MARCH 2017

ISSUE NO. 09

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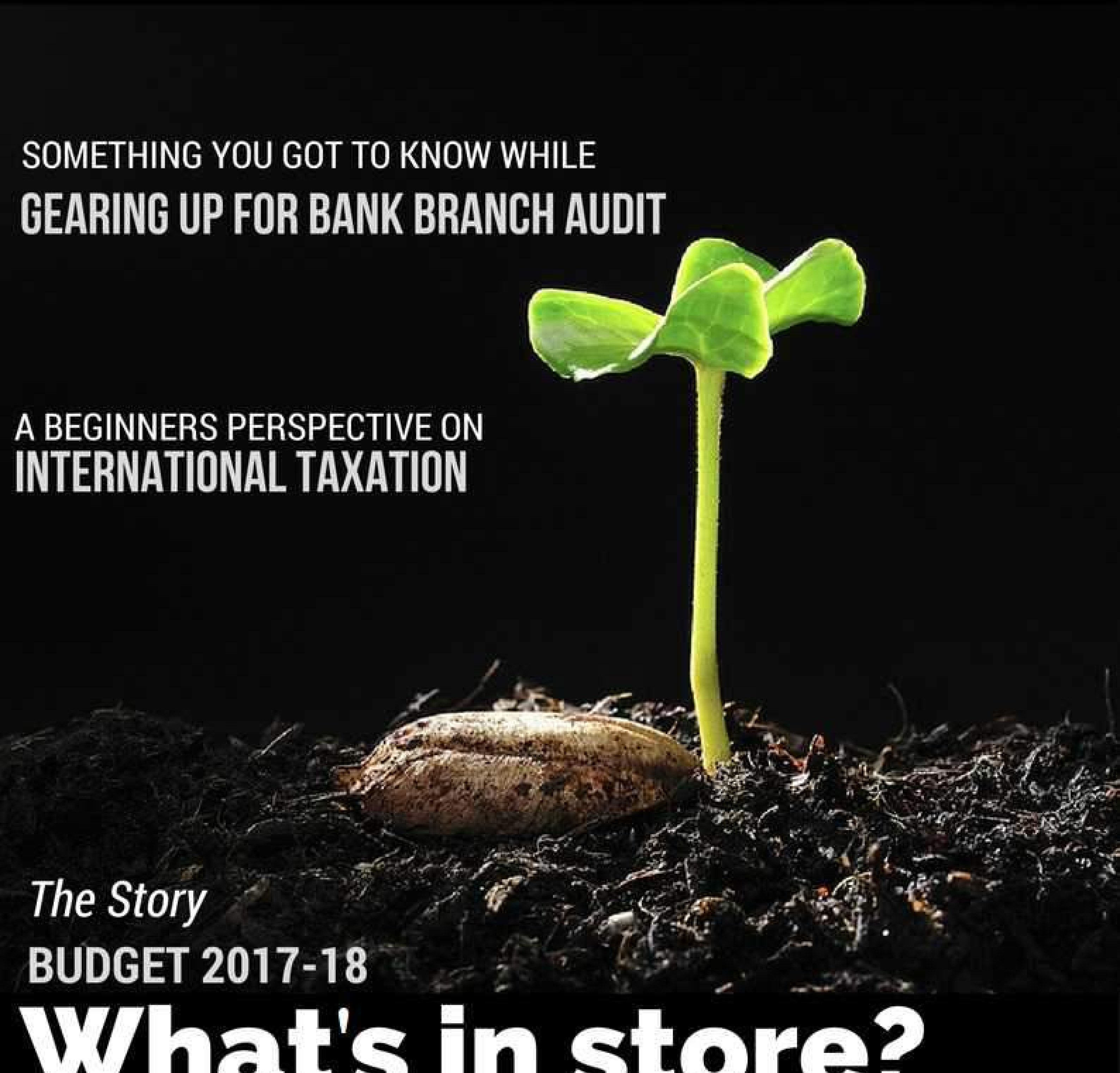
EXPAND YOUR EDGES



SOMETHING YOU GOT TO KNOW WHILE

GEARING UP FOR BANK BRANCH AUDIT

A BEGINNERS PERSPECTIVE ON

INTERNATIONAL TAXATION

The Story

BUDGET 2017-18

What's in store?

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Our Team

Editorial Board

VCAN –Team

- **V**edharaman Sri
- **C**handrasekara Venkatraman
- **A**ravindh K
- **N**ivedha Srinivasan
- **N**eeraj Surana

Esteemed Proof Readers

- Preetha Srinivasan

From the Editor's Desk

Dear friends,

We live in a fast paced world with information oozing from every corner and our desire to make everything to happen "immediately" with no room for patience or mistakes. We sow the seeds in the morning and expect fruits that very night.

We constantly throw ourselves from one commitment to another barely recollecting our beginnings, the actual journey or even the location of our destination. We then proceed to yet another task or activity more demanding than the previous in a constant monotonous cycle. Eventually stress and frustration grips us and symptoms of headache and feeling of emptiness and confusion takes over us. Constant rushing will entail that we miss out on the more beautiful details during our life's journey.

We have 365 days in the year, 4 unique seasons and 12 lovely months. Relax and straighten your thoughts and be in sync with your deepest selves. Make a plan, take a deep breath, look around and beyond towards your brilliant happy future.

Life is like a puzzle, if you follow the rules, the pieces will fall in their respective places to make a complete picture. One piece at a time.

"Rome was not built in a day"

\- *VCAN Team*

BUDGET 2017

By Vedharaman Sri

The wait is over…….

Budget 2017 was tabled in the parliament by The Hon. Finance Minister Arun Jaitley. Post-demonetisation every Indian citizen waited eagerly to see the outcomes of the budget. They expected payback as a reward for the war against black money.

