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THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

ICAI – SET UP BY AN ACT OF PARLIAMENT

The Institute of Chartered Accountants of India

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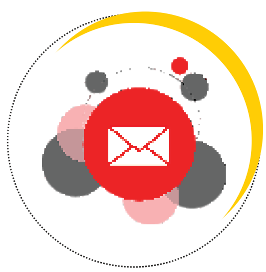

#Any other professional topic in mind?
Write and send to eb@icai.in

Public Interest - Achieving Higher Levels

As codependent participants of the society, humans must acknowledge their social responsibility, and inherent moral obligation to seek opportunities to help others. The Institute of Chartered Accountants of India has always valued the concept of service before self and built all its initiatives on the roots of civil service in order to achieve the greater good. Social interests are deeply ingrained in ICAI by its very nature as a regulatory organisation in the domain of accountancy. ICAI steadfastly spearheads the Indian economy into unparalleled heights and enhances the health of business environment and corporate governance. ICAI liaises with different stakeholders in order to achieve better organisational functioning with sustainability.

The aspect which is deep rooted in the functioning of ICAI is serving the society by keenly maintaining the public interest. CA. Ashok Kumbhat, ICAI Past-president once remarked *"our profession has, as its main object, the service to society. Any work which is not seen as relevant to the needs of the society will be a fruitless endeavour. Hence, professional institutions must shape their policies and define their aims and objectives in a manner which serve the public interest. The higher the public expectations tend to become, the greater will be the challenge faced by the profession."* ICAI throughout its existence continues to make a multitude of proactive endeavours to foster the general welfare and sound prosperity of everyone in the community.

The accounting professionals while working in the various sectors of the economy, perform myriad roles in development of effective business strategy. The plethora of information created by Chartered Accountants is of high value to the various stakeholders of business and industry. Quality financial reporting is a major catalyst in the era of tough competition for proper channelization and usage of the resources in the corporate world in the overall interest of the economic growth of country. Development of sound financial reporting framework and compliance with generally accepted accounting principles are vital to achieving transparency. With these aspects of organisational functioning in mind, ICAI, founded on a strong bedrock of inherent public welfare, diligently creates a robust system consisting of standards and issues guidance in the areas of accounting, auditing, valuation, taxation, sustainability, ethics and so on.

ICAI actively participates in the progress of the nation and assists Government, industry and various other stakeholders who are looking up to us. ICAI to secure deeper convergence with public interest, as a recurrent function, provides MCA, C&AG, SEBI, IRDA, etc. with cogent views about the likely impact of various policies and the need to bring change. Many of our members profess in the area of taxation. As a norm, ICAI participates in the budget finalisation by submitting pre and post budget memoranda to the government. Further, professionals continually strive to ensure that businesses comply with tax laws and contribute to the State. This not only helps to accelerate the economic growth but also helps the State to discharge the responsibility towards the marginalized sections of the society.

During the last couple of months, ICAI, as a part of nation building took multitude of steps. At a time when second wave of pandemic, with its stealthier economic devastating potential, is creating havoc, the Chartered Accountants need to play a more important role to preserve the financial systems. Accounting professionals need to remain at the forefront to help businesses to face financial crisis and continue to navigate changes in the best economic interest. Continuing its perseverant pursuit, the institute designs its functioning and coalesce its strengths in overall public interest. ICAI on its part has brought out guidance, advisories and has suitably modified the processes, to create an ecosystem to facilitate solutions to many economic problems being faced in these challenging times. During these times ICAI has steadfastly played the role of an ally and a confederate to the Indian government and endorsed their initiatives in the matter of governance for the development of the nation in public interest. *'Good works are links that form a chain of Love – said Mother Teresa'* After all, we must remember that it is only possible to rise oneself by lifting others.

-Editorial Board ICAI: Partner in Nation Building

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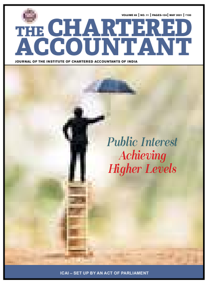

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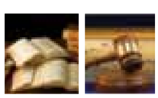

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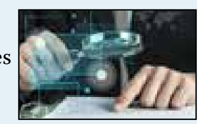

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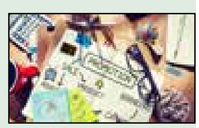

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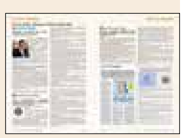

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From the President

CA. Nihar N. Jambusaria
President, ICAI

My Dear Professional Colleagues,

The Indian accounting profession was established in the year 1949 by an Act of Parliament to address the genuine needs of economy with obligations to serve the public interest and society. The profession functions and grows, paralleled by its complex knowledge, skills and well laid-out statutory position. In return of the given legal status, our members render their services with the public interest in mind to serve economy and our country. For more than seven decades, the accountancy profession is championed under the edifice in which the public interest is deeply ingrained in its functioning with any action contrary to the public interest can have devastating effect for the various stakeholders. CA. Raghu Nath Rai, past President, ICAI once commented – *"In a welfare State, a profession cannot hope to exist unless it promotes and serves public interest. The Council of this Institute has been conscious of such responsibility and from time-to-time has been advising members to assist the Government and Government bodies in the discharge of their functions."* Public interest establishes standard for the Chartered Accountants to strive and work for the benefit of others. The standards should be ingrained in the mindset of professionals such that they become the benchmark upon which all their activities are undertaken. Today, I am proud to acknowledge that tradition of 'service before self' that was started in the year 1949 is followed unabated over more than seven decades of our journey. I am equally sure that our present and future generations will always keep this in mind and act for societal duties while discharging their various functions. In this direction, ICAI through its system of education and training to students which continues as professional education post qualification, inculcates best of ethical behaviour in best interest of public. *"To educate a man in mind and not in morals is to educate a menace to society."* – Theodore Roosevelt

Positioning the Profession Internationally: Spreading wings

ICAI, the second largest accounting body in the world, has a number of chapters, representative offices and overseas offices helping the Indian accounting profession to reach different parts of the world. In a bid to enhance its global footprints, the ICAI has recently launched two new representative offices and one new chapter. The ICAI Chapters and Representative Offices act as focal point of contact, bringing together ICAI members abroad and enabling effective reach and service to its members. Thus aiding in positioning the 'Indian Accountancy Profession' as a 'Brand' worldwide for generation of more and more professional avenues for Indian Chartered Accountants and contribution in global economy.

- **Virtual launch of Chicago Chapter**

  The 40th Chapter of the Institute of Chartered Accountants of India in Chicago was recently inaugurated at a virtual event on April 24, 2021. The event witnessed the august presence of Mr. Amit Kumar, Hon'ble Consulate General of India, Chicago; CA. Mahaveer Singhvi, IFS, Joint Secretary, Ministry of External Affairs, Government of India; CA. (Dr.) Debashis Mitra, Vice President, ICAI and myself. CA. Vish Arunachalam, Founder Chairman & Director, San Francisco Chapter of ICAI; Ms. Dorri McWhorter, CPA-CGMA, CITP, Chairperson, Illinois CPA Society; Mr. John Gimpert, Regional Director, CFO Leadership Council and Ms. Shweta Baid, Aurora's 10th Ward, Alderman-elect participated in the event as Guest speaker.

- **Virtual launch of Hanoi and Ho Chi Minh Representative Offices**

  The Institute recently also inaugurated two Representative Offices in Hanoi and Ho Chi Minh. Both these Representative Offices were inaugurated at a virtual event on April 2, 2021 in the august presence of Shri Pranay Verma, Ambassador of India to Vietnam and Dr. Madan Mohan Sethi, Consul General of India, Ho Chi Minh City, Vietnam along with CA. Mahaveer Singhvi, IFS, Joint Secretary, Ministry of External Affairs, Government of India; CA. (Dr.) Debashis Mitra, Vice President, ICAI and myself. The event also witnessed the presence of Shri Manoj Barthwal, Chairman, Indian Business Chamber in Ho Chi Minh, Vietnam as guest speaker for the event.

As I pen down this message, I am pleased to share with my fraternity members that Union Cabinet chaired by Hon'ble Prime Minister of India has approved the two Memorandum of Understandings of the ICAI. The MoUs were proposed with the Institute of Chartered Accountants of Australia & New Zealand, and another one with Certified Practicing Accountants Australia. Necessary steps for operationalisation of both these MOUs will be taken soon.

Classification of Non-company entities for applicability of Accounting Standards

Accounting Standards issued by the ICAI are applicable to Non-company entities to whom Ind AS are not applicable. For applicability of Accounting Standards, the ICAI in 2004, prescribed the criteria for classification of entities into level I, Level II and Level III, wherein subsequently minor revisions were made. Level II and Level III non-company entities were classified as Small and Medium sized Entities (SME) to whom certain exemptions/relaxations were provided. In view of the substantial revisions in the threshold limits for classification of Micro, Small and Medium Enterprises (MSMEs) under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, inflation; and considering that the criteria for classification of Non-company entities was laid down long back, the ICAI has revised the criteria to achieve simplification and ease of doing business by these entities. For this purpose, the ICAI has recently issued an Announcement revising the criteria for classification of Non-company entities into four Levels, viz., Level I, Level II, Level III and Level IV which is applicable in respect of accounting periods commencing on or after April 1, 2020. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The Announcement which includes details of exemptions/ relaxations to MSMEs and the guidance on transitioning between levels has been published in the internal pages of this issue for your ready reference.

Interest Rate Benchmark Reform

Considering the uncertainty about the future of some existing Interest Rate Benchmark Reform such as Interbank Offered Rates (IBORs) globally, necessary amendments were earlier made to relevant Ind AS. In order to provide necessary guidance in this regard to the entities that do not apply Ind AS including banks, the ICAI has issued an Announcement to address the matter on an urgent basis. The Announcement has provided temporary exceptions to Hedge Accounting prescribed under *Guidance Note on Accounting for Derivative Contracts due* to Interest Rate Benchmark Reform. An entity shall apply the temporary exceptions stated in the Announcement for annual periods beginning on or after 1st April 2020 till the time uncertainty regarding new rates exists.

Review of Education and Training

In order to update the system of education and training with the objective to enable aspiring Chartered Accountants to acquire contemporary competence which the profession requires a "Committee for Review of Education and Training (CRET)" is set up from time to time. The committee reviews the adequacy of the existing systems in

From the President

the context of the emerging requirements and the changing environment. On account of changes necessitated due to implementation of National Education Policy, 2020, increasing emphasis on corporate governance and business ethics, opening up of new professional avenues and technological developments it has been decided to initiate the work of reviewing the system of education and training. The review would be done through a comprehensive consultative process involving academicians, regulators, industry, parents, members and other stakeholders of the accountancy profession.

Interactive Meeting with the ICAI Past-Presidents from Western Region

Recently, myself and Vice-President had the opportunity to have the experience and vision of past-Presidents of the ICAI from Western region shared by them during an interactive program organised by the WIRC. On our part we shared with them the major initiatives undertaken for the benefit of profession at large during the recent past, also the action plan of the year 2021-22 to create opportunity for the profession and also for contribution of ICAI to the society and Government in these challenging times. Their words of wisdom and guidance will certainly be very helpful in the further course of action.

Promoting Financial and Tax Literacy

It is rightly remarked, an investment in knowledge accrues the best interest. In an increasingly risky environment, it is important to make well-informed financial decisions. Generally, common man and even small corporate not having access to professional advice, sometimes lacks financial literacy which is otherwise necessary to make decisions in their own best interests and running affairs while becoming suitably tax compliant. While educated persons are more informed, they may not possess right combination of literacy in financial and tax matters. The knowledge in the area of accountancy and finance is complex and highly specialised. It is important that all individuals have a basic understanding in the area of finance so that they are empowered to take right financial decision, make better investments, pay proper taxes, etc.

The Institute has always reiterated the importance of knowledge-sharing for not just individual enrichment but all-round social benefit. In this direction, as I informed in my earlier communication in March 2021, we have formed a group to support the cause of financial and tax literacy. As different members of ICAI go on to specialise in different domains, it is important to exchange ideas, thoughts, plans, suggestions and other nuances of financial information, so as to build on our knowledge-base in the form of National Financial Resource Centre, in a compounding fashion and holistically develop the community. ICAI firmly believes that financial knowledge is directly correlated with self-beneficial financial behaviour and must be encouraged.

Put in your Best Efforts for Indian Economy

The Indian economy moving ahead relentlessly has immense potential. The economy has displayed high resilience and is able to move ahead through thick and thin. Withstanding all odds, overcoming economic challenges accentuated by prolonged pandemic, India is able to garner an all-time high of ₹ 1,23,902 crore, as GST collections in March, 2021. The collections are 27% higher than the corresponding month in the previous year and are 14% higher in January-March quarter FY21 versus the full fourth quarter for FY20.

Incidentally, when the pains of pandemic were fading, the corona virus is spreading with increased severity. Akin to the seas characterised by high tides and low tides, the day by dusk and dawn, the wheel of life continues to cycle through the good and bad, one instant after another. We are sure this second bout of the virulent spread will also be over soon. As members of accounting profession, I request you to take all precautions including vaccination as suggested by the government to save human life and take best actions to safeguard the business and economy.

As I conclude, I wish you all a very happy Akshaya Tritiya, Eid al-Fitr, and Buddha Purnima.

Stay safe, stay healthy. Best wishes.

CA. Nihar N. Jambusaria
President, ICAI
New Delhi, 24th April, 2021

ICAI President CA. Nihar N. Jambusaria and ICAI Vice President CA. (Dr) Debashis Mitra with Mr. Amit Kumar, Hon'ble Consul General of India to Chicago, USA, CA. Mahaveer Singhvi, Joint Secretary, Ministry of External Affairs, Government of India with other eminent guest speakers at e-Inauguration of 40th Chapter of ICAI in Chicago, USA (April 24, 2021).

ICAI in Action

Applicability of the provisions of Section 139 of the Companies Act 2013

Corporate Laws & Corporate Governance Committee has released a clarification with regard to applicability of the provisions of Section 139 of the Companies Act 2013 read with Rule 5 and 6 of the Companies (Audit and Auditors) Rules, 2014. The clarification explains whether a Proprietary firm (having FRN) or individual CA who is practicing either in his own name or trade name can be appointed for two terms as per Section 139 of Companies Act, 2013. For details please visit *https://resource.cdn.icai.org/64473clcgc51714.pdf.*

Exposure Draft of COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendments to Ind AS 116)

The International Accounting Standards Board (IASB) had issued COVID-19-Related Rent Concessions, which amended IFRS 16, Leases, in May 2020. The Indian entities preparing Ind AS based financial statements were facing similar challenges and situations like the International scenario and to remain converged with IFRS standards, amendments to Ind AS 116, corresponding to aforesaid amendments issued by IASB, as recommended by ICAI and examined and recommended by NFRA, were notified by the MCA on July 24, 2020.

In March 2021 the IASB has issued Covid-19-Related Rent Concessions beyond 30 June 2021 (the 2021 amendment), to extend the availability of the practical expedient in paragraph 46A by one year so that it applies to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The objective of the proposal is to continue providing lessees with practical relief during the on-going COVID-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements. Considering that Indian entities are also likely to continue face similar challenges, the Accounting Standards Board (ASB) of ICAI has issued the Exposure Draft of proposed amendments to Ind AS 116, Leases, for public comments.

For details, please visit *http://icai.org/post/ed-covid-19-related-rent-concessions-beyond-june30-2021.*

Exposure Draft of Lack of Exchangeability - Invitation to comment

The International Accounting Standards Board has released following Exposure Draft for comments for proposed guidance for itself when developing and drafting disclosure requirements in IFRS Standards in future:

Lack of Exchangeability - IAS 21 sets out the exchange rate a company uses when it reports foreign currency transactions or a foreign operation's results in a different currency. However, the Standard does not set out the exchange rate to use when there is no observable exchange rate the company can use - such as when a currency cannot be converted into a foreign currency. The proposed amendments would help companies in determining whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged.

