



SBS | *Interns'*
Digest
An attempt to share knowledge

By

**Interns of
SBS and Company LLP**

CONTENTS

AUDIT.....1

AUDIT OF FIXED DEPOSITS1

RISK BASED INTERNAL AUDIT4

UPDATES

COMPANIES ACT, 2013.....11

RULES, CIRCULARS AND NOTIFICATIONS ISSUED DURING THE MONTH OF APRIL, 2017.....11

FEMA.....13

FEMA UPDATES.....13

AUDIT

AUDIT OF FIXED DEPOSITS

Contributed by Ashok Reddy & Vetted by CA Sandeep Das |

What is Fixed Deposits?

A "Fixed Deposit" is a financial instrument provided by the banks which provides investor with a higher rate of interest than a savings account, until the given maturity date. Usually companies having the higher liquidity (by way idle money) they use this tool to increase their interest income. A wide range of tenures are available, ranging from 7 days to 10 years to suit our investment plans.



Audit objectives:

- ↗ To ensure that all the fixed deposits recorded completely without any omission
- ↗ To ensure that accrued interest calculated is accurate
- ↗ To ensure that Interest calculated on the fixed deposits are accurate and same should be accounted in the books of accounts properly

Documents Required from Client:

1. Fixed deposits register during year
2. Fixed deposit certificates hard copies
3. Updated Form 26AS
4. All Bank account statements or bank ledger from the software

Audit procedure for verification of Fixed Deposits:

1. **Opening balance verification:** Opening balance should be cross verifying with the closing balance as per last year signed financial statements.

2. Fixed deposits register:

- a. Ensure that every item in the fixed deposits register should be accounted in the books of accounts with proper accounting and same should be verified with the hard copies also. Format of fixed assets register given in the Annexure 1.

Fixed Deposit a/c ----- Dr
To Bank a/c ----- Cr

- b. Verify all the fixed deposit certificates given by the bank at the time depositing. The following elements are taken care at the time verification,
- Date of the fixed deposit
 - Interest Rate
 - Duration of fixed deposit or date of maturity
 - Amount
 - FD number

3. Verification of Interest:

- a. Ensure that interest calculated based on the duration of fixed deposit and same should cross verify with the bank books (Bank account and Bank Statement).

$$\text{Interest} = \text{FD Amount} * \text{Interest Rate} * \text{no of days} / 365$$

- b. Ensure that the "Interest receivable" during the previous financial year have been received during the current period. (Cross verifying the amount with the bank statements (or) Interest credited a/c)
- c. Ensure accrued interest should be calculated based on number of days left in the preceding financial year

4. Verify the bank statements:

- a. Realization of FD should be cross verified with the bank statements and verify the realisation entry in the bank ledger with proper accounting.
- b. Cross verify the FD balance with confirmations received from the banks.

5. Verification Segregation of Duties:

- a. Segregation Duties: Segregation of duties is a key internal control in any organisation. The purpose of this segregation of duties is to minimize the opportunity for an employee to misappropriate funds and avoid detection.

- b. Ensure that the below duties pertaining to Fixed Deposits should properly segregate without allocating to single person.
 - i. Deposit
 - ii. Accounting of Deposits
 - iii. Reconciling
 - iv. Authorization

6. Statutory Compliances relating to Fixed Deposits:

- a. **TDS Sec. 194A:** Where the amount of interest income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee doesn't exceed – Ten thousand rupees where the payer is a banking company to which Banking Regulations Act, 1949 applies.
 - b. Ensure that the TDS amount deducted on the FD has been reflected in the TDS receivable ledger a/c at the end of the year and same should be cross verified with the 26AS as updated.
7. **Verification of Bank Confirmations:** Closing balance as on 31st of March should be cross verified with the confirmations received from the banks. In case of any difference b/w confirmations and our books, same should be reported to the management for necessary action.

8. Other Points

- In case of any renewal of fixed deposits, ensure we should verify all the necessary approvals and related bank certificates.
- In case withdrawal of FD before maturity, verify for the penalty payment as prescribed by the bank at the time of deposit.
- Ensure that all the part withdrawals of Fixed Deposits should be made with prior approval from the concern authority.