But the budget evoked mixed reactions from various corners of the society.

Budget 2017-18 contains 3 major reforms. First, the presentation of the Budget advanced to 1st February to enable the Ministries to operationalise all activities from the commencement of the financial year. Second, merger of Railways Budget with General Budget to bring Railways to the centre stage of Government's Fiscal Policy and third, removal of plan and non-plan classification of expenditure to facilitate a holistic view of allocations for sectors and ministries.

Inflation:

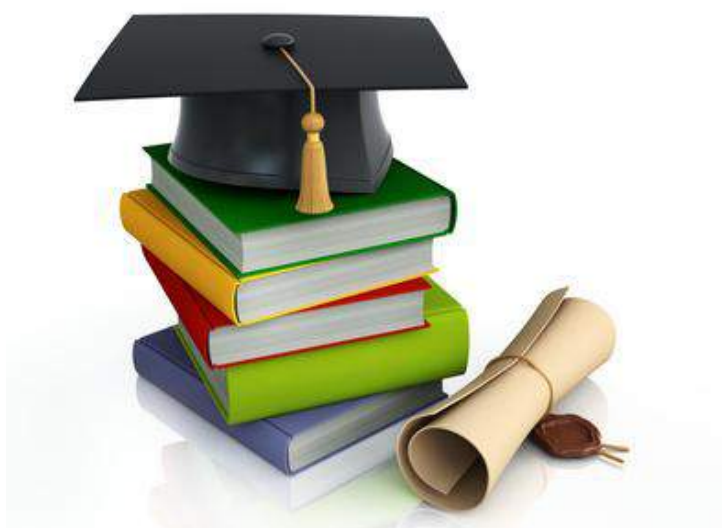
The government issued a statement stating that the inflation has been brought under control. CPI-based **inflation declined** from 6% in July 2016 to 3.4% in December, 2016. In addition, IMF forecasts India to be one of the fastest growing major economies in 2017.

Agriculture:

In a move to support farmers and to protect agriculture, the government has come up with more credit facility initiatives. Also, proposals like setting up 648 **Krishi Vigyan Kendras** (mini labs) for soil sample testing, expansion of the number of e- National agriculture market to prevent middle men earning profit is a welcome step. But creating awareness among the farmers about these initiatives will be a challenging task for the government.

Education:

A developing country like India needs a lot of new and innovative schemes to boost the education sector. So, to fulfil the above purpose, the Government has introduced **SWAYAM**- a new platform which will be launched with over 350 online courses. This online portal would enable students to virtually attend courses taught by the best faculty nationwide. Other than this, Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme **(SANKALP)** is to be launched at a cost of Rs. 4,000 crores. This will provide market relevant training to about 3.5 crore youth.



Railways:

In railways sectors, proposals like creation of passenger safety fund, increasing the solar power based stations, SMS based "Clean my coach services", introduction of **Coach Mitra**- a single window interface for addressing complaints relating to coach and setting up of bio toilets are assured to provide greater convenience to the passengers travelling. no service charge will be levied on tickets booked through the IRCTC website

Digital Economy:

The government is very keen to move towards a cashless economy and bring all the transactions into the preview of the banks. The government had introduced the **BHIM** mobile app for money transfer and is looking for means to approve an Aadhar enabled payment system. A government proposal has come out to route government receipts through digital means, if it crosses a prescribed transaction limit. In relation to this the government has notified an exemption of excise duty for manufacture of POS devices. In general no transaction in cash above Rs.3 lakh would be permitted. In case of business expenditure, both revenue and capital by way of cash payment exceeding Rs.10,000 discouraged by way of disallowance.

Start-ups:

The government since the last budget has been on a sphere to encouraging new start-ups by giving tax exemptions and various other allowances. In this budget also they have not disappointed the Micro Scale Medium Enterprise companies. The conditions for carry forward of losses by start-ups has been relaxed, profit linked exemption available to start-ups 3 years out of 5 years has been altered to 3 years out of 7 years. Further, MAT credit can be carried forward upto 15 years by all companies and also the income tax rate for companies having annual turnover upto 50 crores has been reduced to 25%. This reduction in tax rates is applicable only to small companies, and the memorandum doesn't indicate to extend this benefit to firms and LLPs.

The government is indirectly encouraging the formation of new companies over partnership firms as maintenance of books of accounts, tax deduction at source compliances, reverse charge of service tax for certain services are mandatory for companies irrespective of turnover or tax audit criteria. Those who are all in receipt of payments received from companies which are subjected to TDS will be in position to file his income tax returns. Hence the number of income tax assessee expected to increase to considerably.

Personal Income Tax:

Tax rate for people earning income between Rs. 2.5 Lakhs to Rs.5 Lakhs has been reduced to 5%. Surcharge of 10% on tax payable has been introduced on individual earning a taxable income of Rs.50Lakhs to 1 Crore. Other than this no other new allowances or schemes has been introduced for individual tax payers. But a new restriction has come in place for setting off of house property losses. This will have a profound impact on salaried people who bought flats using bank finance.

"Ideas will not work, unless we work on those ideas". This perfectly relates to the budget 2017. The schemes and announcement given in budget can reach the beneficiaries only through proper implementation. Let's hope that the benefits reach the targeted citizens.

How to read a Budget?

Most of the people including those in finance field are unaware on how to interpret a budget and what are all the document which form a part of budget.

Let us know about it.

Before tabling the budget in parliament, government will release the economic survey reports. Economic survey is a flagship annual document of the Ministry of Finance, Government of India. *Economic Survey 2016–17* reviews the developments in the Indian economy over the past 12 months and summarizes the performance on major development programmes. Then it highlights the policy initiatives of the government and the prospects of the economy in the short to medium term. This document is presented to both the houses of Parliament during the Budget Session.