For details please visit *https://icai.org/post/ed-lack-of-exchangeability.*

Amendments in the provision related to Audit Trail

In view of applicability of the amendments made vide notification dated 24th March, 2021 related to the accounting software having feature of audit trail and its reporting in audit report being made effective from the FY 2020-21, the ICAI had requested the Ministry of Corporate Affairs to issue a clarification on the same as it was creating confusion in the minds of auditor regarding applicability of the said provision. In this regard, the Government has considered the request and issued a clarification stating that the provisions related to Audit trail as provided in Companies (Audit and Auditors) Amendment Rules, 2021 and Companies (Accounts) Amendment Rules, 2021 have been made effective in respect of financial years commencing on or after the 01st April, 2022.

For details please visit *https://resource.cdn.icai.org/64323clcgc050421.pdf.*

Further extension of the last date for Waiving-off Condonation Fees - Late filing of various application forms related to Students and Articled Assistants

Amid the current situation, it is observed that some of the Students/Articled Assistants are still facing difficulties in online filing of prescribed applications forms for various activities causing delay in their online submission inviting levy of Condonation fees under the relevant Regulatory provisions. Considering the difficulties being faced by such Students/Articled Assistants, it has been decided to further extend the last date of waiving–off Condonation Fees from 31st March, 2021 to 30th June, 2021. All transaction dates falling between 1st April, 2020 to 30th June, 2021 shall be considered. This period includes one-month prescribed time limit given in general.

For details please visit *http://icai.org/post/further-extension-last-date-for-waiving-off-condonation-fees*

Extension for completion of Orientation Course/IT Training

Due to the prevailing difficulties on account of pandemic, the Competent Authority has decided to relax the requirements, as a one-time measure as under:

- The students who were required to complete OC/ITT course uptill 31st March 2021 can now complete the same on or before 31st May,2021.
- The students who are yet to join the articleship training on or before 30th April,2021 are allowed to complete OC/ITT on or before 31st May,2021.

For details please visit *https://resource.cdn.icai.org/64287sseb010421a.pdf.*

Examination postponed in the interest of students.

In view of the ongoing pandemic and in the interest of welfare & well-being of the students and to mitigate their hardships, it has been decided to postpone the Final and Intermediate Chartered Accountants Examinations which were scheduled to commence from 21st (Final) / 22nd (Intermediate) May, 2021 across the globe. The situation of pandemic will be further reviewed considering COVID cases, MHA guidelines, Centre and State Government directions and accordingly fresh dates will be intimated to students. While doing so, a notice of at least 25 days will be given before the start of the examinations. The candidates are advised to note the position and regularly visit ICAI website, www.icai.org for updates.

For details please visit *https://icai.org/post/imp-announcement-may2021ca-exams.*

Foundation Examinations - Update

Some of the students who wish to appear for June 2021 Foundation Examination are facing problem while filing of Examination Application Form on account of:

(a) Getting their application/declaration attested from a CA Member/Gazetted officer/Head of the Educational Institute due to COVID-19; and

(b) Filling of Admit Card/Roll No. of Senior Secondary Examinations as the same has not been received due to postponement.

In view of the above, it is notified for general information that –

(a) the students of Foundation Course whose photographs and/or signature are not available in the systems be allowed to upload their Aadhar Card alongwith Examination Application Form for June 2021 Foundation Examination.

(b) The students who have not received their Admit Card/Roll No. of Senior Secondary Examinations may declare that they will be appearing for such examination.

For details please visit *https://icai.org/post/imp-announcement-june2021-foundation-exam.*

“e-Sahaayataa” – A Grievance Resolution Mechanism of ICAI

‘*e – Sahaayataa*’ is the e-Channel for the entire base of Members and Students of the Institute and other stakeholders of the profession where in their queries/ grievances pertaining to the day-to-day working shall be resolved in a time-bound and transparent manner.

Objectives:

- To provide timely services to all the stakeholders of the profession throughout the globe
- To resolve the Query/ Complaint/ Grievance within 3 – 7 days from the date of submission of the same
- To eliminate the operational bottlenecks and smoothen the flow of education process of Chartered Accountancy

Features:

- Automatically sends the query/ complaint/ Grievance to the dashboard of the concerned official as soon as the same is submitted.
- Complete history of Query/ Complaint/ Grievance can be checked.
- E Mail is sent to the user once the query/ complaint and grievance is resolved.
- Query/ Complaint/ Grievance can be reopened by the user in case the user is not satisfied.
- No query/ complaint/ grievance can be deleted from ‘*e-Sahaayataa*’

Scope:

‘*e-Sahaayataa*” caters only to the Queries/ Complaints/ Grievances pertaining to the day to day working of the Institute which are general in nature. This is not meant for registering or making allegations, personal observations, and personal comments. Kindly submit relevant Queries/ Complaints/ Grievances to help you better.

How to Access

The Services of “*e-Sahaayataa*” is available on the Institute Website and tickets can be raised by accessing eservices.icai.org using SSP Portal credentials and by selecting option “*Raise/ View Tickets*”.

Home | Raise/View Tickets | Change Password | Contact Us | Logout

Know Your Ethics

Q. Can a Chartered Accountant in practice work as a 'Collection Agent/Recovery Agent'?

A. No, a Chartered Accountant in practice cannot work as a Collection Agent. However, he can act as a Recovery Consultant in the Banking Sector as provided in clause (xxv) of 'Management Consultancy and other Services'.

Q. Whether a practicing Chartered Accountant can agree to select and recruit personnel, conduct training programmes and work-studies for and on behalf of a client?

A. Yes. The expression "Management Consultancy and other Services" defined by the Council includes both personnel recruitment and selection and conducting training programmes and work-studies. Therefore, a Chartered Accountant in practice shall not commit any professional misconduct by rendering such services for and on behalf of the client.

Q. Can a Management Consultancy Company advertise its services?

A. No, the Guidelines for Corporate Form of Practice restrict a Management Consultancy Company from advertising or using logo.

Q. Can a member in practice have a branch office/additional office/temporary office?

A. Yes, a member can have a branch office. In terms of Section 27 of the Chartered Accountants Act, 1949; if a Chartered Accountant in practice or a firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. Failure on the part of a member or a firm to have a member in charge of its branch and a separate member in case of each of the branches, where there are more than one, would constitute professional misconduct.

However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are:

1. Such members/firm be allowed to open temporary offices in a city in the plains for a limited period not exceeding three months in a year.
2. The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.

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3. The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.
4. The temporary office should not be mentioned in the letter-heads, visiting cards or any other documents as a place of business of the member/firm.
5. Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

The above conditions apply to any additional office situated at a place beyond 50 km from the municipal limits in which any office is situated.

It is to be noted that the requirement of Section 27 in regard to a member being in charge of an office of a Chartered Accountant in practice or a firm of such Chartered Accountants shall be satisfied only if the member is actively associated with such office. Such association shall be deemed to exist if the member resides in the place where the office is situated for a period of not less than 182 days in a year or if he attends the said office for a period of not less than 182 days in a year or in such other circumstances as, in the opinion of the Executive Committee, establish such active association.

It is necessary to mention that the Chartered Accountant in charge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant, he must be in whole time employment with him.

However, a member can be in charge of two offices if they are located in one and the same accommodation.

Q. Whether a CA Firm can be registered with the Institute as a Limited Liability partnership?

A. Yes, vide the Chartered Accountants (Amendment) Act, 2011, the definition of "Firm" has been amended to include the Limited Liability partnership as defined in Clause (n) of sub-section (1) of Section 2 of the Limited Liability Partnership Act, 2008.

Q. Can a member in practice be part of Association of persons (AOP), with other members, or other professionals?

A. No, it is not permissible for a member in practice to be part of Association of persons, whether or not comprising of other professionals, since as per the provisions of the Chartered Accountants Act, 1949, only Firms and LLPs are the two modes of practice, apart from practicing in individual capacity.

Q. Whether a member in practice can provide payroll services?

A. Yes, a member in practice can provide payroll services since these fall under the purview of activities mentioned in the provisions of Section 2(2)(i) and (iii) of the Chartered Accountants Act, 1949. However, it is not permissible to undertake this activity if the member is the statutory auditor of the same entity.

Q. Whether a member in practice can provide equity research service, and publish retail research report?

A. A member in practice may be an equity research adviser, but he cannot publish retail report as it would amount to other business or occupation, which is not permissible in view of the provisions of Clause (11) of Part-I of First schedule to the Chartered Accountants Act, 1949.

Q. Whether a member holding Certificate of practice will be deemed to be in practice even if he is not serving any clients?

A. Yes, a member is deemed to be in practice, not only when he is actually engaged in the practice of accountancy, but also when he offers to render accountancy services, whether or not he in fact does so.

Disclosure of Changes in Inventory of Scrap in the Statement of Profit and Loss

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') is a listed central public sector company and its net worth as on 31.03.2020 was Rs. 29180 crore. The Company is an integrated power plant equipment manufacturer engaged in design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy, viz., power, transmission, industry, transportation, renewable energy, oil & gas and defence.

2. Scrap is predominantly generated from the Company's manufacturing operations. Being in an Engineering Procurement Construction (EPC)/Boiler Turbine Generator (BTG) project environment, some scrap gets generated during fabrication and assembly also. Further, with regard to the nature of the scrap in the extant case, the querist has separately clarified that the majority of the items are ferrous cut-bits emanating during the course of machining, fabrication, assembly etc. The material is not usable and there is no other use of such items except disposal as scrap. It also does not have an active market and can be sold as scrap only. Further, the material is not being deliberately produced and the production process is not modified in order to produce such material.

Exiting practice:

3. The querist has informed that the scrap income is being shown separately under 'Other Operational Income' and it includes scrap sale as well as accretion/ decretion in scrap stock i.e. difference of closing stock and opening stock. The closing stock of scrap is disclosed under 'Note 10: Current Assets (Inventories)' at estimated realisable value.

4. The querist has further informed that the rationale for the existing practice is as follows:

   a. 9.5.3 of the Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013, issued by the Institute of Chartered Accountants of India (ICAI) requires disclosure of difference in opening and closing inventories of finished goods (FG)/ work-in-progress (WIP)/stock-in-trade only in 'changes in inventories of finished goods and work in progress'.

   b. No guidance is available regarding disclosure of change in scrap inventory in the Guidance Note or in the Standard.

   c. In the absence of any specific guideline for disclosing the accretion/decretion of scrap, the same is being consistently shown as part of scrap income.

5. The querist has mentioned that the Comptroller and Auditor General of India (C&AG Audit) has raised an issue on inclusion of change in inventory of scrap as part of scrap income under other operational revenue. In their opinion, such change in inventory should be clubbed with 'change in inventory of WIP/ FG'. The observation of C&AG on this issue is as given below:

   "Statement of Profit and Loss

   Revenue from Operations (Note No.29) - Rs. 21490.01 crore

   Other Operational Income Rs. 995.42 crore

   The above includes income from sale of scrap amounting to Rs. 168.99 crore. During the year 2019-20, actual sale of scrap was only Rs.142.12 crore and remaining Rs.26.87 crore was the change in valuation of opening and closing stock of scrap which was also recognized as income from sale of scrap. Rs. 26.87 crore should have been disclosed under the heading 'Change in Inventories' in the statement of profit and loss.

This resulted in overstatement of Other Operational Income by Rs. 26.87 crore and understatement of Change in inventories by Rs. 26.87 crore."

B. Query

6. The querist has sought the opinion of the Expert Advisory Committee as to whether the change in inventory of scrap can be continued to be shown as part of scrap income being disclosed under 'Other operational income' or whether it has to be disclosed under the item 'Changes in inventories of finished goods and work in progress'.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised by the querist relates to presentation of change in the inventory of scrap in the Statement of Profit and Loss. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, revenue recognition from scrap, valuation of inventory of scrap (initial and subsequent), accounting treatment in respect of any other item, evaluation of 'materiality' in the context of inventory of scrap, using the nomenclature 'other operational income' instead of 'other operating revenue' as per the requirements of Schedule III to the Companies Act, 2013, etc. The Committee wishes to point out that the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time. Further, the opinion expressed hereinafter is purely from accounting perspective and has not examined any legal, taxation or financial management issues.

8. The Committee notes the current accounting treatment and disclosure made by the querist in the financial year (F.Y.) 2019-20 as follows:

"The closing stock of scrap is disclosed under Inventory as 'Scrap Inventory'. 'Income from Scrap', is being shown separately under 'Other Operational Income' and it includes scrap sale as well as increase/decrease in scrap stock i.e. difference of closing stock and opening stock. The closing stock of scrap is disclosed under Inventories at estimated realizable value."

9. At the outset, the Committee examines the nature of scrap in the extant case in the context of accounting requirements. In this context, the Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 2, 'Inventories':

"6 Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services."

"14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main

> product. As a result, the carrying amount of the main product is not materially different from its cost."

From the above, the Committee notes that during a production process, more than one product may be produced simultaneously which, for example, may either be joint products or a main product and a by-product. Although, what can be treated as a joint product or a main product and a by-product has not been explicitly defined in Standard, it states that most by-products are by their nature immaterial. Further, although the Standard does not mention about the scrap or waste products; sometimes the production process also results in scrap or waste products. The Committee is of the view that whether a product/material is to be classified as joint product/co-product or by-product or waste product/scrap depends on facts and circumstances of the case and based on a number of factors like objective of manufacture, whether the material was deliberately produced, certainty of use of the products, readiness for use without further processing, whether the intended use of the material is lawful, etc. In this context, the Committee notes that the scrap material/item produced during the course of manufacturing process in the extant case has no other use; does not have an active market and can be disposed as scrap only. Considering this, the Committee is of the view that the material generated during manufacturing process is not deliberately produced, it is a production residue but cannot be further used or sold in an active market except as scrap. Hence, the Committee believes that the material is in nature of scrap and not a by-product/joint product. However, in the absence of any specific accounting requirements in respect of scrap /waste products in Ind AS 2 or any other Ind AS and considering the requirements of paragraphs 10 and 11 of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the Committee is of the view that although the inventory of scrap is incidentally generated in the production/manufacturing process, since it is produced and sold in the 'normal course of business', these are of the nature of 'inventory' as per Ind AS 2 and the accounting prescribed in respect of by-product under paragraph 14 of Ind AS 2 may be applied. The Committee notes that this view is also supported by the requirements of Accounting Standard (AS) 2, 'Valuation of Inventories', notified under the Companies (Accounting Standards) Rules, 2006. Although, the Committee understands that the requirements of Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2006 may not be applicable in the context of Indian Accounting Standards; however, since AS 2 deals with the accounting for 'scrap' and the definition of 'inventories' under both the Standards are similar, the Committee notes the requirements of AS 2 as follows:

> "10. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products as well as scrap or waste materials, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost."

10. Now, the Committee examines the issue raised by the querist relating to disclosure of change in the inventory of scrap under 'Other operational income' by including it with 'sale

of scrap' or separately under the item 'Changes in inventories of finished goods and work in progress' in the Statement of Profit and Loss. In this context, the Committee notes that Part II, 'Statement of Profit and Loss' under Division II of Schedule III to the Companies Act, 2013 requires the aggregate of the following expenses to be disclosed on the face of the Statement of Profit and Loss:

- Cost of materials consumed
- Purchases of Stock-in-Trade
- Changes in inventories of finished goods, work in progress and Stock-in-Trade
- Employee benefits expense
- Finance costs
- Depreciation and amortization expense
- Other expenses

The Committee further notes the following paragraphs of Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013 (hereinafter referred to as 'the Guidance Note'), issued by the ICAI:

"8.1.13. Inventories

(i) **Inventories shall be classified as:**

(a) Raw materials;

(b) Work-in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) Stores and spares;

(f) Loose tools;

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

…

The heading Finished goods should comprise of all finished goods other than those stock-in-trade acquired for trading purposes."

