high NPAs, is doing the rounds. Canara bank and Syndicate Bank, therefore, deliberately looked to shed high cost funds.

SBI reported a decrease in gross NPAs by Rs 2268 cr when compared to last year and fresh slippages also came down to Rs 5868 cr as compared to Rs 8175 cr. SBI wrote off Rs 5594 cr this financial year compared to Rs 1049 cr last year. The pressure on Net Interest income was visible. Provisioning coverage however improved.

One major aspect pointed out by Public Sector Banks (PSBs) is on their role in financing infrastructure projects. With almost no support from others, infrastructure projects with long gestations are being financed by PSBs. The inherent mismatches result in delays in income generation which impact the performing status due to the 90 day norm. Major quantum of accounts under restructure is from the infrastructure projects. The recommendations of the Mahapatra Committee, if implemented, would add to the agony of the banking sector.

Government of India seems to have appointed auditors for the Reserve bank of India after consulting with the Comptroller & Auditor General of India. The central bank was not involved in the selection process as it was felt that such a practice would not be a part of good corporate governance.

On the insurance front, United India reported a 36% increase in Profit after Tax at Rs 527 cr, while New India insurance reported the highest PAT in the last 5 years at Rs.843.66 cr

- Contributed by : CA. P.S. Narasimman, Chennai

## Updates on Direct Taxes

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### 1. Acquisition of two adjacent residential houses eligible for exemption under section 54 :

In CIT v. Syed Ali Adil [2013] 352 ITR 418 [AP] the assessee sold an inherited ancestral house and acquired two adjacent residential flats. The claim of exemption under section 54 for the twin acquisition was restricted to one flat by the Assessing Officer on the reasoning that the purchases were from two different vendors under two separate sale deeds and the exemption could be allowed only in respect of one flat. The court relied on CIT v. D.Ananda Basappa [2009] 309 ITR 329 wherein the expression 'a residential house' mentioned in section 54 was held as reference to building of residential nature and 'a' should not be understood to indicate a singular number. Factually, the flats had adjacent kitchens and toilets with a common meeting point. The court applied the interpretation in D.Ananda Basappa's case and held that the assessee is eligible for exemption to the extent of investment in two adjacent residential flats and held the action of Assessing Officer as not tenable in law.

### 2. Sales tax return of the taxpayer is binding on income-tax authorities in the absence of contrary evidence :

In CIT v. Smt. Sakuntala Devi Khetan [2013] 352 ITR 484 [Mad] consequent to a search in the premises of a third party with whom the assessee had discounted drafts and cheques, the Assessing Officer initiated reassessment proceedings for taxing income from the alleged suppression of sales. The assessee had filed sales tax returns and substantiated her ground by holding that the sales tax authorities had verified purchases, sales, closing stock in respect of each year and accepted the sales tax returns filed before them. The Assessing Officer rejected the contention of the assessee and computed the alleged suppressed sales and applied the gross profit ratio accepted by the assessee in respect of disclosed turnover. The court held that the addition to the income cannot be made solely based on the information received in the course of search of a third party by ignoring the sales tax returns filed by the assessee and accepted by the relevant authority. The court held that the Assessing Officer is bound by the sales tax returns accepted by the Commercial Tax Department and in the absence of variation in closing stock of the assessee, the income-tax authority has no power to scrutinize the return submitted by the assessee to the Commercial Tax Department which was accepted by the said authority.

### 3. Interest on non-performing assets of NBFC cannot be spared from tax unless uncertainty in realization is established :

In CIT v. Sakthi Finance Ltd [2013] 352 ITR 102 [Mad] the assessee classified certain advances as non-performing assets and did not offer unrealized accrued interest on those advances for income-tax. The assessee relied on precedent viz. CIT v. Elgi Finance Ltd [2007] 293 ITR 357 [Mad] and the tribunal accepted the contention of the assessee that no addition could be made in respect of unrealized accrued interest on loans classified as non-performing assets. The Revenue relied on Southern Technologies Ltd v. Joint CIT [2010] 320 ITR 577 [SC] to hold that the collectibility of interest is different from accrual and the assessee has to prove that an item of interest income is not recognized due to uncertainty in collection of the same. The court held that the onus of proof is on the assessee to prove that interest is not recognized due to uncertainty in collection and it is for the Assessing Officer

to examine facts of each individual case. The Assessing Officer had not recorded whether there was any uncertainty in collection of income. Accordingly, the matter was remitted to Assessing Officer for examining the same and to decide afresh.

### 4. Provision for warranty without any scientific basis and past experience is not deductible :

In CIT v. Forbes Campbell Finance Ltd [2013] 352 ITR 602 [Mad] the assessee engaged in trading of office equipments like typewriters, duplicator papers etc made provision for one year warranty and free service period. Payments towards warranty services were payable to service dealers, as and when the claims were preferred by them. The Revenue held that in the absence of a claim being made, the provision was more in the nature of contingent liability and hence is not deductible. The court made reference to apex court decision in the case of Rotork Controls India P Ltd v. CIT [2009] 314 ITR 62 [SC] where it was held that the said provision must be based on reliable estimation of the obligations. The court found that the assessee had made the provision on adhoc basis - a fact recorded by the tribunal. As the provision was not based on historical analysis of the facts relating to sales and service charges payable during the warranty period and the past events, the claim of deduction was held as not tenable in law.