The list of budget documents presented in the parliament are as follows:

1. Annual Financial Statement (AFS)
2. Demands for Grants (DG)
3. Appropriation Bill
4. Finance Bill
5. Memorandum Explaining the Provisions in the Finance Bill
6. Macro-Economic Framework Statement
7. Fiscal Policy Strategy Statement
8. Medium Term Fiscal Policy Statement
9. Medium Term Expenditure Framework Statement- (to be presented in parliament in the Session after the Budget session).
10. Expenditure Profile
11. Expenditure Budget
12. Receipts Budget
13. Budget at a Glance
14. Highlights of Budget- Key Features
15. Outcome Budget

The reason behind the proposed amendments and proposal or withdrawal of exemptions/allowance can be understood by reading the finance bill with memorandum explaining the provisions of the finance bill and budget speech. We can access all the above documents from the website: http://indiabudget.nic.in/

Service Tax

By Chandrasekara Venkatraman

Notifications

1. Seeks to amend notification No. 25/2012-Service Tax, dated 20th June 2012, so as to amend certain existing entries granting exemption on specified services and inserting new entries for granting exemption from service tax on specified services

   Notification No: 07/2017-Service Tax dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-servicetax/st-notifications/st-notifications-2017/st07-2017.pdf

2. Services by the operators of Common Effluent Treatment Plant by way of treatment of effluent from the 1st of July 2012 to 31st of March 2015

   Notification No: 08/2017-Service Tax dt. 20-02-2017

   http://www.cbec.gov.in/resources//htdocs-servicetax/st-notifications/st-notifications-2017/st08-2017.pdf

Circulars

1. Mentioning of Minor head code of Refund

   Circular No: 203/01/2017-ST

   http://www.cbec.gov.in/resources//htdocs-servicetax/st-circulars/st-circulars-2017/st-circ-203-1-2017.pdf

2. Applicability of service tax on the services by way of transportation of goods by a vessel from a place outside India to the customs station in India w.r.t. goods intended for transshipment to any country outside India

   Circular No: 204/02/2017-ST

   http://www.cbec.gov.in/resources//htdocs-servicetax/st-circulars/st-circulars-2017/st-circ-204-2-2017.pdf

Central Board of Direct Taxes

1. CIRCULAR NO 08 OF 2017 : Clarification for determination of Place of Effective Management (POEM) of a company, other than an Indian company

   http://incometaxindia.gov.in/communications/circular/circular-8-2017-clarification-on-place-of-effective-management.pdf

CUSTOMS

By Nivedha Srinivasan

Circulars

1. Expansion of 24x7 Customs clearance and clarification of levy of MOT charges in CFSs attached to 24x7 ports

   Circular No: 04/2017

   http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-circulars/cs-circulars-2017/circ04-2017cs.pdf

Tariff Notifications

1. Seeks to further amend Notification No. 27/2011-Customs dated 1.3.2011.

   Notification No: 03/2017-Cus dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2017/cs-tarr2017/cs03-2017.pdf

2. Seeks to further amend Notification No. 21/2012-Customs, dated the 17.03.2012 so as to specify the rate of additional duty of customs leviable under sub-section 3(5) of Customs Tariff Act, 1975 for items specified therein.

   Notification No: 04/2017-Cus dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2017/cs-tarr2017/cs04-2017.pdf

3. Seeks to reduce Basic Customs Duty from 10/7.5 % to 5% on all items of machinery required for (a) initial setting up of fuel cell based system for generation of power or for demonstration purposes and (b) for balance of systems operating on biogas or bio-methane or by-product hydrogen.

   Notification No: 05/2017-Cus dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2017/cs-tarr2017/cs05-2017.pdf

4. Seeks to further amend Notification No. 12/2012-Customs, dated the 17.3.2012 so as to carry out Budgetary changes. Details are contained in Joint Secretary (TRU – I) DO letter dated 31.1.2017.

   Notification No: 06/2017-Cus dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2017/cs-tarr2017/cs06-2017.pdf

Central Excise

By Aravindh K

Tariff Notifications

1. Seeks to further amend Notification No. 6/2005-Central Excise dated 1.3.2005 so as to carry out Budgetary changes

   Notification No: 03/2017-CE, dt. 02-02-2017
   http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-act/notifications/notfns-2017/cx-tarr2017/ce03-2017.pdf

2. Seeks to further amend Notification No. 42/2008-Central Excise dated 1.7.2008 so as to carry out budgetary changes.

   Notification No: 04/2017-CE, dt. 02-02-2017
   http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-act/notifications/notfns-2017/cx-tarr2017/ce04-2017.pdf

3. Seeks to prescribe 6% concessional excise/CV duty on all items of machinery required for (a) initial setting up of fuel cell based system for generation of power or for demonstration purposes and (b) for balance of systems operating on biogas or bio-methane or by-product hydrogen.

   Notification No: 05/2017-CE, dt. 02-02-2017
   http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-act/notifications/notfns-2017/cx-tarr2017/ce05-2017.pdf

4. Seeks to amend Notification No. 12/2012-Central Excise dated 17.03.2012 so as to carry out Budgetary changes.

   Notification No: 06/2017-CE, dt. 02-02-2017
   http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-act/notifications/notfns-2017/cx- tarr2017/ce06-2017.pdf

5. Seeks to amend Notification No. 16/2010-Central Excise dated 27.2.2010 so as to carry out Budgetary changes.

   Notification No: 07/2017-CE, dt. 02-02-2017

   http://www.cbec.gov.in/resources//htdocs-cbec/excise/cx-act/notifications/notfns-2017/cx-tarr2017/ce07-2017.pdf

SA 505 - EXTERNAL CONFIRMATIONS;
SA 260 - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

By Sruthipriya Suryanarayanan

Surya had told that the audit procedures for the next day would not just be limited to documents, but would involve interactions with outsiders. I was looking forward to it. This is what happened the next day:

Surya: "We are now going to draft external confirmations. It is actually evidence obtained as a direct written response to the auditor from a third party i.e. the confirming party. These are performed to confirm or request information. Now, could you tell me situations where this could be used?"