Annexure 1

Fixed Deposits Register									
S.No	Bank Name	FD No	Amount	Date of open	Interest rate	Maturity date	Interest amount	TDS	Net amount

This article is contributed by Ashok Reddy, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

AUDIT

RISK BASED INTERNAL AUDIT

Contributed by Chandrasekhar & Vetted by CA Sandeep Das |

Background:

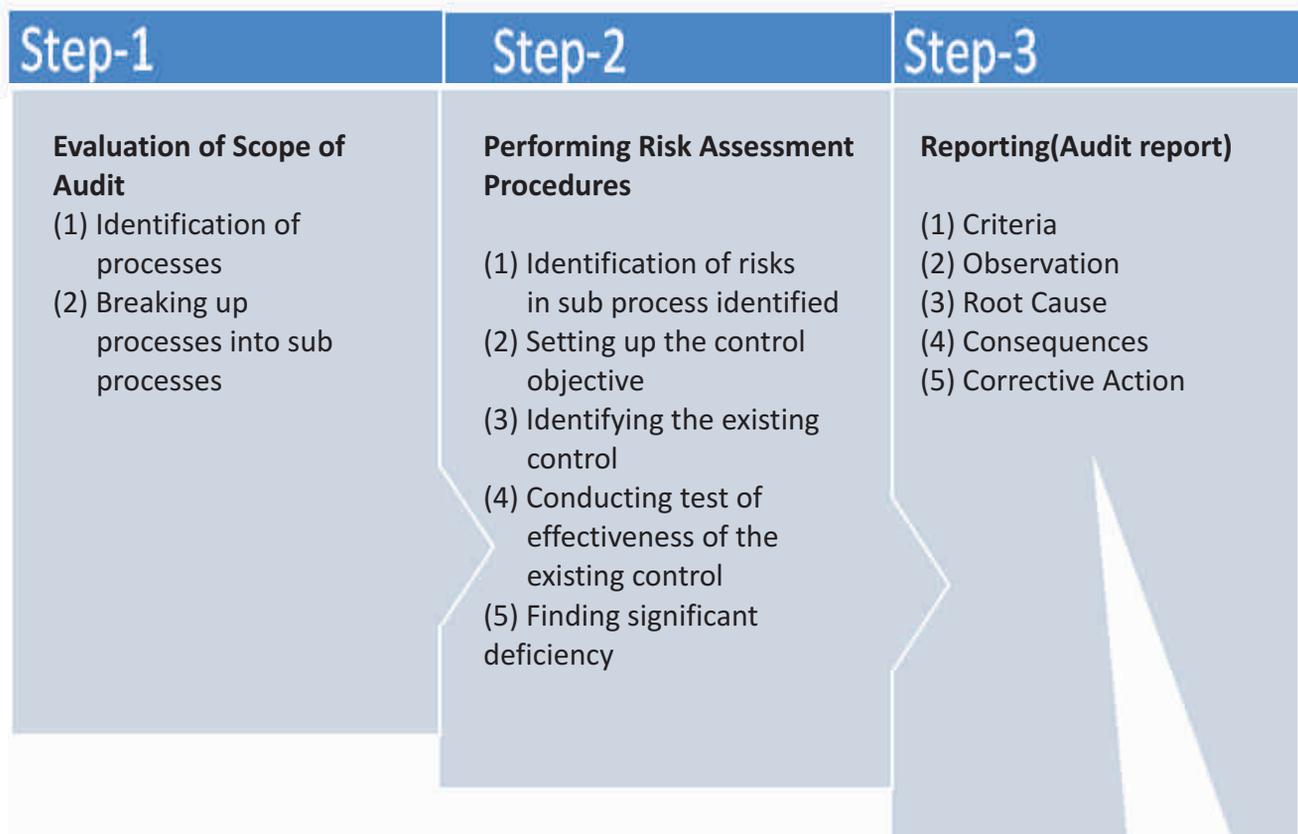
Over the last few years, the need to manage risks has become recognised as an essential part of good corporate governance practice. This has put organisations under increasing pressure to identify all the business risks they face and to explain how they manage them. In fact, the activities involved in managing risks have been recognised as playing a central and essential role in maintaining a sound system of internal control. While the responsibility for identifying, and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that those risks have been properly managed.

Introduction:

Risk Based Internal Auditing (RBIA) as a methodology that links internal auditing to an organisation's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

Methodology:

The implementation and operation of RBIA can be divided into three stages which have been produced detailed guidance on each of them as follows



The steps are being explained with the help of an example as stated below:

Say, Gutthula & Associates a chartered accountants firm is being engaged to conduct internal audit of Yellow Tech(India) Private Limited a company manufacturing Auto Mobile Products, located at Neemrana, Rajasthan. The methodology followed by the firm in conducting the audit is depicted as follows.

