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All views are of the authors and not of the firm.

From the Editor's Desk...

Expectations for an effective audit:

What is expected in audits?
How to do effective audits?

If you wish to know, one way to know is to look at PCAOB (USA) reports on audit firms, which are in public domain now.

I am producing a sample from one of the recent reports of PCAOB on a Big 4 firm.

The first one is on checking effectiveness of controls:

- The Firm's procedures to test the effectiveness of the issuer's controls over the existence of this inventory were insufficient.
- Specifically, the Firm identified and tested one control relating to the issuer's reconciliation of its cycle-count results to the inventory system and concluded that the controls over the cycle-count procedures were effective.
- The Firm, however, failed to identify and test any controls regarding whether the issuer's cycle

-count procedures were sufficiently reliable, such as controls that would address whether all items were counted, the counts occurred as frequently as planned, and the counts were sufficiently precise.

So you can learn from this that:

1. We need to document entity's own controls
2. Then we need to test if they are working and be able to show evidence we have checked.
3. The above refers to inventory verification controls.
4. The control said company had cycle-count procedures.
5. What the auditor has to do is to test:
 - A. Whether the procedures are properly laid down?
 - B. Are they proper? (as we say in CARO)
 - C. What is the cycle?
 - D. Is it sufficient
 - E. Whether the program ensures all material items are covered (say in a year
 - F. Whether items as planned for each cycle have been so covered as per plan.
 - G. Whether the PV was precise? (The Company should not for instance

only selecting countable items and leaving all items which are to be weighed or measured)

These reports are very useful to understand what common errors happen in audits and how to guard against these in audits.

Let us see one more example: This one is an example on how to check 'completeness' assertion.

The Firm performed physical counts of certain inventory after the end of the year.

The Firm, however, failed to (a) determine that any movement of inventory that occurred during the Firm's physical counts was taken into account, and (b) test the accuracy and completeness of the data it used to reconcile its inventory counts to the issuer's year-end inventory.

In addition, for a significant portion of the inventory subject to this testing, the Firm selected items for testing only from the issuer's inventory system, which addresses inventory existence, and did not also select from the inventory physically on hand,

which would address the completeness of recorded inventory.

What do we learn here?

If the assertion you are checking is 'completeness' –this means that we should check reverse population.

Which means not checking what is already in inventory in books- but checking physical items to see if they have been included.

You can learn a lot on 'how to audit?' -if you read the PCAOB reports
I recommend that you all do this.



CA S Ramakrishnan

Partner speaks... About Quality

Dear Associates

A thing of the quality is joyful forever. We require quality and reluctantly make compromises on matters where we are the recipient of services or consumers of goods. We always understand quality as matching the expectations of the requirement of a person consuming the goods of services.

Without differing, I would like to share one more perspective that I had come across in regard to quality.

Long before, I chanced to read an article on the quality in an in-house magazine of Thermax by Mr. Rohington Agha. Those were the times of controlled economy and preponderance of exports to Soviet Union (undivided as it was then). Order books of companies used to be full. For instance one had to book for Scooter and wait for years for delivery. The article opens up referring to a situation in which Thermax had met the delivery schedules in regard to an export order from a customer in Soviet Union. The article congratulates the organization and the people involved for meeting the deadlines for the dispatch of the goods. The message was relevant in view of the fact that the customers in Soviet Union are extremely finicky about timelines.

The author wonders as to why the same focus was not being given to Indian customers. The customer relies upon the supplier for his operations and it is the duty of the supplier to meet the deadlines. Indian customers feel often let down under monopolistic situations due to delays in execution of orders.

He then quotes a letter from a customer complaining about the lack of sensitivity of the organization to his requirement in that mails are not responded to, deadlines were missed etc. One thing that followed the narration of the content of the letter struck me. The author says 'Mercifully such instances are not many; but each and every time a complaint like the one arrive, I die a little'.

The author then quotes the response from a person, who was interviewed by Thermax for a position in the company; the candidate was very well taken care of without diluting the quality of the interview and had written to the company that he felt that Thermax is a company that cares. And then it dawns upon the author that **quality is care**.

If we understand the definition of the quality as care, we would be empathetic to the requirements of the customers, reviewers and the leaders at the same time maintaining our professional standards. The culture of caring will build into one the reflex for meeting the requirements/ expectations of people whom we service.