Me: "Accounts Receivable balances, Accounts Payable balances, Bank balances, Amounts due to lenders, Inventories held by third parties at warehouses or consignment etc;"

Surya: "That was impressive! The process goes this way:

- Information to be confirmed/ requested should be determined first
- Appropriate confirming party should be selected
- Confirmation request should be designed
- Request should be sent, and then comes follow up."

Me: "I don't get the designing part of it!"

Surya: "There are two kinds of requests, Amit – 'Positive and Negative'.

Positive confirmation request is the one in which the confirming party responds directly to the auditor indicating whether he agrees/ disagrees with the information in the request or, providing requested information.

Negative confirmation request is one in which, the confirming party would respond only when he disagrees with the information given in the request."

Me: "Negative confirmation request does not seem to be providing complete evidence. Why would someone use it over Positive one? "

Surya: "Exactly! It provides less persuasive evidence than Positive requests. So, we should use it only in the following circumstances:

- When we are sure that the risks of mis-statements are low, after making all the assessments;
- When the population consists of large number of homogeneous account balances
- When we are not aware of any reasons that would make the recipients to disregard the request."

After all the discussion, I actually got to see the external confirmation. My seniors were preparing it and I was helping them (now that I have learnt a lot in that topic after all the discussions with Surya!). It was for the debtors. The balance as per the Financial Statements as on 31.03 was mentioned and the debtors were asked to confirm if the balance was right. All the requests were ready and then came the issue.

I heard that the management of the company was refusing to send out some of them! All my work was about to become a waste? Had no other alternative, but to seek Surya's attention.

Me: "What if management refuses to send the requests?"

Surya: "We should inquire management as to their reasons for refusal and evaluate its reasonableness. If they are unreasonable or if there are no other alternative audit procedures, we shall communicate with those charged with Governance and determine its effects on our audit report."

Me: "I thought management and those charged with Governance are the same. Are they not?"

Surya: "No Amit. Management refers to persons with executive responsibilities while those charged with Governance are those with responsibility for overseeing the strategic direction of the entity. In some entities, those charged with Governance may include management personnel."

Me: "So, we just communicate the findings during the audit to them!"

Surya: "No. Not just that. Our relationship with them is right from the beginning.

- First, we communicate our responsibilities as auditors, scope and timing of audit, our Independence etc;
- They would provide us with all necessary information for audit;
- We keep providing them with significant observations during the audit;
- And, we should make sure there is an effective two-way communication between us. And that too, in writing"

Me: "I know that written communication is more formal, but when there is a lot of matters to be communicated and that too very frequently and continuously during the audit, oral communication might be better at some times. Right?"

Surya: "The communication should be in writing during most of the times, I meant. The form of communication (i.e. oral/writing; detailed/summarised etc,) depends on the following factors:

- Whether the matter has been resolved
- Whether management has previously communicated the matter
- Size, control environment, legal and operating structure of the entity
- Legal considerations etc.,

And, when some of the matters are communicated orally, the auditor shall document them, when and to whom they were communicated. In case of written communications, he shall retain a copy of them for future reference.

Now, from tomorrow, you will be joining your seniors and helping them with their work. We have different teams in our firm, headed by a senior apprentice, doing audits of different companies. And, each will be in different stages of audit. I will tell you when you need to join each team. This way, you will get to know about different areas of audit. So, I want you to brush up accounting ratios before you come here tomorrow.”

..... To be continued

About the Author

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Bills Pending in Parliament

Short Title	Key Objective
Specified Bank Notes (Cessation of Liabilities) Bill, 2017	Replaces an Ordinance Provides for the ceasing of liability of the Reserve Bank of India on specified bank notes (old Rs 500 and Rs 1,000) – Passed in Lok Sabha
The Payment of Wages (Amendment) Bill, 2017	Replaces an Ordinance Enables employer to pay wages by cheque or through a bank account. Government can specify establishments where wages are to be paid only in the above modes– Passed in Lok Sabha
The Chit Funds (Amendment) Bill, 2017	Regulates development of the chit fund industry.
The Financial Resolution and Deposit Insurance (FRDI) Bill, 2017	Proposes to establish a framework to resolve insolvency in financial firms
The Securities and Exchange Board of India (Amendment) Bill, 2017-	Provides more members and benches of Securities Appellate Tribunal
The Right of Children to Free and Compulsory Education (Amendment) Bill, 2017	Extends the period to facilitate training of all in - service untrained teachers to March31, 2020.

International taxation and its reference in Income-tax Act, 1961

By CA Balachandar S

The growth of international trades felt the need for requirement of international treaties between nations to come to an agreement about the standard policies to be adopted for trade between them.

The increase in trade agreements between nations saw the requirement of an agreement to policise the tax treatment of the trade income between the nations. The Double Taxation Avoidance agreement ('DTAA') had its source from the trade agreements entered into between nations and it is always said that the DTAA should be read with the trade agreements, to understand the aforesaid tax treatments/ positions agreed between both the governments.

The globalisation period in the 1990's saw an increase in the trade agreements and also the entering of new DTAA's with nations across the globe. DTAA's were entered into between countries for the following reasons:

- ✓ To avoid double taxation of the income earned in source as well as residence state;
- ✓ To provide relief in respect of the income earned, which are doubly taxed in both the states.