Step-1: Evaluation of Scope of Audit

The scope of internal auditing is a broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations and which shall be evaluated for effective implementation of risk assessment procedures.

- 1. Identification of processes:** The scope of the Internal Auditing shall be divided into possible processes to obtain proper understanding of the adequacy and functioning of the operations.
- 2. Breaking up process' into sub processes:** Key potential elements of a process are grouped into units called sub processes that would likely produce meaningful risks.

Sl. No	Scope of activity	Process (1)	Sub process (2)
1	Procurement of raw material	Purchases	Receipt of goods
			Accounting of purchases
2	Movement of finished goods from factory	Sales	Customer order receipt
			Invoicing of sales
			Dispatch of goods
3	Statutory compliances	Labour laws	Contract Labour Regulation and Abolition Rules, 1971
			Minimum Wages Act, 1948
4	ERP(INFOCUS)	Intranet Policy	Confidential information
			Unrestricted information

Step-2: Performing Risk Assessment Procedures:

The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

1. **Identification of risks in the sub process identified:** A risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. This steps the critical first step of the risk assessment procedure.
2. **Setting up the control objective:** A control objective is an aim, reason or purpose for which one or more internal controls should be implemented. A control objective is tactical in comparison with strategic objectives such as reporting, compliance and operational objectives.

One must ensure that the control objective is adequate with below mentioned questions:

1. What
2. Who
3. Why
4. Where
5. When
6. How

Example: Control objective with regard to accounting of purchases shall be depicted as:

To ensure that Mr.D(Purchases Dept) makes purchase accounting entry electronically in INFOCUS (ERP) immediately after approval of Goods Receipt Note (GRN) to update the purchases and accounts payables in books of accounts

Where,

Accounting entry	> What
Mr. D	> Who
To update the purchases and accounts payables	> Why
In INFOCUS	> Where
After approval of GRN	> When
Electronically	> How

3. **Identifying the existing control:** These methods are collectively referred to as control activities, the third component of the COSO Framework. Control activities are the actions and tasks imbedded in a process to help achieve expected results. Control activities occur at all levels and functions. They include a wide range of diverse activities such as training, procedures, approvals, authorizations, verifications, reconciliations, performance reviews, security measures, and the creation and maintenance of appropriate documentation.
4. **Conducting test of effectiveness of the existing control:** Once you have identified the existing control with the risks identified, the next step is to assess its effectiveness. In other words, tests performed to conclude the effectiveness of the existing control.
5. **Finding significant deficiencies(Observation):** A significant deficiency found refers to the deficiency when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met.

Risk Assessment documentation

Sl. No.	Sub-Process	Risk description(1)	Control Objective (2)	Existing Control(3)	Test of effectiveness(4)	Observation(5)
1	Receipt of goods	Failure to raise Goods Receipt Note (GRN)	To ensure that Mr. A(Stores personnel) raises GRN electronically in INFOCUS (ERP) to update the stock(raw material), after receipt of goods	Monthly physical stock verification	To check whether physical stock tallies with the book stock	Found excess quantity of stock in comparison with book stock
2	Accounting of purchases	Failure to account the purchases in books	To ensure that Mr. B(Accountant) makes accounting entry in INFOCUS (ERP) immediately after raising of GRN to update the purchases and accounts payables in books of accounts	Mr. C (Purchase manager) shall check daily whether the purchase register is complete and updated	To check whether any purchase invoices' numbers are missing from the purchase register	Absence of two purchase invoice numbers
3	Invoicing of sales	Inadequate segregation of duties	To ensure that the sale invoices are prepared by Mr. X (Preparer), checked by Mr. Y (Checker) and approved by Mr. Z (Sales Manager) by way of signatures on the invoice to ensure correctness of the sale invoices	Mr. AAA(Logistics assistant) shall check the existence of signatures of Mr. X, Mr. Y and Mr. Z on the sale invoice before dispatching the goods to customers	To verify whether rates and quantities mentioned in the sale invoices are as per the customer order	Nil