"9.1. Revenue from operations

…

9.1.1. Note 3 of General Instructions for the Preparation of Statement of Profit and Loss require that revenue from operations is to be separately disclosed in the notes, showing revenue from:

(a) Sale of products (including Excise Duty);

(b) Sale of services; and

(c) Other operating revenues"

"9.1.8. The term "other operating revenue" is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities."

"9.1.10. To take other examples, sale of Property, Plant and Equipment is not an operating activity of a company, and hence, profit on sale of Property, Plant and Equipment should be classified as other income and not other operating revenue. On the other hand, sale of manufacturing scrap arising from operations for a manufacturing company should be treated as other operating revenue since the same arises on account of the company's main operating activity."

"9.5. Expenses

The aggregate of the following expenses are to be disclosed on the face of the Statement of Profit and Loss:

- Cost of materials consumed
- Purchases of Stock-in-Trade
- Changes in inventories of finished goods, work in progress and stock in trade
- Employee benefits expense
- Finance costs
- Depreciation and amortization expense
- Other expenses

9.5.1. Cost of materials consumed

This disclosure is applicable for manufacturing companies. Materials consumed would consist of raw materials, packing materials (where classified by the company as raw materials) and other materials such as purchased intermediates and components which are 'consumed' in the manufacturing activities of the company. Where packing materials are not classified as raw materials the consumption thereof should be disclosed separately. However, intermediates and *components which are internally manufactured are to be excluded from the classification.*

9.5.1.1. For purpose of classification of inventories, internally manufactured components may be disclosed as below:

(i) where such components are sold without further processing they are to be disclosed as 'finished products'.

(ii) where such components are sold only after further processing, the better course is to disclose them as 'work-in-progress' but they may also be disclosed as 'manufactured components subject to further processing' or with such other suitable description as 'semi-finished products' or 'intermediate products'.

(iii) *where such components are sometimes sold without further processing and sometimes after further processing it is better to disclose them as 'manufactured components'.*"

"9.5.3. Changes in inventories of finished goods, work-in-progress and stock-in-trade

This requires disclosure of difference between opening and closing inventories of finished goods, work-in-progress and stock-in-trade. The difference should be disclosed separately for finished goods, work in progress and stock in trade."

(Emphasis supplied by the Committee.)

From the above, the Committee notes that Part II of Schedule III to the Companies Act, 2013 does not specifically mention about the disclosure of inventory of scrap in the Statement of Profit and Loss.

The Committee also notes that the Guidance Note requires only sale of manufacturing scrap to be disclosed as 'other operating revenue' under the head 'Revenue from operations' and does not specifically mention about the disclosure of 'change in the inventory of scrap' under this classification or any other classification. However, drawing analogy from other items under 'Revenue from operations', viz., sale of goods and sale of services, the Committee is of the view that only sale of scrap should be disclosed under 'other operating revenue' and not the changes in inventory of scrap.

11. Further, the Committee notes from the requirements of Guidance Note in the context of disclosure of 'Expenses' in the Statement of Profit and Loss, as reproduced above, that internally manufactured components that are sometimes sold without further processing and sometimes after further processing may be disclosed as 'manufactured components' for the purpose of classification of inventories (although there is no such classification prescribed under Schedule III). Drawing an analogy from this and since in the extant case, the inventory of scrap can be accounted for as by-product inventory under Ind AS 2 (as discussed in paragraph 9 above), the

Committee is of the view that 'change in the inventory of scrap' should also be disclosed separately under the classification, 'Changes in inventories of finished goods, work in progress and stock in trade'. In this context, the Committee also notes that the 'General Instructions for Preparation of Financial statements of a Company required to comply with Ind AS' in Division II of Schedule III to the Companies Act, 2013 provides as follows:

> "3. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Indian Accounting Standards. Additional disclosures specified in the Indian Accounting Standards shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in this Schedule."

Further, paragraph 85 of Ind AS 1, 'Presentation of Financial Statements' states that additional line items, headings and subtotals in the statement of profit and loss shall be presented, when such presentation is relevant to an understanding of the entity's financial performance.

Thus, the Committee is of the view that Schedule III permits the use of additional line items, heads etc. in the presentation of Statement of Profit and Loss, if these are relevant to an understanding of the entity's financial performance. Accordingly, in the extant case, separate disclosure of 'change in the inventory of scrap' under the classification, 'Changes in inventories of finished goods, work in progress and stock in trade' is permissible under the requirements of Schedule III to the Companies Act, 2013.

D. Opinion

12. On the basis of the above, the Committee is of the opinion that 'change in the inventory of scrap' in the extant case should also be disclosed separately under the classification, 'Changes in inventories of finished goods, work in progress and stock in trade', and not under 'other operational revenue/income' in the Statement of Profit and Loss, as discussed in paragraphs 10 and 11 above.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on November 10, 2020. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty nine volumes. This is available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4.	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.

Where there is righteousness in the heart, there is beauty in the character. When there is beauty in the character, there is harmony in the home. When there is harmony in the home, there is order in the nation. When there is order in the nation, there is peace in the world.

– Dr. A. P. J. Abdul Kalam, Former President of India

ICAI

Guiding Light... Leading Right

Reaching Pinnacle in Independence, Integrity and Excellence

The Institute of Chartered Accountants of India, a statutory body regulating the accounting profession in India, has a long and chequered history as the second largest Institute in the world. The Institute has delivered to the world high class CA professionals apart from setting benchmarks in the quality of financial reporting in India and abroad. ICAI not only performs its statutory duties as a regulator of the profession of Chartered Accountancy in India by formulating Accounting Standards in keeping pace with changing economic-scenario but also has enforced the ethical values as enshrined in Code of Ethics to progress as envisaged in the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988.

The Institute of Chartered Accountants of India

Financial Reporting Review Board

Review the general purpose financial statements of the enterprises and the auditor's report thereon suo motto or on a reference made with a view to determine, to the extent possible, compliances on generally accepted accounting principles, disclosure requirements and reporting obligations of the auditor.

Peer Review Board

Enhancing quality of professional work, transparency in technical standards used, world class procedures and techniques resulting into more reliable and useful audit and reports through a system of Peer Review

Disciplinary Mechanism

Proactively act on matters of professional and or other misconduct and take action through well-defined disciplinary mechanism.

Quality Review Board

Initiate reviews of quality of audit services provided by members of the Institute in respect of private limited companies, unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and other entities not specified under the Rule; and those referred by NFRA

Monitoring the Tendering issues

Examine Cost Sheets which are to be maintained by members of the Institute while responding to tenders, monitor and analyse these sheet vis-à-vis the bids quoted by CAs in all the permissible tenders and refer the deviations at appropriate levels and call for peer review of the said assignments in cases of abnormal difference.

Taxation Audits Quality Review Board

Carry out reviews to improve the reporting of compliance under various taxation laws (both Direct as well as Indirect) and help the members to exercise greater diligence while certifying various reports prescribed under the taxation laws.

Unique Document Identification Number

Curb the malpractices by third persons misrepresenting themselves as Chartered Accountants and misleading the Authorities and other stakeholders.

and much more…..

Improve Financial Communications with better Reporting Practices

Management of business organisations is a complex activity affected by interaction of myriad internal and external forces. Quality financial reporting practices is one such factor that has significant positive relationship with better growth of business. Improved financial reporting is quintessential part of broader competence of management in financial matters of business organisations which, in conjunction with other functional capabilities, is likely to lead to more effective and efficient management of companies and considerably improve their prospects. Quality financial reporting brings credibility to the business in the eyes of stakeholders and lead it to grow. Financial Reporting Review Board (FRRB) of Institute of Chartered Accountants of India takes a number of initiatives to create an ecosystem for improvement in financial reporting practices in the Country and improve the quality of audit by the Chartered Accountants and thus work in overall accomplishment of public interest. Read on…

Financial Statements are important objective source of information in hands of the stakeholders to understand the financial well-being and future prospects of an organisation. The users of financial information heavily rely on the information provided in the financial statements and therefore the preparers of financial statements need to ensure that the details presented in the financial statement are correct, complete, relevant and have been created in accordance of the regulatory requirements. FRRB, constituted in July 2002, is an important wing of ICAI that works to bring improvements in financial reporting practices and thereby promote investors' confidence in audited financial statements. FRRB works independently for the overall improvement in

Contributed by Secretariat, Financial Reporting Review Board of ICAI. They can be reached at frrb@icai.in and eboard@icai.in.

financial reporting practices. It comprises of members of the Central Council of the ICAI including Government of India nominee with representations from the office of the Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Insurance Regulatory and Development Authority (IRDA), Central Board of Direct Taxes (CBDT) from time to time. The Council always endeavors to provide independence to the Board and keep it separate from the disciplinary mechanism of the Institute. FRRB neither has co-opted members or ex-officio members including the President and Vice-president of the ICAI nor has any member of Disciplinary Committee on the Board. The members with significant expertise in the field work under confidentiality covenants.

Supporting Regulators

As a part of achieving public interest and overall ICAI ethos of being partner in nation building, FRRB supports government and other regulatory bodies. In case FRRB finds any material or significant non-compliance affecting true and fair view of the financial statements (selected as suo motto or as special case), it refers the case to concerned regulators, i.e., MCA, RBI, IRDA, CAG, Director (Discipline) ICAI. Thus, it is acting as an agency for all concerned regulators, that endeavors to improve transparency in financial reporting. ICAI's alliance with regulators like MCA, ECI, C&AG, IRDA would continue to be instrumental in improving the financial reporting practices in India. Considering it as an effective mechanism, various regulators (viz,. MCA, SEBI, C&AG, ECI) refer cases relating to review of financial statements.

Holistic review of the financial statements

After functioning for more than 18 years, the FRRB has become an established mechanism for monitoring compliance by reporting enterprises. ICAI FRRB conducts holistic review of the financial statements with a view to determine compliance with:

- Accounting standards (IGAAP/ Ind AS)
- Standards on Auditing
- Guidance Notes on Schedule II and III to the Companies Act, 2013
- Various Guidance Notes on Accounting and Auditing
- Industry Specific Guidance Notes viz Rate Regulated Industry, Coal Industry, Telecom etc.
- Expert Advisory Opinion
- ITFG Bulletins (clarification on issues related to implementation of Ind AS)
- Master Circulars issued by RBI from time to time
- Implementation Guide/ Educational Material on Ind AS and Standards on Auditing

Cases Reviewed by the Board

FRRB is playing a paramount role in improving the financial reporting practices prevailing in India. It is functioning quiet effectively and independently to the entire satisfaction of the stakeholders' especially regulatory bodies. Till date, FRRB has reviewed:

- **956 Financial Statements** of various enterprises selected on suo moto basis (76 %) or as special cases (24%).
- Out of these, the Board referred 17% **cases to Director (Discipline)** for further action, of which 96% cases were sent to concerned Regulators such as MCA, SEBI.
- In 63% cases, advisories have been issued to the auditor of the enterprise to exercise greater care in future while discharging professional duties.

The Board restricts its reviews to the published financial statements only and do not carry out re-audit or review how audit has been conducted by auditors concerned. The Board doesn't carry out a detailed scrutiny. Further, the review conducted by the Board is neither a judicial proceeding nor the quasi-judicial proceeding. It is just a review- not under any statute.

Improving Financial Reporting Practices

It is envisaged that the activities carried out are not only helping in regulating the profession but are also aimed at achieving better quality financial reporting practices:

- **By Referring the cases to Regulators:** FRRB has been playing vital role in strengthening of best accounting and auditing practices amongst the members and other stakeholders. The Board reviews financial statements from compliance perspective, and wherever required, refers its finding not only to Director (Discipline) of ICAI but also to other regulators viz MCA, RBI, C&AG, IRDA and other regulators for taking appropriate action.

- **By Sending advisories to auditors:** The Board also sends advisories to the members of the Institute on non-compliances observed by it in the financial statement audited by the member, in the cases where non-compliances are not material and does not affect true and fair view of the financial statements. These advisories have been of great help to the member in performing quality services in their subsequent engagements. To make regulatory mechanism of the Institute more effective, the Board share relevant details with Peer Review Board of ICAI so that it may accordingly be considered during the peer review.
- **Enriching Knowledge:** To enhance the knowledge of members with the changes made in financial reporting framework as well as to apprise them about the common non-compliances observed by the Board, FRRB organises webcasts, awareness programmes, publicise articles in journal and update 'Did You Know' series on social media on commonly found non-compliances observed in the financial statements on regular basis. The board also releases publications to enhance the knowledge of preparers and auditors of the financial statements. The Board compiles the non-compliances observed by it during the course of the review and releases them in the form of publications for the benefit of members and other stakeholders.

Endnote

The Institute has been doing tremendous work towards strengthening the best financial reporting practices and continue its journey in pursuit of excellence, independence and integrity. To make review process robust, FRRB is gearing up to imbibe technology in a big way by way of utilising Artificial Intelligence to systematically identify the non-compliances in financial statements. The system will have capability of Artificial Intelligence/ Analytics so that common non-compliance can be flagged using system AI on the basis of XBRL financial statements of the enterprise.

■■■

Symbiotic Existence of Internal and External Audit

Businesses are accountable to a range of stakeholders with size and diversity of organizations causing a myriad of potential accountability challenges. The value that audit function adds to the organizations often emanates from interdependence between internal and external audit and how far they complement each other. While the primary purpose of internal audit is different from external audit there are common benefits leading to the need of coordination between them. Since its inception in the year 1949, ICAI has been playing a key role in establishing the best auditing practices in the country to ensure a strong foundation for better functioning and providing authentic financial information in the best interest of organisations and their stakeholders. Read on…

Quality internal audit done with competence and objectivity is likely to contribute to an effective external audit. Any doubts over the objectivity and competence of internal auditors may reduce the quality of the external audit if external auditor rely on their work. The internal audit function is one of the fundamental "checks and balances" for sound corporate governance. Shareholders, boards of directors, audit committees, executive management, and regulators expect internal auditing to align their role as the "eyes and ears" of the organization with the ever-evolving environment in which it operates.

Internal Audit

The, effective internal auditing activities need to constantly assess their environment to ensure their efforts are aligned with what's going on in the world around them. Without this continuous process, the internal audit function might become out of touch with the needs of the organization it serves. Internal audit functions today vary from a narrow concern with compliance or financial accounts to a broader remit reviewing efficiency and effectiveness or acting as an internal consultant. Considering the important role of internal audit function, there is a need to ensure that internal audit function is organized, resourced and empowered so that it can provide competent, impartial and fearless advice.

The internal auditors have helped the Indian corporate to reap the benefits of their technical expertise in terms of installing many cost controlling measures, plugging

Contributed by Secretariats of Auditing & Assurance Standards Board and Internal Audit Standards Board of ICAI. They can be reached at aasb@icai.in and cia@icai.in.

> Internal auditors have helped the Indian corporate to reap the benefits of their technical expertise in terms of installing many cost controlling measures, plugging revenue leakages, designing and establishing effective controls over operations of the entity, etc, thereby enhancing efficiency and effectiveness in management decision making and the operations of the entity.

revenue leakages, designing and establishing effective controls over operations of the entity, etc, thereby enhancing efficiency and effectiveness in management decision making and the operations of the entity. In a more contemporary period, internal auditors are helping to reduce uncertainty and enhance focus and timeliness in management decision making by concentrating on risks facing the entity. In their endeavour they are also roping in latest technology. Keeping pace with contemporary issues in internal audit and the expectations of the users of the services is also essential for internal auditors to continue enjoying the position of trust and confidence in the corporate world. Every challenge, however, is an opportunity. For internal auditors as a profession, the current environment is an opportunity to cement their presence in corporate India.

