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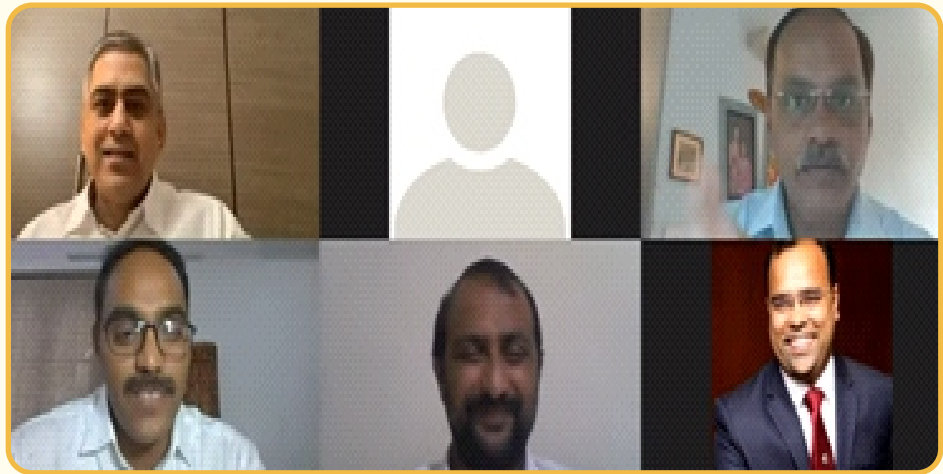
HYDERABAD BRANCH OF SIRC E-NEWSLETTER

www.hydicaai.org

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Resource Persons at Virtual CPE Meetings Conducted by Hyderabad Branch of SIRC



INTERNATIONAL LABOUR DAY

1st May 2021





Chairman Writes..

MAY, 2021



CA. Machar Rao Meenavalli
Chairman

Dear Professional Colleagues,

The second wave of Covid-19 has rocked the country terribly which has also sent shockwaves across the Country and also impacted the economy. I urge all our professional brethren to stay home and be safe. I request all professional colleagues to avoid unnecessary travel and meetings. We, the Managing Committee members of Hyderabad Branch are also doing our bit by extending support to the needy. We are also working out modalities for supporting our members and students in these tough pandemic times.

May 1 st is celebrated as Labour Day Internationally and on this occasion, I take the opportunity to greet the working class across the world. Their contribution to the economic growth of a country is enormous. As we all know, the working class plays a great role in propelling the economy to move forward.

May 2021 will be a knowledge enrichment month. We will kick off on May 1 st with the Virtual CPE Meeting on Amendments in Companies Act by CA. Pramod Jain, CCM ICAI. During the month we have organised a Refresher Course on Auditing Standards wherein we will be dealing on the practical nuances of Auditing standards. This programme is a one-of-a-kind, wherein Hyderabad Branch is partnering with AASB, ICAI & Peer Review Board, ICAI. Another major programme which is being planned by the branch is 5 Day Virtual Programme on Companies Act, the focus of this programme will be on CARO, Accounts & Audit and other allied areas. This programme is being organised jointly with Corporate Laws & Corporate Governance Committee of ICAI. I request the members to participate in large numbers and make these programmes a grand success. We have also organised various other Virtual CPE Meetings and the details are given in the Programme calendar.

During the month of April 2021, we organised a Virtual Refresher Course on IBC, wherein we had a great participation from the delegates. It is also indeed heartening to note that some of the delegates who have attended the Refresher Course have passed out the exam in flying colours. I sincerely thank the faculty members who took great efforts to ensure that the programme achieves the desired results. We are also planning similar sessions in the future and I request all to attend and avail the opportunity to sharpen your knowledge skills.

On the Student front, the SICASA team has planned to conduct webinars on topics of professional relevance which will be helpful to the student community at large. SICASA Hyderabad has also come up with STEP (Student Transition & Enrichment Programme) a unique programme aimed at mentoring our students in Public Speaking & Presentation. I urge all students to make use of this as this programme will take you to higher levels in the future. We are also launching awareness programmes on various themes which will be beneficial to the student community.

It is also my sincere appeal to our professional colleagues that during these hard pandemic times, let us work together to build a better future and as CAs let us march ahead as Partners in Nation Building. We should get ourselves equipped and updated with the latest changes happening around us by attending the programmes conducted on various topics.