It would be therefore necessary that all of us visualize the requirements of the ultimate user of the services and orient ourselves to fulfilling the same. Professional disagreements politely articulated are welcome (Difference of opinion in a community is token of divine mercy).



One of the former article clerks had an occasion to meet with MNC firm in Bangalore for an interview. The moment they came to know that he was from PKF S&S, the spontaneous reaction from the panel was that they need not have to worry about the quality of the candidate, as in PKF S&S, they would have received all-round training.

I advise you to believe that you are not understudies but Chartered Accountants and strive to bring the quality and ownership expected of a CA in your work. (I have come across persons who have surprised me – pleasantly- with their grasp and commitment).

The weekly training sessions are going to be more frequent with better ambience and could provide more opportunities to you to showcase and hone your professional talents.

Wishing you all the very best.

*Quality means
doing it right
when no one is
looking.*



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From CA to CISA...

What is information security? Why information security?

A century ago, our grandfather companies lived on just the basic necessities of running a business. Papers, books, ink and most importantly “Humans”. There were no complicated equipment’s, hardware or software to run the business for them. All that the auditors had to do was, ask for the “dust covered” books of accounts, tick off a couple of vouchers, check postings and castings, discuss with the client and issue the report.

Living in the era of information technology, I personally wonder how our elders managed to report quality issues without the aid of computers and more importantly “exception” reports! When I sit and ponder, I realize that these days we depend on technology because the surrounding circumstances warrant it.

Three or four decades ago, in the common parlance used in the technological world, with the advent of computers, auditors had to necessarily shift from traditional auditing to “audit through the computer”.

Today, technology has further advanced so much that the most sensitive and confidential transactions happen through the systems. Information system has a wider connotation now than what it had decades ago. Data is inputted into, processed through and outputted from the system. Data and information is stored in the system. Data is transmitted through networks. At every level, technology is involved. We have substantially moved to a paperless environment. Requests, approvals, payments.. Everything is through the systems.

This reiterates the importance of information security. Information security analysts are information technology (IT) specialists who are accountable for safeguarding all data and communications that are stored and shared in network systems. In the financial industry, for example, information security analysts might continually upgrade firewalls that prohibit superfluous access to sensitive business data and might perform defenselessness tests to assess the effectiveness of security measures. An information systems auditor, on the other hand, tests and assures that all the required physical and logical access controls are in place to maintain the confidentiality, integrity and availability of data.



What are the courses available?

There are a variety of courses offered by the Information Systems Audit and Control Association, USA:

- CISA (Certified Information Systems Auditor)
- CISM (Certified Information Security Manager)
- CGEIT (Certified in the Governance of Enterprise IT)
- CRISC (Certified in Risk and Information Systems Control)

CISA:

Certified Information Systems Auditor is a globally recognized designation. Being CISA-certified showcases your audit experience, skills and knowledge, and demonstrates you are capable to manage vulnerabilities, ensure compliance and institute controls within the enterprise.

Course Structure:

CISA covers the following domains:

- Domain 1—The Process of Auditing Information Systems (14%)
- Domain 2—Governance and Management of IT (14%)
- Domain 3—Information Systems Acquisition, Development and Implementation (19%)
- Domain 4—Information Systems Operations, Maintenance and Support (23%)
- Domain 5—Protection of Information Assets (30%)

The exam consists of 200 multiple-choice questions to be answered within 4 hours. The scoring is done on a scaled basis. A scaled score is a conversion of a candidate's raw score on an exam to a common scale. ISACA uses and reports scores on a common scale from 200 to 800. A candidate must receive a score of 450 or higher to pass the exam.

Registration:

Registration can be done online at <http://www.isaca.org/Certification/CISA-Certified-Information-Systems-Auditor/Register-for-the-Exam/Pages/default.aspx>

Preparation:

The ISACA provides a lot of study materials and reference materials to aid preparation for the exams. These materials are available for purchase online. ISACA also publishes Review Questions, Answers and Explanations manual which contain mock questions.

These are available in a variety of languages at <http://www.isaca.org/Certification/CISA-Certified-Information-Systems-Auditor/Prepare-for-the-Exam/Study-Materials/Pages/default.aspx>

Online domain wise E-learning classes are available at <http://www.isaca.org/Education/Training/exam-review-courses/Pages/CISA-Online-Review-Course.aspx>

Webinars and virtual conferences also happen from time to time which will help in enhancing our knowledge.