Standards on Internal Audit (SIAs)

The Institute of Chartered Accountants of India as a regulator of the profession of Chartered Accountancy plays an important role in creating an institutional framework for its members in the area of internal audit. Standards on Internal Audit (SIAs) as issued by the Institute of Chartered Accountants of India represent a codification of the best practices for internal auditors. These Standards play a vital role in strengthening and building up the performance benchmarks in internal audit. They provide a framework for internal audit activities, establish the basis for evaluation of internal audit performance, and foster improved organizational processes and operations. The Standards constitute an important tool in helping the internal auditors provide effective and efficient internal audit services to the clients and/ or employers.

Standards on Internal Audit

- Preface to the Framework and Standards on Internal Audit
- Framework Governing Internal Audits
- Basic Principles of Internal Audit
- 100 Series: Standards on Key Concepts

  - SIA 110, Nature of Assurance

  - SIA 120, Internal Controls

- 200 Series: Standards on Internal Audit Management

  - SIA 210, Managing the Internal Audit Function

  - SIA 220, Conducting Overall Internal Audit Planning

  - SIA 230, Objectives of Internal Audit

  - SIA 240, Using the Work of an Expert

- 300–400 Series: Standards on the Conduct of Audit Assignments

  - SIA 310, Planning the Internal Audit Assignment

  - SIA 320, Internal Audit Evidence

  - SIA 330, Internal Audit Documentation

  - SIA 350, Review and Supervision of Audit Assignments

  - SIA 360, Communication with Management

  - SIA 370, Reporting Results

  - SIA 390, Monitoring and Reporting of Prior Audit Issues

- Standards issued up to July 1, 2013

  - SIA 5, Sampling

  - SIA 6, Analytical Procedures

- SIA 7, Quality Assurance in Internal Audit
- SIA 11, Consideration of Fraud in an Internal Audit
- SIA 13, Enterprise Risk Management
- SIA 14, Internal Audit in an Information Technology Environment
- SIA 17, Consideration of Laws and Regulations in an Internal Audit
- SIA 18, Related Parties.

The Institute has initiated the process of revising Standards on Internal Audit (SIAs) and making them principle-based. These principle-based Standards will help the members in providing a framework for internal audit activities, establishing the basis for evaluation of internal audit performance and fostering improved organizational processes and operations.

ICAI had revised Definition of "Internal Audit", including an explanation which provides additional clarity on the key terms used in the revised definition. The Institute has also revised Preface to the Framework and Standards on Internal Audit, Framework Governing Internal Audit and Basic Principles of Internal Audit in March, 2018. In addition, the Institute has issued thirteen more new/ revised Standards on Internal Audit i.e. Managing Internal Audit Function, Conducting Overall Internal Audit Planning, Planning an Internal Audit Assignment, Internal Audit Evidence, Internal Audit Documentation, Nature of Assurance, Objectives of Internal Audit, Using the Work of an Expert, Communication with Management, Reporting Results. More six Standards on Internal Audit are in pipeline.

The Institute is also striving to mandate Standards on Internal Audit (SIAs) which will provide much needed support to members in establishing the credibility of their work, hence distinguishing them from the rest.

External Audit

The external audit maintains the sanctity of financial information produced by various entities and, thus, reduce the possibility of misleading information that can disrupt the stability of financial systems. With a view to ensure that auditors perform their duties in effective and efficient manner, ICAI has been providing necessary guidance to auditors by issuing various pronouncements on auditing e.g. auditing standards, statements on auditing, guidance notes on auditing, announcements, clarifications. Various pronouncements on auditing issued by ICAI over the years have evolved in response to the changing economic environment and changes in the legal & regulatory framework in the country to ensure more effective and efficient audit.

Standards on Auditing

Auditing Standards in India are formulated by the Auditing and Assurance Standards Board (AASB) of ICAI and issued under the authority of the Council of ICAI[1]. Auditing standards issued by ICAI were known as Statements on Standard Auditing Practices (SAPs) till 2002. In 2002, SAPs were renamed as "Auditing and Assurance Standards" (AASs). In July 2007, AASB issued "Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" which is effective from April 1, 2008. Pursuant to issuance of Revised Preface, the nomenclature "AASs" has been changed to 'Engagement and Quality Control Standards'.

Engagement and Quality Control Standards comprise (1) Engagement Standards (2) Standards on Quality Control.

Engagement Standards

These standards comprise following categories of Standards:

- Standards on Auditing (SAs)
- Standards on Review Engagements (SREs)
- Standards on Assurance Engagements (SAEs)
- Standards on Related Services (SRSs)

Standards on Quality Control (SQCs)

These standards are to be applied for all services covered by Engagement Standards.

[1] *Issued by the Ministry of Corporate Affairs in case of companies.*

A brief overview of Engagement Standards is given below in the Table.

S.N.	Category of Standard	Standards issued till date	Nature of Services covered by Standard	Nature of Assurance Given by Standard
1	SAs	38	Audit of historical financial information	Reasonable Assurance
2	SREs	02	Review of historical financial information	Limited Assurance
3	SAEs	03	Assurance engagements, other than audits and reviews of historical financial information	Reasonable Assurance
4	SRSs	02	• Engagements involving application of agreed-upon procedures to information. • Compilation engagements. • Other related services engagements, as may be specified by ICAI.	Nil Assurance

Standards at Par with Globally Accepted Standards issued by the IAASB

SAs used in India are at par with the globally recognized and accepted International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). ISAs represent the global best practices in auditing and are used by more than 125 jurisdictions worldwide. In 2007, AASB started its Clarity Project of revising entire suite of SAs in line with the corresponding ISAs issued by the IAASB under its Clarity Project. The Clarity Project of AASB was completed in 2010. During the Clarity Project, AASB issued 35 new/revised SAs and completed convergence with all ISAs issued by the IAASB except one ISA i.e. "ISA 600, Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)". The Council of ICAI while considering ISA 600 had observed that some of its principles are not consistent with the Chartered Accountants Act, 1949 and the auditing practices prevalent in India e.g. requirement for group auditor to make assessment of professional competence of component auditors; permitting access to audit working papers of component auditors. Accordingly, the Council of ICAI had decided not to adopt ISA 600 in India.

After completion of the Clarify Project in 2010, AASB has been keeping a close watch on the developments taking place at IAASB level and issuing various SAs corresponding to the ISAs issued by IAASB. Post Clarity Project, AASB has issued several SAs i.e. SA 610(Revised), SA 260(Revised), SA 570(Revised), SA 700(Revised), SA 701, SA 705(Revised), SA 706(Revised), SA 720(Revised). AASB has also revised SA 800 series i.e. SA 800, SA 805 and SA 810 which are currently under consideration of the Ministry of Corporate Affairs. AASB has also started the process of formulating SAs corresponding to revised ISAs issued by IAASB in last 2-3 years i.e. ISA 540(Revised), ISA 315(Revised 2019), ISA 220(Revised). It is pertinent to note that the SAs, which are currently under revision, aim at ensuring enhanced level of use of professional skepticism by auditors in their engagements

In India, the practice of appointing joint auditors to conduct audit of large entities has been in vogue for a long time. Considering this practice, ICAI long back in 1996 issued auditing standard on this aspect i.e. SA 299, "Responsibility of Joint Auditors". It is pertinent to note that this is an additional auditing standard issued by ICAI and there is no corresponding standard issued by the IAASB on this aspect. SA 299 has been replaced by SA 299(Revised), "Joint Audit of Financial Statements" which was issued in March 2018.

Compliance with the Standards on Auditing

As per the Clarification regarding authority attached to documents issued by the Institute, while discharging their attest function, it is the duty of the members of the Institute to ensure that the Standards on Auditing (SAs) are followed in the audit of financial information covered by their audit reports. If, for any reason a member has not been able to perform an audit in accordance with SAs, his report should draw attention to the material departures therefrom. Further, Section 143(9) of the Companies Act 2013 has made it mandatory for auditors of companies to comply with the auditing standards.

The SAs represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with SAs and fails to disclose the material departures therefrom, becomes liable to the disciplinary proceedings of the Institute under clause (9) of Part I of the Second Schedule to the Chartered Accountants Act 1949, which specifies that a member of the Institute shall be guilty of professional misconduct if he "fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances".

SAs serve the public interest by ensuring that the financial information produced by various entities and audited by auditors are reliable and comparable which is essential for having confidence of various stakeholders in the auditing profession. SAs have stringent requirements for performing audits as well as ensuring audit quality. SAs are the performance benchmarks for auditors against which their performance can be evaluated. SAs ensure consistency in audit engagements performed by auditors. SAs are important in bridging the expectation gap between the society and the auditors. SAs help in uncovering frauds which cause material misstatement of the financial statements. SAs ensure application of accepted financial reporting standards by entities thereby lending credibility to the financial statements. SAs ensure compliance by entities with the applicable legal and regulatory framework having impact on financial statements. SAs cover various aspects of audit engagement starting from agreeing the terms of audit engagement with the management to the issuance of auditor's report. SAs clearly describe auditor's responsibilities vis-a-vis management's responsibilities for audit of financial statements. SAs require proper audit documentation by auditors to provide evidence that audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements, thus helping auditors in case of any charge of negligence against them which may arise in future.

SAs have played important role in serving the public interest in the country over the last few decades. SAs have evolved over the years to respond to various changes taking place e.g. evolving business environment, changes in financial reporting standards, advancement in technology in field of auditing, changes in legal & regulatory framework so as to ensure that they remain fit for their purpose.

"SAs serve the public interest by ensuring that the financial information produced by various entities and audited by auditors are reliable and comparable which is essential for having confidence of various stakeholders in the auditing profession. SAs have stringent requirements for performing audits as well as ensuring audit quality.

Endnote

Continuous improvements and additions to the existing body of knowledge of professional is the need of the hour to meet the growing expectations of not only the clients, but also the Government, the Regulators, the Stakeholders and above all, the public at large. We firmly believe that a strong knowledge base backed by skill sets of contemporary relevance would provide better visibility and utility of the chartered accountants to the various stakeholders such as the entity's management as well as the regulators. ■■■

ARTICLE PLACEMENT & INDUSTRIAL TRAINING PORTAL

The Institute of Chartered Accountants of India

It is a one stop destination for the Students, Firms & Companies intend to engage them as Articled Assistants/ Industrial Trainees.

HIGHLIGHTS OF INDUSTRIAL TRAINING PORTAL

1. User friendly interface for students and companies both
2. Auto Populated data of students & members
3. Regular updation of records & integrated with the SSP Portal
4. Reminder mails to all students six months prior to their eligibility

ELIGIBILITY FOR MEMBERS

Industrial Training shall be received under a member of the Institute.

An Associate who has been a member for a continuous period of at least three years is entitled to train one & Fellow member can train two industrial trainee.

ELIGIBILITY FOR STUDENTS

Intermediate passed articled assistant can serve as an Industrial trainee in any of the financial, commercial, industrial in the last year for a period of min 9 months to max 12 months.

Board of Studies-Operations (SSEB)

app@icai.in https://app.icai.org/ Tollfree: 18001211330

Moving in Unison with the Government in Public Financial Management

The three-tier governance system in India comprises of Central, State and Local-Self Government. The public expenditure done by the Government in India is huge. Therefore, various initiatives have been and are being taken in India to strengthen and encourage timely financial reporting, public financial management and auditing system in Government so as to ensure greater accountability and enhanced transparency. For any part of the government using tax-payers' money, availability of accounts (including audited accounts) in the public domain on a timely basis is a primary requirement for good governance. Read on …

Availability of accounts in public domain is important as a part of good governance for government. The lack of timely accounts, including audited accounts, on a timely basis has been identified as one of the major problems with the accounts of local governments in India. XV Finance Commission (report for the year 2020-21) recommended forming an expert group to draft legislation to provide for a statutory framework for sound public financial management system consistent with international best practices. It observed requirement of an overarching legal fiscal framework to provide for budgeting, accounting, and audit standards to be followed at all levels of Government. It also recommended for the integration of the Panchayati Raj Institutions Accounting Software (PRIASoft) and National Municipal Accounts Manual (NMAM) systems with the State-level Integrated Financial Management Information System (IFMIS) and subsequently with Public Financial Management System (PFMS) to achieve complete integration of accounts of all the three levels of Governments for better control and targeted utilisation of resources for the desired purposes.

Consolidating the same, in its report for 2021-26, XV FC amongst others, mandated the availability of annual

Contributed by Secretariat, Committee on Public & Government Financial Management of ICAI . They can be reached at cpf_ga@icai.in and eboard@icai.in.

> ICAI is assisting Central & State Government(s) and Local Bodies in India in successful implementation of the accounting reforms and public financial management.

accounts for the previous year and audited accounts for the year preceding previous year in the public domain online as an entry level condition for qualifying for any grant for Local-Self Government (both Urban Local Bodies and Rural Local Bodies). It also appreciated practice of involving external agents like chartered accountants for audit and certification of accounts, by States like Chhattisgarh, Madhya Pradesh, Rajasthan and Sikkim and more efforts in this direction are required across all State Governments.

Role of ICAI in Public and Government Financial Management

The Institute of Chartered Accountants of India (ICAI) is an apex body in the field of accountancy and auditing in the country. ICAI, a partner in nation building, also plays an important role in improving Financial Reporting and empowering Public Financial Management system in Government in India. ICAI is assisting Central & State Government(s) and Local Bodies in India in successful implementation of the accounting reforms and public financial management. ICAI is engaged in constant dialogue with the Ministry of Housing & Urban Affairs, Ministry of Panchayati Raj, O/o Controller General of Accounts and O/o Comptroller & Auditor General of India apart from several State Governments to give **organisational support to the accounting reforms in Public Financial Management** in India.

Capacity Building Exercise

ICAI through the Committee on Public & Government Financial Management[1] (CP&GFM) is also involved in **capacity building of the accounts and finance officials** of various tiers of Government in India by several means such as organizing workshops (virtual or classroom), seminars, conferences, developing relevant e-learning modules which have been made available at ICAI website at http://icaitv.com/category/local-bodies.

Time and again, ICAI has emphasised **need of separate accounts and finance cadre officials/ staff in Local Bodies.** To test the waters, accounts, finance and audit being specialized functions, the State Governments may consider outsourcing it to the Chartered Accountants within the existing rules/regulations or may amend the relevant statutes suitably. Such a timely measure will enable the States to earn the grant fully and timely.

To enable its members to understand Public Finance and Government Accounting of all three tiers, ICAI through the CP&GFM is conducting Certificate Course[2] (virtual or classroom)/online self-paced course[3] on Public Finance and Government Accounting. So far, the Committee has trained around thousand members on this subject covering twelve modules, viz., Public Finance, Public Revenue & Taxation, Public Debt, Public Expenditure, Government Accounting, Accounting Rules, Process, in general & at specific Ministries, Union Accounts, State Accounts, Accounting/ Auditing of Constitutional, Statutory, Autonomous and Regulatory Bodies, Accounting in Local Bodies (Both Urban and Rural), Internal Control and Risk Management and Professional Opportunities for Chartered Accountants in Public Finance and Government Accounting. ICAI has also released several publications covering key aspects of Public Financial Management[4].

Submission of inputs/ suggestions to Government

The Government Accounting Standards Advisory Board

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[1] *Link of CP&GFM page: http://icai.org/post/committee-on-public-and-government-financial-management*

[2] *Refer https://www.icai.org/new_post.html?post_id=16586 for more information regarding Certificate Course*

[3] *Refer https://learning.icai.org/committee/goverment-accounting/public-finance-and-government-accounting-self/ for detailed information regarding self-paced Course*

[4] *These publications are available at https://www.icai.org/post/icai-publications-cpgfm*

(GASAB), where ICAI President is a member, formulates Accounting Standards for the Central and State Government(s) in India. ICAI participates in the formulation of Standards for Government by actively contributing in its group/board meetings and submitting its inputs/ suggestions on their documents.

Implementation of Accounting Reforms

ICAI through its research arm, ICAI Accounting Research Foundation (ICAI ARF)[5], also conducts pilot studies/ facilitate the Government in accounting reforms. In the past, ICAI ARF has assisted various Government departments (Department of Posts, Indian Railways, etc.) and Municipal Corporations in their conversion project, studies on financial management, etc.