Basis of taxation around the world

The countries broadly the following two basis for taxing the income:

- ✓ Residence – Where the income are taxed on the basis of residential status;
- ✓ Source – Where the income are taxed in the source state, where the income is earned.

India broadly follows source based taxation and US follow residence based taxation.

The double taxation avoidance agreement provides relief where the same income gets taxed in both the resident state and also the source state.

Basis for applicability of the DTAA

The provisions of DTAA can be applied only when there are resident of one state or resident of other state or resident of both the states. This condition for applicability shall form part of Article on Residence of the DTAA.

Taxation of non-residents

As per the charging section of the Income-tax Act, 1961, the non-residents are taxed if the income has accrued/ deemed to accrue in Indian or has been received/ deemed to be received in India.

The income which are deemed to accrue/ arise in India are provided as part of Section 9 of the Income-tax Act, 1961.

Broad categories of Income

As per the Income-tax Act, 1961, the income of non-residents are broadly classified into two:

- ✓ Active stream of income; and
- ✓ Passive stream of income

Active stream of income are taxed on net basis. For instance, business income where Permanent Establishment is triggered in India.

Passive stream of income are taxed on gross basis in India. For instance, Royalty, Fees for Technical Services.

Coverage under Income-tax Act, 1961

Section 90 and 91 of the Act – beneficial provision of the Act to the person earning income which are taxed in both the resident state and also the source state.

Section 90 provides that, where the central government has entered into an agreement with a country and a person has earned income from such country which are doubly taxed, then the person shall consider the beneficial of Act or the DTAA, in determining the taxability of such income.

The beneficial provision shall also extend to determining the withholding obligation on such income where payment is made to non-resident.

Further, section 91 of the Act provides for relief from Income tax in India, where income is doubly taxed and also there is no double taxation avoidance agreement with that state. For instance, India does not have DTAA with Hongkong and hence relief on income from Hong-Kong shall find relief under section 91 of the Act.

Specific issue of dealing with income from Hongkong

There is a school of thought that India-China DTAA can be extended to Hongkong also. However, is Hongkong and China different state as per the revenue authorities?

.......Shall be back with the answer in the next edition.

About the Author

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CERTIFIED INFORMATION SYSTEMS AUDITOR

The CISA designation is a globally recognized certification for IS audit control, assurance and security professionals. Being CISA-certified showcases your audit experience, skills and knowledge, and demonstrates you are capable to assess vulnerabilities, report on compliance and institute controls within the enterprise.

CISA BENEFITS YOUR CAREER AND YOUR ORGANIZATION

Enterprises demand IS audit professionals that possess the knowledge and expertise to help them identify critical issues and customize practices to support trust in and value from information systems. The skills and practices that CISA promotes and evaluates are the building blocks of success in the field. Possessing the CISA demonstrates proficiency and is the basis for measurement in the profession.

EXAM

ISACA uses a 200-800 point scale with 450 as the passing mark for the exams. A scaled score is a conversion of the raw score on an exam to a common scale. It is important to note that the exam score is not based on an arithmetic or percent average. For example, the scaled score of 800 represents a perfect score with all 200 questions answered correctly; a scaled score of 200 is the lowest score possible and signifies that only a small number of questions were answered correctly.

A candidate must receive a scaled score of 450 or higher to pass the exam. A score of 450 represents a minimum consistent standard of knowledge as established for the exam by the respective ISACA Certification Committee. The passing score of 450 represents the minimum number of questions that must be answered correctly by the candidate in order to demonstrate practical application of the job task and knowledge statements. A candidate receiving a passing score may then apply for certification if all other requirements are met.

WHAT ARE THE EXAM DEADLINES?

CISA EXAM DATES 2017

With the new exam in 2016, scheduling has become more flexible but the exam fee has gone up considerably.

Exam Windows	May 1 – Jun 30	Aug 1 – Sep 30	Nov 1 – Dec 31
Registration starts on	Nov 15, 2016	May 1	Aug 1
Early Registration closes by	Feb 28	TBD*	TBD*
Regular Registration closes by	Jun 23	Sep 22	Dec 20

*TBD- To be disclosed

In 2017, ISACA is moving to Computer Based Testing (CBT). The next opportunity to sit for the exam is the May-June 2017 exam window. Registration for this window is currently open at www.isaca.org/examreg.

WHERE CAN I FIND THE LOCATIONS FOR THE 2017 EXAMS?

As of now there are 92 centres in India which includes top cities Chennai, Bangalore, Hyderabad, Mumbai, Kolkatta etc. www.isaca.org/examlocations.

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Finance Budget – Technical Analysis

By Vedharaman Sri

1. Amendment in 194-I TDS on rent:

Amendment: In order to widen the scope of tax deduction at source, a new section 194-IB inserted in the Act to provide that Individuals or a HUF (other than those covered under 44AB of the Act), responsible for paying to a resident any income by way of rent exceeding fifty thousand rupees for a month or part of month during the previous year, shall deduct an amount equal to five per cent of such income as income-tax thereon.

In order to reduce the compliance burden, it is further proposed that the deductor shall not be required to obtain tax deduction account number (TAN) as per section 203A of the Act. It is also proposed that the deductor shall be liable to deduct tax only once in a previous year

Effect: *Those who are all paying rent paid exceeding Rs.50000 for a month or part of month and claiming as business expenditure by individual or HUF (other than those covered under 44AB) have to deduct 5% of such rent paid as TDS.*

2. No notional income for house property held as stock-in-trade

Amendment: Section 23 house property consisting of any building and land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period upto one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil

This amendment will take effect from 1st April, 2018 and will, accordingly apply in relation to assessment year 2018-19 and subsequent years

Effect: *Those who are all having buildings / flats as stock-in-trade have to declare deemed rent on unsold flats after the one year from end of financial year in which completion certificate obtained.*

3. No cash transaction above Rs. 3 lakhs

In order to achieve the mission of the Government to move towards a less cash economy to reduce generation and circulation of black money, it is proposed to insert section 269ST in the Act to provide that

No person shall receive an amount of three lakh rupees or more,—

(a) in aggregate from a person in a day;

(b) in respect of a single transaction; or

(c) in respect of transactions relating to one event or occasion

from a person, otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.