The ISACA Chennai chapter holds seminars, conferences and review classes from time to time. They can be contacted at the following address:

Information Systems Audit and Control Association
 #15 Ground Floor,
 Luz Golden Enclave,
 (TNHB Complex Next to Kamadhenu Theatre),
 180/4 Luz Church Road ,
 Mylapore,
 Chennai 600004.
 Ph. 044 24984331.
<http://www.isaca-chennai.org/isaca/index.jsp>

When and where do the exams happen?

Exams are held thrice a year – June, September and December. Centers are available across India.

Certification:

Once a candidate clears the examination, he/she has to apply to the ISACA for a certification. A minimum of five years of experience is required to obtain the certification.

Work experience must be gained within the ten year period preceding the application date for certification or within five years from the date of initially passing the exam.

Substitutions and waivers of such experience, to a maximum of 3 years, may be obtained as follows:

- A maximum of one year of information systems OR one year of non-IS auditing experience can be substituted for one year of information systems auditing, control, or security experience;
- 60 to 120 completed university semester credit hours (the equivalent of a two-year or four-year degree), not limited by the ten year preceding restriction, can be substituted for one or two years, respectively, of information systems auditing, control or security experience. Even if multiple degrees have been earned, a maximum of 2 years can be claimed.
- A bachelor's or master's degree from a university that enforces the ISACA sponsored Model Curricula can be substituted for one year of information systems auditing, control or security experience. To view a list of these schools, please visit www.isaca.org/modeluniversities. This option cannot be used if three years of experience substitution and educational waiver have already been claimed; and
- A master's degree in information security or information technology from an accredited university can be substituted for one year of experience.

Exception:

Two years as a full-time university instructor in a related field (e.g.; computer science, accounting, information systems auditing) can be substituted for every one year of information systems auditing, control or security experience.

As an example, at a minimum (assuming a two-year waiver of experience by substituting 120 university credits) an applicant must have three years of actual work experience. This experience can be completed by:

- three years information systems audit, control, or security experience; OR
- two years information systems audit, control, or security experience and one full year non-IS audit or information systems experience or two years as a full-time university instructor.

The application for certification can be downloaded from <http://www.isaca.org/Certification/CISA-Certified-Information-Systems-Auditor/Apply-for-Certification/Pages/default.aspx>

The Future

Technology is never going to see the downside in the future. We are going to see more and more advanced technology being used in various fields. Hence, the need for information systems auditors is only going to increase. This course is definitely an added asset.



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Proudly S&S...



CA SRIRAM
KANNAN

... and I remember the day walking into S&S's office sometime in Apr'98 and meeting Mr. Ramki for my first ever job-interview (for apprenticeship). During the course of our hour long conversation he vociferously mentioned "Sriram, when you complete your articles, qualify and head out to begin your corporate career, people will usually ask if you completed your articles from a Big-6 firm. You should proudly say No, I did my articles from S&S."

Those words were simple yet profound and continue to ring a bell in my ears whenever I think of S&S or have the opportunity to speak about my initial years of training at the firm.

The foundations that were laid in accounting, auditing, company law and taxation during my training has held me high and in good stead over the years and I can't thank the firm and its partners enough. The mantra "S&S or Big-6" was constantly and repeatedly hammered into our heads to the point that it became our guiding spirit at the firm.

I feel happy to have been groomed by excellent and meticulous professionals like Mr. Ramki, Narsi, TVB, Mr. Kots and audit seniors like Barathan, Srisailam, Parul Negi – to mention a few – who have gone beyond their call of duty to help me gain a thorough understanding of both concepts and its application thereby enabling me to create both client impact and practice impact – time and again!

I must confess, I have personally benefited from Mr. SK's rigorous audit review that helped me gain a thorough understanding of how all the pieces in the audit jig-saw puzzle (schedules, notes, statutory sections, caveats et al) fall in place into one single document (annual report / audit report) that is published and presented to shareholders and other relevant stakeholders.

To this date, I continue to cherish my association with S&S and try to be in touch with its alumni and associates, past and present. I wish the firm, its associates and partners a very bright and prosperous future.

Yours in professional fellowship,
Sriram Kannan

Form 15CB...not so easy after all!

Most of the time, Form 15CB certification, under section 195 of the Income Tax Act 1961, is looked upon as an easy task.

On the contrary, often, it offers an opportunity to enrich our knowledge base.