Signing off with a quote:

“When we strive to become better than we are, everything around us becomes better too”. - **Paulo Coelho.**

Yours Sincerely,
CA. Machar Rao Meenavalli
Chairman
chairman.hyd@icai.in

Forthcoming Virtual CPE Meetings-May 2021

Date	Timing	Session/Topics	Resource Person	Structured CPE	Fees
Saturday 01st May, 2021	04.00 PM to 6.00 PM	VCM on Recent Amendments in Companies Act	CA. Pramod Jain Central Council Member,ICAI	2	Free
Monday 03rd May, 2021	05.00 PM to 7.00 PM	VCM on Notices U/S 148 and its Validity	CA. Banusekar T Chennai	2	Free
Wednesday 05th May, 2021	05.00 PM to 7.45 PM	SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements" SA 220, Quality Control for an Audit of Financial Statements	CA. Sanjay Kumar Jain Hyderabad	11	700 +GST
Thursday 06th May, 2021	05.00 PM to 7.45 PM	SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements & SA 450, Evaluation of Misstatements Identified During the Audit	CA. Premnath D Hyderabad & CA. Aniket Sunil Talati Central Council Member,ICAI		
Friday 07th May, 2021	05.00 PM to 7.45 PM	SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment SA 330, The Auditor's Responses to Assessed Risks	CA. Mohan R Lavi Bengaluru		
Second Saturday 08th May, 2021	05.00 PM to 7.45 PM	SA 230, Audit Documentation & SA 500, Audit Evidence SA 501, Audit Evidence-Specific Considerations for Selected Items	CA. Chinnsamy Ganesan Chennai		

Date	Timing	Session/Topics	Resource Person	Structured CPE	Fees
Wednesday 12th May, 2021	06.00 PM to 8.00 PM	VCM on Common Errors Observed in Disclosure under Accounting Standards	CA. M. P. Vijay Kumar Central Council Member, ICAI	2	Free
Saturday 15th May, 2021	05.00 PM to 8.00 PM	VCM on Trust Taxation, Recent Issues & Re-registration	Dr. CA. E.Phalguna Kumar Tirupati	3	Free
Sunday 16th May, 2021	10 AM to 01 PM	VCM on Disciplinary Mechanism-Common Professional Misconduct	CA. Atul Kumar Gupta, Past President, ICAI CA. Dayaniwas Sharma Central Council Member, ICAI & CA. Venkateswarlu J	3	Free
Monday 17th May, 2021	06.00 PM to 8.00 PM	Chapter-IX- Accounts of Companies- Companies Accounts Rules 2014- [Sec.128-138]	Details will be hosted in www.hydicai.org	10	700 +GST
Tuesday 18th May, 2021	06.00 PM to 8.00 PM	Chapter X- Audit & Auditors Rules 2014 including CARO			
Wednesday 19th May, 2021	06.00 PM to 8.00 PM	Compliances related to Private Limited Companies			
Thursday 20th May, 2021	06.00 PM to 8.00 PM	Loans, Advances, Deposits, Inter corporate Loans			
Friday 21st May, 2021	06.00 PM to 8.00 PM	Role and Responsibilities of Directors			
Monday 24th May, 2021	05.00 PM to 8.00 PM	New Dimension in Internal Audit –Internal Audit 3.0 & Internal Audit for SMPs	CA. Amit Gupta New Delhi & CA. Sameer Mittal New Delhi	3	Free
Sunday 30th May, 2021	10.00 AM to 1.00 PM	VCM on Will, Inheritance, Family Settlement	Dr.CA.Girish Ahuja New Delhi	3	Free

Articles

IBC - Pre packaged Insolvency Resolution Process

- CA. N Gopal

Alternate views / clarifications on the above shall be appreciated at gopal@ngkaca.com

The Central Government has recently promulgated the IBC Amendment Ordinance 2021 for the introduction of an alternative process of resolution of insolvency for the Micro, Small & Medium Enterprises (MSME). This alternative resolution plan is commonly referred to as the Pre packaged Insolvency Resolution Process (PIRP) against the existing process of Corporate Insolvency Resolution Process (CIRP).