Risk Assessment documentation

Sl. No.	Sub-Process	Risk description(1)	Control Objective (2)	Existing Control(3)	Test of effectiveness(4)	Observation(5)
4	Dispatch of goods	Failure on the part of driver to deliver goods to customer on time	To ensure that Mr. AAA(Logistics assistant) manually updates the Goods Delivery Trip Sheet(GDTS) with the details like expected time of delivery, dispatch quantity etc., before dispatching the goods to customers, thereby to comply with the terms of the delivery as per the Customers Orders	Driver shall confirm the time of delivery with the customer in the duplicate copy of GDTS and shall submit the same to Mr. AAA post arrival to company	To reconcile the expected time of delivery in GDTS with the actual time of delivery in the	Nil
5	Contract Labour (R&A) Rules, 1971	Non-compliance with Rule 8(4)	To ensure that Mr. ABC (HR Manager) has filed the Annual return of contract labours in Form XXV, so as to reach the Registering Officer concerned not later than the 15th February following the end of the year to which it relates, thereby to ensure compliance with Rule 82(2).	INFOCUS(ERP) shall remind Mr. ABC to file the return before the due date	1. To check existence of the reminder notification given by ERP and 2. To verify the correctness of the return filed	Return filed on 21st Feb 20..
6	Confidential information	Unauthorized access during transmission to cloud provider	To ensure that cloud provider periodically conducts a risk assessment about confidential information of the organisation, in the internally installed software(INFOCUS)	Cloud provider has adequate administrative, physical, and technical safeguards	To obtain documentation that cloud provider has a comprehensive security program that adheres to recognized framework	Nil

Step-3: Reporting

- 1. Criteria:** What is the standard that actually to be met? The standard may be a company policy, process, rule or a regulation or other benchmark.
- 2. Observation:** What is the significant deficiency identified?
- 3. Root Cause:** Why did the problem occur?
- 4. Consequences:** What is the negative outcome (or opportunity foregone) because of the deficiency found.
- 5. Corrective Action:** What should management do about the finding? What have they agreed to do and by when?

Audit Report:

Sl. No.	Criteria (1)	Observation (2)	Root Cause (3)	Consequences(4)	Corrective Action(5)
1	As per purchase process, goods receipt note shall be raised in INFOCUS on receipt of goods(raw material)in order to update stock	During our review, we observed that receipt of goods are not updated in a timely manner thereby resulted in excess physical stock when compared with book stock	Negligence on the part of concerned employee	Stoppage of production	It is recommended to design a procedure in the ERP which restricts the accounting entry of purchases without GRN
2	As per purchase process flow, purchases shall be accounted post creation of GRN	During our review, we observed that two intrastate purchase invoices were not accounted in books	Existence of access rights to employees to delete/ alter the data in the ERP	Excess payment of sales tax (Unclaimable input credit of VAT)	Management must ensure that access rights of employees to ERP are being controlled

Sl. No.	Criteria (1)	Observation (2)	Root Cause (3)	Consequences(4)	Corrective Action(5)
3	As per Rule 82(2) of Contract Labour Regulation and Abolition Rules, 1971 Every principal employer of a registered establishment shall file annually a return in Form XXV (in duplicate) so as to reach the Registering Officer concerned not later than the 15th February following the end of the year to which it relates.	During our review, we observed that annual return was filed on 21st Feb20..	Negligence on the part of the principal employer to file the return before due date	As per Section 23 of Contract Labour(R & A) Act, 1970 whoever contravenes any provision any rules made thereunder shall be punishable with imprisonment for a term which may extend to three months, or with fine which may extend to one thousand rupees, or with both, and in the case of a continuing contravention with an addition fine which may extend to one hundred rupees for every day	

This article is contributed by Chandrasekhar, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

COMPANIES ACT, 2013**RULES, CIRCULARS AND NOTIFICATIONS ISSUED DURING THE MONTH OF APRIL, 2017****RULES****➤ The Companies (Registration of Charges) Amendment Rules, 2017, Dt: 07.04.2017:**

Vide the said amendment rules, the Ministry has amended the Companies (Registration of Charges) Rules, 2014 [Principal Rules], and accordingly, the Charge forms viz., CHG-1 (Form for creation/Modification of Charge), CHG-4 (form for satisfaction of Charge) and Form CHG-9 (Form for creation/Modification of Charge on Debentures).