Facts:

1. There are four companies viz., Company A (Tax Resident (TR) of India), Company B (TR of Bahamas), Company C (TR of USA), Company D (TR of Cyprus) & Company E (Germany).
2. Companies B, C & D being non-residents having PAN in India.
3. Companies B, C, D & E provides Information Technology services, project management and software development to Company A by sending a technician.
4. Salary to the technicians was borne by the respective companies and Company A would in turn reimburse the expenditure incurred to the non-resident companies.
5. Companies B, C, D & E did not carry its business through a Permanent Establishment in India.

Judicial Precedence:

Though we were sure of such payments getting covered under the ambit of Section 9 (1) (vii) of the Income Tax Act 1961 (the Act). We also came across a decision rendered by the Authority of Advance Ruling in the case of AT & S India Private Limited, which further affirmed our view on the taxability.

Hence, such payment shall be taxable at the rate of 25% as prescribed under section 115A of the Act.

The Tangle!!

As the payments are taxable, it's our turn to look at the relevant country's tax treaty for any benefits. When we analyzed the relevant provisions of the treaties, we were surprised to learn as to how the same payment got taxed differently when paid to different countries.

Let's take Indo-US treaty first!

1. Fee for included (technical) service shall be taxable in India, if such payment make available technical knowledge, experience, skill, know-how, or processes, or consist of the development and transfer of a technical plan or technical design.
2. This makes clear unless the technician makes the technical knowledge available in India such payment shall not be taxable in India.
3. Hence, the payment made to Company C is not taxable in India.

Indo-Cyprus Treaty

1. Though Indo-Cyprus treaty also has a 'make available' clause which makes the payment not taxable unless knowledge is made available.
2. However, unlike Indo-USA treaty, it has got one more Article on Technical Fees which brings the said payment under technical fees' purview and consequently shall be taxable at the rate of 10% (as per treaty).

Indo-German treaty

Unlike the aforesaid two treaties, Indo-Germany does not have a 'make available' clause and consequently taxed at the rate of 10% (as per treaty).

Last but not the least - Bahamas!

There is no Double Taxation Avoidance Agreement entered between India and Bahamas. Therefore, rates as per the Act (25%) would apply for deducting tax at source.

This does not stop here!!!

The Pandora's Box – Sec 206AA

All the above analyses were carried on the assumption that the non-resident companies have a valid PAN in India. In the absence of PAN, provisions of Sec 206AA need to be complied with.

A tabular presentation of the applicable tax rates in the absence of PAN is as follows,

<i>Country</i>	<i>Rate as per Income Tax Act, 1961 X</i>	<i>Rate as per DTAA Y</i>	<i>20% Z</i>	<i>Applicable Rate of TDS – Higher of X, Y & Z</i>
USA	Does not apply as payment is not taxable as per DTAA			NIL
Cyprus	25%	10%	20%	25%
Germany	25%	10%	20%	25%
Bahamas	25%	No DTAA entered	20%	25%

This makes checking the relevant treaty more important to determine the taxability of the payment to non-residents. A payment may be initially taxed by the Act and DTAA may provide some illusory relief which may finally get hindered by section 206AA!!!



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A.R. Subramanian

CFO of a leading
manufacturing company

**“A strong CFO
enhances the
confidence of
the stakeholders,
by his integrity
and best ethical
practices.”**

CFO Speaks...

The dynamics of the business environment has substantially changed the role of a CFO in any organization.

Unlike the olden days, the CFO's scope of work has now changed from that of a “policeman” and a mere “regulator” to a “facilitator of business”. While the CFO should ensure strict compliance of all the rules and regulations and legal issues, he should be flexible in certain deserving cases, by relaxing or deferring the internal compliances, to ensure that the business does not get affected. However, he should ensure that the compliances are taken care subsequently, without any violation of the rules and regulations.

This quality of being rational to facilitate generation of business would be well appreciated at this juncture, when there is an overall downturn in the economy and the companies are already struggling to make both ends meet.

Playing the role of being a facilitator and at the same time adhering to the legal and compliances issues could be quite contradicting with each other and a proper balance need to be maintained to ensure due justice to both the roles. This does not mean that to take forward the business, the compliance issues will have to be flouted. A wee bit of flexibility in approach is required considering the practicality of doing business in India.

In fact there are umpteen big companies who resort to the services of the CFO to take up the role of a CEO as well, in times of turbulent business environment and most of them result them into success stories.