With both the processes being available currently, a snapshot of comparison between the two processes is understood as below:

S. No.	Subject	As per existing CIRP Provisions	As per new PIRP Provisions	Remark / Justification
1	Eligibility to initiate the process	Corporate Debtor, Operational Creditor or Financial Creditor	Only Corporate Debtor	As the process is initiated after an agreed settlement plan between the Corporate Debtor & Financial Creditor, the applicant can only be the Corporate Debtor
2	Pre admission arrangement	None	Declaration of the Corporate Debtor that consent of Financial Creditors is taken	Same as above
3	Minimum Default Amount	Rs. 1.00 Cr	Rs. 10 L's	Considering the lower size profile of the Corporate Debtor
4	Types of Resolution Plans	Resolution Plan From the initial to the final plan	Base Plan & Resolution Plan	The Base plan is the plan as initially submitted by the Corporate Debtor along with the declaration whereas the Resolution Plan is that which is finally approved
5	Maximum Resolution Period	Initial 180 days + additional 90 days + extension as approved by the NCLT	90 Days (Without any Option for extension)	Objective of early decision

S. No.	Subject	As per existing CIRP Provisions	As per new PPIRP Provisions	Remark / Justification
6	Minimum Creditors Approval	66%	66%	Similar position
7	Swiss Challenge Method	Yes	Yes	The process remains the same
8	Corporate Debtor Affairs in Possession	IRP / RP	Corporate Debtor	For quicker resolution
9	Conversion from one to another process	Cannot get converted into PPIRP	Can get converted into CIRP	Optional
10	Cooling Period before application for re admission	1 Years	3 Years	Being a Corporate Debtor initiated process
11	Valuation	3rd Valuer if wide variance between the first 2 valuations	Only 2 Valuations	For quicker resolution
12	Section 29 A applicability	Yes	Yes	Similar position
13	NCLT Role	Extensive	Limited	In view of pre agreed terms as also lower time period
14	Public Announcement on Process	Yes	Yes	Similar position
15	Public Announcement on Claims	Yes	No	Based on self declaration of the Corporate Debtor
16	Non distinction between Secured & Unsecured Financial Creditors	Yes	Yes	Similar position
17	Resolution Professional Fees	Based on agreed terms	Based on agreed terms	Similar position
18	Conflict of Interest provisions	Yes	Yes	Similar position
19	RP Fees retention process	No specific provision	Escrow Account	In view of the fact that Corporate Debtor is not in possession of affairs

GST - Debit notes raised after September of Next FY eligible for ITC?

- CA. Satish Saraf &
- CA. Vekata Prasad. P

One of the Mantra's to avoid litigation in GST is charging GST on the higher side (higher rate or valuation or not taking disputed exemptions etc.,) and pass it to the recipient. It becomes easier when the recipient can take the ITC. While the aforesaid Mantra works wonderfully when sufficient care was taken at the time of issuing the original invoice. However, there is an extended facility by way of 'Debit notes'.

What is "Debit note" under GST:

Section 34(3) & (4) of the CGST Act, 2017 provides that if the taxable value or tax charged in the invoice is lesser than what it should be, a Debit Note could be issued for such differential tax. Unlike credit notes, there is no fixed time limit for issuing Debit notes. Section 16(2)(a) of CGST Act, 2017 read with Rule 36(1)(c) of CGST Rules, 2017 recognises the 'Debit note' as prescribed document to avail ITC.

However, if the Debit notes are issued belatedly beyond September of Next financial year, the aforesaid Mantra would not work since Section 16(4) of CGST Act, 2017 puts a time limit block.

To give an example, the taxpayers initially have not charged GST believing that product is exempted but at the time of books finalization or filing of Annual return (which most likely happens after the end of September of next financial year), it was told that GST is liable on the product at 18% and claiming the exemption is a huge risk to the Business. Thus, by that time the taxpayers realizes his mistake, the Mantra (passing GST to the recipient by way of ITC) to avoid the disputes would not be possible due to the time limit given under section 16(4), *ibid* for ITC availment i.e. September of Next financial year.

For those categories of taxpayers, Finance Act, 2020 has made a blissful amendment in Section 16(4), *ibid* vide Section 120 of Act, 2020 (made effective from 01.01.2021 through Notification No. 92/2020-C.T dated 22.12.2020). The comparative provisions are tabulated below:

Section 16(4), <i>ibid</i> before the amendment	Section 16(4), <i>ibid</i> after the amendment
4) A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier.	4) A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier.