Note: Transactions of the nature referred to in section 269SS are proposed to be excluded from the scope of the said section. It is also proposed to insert new section 271DA in the Act to provide for levy of penalty on a person who receives a sum in contravention of the provisions of the proposed section 269ST.

The penalty is proposed to be a sum equal to the amount of such receipt.

It is also proposed to consequentially amend the provisions of section 206C to omit the provision relating to tax collection at source at the rate of one per cent. of sale consideration on cash sale of jewellery exceeding five lakh rupees.

These amendments will take effect from 1st April, 2017.

4. Amendment in section 194J

Reduction in the rate of deduction of tax at source to two per cent from ten per cent in case of payments received or credited to a payee, being a person engaged only in the business of operation of call center.

This amendment will take effect from the 1st day of June, 2017

5. Section 47: Transaction not regarded as transfer

Amendment: Conversion of preference share of a company into its equity share shall not be regarded as transfer.

This amendment will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

Effect: *Hence no capital gain arise on conversion of preference share of a company into equity share.*

6. Time limit for completion of scrutiny assessment u/s 143/144

For A.Y 2018-19 – 18 Months end of the assessment year

From A.Y 2019-20 – 12 Months end of the assessment year

7. **New Section 234F**

Amendment: Fee for Late filing of return of Income: Returns filed after due dates specified for filing of return under sub-section (1) of section 139.

The proposed fee structure is as follows:—

(i) Rs. 5,000 - if the return is furnished after the due date but on or before the 31st day of December of the assessment year;

(ii) Rs.10, 000 in any other case.

Note: However, in a case where the total income does not exceed five lakh rupees, it is proposed that the fee amount shall not exceed Rs.1000

Effect: *Income tax return has to be filed in time to avoid late fees. In order to ensure timely compliances by the assessee, this new fee introduced.*

8. **New section 271J Penalty on professionals for furnishing incorrect information in statutory report or certificate**

In order to ensure that the person furnishing report or certificate undertakes due diligence before making such certification, it is proposed to insert a new section 271J so as to provide that if an accountant or a merchant banker or a registered valuer, furnishes incorrect information in a report or certificate under any provisions of the Act or the rules made there under, the Assessing Officer or the Commissioner (Appeals) may direct him to pay a sum of ten thousand rupees for each such report or certificate by way of penalty.

This amendment will take effect from 1st April, 2017.

9. **Amendment in section 87A**

Reduction in amount of rebate : Rs. 5000 to Rs. 2500.

It is also proposed to provide that this rebate shall be available to only resident individuals whose total income does not exceed Rs. 3,50,000.

This amendment will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years

10. **Restriction on set-off of loss from House property**

Amendment: Section 71(3A): Set-off of loss under the head "Income from house property" against any other head of income shall be restricted to two lakh rupees for any assessment year.

However, the unabsorbed loss shall be allowed to be carried forward for set-off in subsequent years in accordance with the existing provisions of the Act.

This amendment will take effect from 1st April, 2018 and will, accordingly apply in relation to assessment year 2018-19 and subsequent years.

Effect: *Set-off of loss from house property against other head is restricted to Rs. 2 Lakhs for any Asst.year and excess loss carried forward. The benefit of loss is deferred and tax incidence advanced.*

11. Extension of the power to survey

Amendment: It is proposed to widen the scope of the said section by amending sub-section (1) to include any place, at which an activity for charitable purpose is carried on.

This amendment will take effect from 1st April, 2017.

Effect: *Now Income tax authorities can conduct survey on trust.*

Other important amendments:

- The time for furnishing of revised return shall be available upto the end of the relevant assessment year (i.e 12 months from end of financial year) or before the completion of assessment, whichever is earlier.
- The base year for indexation proposed to be shifted from 1.4.1981 to 1.4.2001 for all classes of assets including immovable property.
- The period of holding for considering gain from immovable property, being land or building or both to be long term is proposed to be reduced from 3 years to 2 years.
- The period for carry forward of MAT credit proposed to be increased from 10 years to 15 years.
- Corporate tax rate is proposed to reduce to 25% from A.Y.2018-19 for domestic companies with annual turnover upto Rs.50 crore in P.Y. 2015-16.
- The threshold limit under section 40A(3) for allowability of revenue expenditure incurred in cash is proposed to be reduced from Rs. 20,000 to Rs. 10,000.

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BANK AUDIT

By Saravana Kumar T

It's March, and by the end of this month we'll all (or most of us will) be gearing up for the Bank Branch Audit. For the newbies, What are all the types of Audit that are relevant to the banking sector?

If you thought Banking was simple, think again – the quantum of public money invested & the levels of Non-Performing Assets reported – shouldn't the system be rigid to spot all loop holes? It really is.

Apart from regular checks & balances and internal investigation audits by the bankers, there are the following audits which are to be done by Chartered Accountants – Concurrent, Internal, Information Systems, Statutory & Tax Audit.

Concurrent Audit

Concurrent Audit means – the audit or examination of transactions happening as and when a transaction actually happens.

It is a continuous audit, which goes on all the year around, usually conducted by external auditors (Chartered Accountants) on monthly basis.

In concurrent audits daily basis transactions are examined and checked – this ensures any irregularities are nipped at the bud.