Formulation of Accounting Standards for Local Bodies (ASLBs)

For international benchmarking, the accounts of Local Bodies need to be prepared as per principle-based standards instead of rule-based NMAM. For the purpose, ICAI through the CP&GFM is formulating Accounting Standards for Local Bodies (ASLBs). ICAI considers the International Public Sector Accounting Standards (IPSASs) issued by the IPSAS Board of International Federation of Accountants (IFAC) while formulating ASLBs, departures from the IPSASs are made to make them suitable to the Indian Local Bodies. These ASLBs are submitted to the Technical Committee on Budget and Accounting Standards for Local Bodies constituted by the Ministry of Housing and Urban Affairs (MoHUA) and the Ministry of Panchayati Raj (MoPR) from Urban and Rural Bodies respectively, for consideration and recommending them to the State Governments for implementation. ASLBs are recommendatory in nature and will become mandatory for Local Bodies from the date specified in this regard by the State Government concerned. Till date, following 27 ASLBs[6] have been issued including one cash based ASLB to facilitate transitioning from cash to accrual basis of accounting:

> "ICAI participates in the formulation of Standards for Government by actively contributing in its group/ board meetings and submitting its inputs/ suggestions on their documents.

- ***Preface to the Accounting Standards for Local Bodies:*** sets out the objectives and operating procedures of the Committee and explains the scope and authority of the ASLBs.

> "For international benchmarking, the accounts of Local Bodies need to be prepared as per principle-based standards instead of rule-based.

- ***The Conceptual Framework for General Purpose Financial Reporting by Local Bodies:*** establishes the concepts that are to be applied in developing ASLBs that are applicable to the preparation and presentation of general purpose financial reports of local bodies.
- **Cash basis ASLB on '*Financial Reporting under Cash Basis of Accounting*':** prescribes the manner in which general purpose financial statements should be presented under the cash basis of accounting. This Standard also contains various disclosure requirements relating to the assets and liabilities, therefore, this ASLB can serve as an interim measure to facilitate transition from cash to accrual basis of accounting for Local Bodies.
- **ASLB 1, '*Presentation of Financial Statements*':** prescribes the manner in which general purpose

[5] *Link of ICAI ARF website: https://icaiarf.org.in/*
[6] *ASLBs issued by ICAI are available at https://www.icai.org/post.html?post_id=1527*

financial statements of local bodies should be presented.

- **ASLB 2, *'Cash Flow Statements':*** covers all aspects of preparation and presentation of Cash Flow Statement.
- **ASLB 3, *'Accounting Policies, Changes in Accounting Estimates and Errors':*** prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors.
- **ASLB 4, *'The Effects of Changes in Foreign Exchange Rates':*** deals with accounting of foreign currency transactions and foreign operations.
- **ASLB 5, *'Borrowing Costs':*** prescribes the accounting treatment of borrowing costs.
- **ASLB 9, *'Revenue from Exchange Transactions':*** lays down accounting treatment of revenue arising from exchange transactions and events in addition to specifying revenue recognition norms.
- **ASLB 11, *'Construction Contracts':*** prescribes the accounting treatment of costs and revenue associated with construction contracts and specifies the basis for recognition and disclosure of contract expenses and contract revenues.
- **ASLB 12, *'Inventories':*** prescribes the accounting treatment for inventories. It also provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to Net Realisable Value, the cost formulas that are used to assign costs to inventories.
- **ASLB 13, *'Leases':*** prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.
- **ASLB 14, *'Events After the Reporting Date':*** prescribes when an entity should adjust or not adjust its financial statements for events after the reporting date and the disclosures with regard to the date when the financial statements are authorised for issue and non-adjusting events after the reporting date.
- **ASLB 16, *'Investment Property':*** prescribes the accounting treatment for investment property and related disclosure requirements.
- **ASLB 17, *'Property, Plant and Equipment':*** prescribes the accounting treatment for property, plant and equipment including recognition of the assets, determination of their carrying amounts, depreciation charges and impairment losses to be recognised in relation to them.
- **ASLB 18, *'Segment Reporting':*** establishes principles for reporting financial information by segments.
- **ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets':*** deals with the accounting principles in respect of provisions, contingent liabilities and contingent assets. It also deals with the identification of the circumstances in which provisions should be recognised, how the same should be measured and disclosed.
- **ASLB 20, *'Related Party Disclosures':*** requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances.
- **ASLB 21, *'Impairment of Non-Cash-Generating Assets':*** prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognised. It also specifies when an entity would reverse an impairment loss, and prescribes disclosures.
- **ASLB 23, *'Revenue from Non-Exchange Transactions (Taxes and Transfers)':*** prescribes requirements for the financial reporting of revenue arising from non-

exchange transactions. It deals with the issues to be considered in recognising and measuring revenue from non-exchange transactions including the identification of contributions from owners.

- **ASLB 24, *'Presentation of Budget Information in Financial Statements':*** requires a comparison of budget amounts and the actual amounts to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget (s). It also requires disclosure of reasons for material differences between the budget and actual amounts.
- **ASLB 26, *'Impairment of Cash-Generating Assets':*** prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognised. It also specifies when an entity should reverse an impairment loss, and prescribes disclosures.
- **ASLB 31, *'Intangible Assets':*** prescribes the accounting treatment for intangible assets including how to measure their carrying amount and specified disclosures.
- **ASLB 32, *'Service Concession Arrangements: Grantor':*** prescribes the accounting for service concession arrangements by the grantor (a Local Body).
- **ASLB 33, *'First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies':*** provides guidance to a first-time adopter that prepares and presents financial statements adopting the accrual basis ASLBs.
- **ASLB 34, *'Separate Financial Statements':*** prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.
- **ASLB 36, *'Investments in Associates and Joint Ventures':*** prescribes the accounting for investments in associates and joint ventures.
- **ASLB 39, *'Employee Benefits':*** prescribes the accounting and disclosure for employee benefits.
- **ASLB 42, *'Social Benefits':*** defines social benefits, and determine when expenses and liabilities for social benefits are recognised and how they are measured.

Mandating Accounting Standards for Local Bodies (ASLBs) for Members of ICAI[7]

- The Council of the ICAI at its 393rd meeting held in June/July, 2020 mandated the ASLB 2, *'Cash Flow Statements'* and ASLB 5, *'Borrowing Costs'* for Members of ICAI while auditing the Financial Statements of ULBs for the period commencing on or after April 1, 2022 (till that date these will be recommendatory). As these Standards are conceptually similar to the NMAM, some additional guidance and disclosures have been provided in ASLBs 2 and 5 to apply the accounting principles.
- In the event of non-compliance of ASLBs 2 and 5 in the preparation of Financial Statements of ULBs, the members of the ICAI, while conducting audit of such Financial Statements, have to mandatorily qualify their audit report in respect of the general purpose financial statements of ULBs prepared for the periods commencing on or after 1.4.2022.

Endnote

Good governance in public matters with accounts that are as per the standards endorse transparency, foster capacity in public administration. Involvement of ICAI and Chartered Accountants will enable the Government to strengthen their financial reporting, auditing and financial management system that will ultimately support them in better service delivery to citizens and their developmental initiatives and in turn strengthen democracy. ■■■

[7] *Announcement of Council of ICAI https://resource.cdn.icai.org/60819cpfgm49453.pdf*

Strengthening Tax Audit – Enhancing Reporting Quality

Tax Audit under section 44AB of the Income tax Act, 1961 is one of the core areas of practice for Chartered Accountants. Considering the expertise and domain knowledge of Chartered Accountants, the onerous responsibility of Tax Audit was casted on Chartered Accountants through the Finance Act, 1984 to support the tax department in correct assessment of income. The dynamic nature of taxation laws, time and again, led to changes in the reporting requirements of tax audit report. The reporting has been effectively used by the Income-tax Department to make correct assessment of income of an assessee.

ICAI has from time to time provided guidance on tax audit matters to its members through Guidance Notes and Technical guides through its Direct Taxes Committee. Apart from providing guidance, ICAI also has a regulatory role to play. Continuing with its commitment to serve the nation and in order to improve the reporting of compliances under various taxation laws (both Direct as well as Indirect), the Council of the Institute constituted the Taxation Audits Quality Review Board (TAQRB) in the year 2018. It was envisaged that the reviews carried out by the Board will help the members to exercise greater diligence while certifying various reports prescribed under the taxation laws and in long run would improve the overall reporting and certification done by them. There is a three tier review conducted by the Board. During this process of review of tax audit reports, the Taxation Audits Quality Review Board of ICAI has come across certain commonly found irregularities/non-compliances.

Some of them, which need specific attention of members, have been mentioned in this article. While some important have been detailed, others have been just listed down for reference purposes. It is important for our members to take a note of these non-compliances or commonly found irregularities so as to ensure qualitative reporting.

Contributed by Secretariat, Taxation Audits Quality Review Board (TAQRB) of ICAI. They can be reached at taqrb@icai.in and eboard@icai.in.

I. FORM NO. 3CA / FORM NO. 3CB

1. Form to be filed

As per Rule 6G of the Income Tax Rules, 1962 the report of audit of the accounts of a person required to be furnished under section 44AB shall,—

(a) in the case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited, be in Form No. 3CA;

(b) in the case of a person who carries on business or profession, but not being a person referred to in clause (a), be in Form No. 3CB.

Accordingly, the assessees who are required to get their accounts audited under Companies Act, 2013 are required to furnish the report under section 44AB in Form No. 3CA. In the case of entities including companies having their accounting year which is different from the financial year (as per Income Tax Act), accounts of the financial year are required to be prepared and audited and in such case the audit report shall be in Form No. 3CB.

Non-compliances or commonly found irregularity:

Tax audit reports for some corporates having accounting year same as financial year also have filed reports in Form No. 3CB which is contrary to the provisions of law.

2. Revised SA 700, Forming an Opinion and Reporting on Financial Statements

Para 11.9 of the Guidance Note on Tax Audit under Section 44AB of the Income-Tax Act, 1961- ICAI had pursuant to the issuance of the Revised SA 700, Forming an Opinion and Reporting on Financial Statements, prescribed a revised format of the auditor's report on financial statement. Since Form No. 3CA and Form No. 3CB are required to be filed online in a preset form and the same are not in line with the requirements of SA 700, there is no specifically allocated field for providing information relating to the respective responsibilities of the assessee and the tax auditor as required in terms of the principles laid out in SA 700. However, having regard to the importance of these respective responsibility paragraphs from the perspective of the readers of the tax audit report, it is suggested that these respective responsibility paragraphs relating can be provided in the space provided for giving observations, etc., Para 3 of Form No. 3CA or Para 5 of Form No. 3CB as the case may be.

The illustrative Assessee's responsibility paragraph and Tax Auditor's responsibility paragraphs in respect of Form No.3CB has been given in the Guidance Note. The same are to be suitably reworded to meet the situation envisaged in Form No.3CA.

Non-compliances or commonly found irregularities:

a) Many of the Tax Audit reports do not have the paragraphs relating to Assessee's responsibility and Tax Auditor's responsibility as required by the Guidance Note in respect of SA 700.

b) Some of the tax audit reports contained a reference about the attached physically signed tax audit reports which mention these Paragraphs thereby complying with the requirement of SA 700. However, as per the Guidance Note on Tax Audit the same are specifically required to be mentioned / reported under clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be.

3. Observations/Comments/ Discrepancies/ Inconsistencies by Auditor

Para 14.5 of the Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961- "Where any of the requirements in this form is answered in negative or with qualification, the report shall state the reasons thereof. The tax auditor should state this qualification in the audit report so that the same becomes a comprehensive report and the user of the audited statement of particulars can realize the impact of such qualifications."

Also as per Para 15.5 of the Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961:

Under clause (a) of paragraph 3 of Form No.3CB, the tax auditor has to report his "observations/comments/ discrepancies/inconsistencies," if any. The expression "Subject to above" appearing in clause (b) makes it clear that such observations/comments/ discrepancies/ inconsistencies which are of qualificatory nature relate to necessary information and explanations for the purposes of the audit or the keeping of proper books of accounts or the true and fair view of the financial statements, respectively to be reported on in paragraphs (A), (B) and (C) under clause (b) of paragraph 3. *While reporting on clause (a) of paragraph 3 of Form No. 3CB the tax auditor should report only such of those observations/ comments/ discrepancies/ inconsistencies which are of qualificatory nature which affect his reporting about obtaining all the information and explanations which were necessary for the purposes of the audit, about the keeping of proper books of account by the head office and branches of the assessee and about the true and fair view of the financial statements. Further, only such observations/comments/ discrepancies/inconsistencies which are of a qualificatory nature should be mentioned under clause (a). Any other observations/comments/ discrepancies/inconsistencies, which do not affect the reporting on the matters specified above may form part of the notes to accounts forming part of the accounts.*

In case the tax auditor has no observations/comments/ discrepancies/ inconsistencies to report which are of qualificatory nature, "NIL" should be reported in this part of paragraph 3. The tax auditor may then give his report as required by sub-paragraphs (A), (B), and (C) of paragraph 3 and paragraph 4.

Non-compliances or commonly found irregularities:

In certain tax audit reports that were examined, it has been observed that the qualification paragraph i.e. Para 3 of Form No.3CA or Para 5 of Form No.3CB, as the case may be, contained a reference to Notes to Form No. 3CD. These notes did not mainly contain the qualifications but also contain general additional information.

As per the Guidance Note (paragraphs mentioned above) only qualifications/ observations should be reported in the space provided in the Form No. 3CA/3CB itself while the additional information which are not in the nature of qualification could be attached as notes.

II. FORM NO. 3CD

a) **Clause 2**: As per the Guidance Note, the tax audit report should contain the address as has been communicated by the assessee to the Income-tax Department for assessment purposes as on the date of signing of the audit report. In certain tax audit reports 'address' reported under this clause, is different from the one mentioned in Annual report or as registered under MCA which is expected to be the address with the Income tax Department.

b) **Clause 4**: This clause requires reporting of registrations under indirect tax law. In certain tax Audit reports, registrations under all the other Indirect Tax Laws which have been mentioned in CARO have not been reported under this clause. Also, in some cases, Registration no. based on PAN did not match with the PAN as reported under clause 3.

c) **Clause 8**: As per the provisions of the third proviso to section 44AB in a case where such person is required by or under any other law to get his accounts audited, it shall be sufficient compliance with the provisions of this section if such person gets the accounts of such business or profession audited under such law before the specified date and furnishes by that date the report of the audit as required under such other law and a further report by an accountant in the form prescribed under this section.

It was observed that in respect of the majority of tax audit report of companies (which are required to get their accounts audited under Companies Act, 2013) option (a) was selected [*Clause 44AB(a)-Total sales/ turnover/gross receipts in business exceeding specified limits"]* instead of option *"Third Proviso to section 44AB: Audited under any other law".*

d) Clause 10a: In few tax audit reports, codes for business or profession for principle line of each of the businesses have not been reported.

e) Clause 11a: Under section 44AA **No** Books of accounts are prescribed for a company. Also, the Companies Act, 2013 does not specifically prescribes books of accounts for a Company. However, in certain cases 'Yes' was reported under this clause which is not correct.

Clause 11b: The location of maintenance of Books of Accounts or records has not been specified in some tax audit reports. Location of server also has not been reported in case of maintenance of records in ERP based computer system. Also, the fact that the Books of Accounts are maintained in computer system is not mentioned in some cases.

Clause -11c: As per para 14.3 of GN, the auditor is required to examine not only the books of account but also the above stated documents directly related to transactions reflected in the books of account. The underlying documents would differ from assessee to assessee depending on the nature of activity carried on by them. Reference to such supporting evidence/ relevant documents is also required to be made under this clause.