The main change in Form CHG-1 & CHG-9, being the inclusion of the detailed property details which are subject to charge, including the latitude and longitude of property location.

http://mca.gov.in/Ministry/pdf/companiesRegistrationofChargesAmendmentRules_08042017.pdf

➤ The Companies (Removal of Names of Companies from the Register of Companies) Amendment Rules, 2017, Dt:12.04.2017:

Vide the said Amendment rules, the Ministry has amended the Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016, to provide for a Public Notice in Form No. STK-5A, in respect of cases for removal of name of the Companies, falling under sub-section (1) of section 248 of the Companies Act, 2013.

http://mca.gov.in/Ministry/pdf/CompRemovalofNamesRules_13042017.pdf

➤ Companies (Compromises, Arrangements and Amalgamation) Amendment Rules, 2017. Dt: 13.04.2017:

Vide the said amendment rules, the Ministry has amended the Companies (Compromises, Arrangements, and Amalgamations) Rules, 2016, by inserting a new rule, "Rule 25A", providing the requirements as to merger of a Foreign Company with a Indian Company or vice versa.

http://mca.gov.in/Ministry/pdf/CompaniesCompromises_14042017.pdf

NOTIFICATIONS**➤ Date on which the provisions of section 234 of The Companies Act, 2013 come into force. Dt. : 13.04.2017:**

Vide the above notification, the Ministry notified that the provisions of section 234 of the Companies Act, 2013, [relating to merger of a Foreign Company with Indian Company] shall come into force, with effect from 13.04.;2017. http://mca.gov.in/Ministry/pdf/section234Notification_14042017.pdf

CIRCULARS

- **Circular No.2 of 2017, Dt: 20.04.2017, Clarification regarding online generation of challans for offline payment cases:**

Vide the said Circular the Ministry has clarified the steps for filing the Form No.IEPF-1, by the Companies, which have transferred the amount to IEPF prior to 15.12.2016, through challans not generated on MCA-21 portal, and accordingly, these Companies were unable to file Form IEPF-1.

http://mca.gov.in/Ministry/pdf/Notification_20042017_1.pdf

- **Circular No.3 of 2017, Dt: 27.04.2017, Transfer of shares to IEPF authority:**

Vide the said Circular, the Ministry has notified for cases where the seven-year period, as provided under sub-section (5) of section 124 is completed during September 7, 2016 to May 31, 2017, the date of transfer of such securities is 31.05.2017.

The Ministry has further informed about the opening a special Demat account in the name of the IEPF authority, with NSDL for facilitating the transfer of shares by companies which are obliged to transfer under the above said rules shall transfer such shares, whether held in dematerialised form or physical form. The format as to submission of information, relating to the securities which are transferred to the Demat account of the IEPF authority, is yet to be prescribed. The details of the demat account also are yet to be given.

The circular also provides the details of the charges to be levied by NSDL to the companies towards upload and maintenance of records pertaining to shares transferred to the special Demat account of the IEPF authority. http://mca.gov.in/Ministry/pdf/Circular_27042017.pdf

These updates are contributed by Arun Kumar T and vetted by CS D V K Phanindra of SBS and Company LLP, Chartered Accountants. For any queries, please reach at phanindra@sbsandco.com

FEMA**FEMA UPDATES****I. Risk Management and Inter-bank Dealings: Operational flexibility for Indian subsidiaries of Non-resident Companies**

- 1) RBI vide A.P. (DIR Series) Circular No. 41, dated 21st March 2017 made following amendments Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000, as amended from time to time.
- 2) With a view to providing operational flexibility to multinational entities and their Indian subsidiaries exposed to currency risk arising out of current account transactions emanating in India, the extant hedging guidelines have been amended as per the terms and conditions are provided herein below:
 - a) Non-resident parent of an Indian subsidiary or its centralised treasury or its regional treasury outside India is eligible to avail this scheme
 - b) The eligible products are All FCY-INR derivatives, OTC as well exchange traded that the Indian subsidiary is eligible to undertake as per FEMA, 1999 and Regulations and Directions issued thereunder.
 - c) Operational Guidelines, Terms and Conditions for hedging
 - i. The transactions under this facility will be covered under a tri-partite agreement involving the Indian subsidiary, its non-resident parent / treasury and the AD bank. This agreement will include the exact relationship of the Indian subsidiary or entity with its overseas related entity, relative roles and responsibilities of the parties and the procedure for the transactions, including settlement. The ISDA agreement between the AD bank and the non-resident entity will be distinct from this agreement.
 - ii. The non-resident entity should be incorporated in a country that is member of the Financial Action Task Force (FATF) or member of a FATF-Style Regional body.
 - iii. The AD Bank may obtain KYC/ AML certification on the lines of the format in Annex XVIII of the Master Direction on Risk Management and Inter Bank Dealings, as amended from time to time.
 - iv. The non-resident entity may approach an AD Cat-I bank directly which handles the foreign exchange transactions of its subsidiary for booking derivative contracts to hedge the currency risk of and on the latter's behalf.
 - v. The non-resident entity may contract any product either under the contracted route or on past performance basis, which the Indian subsidiary is eligible to use.
 - vi. The Indian subsidiary shall be responsible for compliance with the rules, regulations and directions issued under FEMA 1999 and any other laws/rules/regulations applicable to these transactions in India.
 - vii. The profit/ loss of the hedge transactions shall be settled in the bank account and books of accounts of the Indian subsidiary. The AD bank shall obtain from the Indian subsidiary an annual certificate by its Statutory Auditors to this effect.