The background of the making the aforesaid amendment can be traced from the agenda of the 38th GST council meeting (relevant extracts are given below):

Gist of Issue	Proposal
<p>1. Section 34 (3) allows issuance of debit note where “a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply”. Moreover, as per section 16(4), a registered person is not entitled to take credit of a debit note beyond “the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or invoice relating to such debit note pertains or furnishing of the relevant annual return, whichever is earlier</p> <p>2. Plain reading of the provisions suggests that in case debit note relating to an invoice is issued beyond September of the next financial year, the same is barred from claiming ITC by the recipient. This is leading to a problem for sectors such as Automobiles, Heavy Engg. PSUs etc. where a price revision is inbuilt in the contract, and as per the provisions, in case of escalation on this account a debit note can be issued and corresponding tax shall be collected and deposited to the Government along with interest, but corresponding credit to the recipient is barred.</p>	<p>The Law Committee examined the matter and felt that credit may be allowed for debit notes irrespective of the date of issuance of the underlying invoice as anyway interest is being paid when tax liability is discharged in case of debit note. Accordingly, the Law Committee recommended to amend the provisions of section 16(4) to allow ITC on debit notes by linking it to the date of issuance of the debit note by omitting the words “invoice relating to such”</p>

On comparative reading of the amendment and the above extracts, the objective of the aforesaid amendment is to delink the Debit note from the original invoice date while calculating the time limit u/s. 16(4). In effect, the date of the Debit note would be considered for the time limit to claim ITC of GST paid through such debit notes and not the original invoice date. For example, the last date for the Debit notes raised in January 2021 for the original invoices raised in FY 2019-20, the last date u/s. 16(4), ibid would be counted linking with the Debit Note date instead of Original invoice date. The same is explained in the below table:

Sl. No	ITC of GST paid through	Last date to avail ITC	
		Before the amendment	After the amendment
1	Original invoice raised on 31.12.2019	20.10.2020	20.10.2020
2	Debit note raised on 10.01.2021 pertains to the above original invoice dated 31.12.2019	20.10.2020	20.10.2020

Areas where this amendment helps:

In absence of the time limits to issue Debit notes, it is a very good opportunity to avail the benefit of the aforesaid amendment and avoid the possible disputes, some of them are illustrated below:

- ❖ Adoption of the lower rate resulting in short payment of GST. For example, the taxpayers would have charged 5% but the actual rate is 12%.
- ❖ Short payment of GST due to claiming of ineligible exemption or disputable exemptions. For example, the dealers/distributors have not paid GST on the various incentives/discounts received from the manufacturers but the department in the audit/investigation claims that it is liable for GST.
- ❖ Short payment of GST due to undervaluation of the taxable value. For example, GST was paid without adding the expenses reimbursed.
- ❖ The differential amount charged due to the finalisation of the Price variation clause at a later point of time. For example, it was agreed that price would be escalated in correspondence variation in fuel prices and many times, the price escalation takes a long time to finalise.
- ❖ Cross charge missed out in the past. For example, The Head office/corporate office would have not charged for the support services given to the various units in other states.
- ❖ Interstate/unit transfers missed charging GST. Charge GST on nominal value as another party anyway eligible for ITC & can avoid the non-compliance.
- ❖ Transactions between the Group companies/entities not offered for GST. For example, the Holding company has given a corporate guarantee for the loan taken by the subsidiary.
- ❖ Any other scenarios of not/short charging of GST by the supplier. For eg: Builder missed charging GST to the landowners towards the share allocated to him.

In all these cases, the supplier can charge GST and pass on the burden by raising the Debit note now so that the recipient can avail the ITC and not become cost to him.

SURVEY, SEARCH AND SEIZURE UPDATE

- CA. Hari Agarwal & CA. Vivek Agarwal

1.ASSISTANT COMMISSIONER OF INCOME TAX & ANR. vs. JAIN JEWELLERY & ANR.