It has been observed that all the relevant documents examined are not mentioned like Invoices, receipts, vouchers, bills, secretarial, confirmation, certificates, internal & external. In many cases the term "etc." is used without the mention of detailed documents examined.

f) Clause 13e: Adjustments required to be reported under this sub-clause are not fully disclosed. While reporting is done in respect of some of the ICDS, others are just left blank. In order to ensure clarity, if no adjustments are there to be reported, "0" or "Nil" should be mentioned.

Clause 13f: This clause requires reporting of information pertaining to each ICDS notified (disclosures) and not only where any deviation from the notified ICDS is encountered. However, in few tax audit reports, reporting was done only where deviation from the notified ICDS was encountered and reported under clause 13e, which is not appropriate.

g) Clause 14a: The method of valuation of closing stock is to be stated under this clause. The method of valuation has not been mentioned separately for each item of stock. Also, in some cases reference was given in respect of annexure which was not attached.

Clause 14b: Inclusive method for valuation of inventory is prescribed under the taxation laws and thus effects of inclusion of duties & taxes are to be properly reported under this clause. It was observed that deviations from 145A remained to be reported while following exclusive method especially in case of corporates.

h) Clause 17: Reporting under this clause is required where any land or building or both is transferred during the previous year for a consideration *less than value* adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C. However, in some cases reporting under this clause was done when consideration received on transfer of land, or building, or both & the value adopted u/s 43CA or 50C *were same,* which was not required.

i) Clause 18d: In some cases the Amount of adjustment on account of Exchange Fluctuation (due to change of rate of exchange if any) for which a separate column is provided under Additions has not been shown in the TAR uploaded on the Income Tax department website while the same has been reported in the annexure attached to physically signed TAR.

j) Clause 21a: Penalty charged under various acts is to be shown separately for each Act which was not found in many tax audit reports.

Clause 21b: This clause requires reporting of Amounts inadmissible under section 40(a). The following discrepancies/ common errors were noticed.

- In certain cases the reporting has been done in respect of provision for various expenses of *sundry parties* under a random date. Since the amount is yet to be paid

> Inclusive method for valuation of inventory is prescribed under the taxation laws and thus effects of inclusion of duties & taxes are to be properly reported

the date of crediting the amount of provision in the books of account should have been mentioned.

- Reporting under this clause is required separately for each of the individual payee. Consolidated reporting for the heads under which Tax has not been deducted has been done in certain cases which should not be done.
- Taxes deducted for resident and non-resident payee are to be reported appropriately under respective sub-clauses, which was not done in few cases.

Clause 21g: Particulars of contingent liabilities are to be reported and not provision created in the Books of accounts, which has been done in certain cases.

k) **Clause 22:** It was observed in many cases that interest paid to MSME mentioned in Annual Report was not reported in TAR.

l) **Clause 23:** This clause requires payments made to all the persons as specified u/s 40A(2)(b). In certain cases, the following common irregularities were observed:

- Name and PAN of related persons were not reported.
- The amount reported under this clause did not match with the amount as mentioned in Annual Report.
- Consolidated figures were reported instead of respective transaction with respective related party.

m) Clause 25: Details of all the amounts chargeable under section 41 is to be reported here, whether the same have been credited to the profit and loss account or not. In some cases it was evident from the annual report but not reported in tax audit report.

n) Clause 26: If excise duty is passed through profit & loss account, it has to be reported appropriately under this clause and clause 27a which was not done in many reports.

o) Clause 27a: This clause requires reporting of amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the account. In few Tax Audit reports computation shown under this clause was incorrect. Some reports did not mention the CENVAT utilized while some missed reporting treatment of the same in Profit and Loss Account.

p) Clause 31a: Consolidated figures were reported under this clause instead of respective transaction with various parties.

Clause 31c: As per the Guidance Note on Tax Audit in case of company, *"loan or deposit" means any deposit of money which is repayable after notice or repayable after a period* and, for persons other than company, *includes loan or deposit of any nature.* In certain cases repayment of fixed deposits and term loans reflecting in Annual report were not reported.

q) Clause 32a: Section under which Assessment Order is passed, date of order and Demand Identification No. (DIN) is required to be reported under this clause. However, complete details were missing in many audit reports.

Clause 32b: Only "*Yes/No*" can be reported under this clause in respect of companies. However some tax audit reports of companies reported "*Not Applicable*".

r) Clause 34a: The total of expenses as reported under this clause in TAR for specific heads like salary, rent etc. were not matching with the relevant figures in financial statements. A reconciliation of amount as per books of accounts and amount on which TDS/TCS is required to be deducted/ collected could have been attached as notes.

Clause 34c: In certain cases, the date of payment with respective amount has not been mentioned under the relevant columns of this sub-clause.

s) Clause 35a: The following common irregularities were noticed**:**

i) Details to be reported under this clause if "*Trading*" is one of the natures of business of the assesse as reported under clause 10a. The same has not been done in some reports.

ii) Even if the closing stock of goods acquired for trading is "*NIL*" the quantitative details of opening, purchases & sales made during the year are required to be reported under this clause, which has not been done in certain cases.

Clause 35b: In certain cases where assessee is engaged in manufacturing, neither percentage of yield has been reported nor any qualification has been given in the Audit report.

t) Clause -40: The following was observed **:**

i) As per the Guidance Note on tax audit *"Sale proceeds of scrap, wastage etc. is to be included in the turnover unless treated as part of sale or turnover, whether or not credited to miscellaneous income account".* In certain cases scrap sale was not considered while arriving at the turnover for TAR.

ii) As per GN, *Net profit to be shown is net profit before tax.* However, in certain cases net profit after tax was reported under this clause.

iii) In case of manufacturing units, reporting under sub-clause (e) – ratio of material consumed/ finished goods produced is required, which was missing in many reports.

III. OTHER GENERAL OBSERVATIONS

The following is to be considered in respect of reporting under clause 21d and 31a to 31e, as per GN- *Where the reporting has been done on the basis of the certificate of the assessee, the same shall be reported as an observation in Para 3 of Form No. 3CA and Para 5 of Form No.3CB, as the case may be.*

a) In respect of sub clauses where no information is to be given, instead of leaving the same as blank, "Nil" '0" or "NA" could be mentioned for better reporting.

b) If answer to any of the clause is reported in uploaded TAR it has to be reported same in physically signed TAR (if any).

> "Sale proceeds of scrap, wastage etc. is to be included in the turnover unless treated as part of sale or turnover, whether or not credited to miscellaneous income account".

CONCLUSION

The Taxation Audits Quality Review Board wherever finds any material/serious non-compliance, it may refer the case to the Director (Discipline) of the Institute of Chartered Accountants of India for initiating appropriate action against the tax auditor under the Chartered Accountants Act, 1949.

In cases where no material non-compliances are observed by the Board and only immaterial non-compliances are observed, the Board may not refer the case to the Director (Discipline) of ICAI, but appropriately bring the non-compliance to the attention of the tax auditor by way of an advisory.

The instances/discrepancies noticed by the Board which have been reported above have been appropriately dealt with. As per the Terms of reference of the Board, with a view to apprise the members of the Institute and others concerned about the major non-compliances observed during the review, the Board has compiled such non-compliances or commonly found irregularities in this article. In the interest of the profession and also the nation, the members may keep the above pointers in mind while reporting under section 44AB of the Income tax Act, 1961. ■■■

Valuation Reports - Bringing Transparency, Reliability and Authenticity

The field of valuation has gained immense prominence over time, with great emphasis being placed on transparency, reliability and authenticity of valuation reports with valuation process being made more codified and scientific. The Companies (Registered Valuers and Valuation) Rules, 2017 (Rules) provide a comprehensive framework for the development and regulation of the valuation profession. The Rules set standards for professional conduct and performance of robust valuations in the interest of stakeholders and the society at large. To take forward the regulatory emphasis on valuation profession and to harmonise the diverse practices in use in India the ICAI has issued the ICAI Valuation Standards in 2018, after detailed study of best practices across the globe for valuation of Securities or Financial assets which are first of its kind in India. Read on…

The Valuation standards help to increase the level of professional ethics and trust by bringing standardization in the valuation practices and also aid the government to take various regulatory measures. The ICAI Valuation Standards 2018 have been formulated on the basis of Fair Value principles as per Ind AS 113 as notified by the Ministry of Corporate Affairs, after holistically evaluating the valuation purposes, Indian legal and business environment and the best practices being followed globally. The ICAI Valuation Standards, consistent with the approach followed for other professional standards, have been formulated as follows:

1. ICAI Valuation Standard 101 – Definitions
2. ICAI Valuation Standard 102 – Valuation Bases
3. ICAI Valuation Standard 103 – Valuation Approaches and Methods
4. ICAI Valuation Standard 201 – Scope of Work, Analyses and Evaluations
5. ICAI Valuation Standard 202 – Report and Documentation
6. ICAI Valuation Standard 301 – Business Valuation
7. ICAI Valuation Standard 302 – Intangible Assets
8. ICAI Valuation Standard 303 – Financial Instruments

These standards have to be applied by reading it together with the:

Contributed by Secretariat, Valuation Standards Board of ICAI. They can be reached at eboard@icai.in.

- Preface to the ICAI Valuation Standards.
- Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards.

Applicability of Valuation Standards:

These ICAI Valuation Standards have been made applicable for all valuation engagements on mandatory basis under the Companies Act 2013. In respect of Valuation engagements under other Statutes like Income Tax, SEBI, FEMA etc., it will be on recommendatory basis for the members of the Institute. These Valuation Standards are effective for the valuation reports issued on or after 1st July, 2018.

Distinguishing features of ICAI Valuation Standards 2018

1. ICAI Valuation Standards 2018 are known widely and available easily and the same can be communicated, applied, monitored and enforced by the various stakeholders in valuation. Principles adopted by the ICAI Valuation Standards are globally accepted (subject to a few changes from Indian perspective).
2. Standards have been formulated considering the Fair Value principles as per Ind AS 113 as notified by the Ministry of Corporate Affairs as the requirements for valuation under Companies Act is essentially in context of fair value requirements of Ind AS Financial Statements.

Market Value

ICAI Valuation Standard 102 defines Market Value in detail as per Ind AS 113 principles. Income tax/ SEBI/ Companies Act/ FEMA regulations/ Accounting standards usually use terminology of 'Fair Value'.

While the underlying valuation principles of Market Value and Fair value (as per the valuation principles/ standards) are similar, use of a different terminology may create misunderstanding to users. However, **Para 19** of ICAI Valuation Standard 102 allows to have market value separately from Fair Value, if circumstances require.

Market Rent

ICAI Valuation Standard do not provide for the definition of Market Rent as the ICAI Standards are for Valuation of Securities or Financial Assets.

Relative Value

As Per Para 8 of ICAI Valuation Standards 102; Valuation for determination of share exchange ratio/ share entitlement ratio in the case of amalgamation/ mergers/ demerger are usually based on Relative Value, which is an accepted concept based on past judicial precedents in India

> "Standards have been formulated considering the Fair Value principles as per Ind AS 113 as notified by the Ministry of Corporate Affairs.

Other basis of Value

Other basis of Value (IFRS/ OECD/ US IRS, etc) need to be customised to specifically include Indian tax/ regulatory requirements (eg valuation carried out based on formula prescribed in SEBI/ Income tax regulations) as per Para 7 of ICAI Valuation Standard 102.

Equitable Value/ Investment Value/ Synergistic Value

Equitable Value/ Investment Value/ Synergistic Value basis considers Participant specific perspective. Use of multiple basis of value may create misunderstanding amongst users. Therefore, ICAI valuation Standards have not defined these values.

Highest and best use

ICAI Valuation Standard 102 under para 39 to 48 provides detailed guidance on Highest and Best Use.

An entity's current use of a non-financial asset may be presumed to be its highest and best use unless market or other factors suggest that a different use by participants would maximise the value of the asset. Also, in certain cases, assessment of highest and best use may involve considerable subjectivity/ technical assessment and the Valuer may base his evaluation considering *inter-alia* relevant inputs from the client, information available in public domain.

ICAI Valuation Standard 102 provides for the definition of Market participants as per Ind AS 113 in para 24.

3. Para 58 to 60 of ICAI Valuation Standard 102 also defines integration cost to be part of Specific Considerations.

4. Fairness opinion as required under SEBI Guidelines has been provided.

5. **Internationally** Market Price of traded assets has been covered as one of the valuation method under Market Approach in ICAI Valuation Standard 103.

   Under ICAI Valuation Standards the same has been captured in **Para 18-20**. It is believed that Market Price is very important method in Market Approach as in many Regulations such as SEBI Regulations, Income Tax Act, FEMA, etc. suggests usage of this method.

6. **Determination of DLOM & DLOC under Market Approach**

   As per Para 38- 48, of ICAI Valuation Standard 103, DLOMs and DLOCs may be applied on the professional judgement of the valuer considering the factors such as size and nature, amount/extent of control, time and cost associated with marketing, restrictions on transfer of subject asset, etc. Due to lack of empirical Data specific to Indian markets, it is believed that it should be left to the judgement of the professionals.

7. Under ICAI Valuation Standard 103, DLOM and DLOC need to be applied under Income approach while valuing illiquid securities and minority interest, which is believed to be more appropriate in such cases.

8. Format of Report has been provided.

9. Specific guidance has been provided for Subsequent Events.

10. It has been specifically provided that the valuer has to disclose the identity of the expert along with the reliance placed on such expert's report. This is pertinent since, in many cases, the valuer may appoint another expert to undertake valuation of specialised asset types like financial instruments, etc.

11. ICAI Valuation Standards specifically provide to include the valuer's signature along with his identity and other details. This helps in fixing responsibility for the contents of a valuation report.

12. The ICAI Valuation Standard 202 on 'Valuation Report and Documentation' is very comprehensive than the International Standards. There are many important aspects which are included in the ICAI Valuation Standards. A summary of such aspects is set out below:

    i. Contents of the valuation report: Para 10 to Para 35 of ICAI Valuation Standard 202 provides detailed guidance on Contents of Valuation Report.

    ii. Independence of the valuer: Since the independence of the

> An entity's current use of a non-financial asset may be presumed to be its highest and best use unless market or other factors suggest that a different use by participants would maximise the value of the asset.

> ICAI Valuation Standards specifically provide to include the valuer's signature along with his identity and other details. This helps in fixing responsibility for the contents of a valuation report.

valuer is an important aspect determining the reliability of the valuation report, the ICAI Valuation Standard 202 provides specific guidance **(paragraph 14)** that the valuer shall be independent of the asset as well as the client for whom the valuation is being undertaken. Further, the ICAI Valuation Standard also states that the valuer should be independent of the user of a valuation report, where the valuation assignment is commissioned by one party but the report is intended to be relied on by another user.

iii. **Reliance on use of experts: Paragraph 12** of the ICAI Valuation Standard 202 specifically requires the valuer to disclose the identity of the expert along with the reliance placed on such expert's report. This is pertinent since, in many cases, the valuer may appoint another expert to undertake valuation of specialised asset types like financial instruments, etc.

iv. **Disclosure about conflict of interest:** Conflict of interest / perceived conflict of interest is an important impediment in reliance placed on valuation reports. In case such conflict of interest is not disclosed, there could be significant misrepresentation. **Para 15** of the ICAI Valuation Standard 202 requires a valuer to disclose conflict of interest. Further, ICAI Valuation Standards prohibit the acceptance of a valuation assignment in case of any conflict of interest, where local laws prohibit such acceptance.

v. **Signature on the valuation report: Para 27 and 28** of ICAI Valuation Standard 202 requires the valuer to specifically include the valuer's signature along with his identity and other details. This helps in fixing responsibility for the contents of a valuation report.

vi. **Management representations:** Since a lot of information provided by management is used in undertaking valuation, separate paragraphs have been included in the ICAI Valuation Standard 202 **(Para 36 to 38)** on accepting management representations and extent of placing reliance on them.

vii. **Documentation:** Since documentation is the only way of ascertaining the quality and extent of procedures carried out by the valuer, the ICAI Valuation Standard 202 provided detailed guidance on how and what to document in **para 39 to 48**.