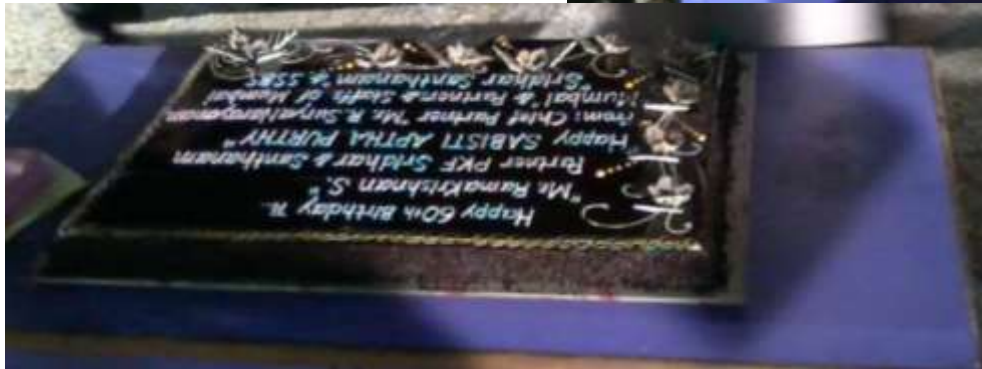
It is worthwhile to list out and assess the traits required to mature to be a well admired CFO. An attempt to achieve these trails:-

- A good CFO is vital for the success of any organization. He should not only be strong in numbers but also have in-depth understanding of the intricacies of the business and play a major role in shaping the strategy and operational focus of the Company.
- A strong CFO enhances the confidence of the stakeholders, by his integrity and best ethical practices. He should not compromise on transparency at any point of time. Even if the business is doing poorly due to uncontrollable reasons, a straight shooter CFO, can retain his credibility amongst the stakeholders. They are looked upon as the “Trustees” to enhance shareholders’ value.
- CFO should have the quality to acknowledge the obvious facts, instead of trying to beat around the bush. He should be able to influence the Board and should be the strategic partner and advisor to the CEO and concentrate on the long term strategies.
- Crucial amongst the responsibilities of the CFO are financial planning, risk management and liquidity back-up, at all times, by accurate foresight.

- The CFO should ensure good Corporate Governance, to meet stakeholders' aspirations and societal expectations.
- The CFO should take bold decisions at the right time. The golden words of Mr. Ratan Tata are quoted below:-
"I don't believe in taking right decisions. I take decisions and make them right. So always believe in your ability and efforts".
- In these highly volatile macro-economic conditions, the CFO should analyze the Company's financial strengths and weaknesses and suggest the best ways and means for improvement.
- The CFO should be transparent and should make maximum appropriate disclosures without jeopardizing the Company's strategic interests. Transparency enhances accountability.

In addition to all the above traits, good IT knowledge will be an excellent contribution to successfully realize the dreams of an organization.

Ramki Sir's 60th B'day Bash!!



BAT Galore!!



Kudos to the following team members for their dedication and great work in the year end audit of a shipping company.

- 1. Mayank Agarwal**
- 2. Rishi Sanganeria**
- 3. Mohd. Shoeb**
- 4. Shyam Dhanak**
- 5. Prateek Bafna**
- 6. Pranav Jain**
- 7. Arpit Jain**

Puzzle corner...
Solve the puzzle and win a comp-off!

Add together each of the defined words to get a whole new word.

Example: to shout + what you say when you feel pain = a color = yellow.

- 1) A light brown colour + to leave = a dance.
- 2) A store's announcement + a type of women's clothing = a building's location.
- 3) A vehicle + an animal pal = a floor covering.
- 4) The ocean + a father's boy = part of the year.
- 5) Another name for dad + a yellow veggie = a white fluffy snack.

Last Weeks Winners:

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Disclaimer:

The first 20 correct replies will be awarded a comp-off. Decision of Editorial Committee is final. The Timing for receipt of Entry will determined based on the time of receipt of mail. Answers will be published through staff of sands and winners will be announced in the next issue.



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Note: We request everyone to contribute more articles regarding your goals in life and for other columns as well. And also, reader from branches other than Chennai are welcome to forward their contributions to the editorial committee. Please forward all your contributions to : editorialcommittee.sands@gmail.com.

Also, any volunteers from the branches other than in Chennai who would like to be involved in the editorial committee are requested to send us a mail in the website highlighted above.