(2021) 62 CCH 0007 DelTrib

Decision in favour of: Assessee

Entire addition has been made solely on statement of B, whose statement was never confronted to assessee nor any opportunity of cross examination was given—There is no merit in this addition also—Assessee's appeal allowed

Income from undisclosed sources—Bogus purchases—Search and seizure action u/s 132 was conducted in case of B it came to notice that B, alongwith his sons R and M, were operating and managing large number of benami concerns in name of their employees through which they provided accommodation entries for bogus purchases to various beneficiaries—As per list provided, one of beneficiaries is J assessee, in present appeal—According to information, assessee has entered into bogus purchases—Based on reports submitted by ACIT, Assessing Officer came to conclusion that purchases made from P and M are bogus purchases—CIT(A) was of opinion that 25% of total addition should have been made, as 25% of alleged bogus purchases would be embedded profit that is liable for addition—CIT(A) restricted addition—Held, before first appellate authority partner of P appeared and whose statement has been recorded by first appellate authority—A perusal of statement clearly shows that partner has categorically admitted transaction with J—When bills were shown to partner, partner admitted that these bills have been signed by himself—L also explained mode of payment received from assessee—Since purchases with P have been duly verified, there is no reason why addition should have been made in this respect—Assessing Officer is directed to delete addition on account of purchases made from P—Sales made out of purchases have been duly accepted by Assessing Officer—Notice issued u/s 133(6) was fully served and replied by M though Assessing Officer has dismissed reply stating that envelopes have same handwriting but we do not find any force in this finding of Assessing Officer as he is not a Forensic expert—Entire addition has been made solely on statement of B, whose statement was never confronted to assessee nor any opportunity of cross examination was given—There is no merit in this addition also—Assessee's appeal allowed

2. ARCH PHARMALABS LTD. vs. ASSISTANT COMMISSIONER OF INCOME TAX

(2021) 62 CCH 0009 MumTrib

Decision in favour of: Assessee

Search and seizure—Prior approval necessary for assessment in case of search or requisition—A search and seizure operation was carried out on assessee in connection with Arch group of cases—Proceedings under S. 153A were initiated and assessment was framed under S. 153A r.w.s 143(3)—An approval from Additional Commissioner of Income Tax was obtained by AO under section 153D respect of search assessment i.e. AY 2003-04 to 2009-10 in pursuance of his communication to designated authority—Controversy has cropped up on legality of approval and consequent maintainability of respective assessments—It is contention on behalf of assessee that approval granted under S. 153D does not meet requirement of law and hence assessment orders passed in consequence of such non-est approval is a nullity in law—Held, it is ostensible that draft assessment orders were placed before Addl. CIT on 29.12.2010 for first time—It is axiomatic from plain reading of approval memo that various assessment orders and issues incorporated in assessment orders, were never subjected to any discussion with authority granting approval prior to 29.12.2010—It is evident from CBDT Circular No. 3 of 2008 dated 12.03.2008 that legislature in its highest wisdom made it obligatory that assessments of search cases should be made with prior approval of superior authority, so that superior authority apply their mind on materials and other attending circumstances on basis of which Assessing officer is making assessment and after due application of mind and on basis of seized materials, superior authority is required to accord approval respective Assessment order—Thus, obligation of granting Approval acts as an inbuilt protection to taxpayer against arbitrary or unjust exercise of discretion by AO—Approval letter merely says that "Approval is hereby accorded u/s. 153D to complete assessments u/s. 143(3) r.w.s. 153A in following case on basis of draft assessment orders..".which clearly proves that Addl. CIT had routinely given approval to AO to pass order only on basis of contents mentioned in draft assessment order without any application of mind and seized materials were not looked at and/or other enquiry and examination was never carried out—From said approval, it can be easily inferred that said order was approved, solely relying upon implied undertaking obtained from Assessing Officer in form of draft assessment order that AO has taken due care while framing respective draft assessment orders and that all observations made in appraisal report relating to examination/investigation of seized material and issues unearthed during search have been statedly considered by AO seeking approval—Thus, sanctioning authority has, in effect, abdicated his/her statutory functions and delightfully relegated his/her statutory duty to subordinate AO, whose action Additional CIT, was supposed to supervise—Addl. CIT in short appears to have adopted a short cut in matter and an undertaking from AO was considered adequate by him/her to accord approval in all assessments involved—Manifestly, Additional CIT, without any consideration of merits in proposed adjustments with reference to appraisal report, incriminating material collected in search etc. has proceeded to grant a simplicitor approval—This approach of Additional CIT, Central has rendered Approval to be a mere formality and can not be countenanced in law—Approval so granted under shelter of section 153D, does not, in our view, pass test of legitimacy—Assessment orders of various assessment years as a consequence of such inexplicable approval lacks legitimacy—Consequently, impugned assessments relatable to search in captioned appeals are non est and a nullity and hence quashed—In view of prima facie merits found in legal objections—Revenue's appeal dismissed.