Banks have a huge number of daily transactions – they also have many documentations and other formalities that they have to conform too – through concurrent audit any irregularities or nonconformities are easily found out as and when it happens and rectified immediately; this avoids piling up of irregularities which may become a huge problem for any branch when the year-end audit comes around!

Concurrent Auditors check for daily maximum cash balance adherence compliance, KYC norm compliance, proper documentation of new loan disbursement, checking if new loans have been made as per rules and regulations, income leakage etc. among other things like putting any new RBI instruction to work!; these are reported on in the 'concurrent audit report'.

Concurrent Audit is a measure to help a Branch to work smoothly and rectify any mistakes to avoid cascading effect of the irregularities.

Internal Audit/ Information Systems Audit

Many banks instead of having concurrent audit or even in addition to having concurrent audits may use 'internal auditing'.

Internal Auditing is when any organization, including a bank, constitutes an audit team within its own organization to cater to its auditing requirements.

These internal auditors will visit branches one by one where and when required and carry out auditing.

Internal Audit may focus on any specified area or cover every aspect of the branch, depending on its audit programme and requirement; main thing is it is conducted by the bank itself.

However one important thing in internal audit is – information systems audit; information systems audit is a new area gaining prominence in the last few years.

With rapid computerization in banking sector – core banking, ATMs, mobile banking, internet banking and completely computerized banking functions – it becomes necessary to have a periodical review of how these systems are working.

Internal Control audit looks are the information flow, the channels, the security (of information) etc.

It also checks for the workability of new banking software and how it rates on security and access.

Statutory Audit

'Statutory Audit' is conducted by a 'Statutory Auditor' – the word 'statute' means – mandated or compulsorily required by any law or Act; in Bank's case it is the RBI's mandate. Every year around the very last days of March (end of financial year) and the beginning of April (first two weeks of April) – in every branch of every bank a very rigorous activity is held – known as the year end audit or the Statutory Audit!

And because not every bank can be audited by a single Firm, the work is divided branch wise, the term is Statutory Bank branch Audit. Where in each Branch Auditor will send their Branch level reports to the Stat. Auditor for integration & providing a consolidated report.

This audit is the most important event for a bank as this decides among other things – the NPA!

Which by now, I think most of you would know and appreciate how important it is for any bank – NPA and its provisioning affect the profits of a bank and hence the Balance Sheet and Profit and Loss Account and finally the shareholder's dividends.

Statutory Auditors are appointed by RBI in association with the ICAI, to empanel Chartered Accountants for the job. Statutory Audit does not look at the nitty-gritties of the banking transactions (these are looked at by concurrent and internal audits); instead they rely on the concurrent audit reports and test checking to form their opinion.

Statutory Audit mainly looks at the loans and advances, compliance with PSL requirements, CRR, SLR etc. and other statutory norms compliance as per the latest RBI circulars.

Thus Bank Audit is an important activity undertaken by internal and external auditors, to ensure no fraud is being committed – the overall aim to ensure fair and just banking practice.

When the next time you go to your local branch and witness audit going on specially the Stat. Audit – cut 'em some slack! They're trying their best to reduce the NPA and its provisioning!

Long Form Audit Report

Besides the audit report as per the statutory requirements, the terms of appointment of auditors of public sector banks, private sector banks and foreign banks [as well as their branches], require the auditors to also furnish a long form audit report (LFAR). The matters which the banks require their auditors to deal with in the long form audit report have been specified by the RBI.

The LFAR is to be submitted before 30th June every year. To ensure timely submission of LFAR, proper planning for completion of the LFAR is required. While the format of LFAR does not require an executive summary to be given, members may consider providing the same to bring out the key observations from the whole document.

Tax Audit

Apart from the Statutory Audit, the Bank Branch Auditors also collect relevant inputs – on branch level - for making the Tax Audit report as per Form 3CA-3CD pursuant to Income Tax Act, 1961.

This report is forwarded to the Stat. Auditor for integration – remember SA 600 ?

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Most of the firms do have Bank Branch Audits, which comprises of the Statutory & Tax Audit of the Bank Branch. Let's see how to plan for one.

Planning for Bank Audit

Plan is necessary because of following factors:

- Non-Performing Assets (NPA's) and Frauds are required to be checked in limited time available and controls are also to be checked.
- Data is invisible. Access takes time.
- Banks are dealing with various products unlike earlier basic functions i.e. Acceptance of Deposits and giving Advances.
- Various legal and statutory requirements are required to be followed while reporting under Bank Branch Audit.
- Auditors today are required to consider working paper management risk for reasons like Peer Review. To sum up planning is necessary for various reasons stated above particularly to meet the target in a given time limit.

Well before the Audit Team visit the branch, you must be ready with sufficient and required knowledge of applicable RBI Circulars. You should know in advance about the business mix at a branch allotted to you. You should be very well conversant with the latest guide lines and background materials published by Institute of Chartered Accountants of India (ICAI).

Standardization in the form of checklists and/or bullet points may be of great help while conducting Bank Branch Audit. Preparation of such checklist is nothing but planning for Bank Branch Audit. Since the time and resources are limited for personal involvement, it is necessary to plan Bank Branch Audit.

***

To cut some slack, we have a draft checklist for Statutory Audit of Banks, take a glance.