### 5. Family arrangement to settle disputes amongst members will not attract capital gains :

In CIT v. R.Nagaraja Rao [2013] 352 ITR 565 [Karn] there was a family arrangement between the assessee and other family members by which the assessee retired from a partnership firm and transferred his capital to another family member. In return, the assessee got transfer of shares in a company from the other family member. The assessee submitted that each of the parties in the family were holding apart from personal properties, the family properties and shares in different business concerns and each of the family business was independently managed by one of the parties. As a result of dispute between the parties, the arbitrator suggested a settlement amongst the parties which resulted in transfer of assets inter se amongst the members. The assessee claimed that there was no capital gain chargeable to tax. The tribunal held that the word 'transfer' does not include partition or family settlement. What is recorded in a family settlement is nothing but a partition. Every member having anterior title resorted to adjustment of rights in the family property and as there was no transfer, there could be no capital gains chargeable to tax. The court affirmed the order of the tribunal which was in favour of the assessee.

### 6. Information found in income-tax return need not be disclosed under RTI Act unless disclosure is necessitated by public interest :

In Girish Ramchandra Deshpande v. Central Information Commissioner & Others [2013] 351 ITR 472 [SC] it was held that the information contained in the return of income are personal information, the disclosure of which has no relationship to any public activity or public interest. Disclosure of such details would amount to unwarranted invasion of privacy of that individual. Such personal information disclosure is to be made only where it involves larger public interest and the Chief Public Information Officer or the State Public Information Officer or the appellate authority is satisfied that the larger public interest justifies disclosure of the same. ■

## Updates on Indirect Taxes

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### 1. Agent actions binding on Principal :

Agent Delivers goods to buyers or Principal's authorised dealers then also the goods are delivered as goods of the principal and hence there is no new sale transaction by the agent. It is only a transaction by the principal. **59 VST 241 Madhya Pradesh High court in the case of ALLENTIS PHARMACEUTICALS PVT LTD Vs STATE OF MADHYA PRADESH**

### 2. Input tax credit once granted cannot be reversed because of retrospective cancellation of registration of selling dealer :

The Assessee has purchased from the registered dealers and have claimed the input tax credit and subsequently the same was conformed by the assessment order. Subsequently the registration of the seller was cancelled retrospectively and hence the assessment is now revised. Held the **Hon. Madras High Court** held that revision is not in order and input tax credit cannot be revised in this issue. **59 VST 256 JINASASAN DISTRIBUTORS Vs STATE OF TAMILNADU**

### 3. Cenvat Credit eligible :

The Lower Appellate Authority allowed Cenvat credit in respect of rent-a-cab/travel agent, cargo handling, brokerage, courier, civil construction, catering, manpower recruitment, photography, interior decorator, insurance, dry cleaning, professional service, garden maintenance, waste management service and repair of fan service on the ground that these services were not integrally connected to the manufacture of final product and that therefore input services eligible for cenvat credit. **CESTAT- MUMBAI 59 VST 381 Commissioner of CE&ST(LTU) Vs Lupin Limited**

### 4. Cenvat credit is eligible for incidental transactions :

Cenvat Credit on input service such as Technical testing and analyzing service, courier services, clearing and forwarding agency service, Repair and Maintenance service, Management consultancy services, Services rendered by Interior decorator, commercial or industrial construction services, Technical inspection and certification services are input services and the Respondent who is Manufacturer of patent and proprietary medicines are entitled during relevant period to credit on taxes paid such services but Foreign agency service is not a input service. It was decided by the **Hon. Gujarat High Court 59 VST 386 Commissioner of Central Excise Vs Cadila Healthcare Limited**

5. Turnover tax amended during the year and the amended provision will apply to the period after the amendment and prior period will be assessed as per the old provision of the Act. The amended provision cannot be applied for the whole year. It was decided by the **Hon. Madras High court In the case of 59 VST 421 R.K. JAIN AND BROTHERS Vs STATE OF TAMILNADU**

### 6. MENS REA Not necessary :

Goods transported from Pune and the way bill was not endorsed at entry check post, even though the goods are moved by way of stock transfer and not for sale since the goods are taxable in the particular State in which it entered is default of statutory civil obligation and mens rea is not necessary for levy of penalty. This was decided by **West Bengal taxation tribunal** in the case of **59 VST 433 Delhi**

**Assam Roadways Corporation Limited Vs S.T.O., SILIGURI RANGE**  
Same view was taken by the West Bengal Taxation tribunal in the case of import also the evasion of tax is possible hence the mens rea is not necessary for levy of penalty in the case of **59 VST 440 Kusum Udyog Ltd Vs S.T.O., PHANSIDEWA MORE CHECK-POST**

The above Judgments confirm that any thing contravening the provisions of the act are liable for levy of penalty.