B Kubendran Vs DCIT Chennai

Whether issuance of notice u/s 143(2) is mandatory for completing search assessment u/s 153A/C of the Income-tax Act, 1961- Decision of Hotel Blue Moon (Supreme Court) distinguished. The single bench of Madras high court Justice Dr Anita Sumanth in this case was considering the question of irregularity in the search assessment on account of non issuance of notice u/s 143(2) of the Income-tax Act, 1961 prior to completion of assessment u/s 153C of the Act. The Ld Single bench distinguished hotel blue moon judgement which was in the context of the erstwhile Section 158BC of the Act where the language of the section specifically referred to the notice u/s 143(2) of the Act, the Court primarily relied on the delhi High Court judgement in the case of Ashok Chaddha Vs ITO ((2011) 337 ITR 399 (Delhi) by holding that the purpose of notice u/s 143(2) was only to put the assessee to notice and once that was done by issuing notice u/s 153A with detailed questionnaire by issuing notice u/s 142(1), that purpose stood satisfied and non issuance of notice u/s 143(2) was not fatal to the completion of the assessme

Laxmi Narayan Jewellery v. ITO

Decision: In assessee's favour. Survey--Income declared during survey--Year of taxability--Assessment year for which declaration had been made or the year in which survey was conducted--Assessee's declaration stood accepted by survey team

Facts: During survey conducted at business premises of assessee-firm some discrepancies were noticed which were offered for taxation by the partner for assessment year 2012-2013 which had been accepted by AO on conditional basis, i.e., for payment of self-assessment tax of Rs. 40,00,000 but assessee distracted from his commitment, therefore, AO treated it as undisclosed income for the assessment year 2013-2014. Because the survey was conducted on 26-4-2012. As per assessee, AO should have made additions in the assessment year 2012-13 because at the time of survey assessee had declared income for assessment year 2012-2013.

Held: Declaration was made by assessee only for assessment year 2012-2013 in which partner had undertaken payment of self-assessment tax of Rs. 40 lakhs in four installments. Except the said declaration, there were nowhere in the statements recorded during the course of search, any other declaration by the partners. Once statements had been accepted by survey team, tax should have been calculated by them for the relevant years accepted by assessee. In view of above, declaration was to be added in assessment year 2012-2013.

Information Systems Audit – A Practical Approach IS Audit Engagement

- CA. Kothapalli Vijaya Srinivas

We, as Chartered Accountants, are witnessing a gradual shift over from the traditional audits to more Risk based and Technology based audits during past decade, and last couple of years it has accelerated with shift in gears by regulators by adopting more and more technical features in statutory compliances and by mandating the entities adopt technology as part of their business processes.

This article is first of the five articles planned to be published over next monthly Newsletters on Information Systems (IS) Audit. Through these articles I would try to walkthrough the IS Audit, right from Audit Engagement to the Final Report. In this month's article, I will try to share few basic aspects of IS Audit and various types of IS Audit Engagements.

As the purpose of these article is to make it more of a practical approach I will skip upon the technicalities and Introductory part of Information Systems Audit. For this, readers may refer to Technical Guide on IS Audit published by ICAI by following the link:

<http://kb.icai.org/web/viewer.html?file=/pdfs/PDFFile5b2789ec0ef5c9.98075589.pdf>

Few key aspects of IS Audit:

- ❖ IS Audit Vs IT Audit: Though both these are used as interchangeable words, technically there is difference between them. The core objective of IS Audit is to assess the internal controls within the IS environment to assure validity, reliability and security of information and Information Systems while assessing its efficiency and effectiveness. Whereas IT Audit is part of an IS Audit and cannot be substituted for IS Audit. IT Audit is more technical where the audit can be further classified as review of Application Controls and review of IT General Controls (ITGC).
- ❖ To specify IS Audit in simple terms, it starts with Assessing the Risk, while walking through the controls existing in organisation with a purpose to Review the Controls and lastly make observations or opinion on the Controls to prevent or detect the Risk. Based on the result, the management may take action to correct or reduce such risk. It is obvious that completely mitigating the risk is a myth and each business model will have its own inherent risks.
- ❖ The IS auditor, after evaluation of the evidence, forms an opinion on whether the information systems: safeguard assets, maintain data integrity, and operate effectively and efficiently to achieve the agreed-upon goals and objectives of the entity. Here Controls are core to the idea of an IS audit.
- ❖ IS Assets may be segregated into Information Assets, Software Assets, Physical Assets, and Business Services.
- ❖ The objective of IS Audit depends on the scope of audit engagement. For example, when dealt with as a compliance of Law or regulatory requirement, the purpose of IS Audit would be more on review of Internal Controls etc., and when dealt with as core information or data security objective, the purpose of IS Audit is to ensure existence of three important characteristics of data, which are also called as CIA Triad, where "C" stands for Confidentiality, "I" stands for Integrity and "A" stands for Availability.
- ❖ General auditing and assurance standards issued by ICAI related to audit engagement, audit planning, audit procedures, audit documentation, audit evidence etc., are equally relevant for IS Audit. However, in addition to these standards, specific IS Audit standards issued by ISACA are to be followed while performing IS Audits