Detailed guidance on maintenance of records has been provided in compliance with the Companies Act, 2013 which provides for maintenance of records for a period of 8 years.

13. ICAI Valuation Standard 103 encourages use of multiple method/ approaches

ICAI Valuation Standard 103 encourages use of multiple method/ approaches for valuation in such instances to produce a reliable indication of value. It is believed that usage of multiple method gives greater comfort on outcome as all aspects

(Income/Multiples, etc) is looked at while finalising the valuation. As compared to single method usage of multiple methods gives a better comfort. The Standard also provides that if the difference in the values under different approaches/ methods is material, the valuer need to consider certain factors given in paragraph 10 to consider whether the approach/method considered is appropriate or not.

ICAI valuation Standards provides option for usage of multiple valuation methods. It has been left to the Valuer's discretion to use one or multiple methods and give weightages. It is well established by Indian judiciary that multiple methods and weighting same, are considered to be a better approximation of fair value in many cases rather than a single method value. The erstwhile CCI valuation guidelines, the FDI valuation guidelines, Income tax valuation guidelines, etc., recognise multiple method valuation and appropriate weighting or establishing a range.

14. Detailed paras on Scope of Work and Terms of Engagement Letter have been given.

15. ICAI Valuation Standards do not recommend preparation of cash flows as certain professional bodies governing the valuers do not permit Valuers to be party to such projections. Under ICAI Valuation Standard 103 in para 65, the valuer is required to undertake analysis of projections to assess risk inherent in its achievability.

16. Detailed guidance has been provided on Analyses and Evaluation of asset to be valued. It has been provided that Analyses of asset to be valued is based on the following information:
    - non-financial information
    - ownership information
    - financial information; and
    - general information

The valuation Standards provide principles and detailed guidance and are user friendly for Indian Valuers. The Standards are adopted by ICAI Registered Valuers Organisation in response to the local needs and conditions after notifications of Companies (Registered Valuers and Valuation) Rules, 2017 and it is mandatory for the Registered valuers enrolled with ICAI RVO to follow ICAI Valuation Standards, 2018 and ICAI Council has made it recommendatory for the chartered accountants to follow ICAI Valuation Standards 2018 as of now.

The Valuers will find it useful as the ICAI Valuation Standards 2018 complies with the requirements of Companies (Registered Valuers and Valuation) Rules, 2017. For example provides minimum content of the Valuation Report as specified in the said Rules, Code of Conduct of Registered Valuers.

"ICAI valuation Standards provides option for usage of multiple valuation methods. It has been left to the Valuer's discretion to use one or multiple methods and give weightages. It is well established by Indian judiciary that multiple methods and weighting same, are considered to be a better approximation of fair value in many cases rather than a single method value.

Furthermore, the Insolvency and Bankruptcy Board of India ("IBBI") has also issued guidelines on aspects of valuation report such as caveats, limitations and disclaimers.

Valuation reports: Structure and Content as per guidelines by IBBI

As we all know that Valuation as a process concerns the community of shareholders and society at large. It is imperative to address issues surrounding valuations in a market which is presently low in confidence on the quality of the work. Usually, a valuation is required in the context of:

- Transaction – acquisition, disposal, merger, amalgamation;
- Internal Decision making/Corporate Governance;
- Regulatory Compliance – Companies Act ,SEBI Regulations, Income Tax, Wealth Tax, FEMA;
- Fund Mobilization – both equity and debt; and
- Disputes.

Several events in recent past have transpired to provide an indication of the public concern on valuation and the impact on shareholders and other stakeholders. Fund Providers, both equity and debt, have been active in asking for enquiries into valuations submitted by companies for mobilizing funds and restructuring. Regulators have also been raising questions on the valuations submitted in the context of transactions entailing purchase/sale, income tax, fund mobilization and corporate restructurings.

Further, as per Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017 mandates that the Registered Valuers (RVs) shall state "caveats, limitations and disclaimers" to the extent they explain or elucidate the limitations faced by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

This Rule aims to ensure that a valuation report does not carry a disclaimer, which has the potential to dilute the responsibility of the Registered Valuer or make the valuation unsuitable for the purpose for which the valuation was conducted. However, the scope of "caveats, limitations and disclaimers" is not clear to everyone, including users and RVs, and consequently, the RVs are having different practices in presentation of caveats, limitations and disclaimers in valuation reports.

With a view to provide guidance to the Registered Valuers in the use of Caveats, Limitations, and Disclaimers in the interest of credibility of the valuation reports, the Insolvency and Bankruptcy Board of India has issued Guidelines on Use of Caveats, Limitations and Disclaimers by the Registered Valuers in Valuation Reports in September, 2020.

Need for issuance of Guidelines

Variance in valuation done by different Registered Valuers is often observed even when the purposes as also the circumstances in which the valuation is undertaken are the same. In such a situation, the market may question the ability of the RVs and the integrity of the valuation process.

This is not in the interest of the stakeholders where crucial economic and commercial decisions are taken on the basis of the valuation reports. There may be a limitation, in case the Registered Valuer is unable to obtain sufficient information and explanations which are considered necessary for the purpose of the valuation. Where due to such limitation, the RV is unable to carry out the valuation in accordance with the normal approach to valuation; the valuation report shall be modified with a paragraph setting out the nature of circumstances that are giving rise to the limitation.

A few events in the recent past have highlighted the public/ shareholder concerns associated with valuation. Debt and equity fund providers have been active in initiating enquiries into valuations submitted by companies for mobilizing funds and restructuring. Regulators have also been raising questions on the valuations submitted in the context of transactions entailing purchase/sale, income tax, fund mobilization and corporate restructurings. In this context, the importance of a detailed, transparent and wholistic valuation report is equally critical for valuation practitioners, clients and regulatory authorities.

In this light, there are certain key elements of a valuation report that should be included at a minimum. These key element with a salient points associated with them are as follows:

i. **Background information**: The aim is to provide the unfamiliar and familiar reader alike, with the particulars of the company, business, assets/liabilities that form the subject of the valuation with as much context as required to gain an accurate understanding of the assignment. Transaction details, summary of historical financials, capital structure, identification of pertinent facts such as related party issues, changes in shareholding pattern, impact of restructuring or proposed transaction etc. typically form part of this section.

ii. **Purpose of Valuation and Appointing Authority:** The context and purpose of the valuation and the appointing authority commissioning the exercise must be clearly stated e.g., the Management's decision to seek an advisory opinion should be disclosed, or the Audit Committee's decision to appoint or the appointment of an independent valuer itself should be disclosed. As part of this section of the report, valuers should also state the "premise of value".

iii. **Identity of the valuer and any other experts involved:** Identity of the Valuer (with his registration number) as well as the organization performing the valuation and other team members/external experts consulted in the process of valuation should be disclosed.

iv. **Disclosure of Valuer Interest/Conflict, if any:** This section of the report is key in ensuring transparency and as such valuers should clearly disclose any facts that are relevant and may lead to a conflict or perceived conflict of interest while performing the analysis. As such, the valuer should disclose in his/her report, possible sources of conflict and material interests, including association or proposed association/ with the company, its associates, the counter-party to the transaction or its associates, in the form of auditor, lead advisor or in any other capacity, together with the nature of the fee arrangements for the valuation services undertaken.

v. **Date of appointment, valuation date and date of the report:** Valuation assignments are performed as of a particular point in time. As such, clearly stating the Valuation Date i.e. the date as of which the valuation analysis has been performed is very important. Furthermore, the date of the appointment of the valuer as we well as the date on which the report has been issued should also be included. Furthermore, the Report should also mention the timeline associated with the validity of the report and/or within which the user must accept or reject the report.

vi. **Sources of information:** Principal sources of information that form the basis of the valuation report should be clearly listed. This typically includes information such as company financials and projections that are provided by management as well as other sources such as analyst reports, publicly available sources of data example: NSE, BSE websites, frequently used third party databases such as Bloomberg, Capitaline, CapitalIQ etc. Valuation professionals should make the effort to accurately state which sources have been relied upon and to what extent such information been incorporated into the valuation.

vii. **Procedures adopted in carrying out a valuation:** Procedures adopted in carrying out a valuation may vary with circumstances, nature and purpose of valuation as well as information and time available. The principal procedures actually adopted by the valuer in carrying out the valuation should be set out in the report. Such procedures may typically include:

- Review and analysis of Historical and Projected Financials;
- Industry and SWOT Analysis;
- Comparison with similar transactions and other similar listed companies;
- Discussions with Management;
- Review of principal agreements/documents etc.
- Site visit (external, internal or both) or desktop valuation.
- Assignment specific assumptions must be explicitly stated i.e. in case of a desktop

- valuation a valuer must state that the basis of the report is photographs provided, documents provided and secondary research only.
- Process of site identification, i.e., self-identified or with the help of clients representative or client itself.

A valuer's report should also include an affirmative statement that information provided and assumptions used by Management/Others in developing projections have been appropriately reviewed, enquiries made regarding the basis of key assumptions in context of the historical performance of the business being valued and comparable industry/economy indicators. An affirmative statement on adequacy of information and time for carrying out the valuations should also be included.

It is important to note that such affirmative statements shall not negate the professional liability for expertise applied in determining value and if the degree of inadequacy of information is severe, fundamental questions and information as assessed by the valuer as key for the valuation needs to be disclosed.

viii. **Valuation Methodology:** The valuation methodology adopted by the valuer, which includes various methods under the Income, Market and Cost Approaches has to be disclosed. The rationale and appropriateness for the adoption of a particular valuation methodology or combination of methods in the context of the valuation of a business or asset should be clearly justified. The report should disclose the rationale for exclusion of a valuation methodology.

ix. **Major factors influencing the Valuation:** Key material factors including inter alia the size or number of the corporate assets or shares, their materiality or significance, minority or majority holding and changes on account of the transaction, any impacts on controlling interest, diminution or augmentation therein and marketability or lack thereof; prevailing market conditions and government policy in the specified industry should be described in the report. Here it will be relevant to mention that disclosure of projected financial information should be done taking into consideration aspects of confidentiality, regulatory requirements, purpose of valuation, potential of misuse by users and competitors.

x. **Conclusion followed by Caveats, Limitations and Disclaimers:** Caveats, limitations and disclaimers should be clearly stated, often in a separate section of the report and serve to inform the reader of the caveats associated with the valuation and help them assess the impact of these clauses on the credibility and reliability of the report. For example, in the preparation of a valuation report, the valuer should not disclaim liability for their expertise or duty of care. However, an independent valuer will prepare the report based on information and records provided by management. The independent valuer can disclaim the reliability of management provided projections and may disagree with the projections if they are conjectural or fantastic or bordering on the unreal. An independent valuer has the right to demand relevant information and basis of the projections before commenting thereon.

The components highlighted are not exhaustive and the valuer will continually need to apply care and discretion to ensure that a valuation report is comprehensive and defensible if subjected to scrutiny.

Endnote

The ICAI has issued ICAI Valuation Standards 2018 with a view to have uniformity and transparency and furthermore the Government has issued Guidelines on Caveats, Limitations and Disclaimers so that the responsibility is taken by the Valuers for the Reports and unnecessary disclaimers are not being made and the report must contain a clear statement of the value ascribed, including the Valuation Date, the Premise of Value, the valuation methods relied upon and appropriate weightage placed on each. ■■■

Frauds and Management Overrides as Contributory Causes

There is an avoidable misconception about the role of auditors in detecting frauds stoked by the recent high-profile corporate failures. While, Kingston Cotton Mills case and the much oft-repeated quote "auditors are watch dogs and not blood hounds" is no longer an acceptable verdict on the role of auditors, neither should auditors be held accountable for non-detection of every fraud especially those involving management overrides. This of course comes with the caveat that compliance with Standards on Auditing is non-negotiable. Read on…

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Standard on Auditing (SA) 240 – ***"The Auditor's Responsibilities Relating to Fraud In An Audit of Financial Statements"*** deals with a topic that created a chasm between the public at large and the auditing profession. This was caused by the expectations of one group and the refutation of those expectations by the other. While the public at large believes that discovering fraud is part of auditor's duties, the auditing profession for long refuted the same. SA 240 deals albeit with guidance to the auditors on how to close the window to the occurrence of fraud to the extent possible and reminding auditors that the primary function of auditors is to report whether the financial statements are free from material misstatement either due to fraud or error. SA 240 is a standard that deals with fraud-risk and potential situations that could give rise to situations of fraud, and the manner in which auditors should deal with them.

As a class of frauds involving material misstatement in financial statements, the ones that are more difficult to detect than the others are those that arise on account of management override of internal controls (ICs). The

colloquial phrase "fence eating the crop" pithily captures the essence of the problem and the helplessness on the part of the auditors to always deal with these situations. This article tries to capture the issues involved in auditing because of the ever-present possibility of management override of controls and procedures in order to achieve their own goals which run counter to the entity's goals. This is where the crux of the problem lies since auditors necessarily have to rely on the internal controls and are entitled to rely on them.

If one analyses the recent spate of frauds, there is a preponderance of management inspired frauds. These are usually of a scale that destroys entire organisations. Standards on Auditing (SAs) which are based on the international standards on auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) teach us that ICs are the first line of defense against fraud in any entity. The larger the size of the entity, the greater is the need for ICs. Probably the most important SA on this topic is SA 315 ***"Identifying And Assessing The Risk of Material Misstatement Through Understanding the Entity and its Environment"*** which sheds light on the topic although one should not confine oneself to just reading this SA. The topic is spread over several SAs which should be studied for greater enlightenment. Also, a huge amount of published material is available on this topic. Incidentally, the importance of SA 315 lies in the fact that for the purpose of reporting on Internal Financial Controls as required by section 143(3)(i) of the Companies Act, 2013, ICAI has prescribed SA 315 as the Framework for testing internal controls operating in an entity.

Management override and Standards on Auditing

SA 200 - ***"Overall Objectives of the Independent Auditor and the Conduct of An Audit in Accordance with Standards on Auditing"*** is the mother standard for all SAs. SA 200 under the topic "*Complying with SAs Relevant to the Audit*" pronounces in paragraph 20 that the auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit. Compliance with SAs is now not only required under paragraph 20 of SA 200, but has also been made mandatory by section 143(9) of the Companies Act, 2013. The said section states that *"Every auditor shall comply with the auditing standards"*. Further, an auditor when writing the audit report is required to make the assertion to the effect that the audit was conducted in accordance with Standards on Auditing (Paragraph 28(a) of SA 700(Revised)). Therefore, read together there is an overwhelming need for an auditor to be fully compliant with all the SAs insofar as it affects an auditor's ability to report on financial statements.

Management's responsibility

As per paragraph 4 of SA 240, *"the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.... In exercising oversight responsibility, those charged with governance consider the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability."*

Continuing with the above paragraphs, paragraph 7 of SA 240 states that *"Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees".*

Continuing with the issue of management override, as discussed in SA 200, paragraph A39 of explanatory material to SA 200 states that *"...However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of internal control. These include, for* *example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override."*

Paragraph A117 of SA 315 is of particular relevance and is the central theme of the article. Paragraph A117 states that *"Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance, or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement at the assertion level, for example, through management override of internal control. Financial statement level risks may be especially relevant to the auditor's consideration of the risks of material misstatement arising from fraud."*

Thus, what can be observed is that the responsibility for prevention of misstatement of financial statements due to either error or fraud rests with the management and those charged with governance (TCWG) of the entity. There is an overwhelming responsibility on the part of the management and the TCWG to constantly endeavour to ensure that the internal environment in which the entity is operating safeguards the interests of the entity. This is also part of the statute since the Companies Act, 2013 contains requirements for a directors' responsibility statement to form part of the report of the board of directors. One of the stated responsibilities of the board of directors is safeguarding the assets of the entity.