Checklist for Statutory Audit of Banks

Auditor/Audit team shall call for the following information / records / details / evidences for the purposes of Statutory audit of Bank:

1. Closing circular issued to the branch / reference in their website
2. The profile and specialization of the branch.
3. Comparative analysis of movement of interest income and expenses vis-a-vis advances and deposits respectively for two years.
4. List of top borrowers accounts accounting for 2% of the advances of the branch or Rs.1 crore whichever is lower, covering at least 60% of advances of the branch.
5. Copies of last three months Concurrent Audit Reports (if covered under Concurrent Audit)
6. Copy of the summary sheet of the last Inspection Report.
7. Copy of Revenue Audit Report, if any.
8. Copy of IT Audit Report, if any.
9. Copy of vigilance enquiry or any special investigation reports.
10. Details of fresh advances made during the year.
11. Details of major weaknesses, if any, persisting in the branch
12. List of Potential NPA Accounts – For quarter ending December.
13. Details of loan accounts restructured during the year.
14. Details of advances which are pending renewal for more than 3 months.
15. Details of advance accounts wherein stock statements are not received for 3 months.
16. List of NPA accounts wherein the valuation reports are older than 3 years.
17. List of non-corporate entities with working capital limits in excess of Rs. 10 lakhs.
18. List of borrowers accounts which underwent CDR during the year.
19. List of accounts where recoveries are made, where DICGC / ECGC claims have been received.
20. Details of expired Letters of Credit / Guarantees.
21. Details of Invoked Guarantees / Letters of Credit and treatment thereof.
22. List of off balance sheet items and contingent liabilities, if any.

23. Details of suspense and sundry entries beyond 12 months.
24. Details of fraud by employee or outsiders, against the bank during the year.
25. List of recoveries in NPA accounts and appropriation thereof.
26. Details of legal expenses incurred and accounting in the books.
27. Details for Long Form Audit Report, including Annexures for advances above Rs.2 crore
28. Details for Tax Audit under section 44 AB of Income Tax Act, with specific reference to additions to fixed assets.
29. Details of section wise tax deducted and remitted including date of deduction, date of remittance and delay if any. TDS mapping for deduction and remittance.
30. Certificate from branch management that TDS has been duly deducted and remitted as per provisions of Income Tax Act, 1961.
31. Details for furnishing various certificates.
32. Date when the audit could be commenced.
33. Proforma Management Representation Letter to obtain the management's assurance that the financial statements and other information furnished for furnishing certificates are truly and correctly prepared and presented by the branch management to the branch Statutory auditors.

Even though we have seen what a Bank branch audit is and what are to be covered, we have to know what has to be vouched for – or how to scrutinise the given records. A simple glossary to tracing irregularities can be downloaded from the following link:

http://www.mediafire.com/file/vbrfkt5035mr2tl/GLOSSARY_TO_IRREGULARITIES.pdf

Also you can refer the latest guidance notes on Audit of Banks 2017 issued by ICAI at

http://icai.org/new_post.html?post_id=13355&c_id=219

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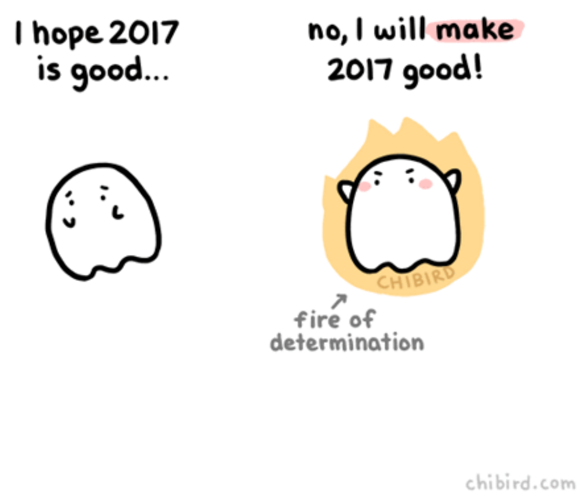
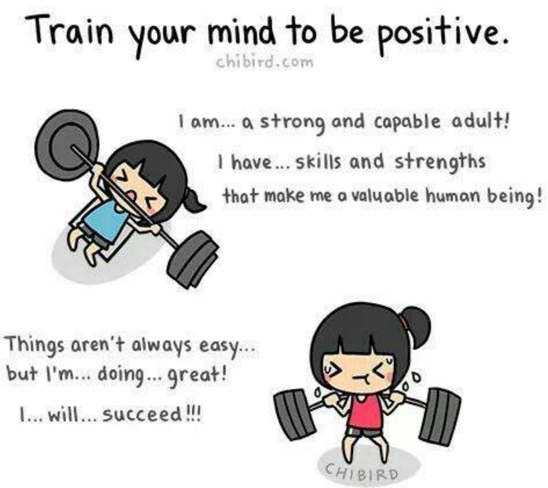
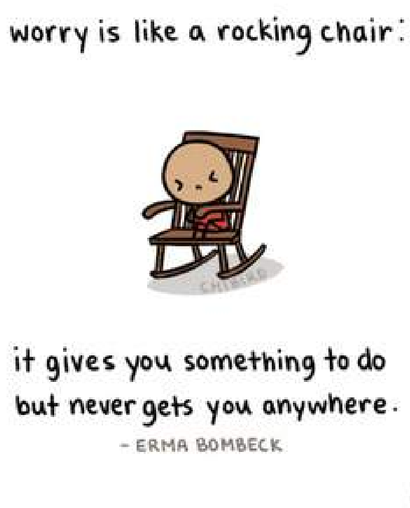


Confidence doesn't come when you have all the answers. But it comes when you are ready to face all the questions. ☺

Never be a prisoner of your past. It was just a lesson, not a life sentence. ^_^





A positive mind finds opportunity in everything. A negative mind finds faults in everything. ;)

As every month's issue rolls out, we are expanding; not just in subscriber base, but as a team. We are overwhelmed with the mails we get & the connections we have formed, getting information on any sub-domain of Business Segment through the team is a luxury undefined.

As our tag line goes, We Expand our Edges, and there is no stopping.

So, take the privilege, join us. Share with us your areas of interest, send us articles revolving around finance, accounts and economies.

Together V CAN !!!

Send your articles for the next issue to
eye.camk@gmail.com latest by 20th of March 2017.
We'll get in touch with you.
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