Though the scope of Audit is decided based on the Audit Engagement Letter issued by the auditee, an IS Auditor should also consider the purpose behind such audit engagement. There could be various reasons behind which an entity may engage IS Auditor. Few of the purposes of IS Audit are tabulated below while trying to address the important points to be considered while performing those Is Audits.

Purpose of IS Audit	Objective / Scope of IS Audit	Key documents to be considered
<p>Statutory / Legal Requirements</p> <p>Reserve Bank of India (RBI)</p> <p>RBI mandates every Bank, FinTech companies and certain specified NBFCs to undergo IS Audit, once before issuing Certificate of Incorporation and thereon regularly on periodic basis, say annually or once in two years.</p>	<p>Audit Objective:</p> <p>(a) Reporting on the system of governance of the information systems</p> <p>(b) Reporting on both the system of governance and its effectiveness</p> <p>(c) Inclusion or exclusion of the financial information systems</p> <p>(d) Inclusion or exclusion of the non-financial information systems</p> <p>Audit Scope:</p> <p>To evaluate internal control systems for the use and protection of</p> <p>a) Data</p> <p>b) Application systems</p> <p>c) Technology</p> <p>d) Facilities</p> <p>e) People</p>	<ul style="list-style-type: none"> • Report on Information systems audit policy for the banking and financial sector published by RBI, dated: March 11, 2002. • Circular on Information System Audit - A review of Policies and Practices published by RBI, dated: April 30, 2004. • Master Direction – Information Technology Framework for the NBFC Sector DNBS. PPD. No. 04/ 66.15.001/ 2016-17, dated: June 08, 2017. • Circular on Information Technology Framework for HFCs NHB/ND/DRS/Policy Circular No. 90/2017-18, dated: June 15, 2018. • Comprehensive Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs) DoS.CO/CSITE/BC.4083/31.01.052/2019-20, dated: December 31, 2019. • Technology Vision for Cyber Security' for Urban Co-operative Banks – 2020-2023 published by RBI on September 24, 2020

Purpose of IS Audit	Objective / Scope of IS Audit	Key documents to be considered
<p>Securities and Exchange Board of India (SEBI)</p> <p>SEBI mandates every MFs / A M C s , M I I s , Stockbrokers / Trade Members to perform Information Systems Audit on annual basis</p>	<p>Audit objective & Scope</p> <p>Audit of systems and processes, inter alia, related to examination of:</p> <ul style="list-style-type: none"> - Integration of front office system with the back-office system - Fund accounting system for calculation of net asset values - Financial accounting and reporting system for the AMC - Unit holder administration and servicing systems for customer service - Funds flow process - System processes for meeting regulatory requirements - Prudential investment limits and - Access rights to systems interface 	<ul style="list-style-type: none"> • Circular on System Audit framework for Mutual Funds / Asset Management Companies (A M C s) - SEBI/HO/IMD/DF2/CIR/P/2019/57, dated: April 11, 2019. • Circular on Annual System Audit of MIIs – SEBI/HO/MRD1/ICC1/CIR/P/2020/03, dated: January 07, 2020. • Circular on Annual System Audit for Trading members of National Commodity Derivatives Exchanges - SEBI/HO/CDMRD/DEICE/CIR/P/2016/70, dated: August 11, 2016. • Circular on Annual System Audit, Business Continuity Plan(BCP) and Disaster Recovery (D R) - CIR/CDMRD/DEICE/01/2015, dated: November 16, 2015. • Circular on Annual System Audit of Stock Brokers / Trading Members - CIR/MRD/DMS/34/2013, dated: November 6, 2013. • Circular on Annual System Audit of Exchanges - CIR/MRD/DMS/13/2011, dated: November 29, 2011.