- viii. The concerned AD Bank shall be responsible for monitoring all hedge transactions (OTC as well as exchange traded) booked by the non-resident entity and ensuring that the Indian subsidiary has the necessary underlying exposure for the hedge transactions.
 - ix. AD banks shall report hedge contracts booked under this facility by the non-resident related entity to CCIL's trade repository with a special identification tag.
- 3) Necessary amendments to FEM (Foreign Exchange Derivatives Contracts) Regulations, 2000 have been made by way of Notification No. FEMA No. 384/2017-RB dated March 17, 2017. The circular is effective from the date of its publication in the official gazette. For more details, please go through the above circular.

These updates are contributed by Viswaseshwara P and vetted by CA Murali Krishna G of SBS and Company LLP, Chartered Accountants. For any queries, please reach at gmk@sbsandco.com

SATURDAY SESSIONS

S.No.	Event	Date	Speaker	Venue
1	Credit Rating Part-2	15/04/2017	Uday Kumar	SBS - Hyd
2	Provisions relating to TCS	20/05/2017	Ashok	SBS - Hyd
3	Input Tax Credit under GST	27/05/2017	Bhavani	SBS - Hyd
4	General Deductions for Salaried Employees	03/06/2017	Madhuri	SBS - Hyd



***Filing of Softex Forms by STPI and Non-STPI Units
- Supriya***



***Session on Rental Benefits For Salaried Employees
- Madhuri***



Transitional Provisions under GST - Sai Ram



Team SBS

© All Rights Reserved with SBS and Company LLP



Hyderabad: 6-3-900/6-9, #103 & 104, Veeru Castle, Durganagar Colony, Panjagutta, Hyderabad, Telangana

Kurnool: No. 302, 3rd Floor, V V Complex, 40/838, R.S. Road, Near SBI Main Branch, Kurnool, Andhra Pradesh

Nellore: 16-6-259, 1st Floor, Near Santi Sweets Opp: SBI ATM, Vijayamahal Centre, SPSR Nellore, Andhra Pradesh

Tada: 8-3-425/2, Flat No. 202, 2nd Floor, Bigsun Avenue, Near SRICITY, TADA, SPSR Nellore Dist, Andhra Pradesh

Visakhapatnam: # 39-20-40/6, Flat No.7, Sai Yasoda Apartments, Madhavadhara, Visakhapatnam (Urban), Vizag, Andhra Pradesh

Bengaluru: B104, RIRCO, Santosh Apartments, Wind Tunnel Road, Murugeshpalya, Old Airport Road, Bengaluru, Karnataka.

Disclaimer:

*The articles contained in **SBS Interns' digest**, are contributed by the respective resource persons and any opinion mentioned therein is his/their personal opinion. **SBS Interns' digest** is intended to be circulated among fellow professional and clients of the Firm, to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). The information provided is not for solicitation of any kind of work and the Firm does not intend to advertise its services or solicit work through **SBS Interns' digest**. The information is not intended to be relied upon as the sole basis for any decision. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.*

SBS AND COMPANY LLP [Firm] does not endorse any of the content/opinion contained in any of the articles in **SBS Interns' digest**, and shall not be responsible for any loss whatsoever sustained by any person who relies on the same.

To unsubscribe, kindly drop us a mail at interns@sbsandco.com with subject 'unsubscribe'.