7. Section 4 (3)(d) of Central Excise Act 1944, Value of Warranty and service is post manufacturing and it is includible in assessable value and therefore entitle for input tax credit. **28 STR 382 Mumbai Tribunal Commissioner of Central Excise Vs Mahindra & Mahindra**

8. Entitlement to claim refund without challenging the assessment of bill of entry because at the time of filing of bill of entry the assessee has complied with condition of Notification No.21/2002-Customs act. It is the duty of Assessing Officer to give benefit of exemption under Notification 21/2002 as the Assessing Officer failed to assess the goods properly the assessee is entitled to get refund. **105 ELT (290) IN THE CESTAT, WEST ZONE BENCH-MUMBAI RUCH SOYA INDUSTRIES LTD Vs Commissioner of Customs (ACC&Import), Mumbai**

### 9. PENALTY set aside when assessee himself rectified the error :

The Assessee wrongly took the CENVAT credit on input services due to an accounting error and also reversed it promptly when pointed out. The Hon. Tribunal by considering the size and operation of the Appellant company and the fact that the Appellant had excess credit during the relevant period waived the penalty under Rule 15 of CENVAT Credit Rules 2004 decided in the case of **27 STR 479 Tribunal- Ahmd GAIL (India) Limited Vs Commissioner of Central Excise**

### 10. Interest on Refund due 3 months from the date of application and not date of order :

The **Honourable Supreme Court** held that the ability of revenue to pay interest on delayed refund under section 11BB of the Central Excise Act commences from the date of expiry of 3 months from the date of receipt of application for refund under sec 11 BB and not on the expiry of period of 3 months from the date on which order of refund is made. **27STR193(SC) RANBAXY LABORATORIES LIMITED Vs UNION OF INDIA**

11. The Hon. Tribunal held that where the bona fide belief was established due to prevalence of decisions in favour of the assessee during the relevant period which were later overturned by a larger bench decision, the extended period of limitation could be not be invoked and accordingly it set aside the penalty under section 76. **DELHI TRIBUNAL 27 STR 501 S.R. GUPTA & SONS Vs COMMISSIONER OF CENTRAL EXCISE**

12. The assessee did not pay service tax Legal Compliance service rendered to its clients under the category of Management consultancy services on the basis of CBEC circulars. The Honourable Tribunal held that the extended period of limitation cannot be invoked in such cases. **DELHI TRIBUNAL 27 STR 462 ERNST & YOUNG Pvt Ltd Vs Commissioner of Service Tax**



**WORK DISPOSAL POSITION**

The position of disposal of various matters relating to Members and Students of Regional Office, Chennai as on **28.05.2013** is as under:

| Particulars                            | Disposal of records received upto |
|--|-----------------------------------|
| <b>Members</b>                         |                                   |
| Enrolment of Members                   | 20/05/2013                        |
| Fellow Admission                       | 20/05/2013                        |
| Grant of COP                           | 20/05/2013                        |
| Restoration of Name – Recommended upto | 23/05/2013                        |
| Restoration of Name – Cleared upto     | 20/05/2013                        |
| Constitution of Firms                  | 15/05/2013                        |
| Reconstitution of Firms                | 22/05/2013                        |
| Paid Assistant                         | 15/05/2013                        |
| Change of Address – Members            | 20/05/2013                        |
| Change of Address – Firms              | 22/05/2013                        |
| <b>Students</b>                        |                                   |
| Registration of Articles               | 30/04/2013                        |
| Re-registration of Articles            | 29/04/2013                        |
| Industrial Training                    | 29/04/2013                        |
| Termination of Articles                | 30/04/2013                        |
| Completion of Articles                 | 15/05/2013                        |
| Permission to pursue Other Courses     | 01/05/2013                        |
| Despatch of Materials – CPT            | 01/05/2013                        |
| Despatch of Materials – IPCC           | 15/04/2013                        |
| Despatch of Materials – ATC            | 15/04/2013                        |
| Despatch of Materials – Final          | 21/04/2013                        |
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Director  
Board of Studies, ICAI

**FOR THE ATTENTION OF MEMBERS AND STUDENTS****E-Sahaayataa through www.icai.org****The Best way to get prompt response to all your issues / problems / grievances**

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**7. What Happens when any user is not Satisfied with the response?**

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**8. How to check status of Grievance online?**

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**OBITUARY**

| S. No. | MRN    | Name                   | Status | Place     | Date of Death |
|--------|--------|------------------------|--------|-----------|---------------|
| 1      | 003853 | MR. CHINNARAJU K V     | FCA    | CHENNAI   | 14/02/2013    |
| 2      | 004016 | MR. MALLIKHARJUNARAO L | FCA    | CHENNAI   | 15/04/2013    |
| 3      | 004209 | MR. VENKATARAMAN K     | FCA    | BANGALORE | 03/04/2013    |
| 3      | 024258 | MR. RAGHUNATHAN S      | ACA    | BANGALORE | 27/10/2012    |
| 4      | 227559 | MR. GOKUL V            | ACA    | CHENNAI   | 21/09/2012    |

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