Purpose of IS Audit	Objective / Scope of IS Audit	Key documents to be considered
<p>Insurance Regulatory and Development Authority of India (IRDAI)</p> <p>IREDA mandates every Insurance Company to perform Information Systems Audit along with VA & PT on annual basis</p>	<p>Audit Objective & Scope:</p> <p>(i) To ensure that a Board approved Information and Cyber Security policy is in place with all insurers.</p> <p>(ii) To ensure that necessary implementation procedures are laid down by insurers for Information and Cyber Security related issues.</p> <p>(iii) To ensure that insurers are adequately prepared to mitigate Information and cyber security related risks.</p> <p>(iv) To ensure that an in-built governance mechanism is in place for effective implementation of Information and cyber security framework.</p>	<ul style="list-style-type: none"> Guidelines on Information and Cyber Security for Insurers – IRDA/IT/GDL/MISC/ 082/04/2017 dated 07-4-2017 Amendments to the Guidelines on Information and Cyber Security for Insurers – IRDA/IT/CIR/MISC/301/12/2020, dated 30-12-2020.

Purpose of IS Audit	Objective / Scope of IS Audit	Key documents to be considered
<p>Specific / General Requirements</p> <ul style="list-style-type: none"> ● Management Requirement (mostly at the beginning of operations and on continuous periodic basis) ● Investor Requirement (during investments or acquisitions etc.,) ● Implementing new IT Product or new applications ● To understand Technological Position of entity ● Based on Reported major cyber hacks or cyber attacks occurred globally 	<p>Audit Objective</p> <ul style="list-style-type: none"> ● To review general controls, application controls, System Development etc., in the organisation. ● To ensure data confidentiality, integrity and availability. ● To ensure effective and efficient use of resources ● To identify risks that an organization is exposed to in the computerized environment. ● To evaluate the adequacy of the security controls and inform management with suitable conclusions and recommendations. ● To ensure compliance with significant policies, procedures, laws, and regulations. <p>Audit Scope will be dependent on requirements of IS Audit and Audit objective. However what need to be considered is before deciding on the scope is, whether such IS Audit is performed for the purpose of:</p> <p>Reasonable Assurance</p> <ul style="list-style-type: none"> ● To provide opinions or to rate the entity. <p>Non-Assurance</p> <ul style="list-style-type: none"> ● To provide services such as advisory, consulting, assessments etc., <p>Limited Assurance</p> <ul style="list-style-type: none"> ● Limited to provide reviews 	<ul style="list-style-type: none"> ● General Auditing and Assurance standards issued by ICAI. ● IS Auditing and Assurance standards, Guidelines and Procedures issued by ISACA. ● In total, 17 IS Audit and Assurance standards are issued and they are categorised into, <ul style="list-style-type: none"> ● General Standards (1000 series) and there are 8 standards. ● Performance Standards (1200 series) and there are 7 standards. ● Reporting Standards (1400 Series) and there are 2 standards. ● In total, 18 IS Audit and Assurance Guidelines issued and they are categorised into, <ul style="list-style-type: none"> ● General Guidelines (2000 series) and there are 8 guidelines. ● Performance Guidelines (2200 series) and there are 8 guidelines. ● Reporting Guidelines (2400 series) and there are 2 guidelines. ● In addition to the above, ISACA has issued IS Audit and Assurance Tools and Techniques, which also provide additional guidance for IS audits. ● IS Auditors should also refer to following based on the scope of audit: <ul style="list-style-type: none"> ● COBIT 2019 issued by ISACA (It is the overarching business and management framework for governance and management of enterprise IT). ● NIST (National Institute of Standards and Technology) Cybersecurity Framework ● COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Controls Framework ● ITIL (The Information Technology Infrastructure Library) Framework. ● ISO 27000 Series of Standards ● NIST (The National Institute of Standards and Technologies) publications ● CIS (Centre for Internet Security) best practices and configuration documents. ● Additional reference can also be made to guidelines issued by NSA (The National Security Agency), DISA (The Defence Information Security Agency), SANS (Sys-Admin, Audit, Network, Security) etc.,

In the next article I will cover understanding controls and developing IS audit plan.

Virtual CPE Programme on UDIN for Bank Audits & other Certifications



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