SA 240 contains in detail the scope for fraud, contributory causes as well as the measures to be taken to counter or reduce the risk of fraud. Paragraph 11 of SA 240 dealing with the definition of fraud and the factors that contribute to fraud-risk states as follows:

"For purposes of the SAs, the following terms have the meanings attributed below:

(a) Fraud - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

(b) Fraud risk factors - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud."

While fraud has been defined in several ways by several authorities, what is at the core of fraud is the intention to obtain an unjust or illegal advantage. Coming to the risk factors, what is interesting is sub-paragraph (b) above talks of "incentive" to commit a fraud, "pressure" to commit a fraud, or an "opportunity" to commit fraud. While individually, none of these factors may cause a fraud to occur, collectively, they may pave the way. Paragraph A25 of SA 240 further elucidates that when dealing with fraud risk factors, in addition to the factors specified in paragraph 11, an ability to rationalizethe fraudulent action as an additional factor for an auditor to be watchful about. Thus, the three factors together form what is known as a fraud triangle and where all these factors are present, there is potentially a fraud waiting to occur. Elaborating further on these factors, the following paragraphs offer more in terms of explanations.

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Incentive or pressure to commit fraud

Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure to present financial performance of the entity at a certain level to achieve an expected earnings target or financial outcome. This can happen on account of earlier guidance on earnings issued by the management to the market which subsequently proves to be impossible to achieve. As we know, earnings per share (EPS) could be a dominant factor in market expectations and often taken as a sign of successful management. An incentive or pressure can also arise from plans to go public by way of an initial public offer and the need to create a favourable impression particularly since the consequences of failure can be significant. Very often future capital expenditure depends on the public issues.

Perceived opportunity

An individual or a group within the entity believes that internal controls can be overridden because of the position that the individual or the group holds. Usually, they are well-versed with the internal control environment and the mechanism and are aware of the deficiencies therein. Probably, in the first place, they are responsible for designing the internal control system.

Rationalisation

Rationalization is a state of mind whereby an individual or a group can attribute a higher motive to an act of fraud. This will require adopting an attitude that what they are doing is good for the organisation. This provides them with the justification for otherwise an indefensible act. It is not difficult to imagine situations where in an ever-decreasing working capital situation on account of losses incurred, the management to present a better than the real situation for managing working capital requirements. If one were to ask the management, one would get the reply that it was done for the continued well-being of the entity.

The origins of fraud triangle

Donald R. Cressey, an American sociologist and an expert in criminology first propounded the theory in his book "Other People's Money" in the following words, *"Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property".* Eventually, this was adopted for Standards on Auditing as it explained criminal behaviour and recognition of which could put auditors on guard.

The fraud diamond

As the theory gained acceptance and began to be followed and adopted widely, a fourth leg emerged. Those with forensic experience began to suggest that in addition to the triangle a fourth factor is required to be added viz. capability *[Wolfe, David T., and Dana R. Hermanson. "The Fraud Diamond: Considering the Four Elements of Fraud." CPA Journal 74.12 (2004): 38-42.]* The individual or the group planning a fraudulent act would typically look at risk-assessment and their chances of "getting-away" with it since this would provide a totally risk-free environment wherein the act of fraud could be perpetrated with impunity. While SA 240 does not quite use the word 'capable', references are there in SA 240 to words such as "management override of internal controls" and the fact where there is likelihood of management override of internal controls and checks & balances, fraud would be more difficult to discover. Thus 'capability' is identified by inference as the fourth factor even if SA 240 does not say so in so many words.

Reasons for management override

The reasons for management override are myriad and may include the following:

- Management compensation and remuneration depends on earnings since very often shareholders' and statutory sanctions require adequate financial performance;
- The need to meet certain covenants in agreement with banks and the need for funding based on adequate financial performance;
- Proposals for mergers etc., or even forming alliances where entities would look at financial health of the potential partners; and
- Threat of bankruptcy that could be postponed by favourable financial statements (this was especially the case in the days of operation of the statute,the Sick Industrial Companies(Special Provisions) Act, 1985 which dealt with sick companies and the need to refer to the Board for Industrial and Financial Reconstruction);

> "Rationalization is a state of mind whereby an individual or a group can attribute a higher motive to an act of fraud. This will require adopting an attitude that what they are doing is good for the organisation. This provides them with the justification for otherwise an indefensible act.

Characteristics and indications of fraud

Paragraph A3 of SA 240 describes how management can accomplish fraudulent financial reporting and suggests that the following are some of the methods.

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared;
- Misrepresentation in or intentional omission from, the financial statements of events, transactions or other significant information;
- Intentional misapplication of accounting principlesrelating to amounts, classification, manner of presentation, or disclosure.
- Paragraph A4 of SA 240 lists the following as indicative of the management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as:
- Recording fictitious journal entries, particularly close to the end of an accounting period to manipulate operating results or achieve other objectives;
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances;
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period;
- Concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements;
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity;
- Altering records and terms related to significant and unusual transactions.

Methods of override

The methods dishonest managements have used to create improper financial reporting are numerous including the following:

- Transactions with undisclosed related parties, creating fictitious entries boosting revenue and profit;
- Generate false sales invoices thereby increasing revenue and profit;
- Falsifying inventory records showing more inventory than the actual case which would boost profit;
- Not accounting for invoices for expenses and showing the amounts paid as advance instead of charging to the income statement;
- Capitalizing revenue expenditure; and
- Deliberate misinterpretation of accounting standards supported by "friendly" expert opinions.

Audit procedures responsive to risks related to management override of controls

Having explored the possibilities of management override of ICs and the consequences thereof, the auditor is required to be on guard. Paragraphs 31,32, and 33 of SA 240 offer defensive steps for the auditor as detailed below:

Paragraph 31 "Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.............."

32. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:

(i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

(ii) Select journal entries and other adjustments made at the end of a reporting period; and

(iii) Consider the need to test journal entries and other

> "The individual or the group planning a fraudulent act would typically look at risk-assessment and their chances of "getting-away" with it since this would provide a totally risk-free environment wherein the act of fraud could be perpetrated with impunity.

adjustments throughout the period. (Ref: Para. A41-A44)

(b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall:

(i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall re-evaluate the accounting estimates taken as a whole; and

(ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year. (Ref: Para. A45- A46)

(c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: Para. A47)

33. The auditor shall determine whether, in order to respond to the identified risks of management override of controls, the auditor needs to perform other audit procedures……"

SA 330, "The Auditor's Responses To Assessed Risks"

SA 330 deals elaborately with "Substantive Procedures" (paragraphs 18-23 of SA 330). Substantive procedures focus on verification of transactions as opposed to compliance procedures which are ideal in testing control aspects in respect of repetition of transactions. Paragraph A42 of explanatory material to SA 330 talks of the requirement for the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement. This requirement reflects the facts that: (i) the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and (ii) there are inherent limitations to internal control, including management override."

Conclusion

It is no coincidence that the formats of audit reports prescribed by standards on auditing contain assertions that reflect the contents of the standards on auditing. While on the one hand, the audit reports precisely state the management's responsibilities, on the other, the standards on auditing are quite clear what ought to be done. The question that will continue to be asked is whether auditors in their performance of duties have complied with the auditing standards and if so how they are able to demonstrate through proper documentation. Management frauds by their very nature, as dealt with in the preceding paragraphs are very difficult to detect and if detectable whether they can be detectable in time. Unlike other frauds, management frauds can have a devastating effect on the organisations.

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One finds these days a great deal of discussion about professional scepticism in audits or the lack of it in view of the reported management frauds. Although fraud triangle or the diamond sums up the existence of a possibility for fraud to occur and presents a usable template for the auditor, in real life it is not always the case since these factors do not present themselves for a working hypothesis.

Interestingly paragraph 8 of SA 240 contains the statement *"when obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud………"* Therefore, an auditor would do well to remember the various aspects of the matters dealt with above and be on guard. ■■■

Transfer Pricing of Interest Rates in the post-LIBOR era

LIBOR is a reference interest rate used for various tenors of loans in five hard currencies that is used to price loans and derivatives all over the world. The governing body of LIBOR, ICE has announced that LIBOR will not be published in 4 currencies after 31 December 2021 and in US dollars after 30 June 2023. As LIBOR is used extensively in an Indian transfer pricing context as a base rate for intercompany borrowing in the relevant currencies, and also in regulatory contexts such as Safe Harbours and foreign exchange regulations, it is important for Indian taxpayers to plan for a post-LIBOR world. We examine some of the measures being taken to enable the transition, and suggest some solutions to help Indian taxpayers make their intercompany transactions and arrangements resilient to this change. Read on…

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The London Interbank Offered Rate or LIBOR has been a fixture in financial markets for almost four decades. Governed by the British Banking Association ("BBA") from the mid-1980s to 2014 and the Intercontinental Exchange ("ICE") thereafter, LIBOR is used as a reference rate to price interbank loans and options, commercial products like variable rate mortgages and floating rate certificates of deposit, and intercompany financial transactions and derivatives such as futures, swaps and options. Approximately USD 300 trillion in derivatives and other financial contracts (such as loans) have interest rates that are referenced to LIBOR. Five global currencies (the US Dollar, the Pound Sterling, the Japanese Yen, the Euro and the Swiss Franc) and seven maturities (overnight, one week, and one, two, three, six, and 12 months) are polled for, resulting in thirty-five different LIBOR currency/maturity pairs being reported for each day[1]. LIBOR rates are published every business day in London – except for overnight LIBORs in US

[1] *London Interbank Offered Rate (LIBOR) – Kagan, J., Investopedia Updated 3 December 2020 https://www.investopedia.com/terms/l/libor.asp,*

Dollars and Euros, which are published for every business day in London excepting US and European public holidays, respectively.

Background

LIBOR has been computed by polling a specific panel of banks about the rate at which they judged that they would be able to borrow in a specific currency in a specific maturity. Starting in 2008, investigations by the press and regulators began uncovering evidence that panel banks had been manipulating LIBOR to advantage their own trading operations, or to show that the bank could borrow at comparatively lower rates for reputational purposes[2]. Regulators in the United States, the United Kingdom and the European Union investigated these manipulations and undertook enforcement actions against several multinational banks and financial institutions leading to levying of fines exceeding USD 9 billion[3].

Following these revelations, regulators brought about several changes in the administration of LIBOR, and in 2017, the UK Financial Conduct Authority ("FCA") announced that it would not mandate banks to provide data for the computation of LIBOR beyond 2021[4]. As a part of this process, on 5 March 2021, the ICE announced that all LIBOR rates in Pounds Sterling, Euros, Swiss Francs and Japanese Yen and US Dollar LIBOR for the 1 week and 2 months maturities would stop being published after 31 December 2021, while US Dollar LIBOR in the overnight, 1 month, 3 months, 6 months and 12 months maturities would stop being published after 30 June 2023[5].

LIBOR in an Indian Transfer Pricing context

This issue is important for Indian companies that have entered into inbound or outbound intercompany loan arrangements. From a transfer pricing perspective, the Income-tax Appellate Tribunal ("ITAT") has held on multiple occasions (starting from the decisions of the Chennai bench of the ITAT in *Siva Industries*[6], the Hyderabad bench of the ITAT in *Four Soft*[7] and the Mumbai bench of the ITAT in the case of *Tech Mahindra*[8]) that arm's length rates for intercompany loans denominated in foreign currencies should be referenced to LIBOR rather than domestic, rupee-denominated rates such as the prime lending rate or the base rate or interest rates charged by banks on rupee-denominated debt. The ITAT also ruled specifically on contentions that LIBOR should not be used as a reference rate in arm's length determination in the case of *Vijay Electricals*[9] where the Hyderabad bench of the ITAT ruled that:

> "All LIBOR rates in Pounds Sterling, Euros, Swiss Francs and Japanese Yen and US Dollar LIBOR for the 1 week and 2 months maturities would stop being published after 31 December 2021, while US Dollar LIBOR in the overnight, 1 month, 3 months, 6 months and 12 months maturities would stop being published after 30 June 2023.

"Even though there may be some fraud involved in fixing the rate of international rates, as it became basis for subsequent international transactions at

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2 *United States Department of Justice Press Release dated 27 June 2012 – https://www.justice.gov/opa/pr/barclays-bank-plc-admits-misconduct-related-submissions-london-interbank-offered-rate-and*

3 *Understanding the LIBOR Scandal – McBride, J, Council for Foreign Relations 12 October 2016 https://www.cfr.org/backgrounder/understanding-libor-scandal#:~:text=Regulators%20in%20the%20United%20States,trillion%20worth%20of%20loans%20worldwide*

4 *LIBOR: The Rise and Fall – Hemachandran, V., RBI Bulletin November 2020 https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=19898*

5 *Press Release by Intercontinental Exchange, Inc., 5 March 2021 https://ir.theice.com/press/news-details/2021/ICE-Benchmark-Administration-Publishes-Feedback-Statement-for-the-Consultation-on-Its-Intention-to-Cease-the-Publication-of-LIBOR-Settings/default.aspx*

6 *Siva Industries & Holdings Ltd. v. ACIT, TS-438-ITAT-2011(CHNY)*

7 *Four Soft Ltd. v. DCIT, TS-518-ITAT-2011(HYD)-TP*

8 *DCIT vs. Tech Mahindra Limited, TS-299-ITAT-2011(Mum)*

9 *Vijay Electricals Limited vs. Addl. CIT, TS-323-ITAT-2014(HYD)-TP*

that point of time, we do not see any reason to differ from the LIBOR plus basis points for T.P. comparison."

Additionally, the all-in-cost ceiling for external commercial borrowing ("ECBs") allowed by the RBI is also referenced to 6-month LIBOR[10] in the relevant currency. Even the Safe Harbour for intra-group loans provided by an Indian taxpayer to its associated enterprises in foreign currency is referenced to 6-month LIBOR in the appropriate currency[11].

Due to these factors, a large number of intercompany loans have interest rates that are referenced to LIBOR. This has led to many Indian companies borrowing from related parties doing so on the basis of LIBOR-linked interest rates – as per RBI figures, there were USD 74 billion of outstanding ECBs where the interest rate was linked to LIBOR[12].

In light of the upcoming sunset of LIBOR, regulators in the US, the UK, the EU and indeed all over the world are taking steps to ensure that the transition is handled smoothly. In India, the RBI issued a "Dear CEO" letter to scheduled commercial banks in August 2020 about making sure their clients were prepared for the end of LIBOR.

This is especially important from a transfer pricing perspective since Indian companies that have borrowed from related parties on the basis of a LIBOR-linked interest rate face two risks from the scheduled end of the LIBOR era. The first risk, in common with all financial counterparties that have ongoing transactions and contract linked to LIBOR, is that the transaction / contract may extend to a point of time when LIBOR simply does not exist (e.g. any contract with a reference to Euro LIBOR that is in operation beyond 31 December 2021). However, a second risk, more specific to transfer pricing, is that an Indian company with a contractual interest rate that is linked to a LIBOR rate that is no longer published may not be able to find any comparables with interest rates linked to LIBOR for a financial year after the LIBOR sunset.

LIBOR's Successors

Regulators for the jurisdictions where LIBOR is the domestic interbank benchmark have each identified alternative benchmarks for the post-LIBOR era. These include the Secured Overnight Financing Rate ("SOFR") for the US Dollar and the Sterling Overnight Interbank Average Rate ("SONIA") for the Pound Sterling. These rates are different in many ways from LIBOR. For example, both SOFR and SONIA are calculated based on the interest rates on actual overnight lending. Both are secured rates, and both lack the term structure of LIBOR – unlike LIBOR which existed in seven different maturity categories, there is only one SOFR.

> The ITAT also ruled specifically on contentions that LIBOR should not be used as a reference rate in arm's length determination.

However, there are encouraging signs that these alternative reference rates are beginning to be referenced in a number of financial transactions. In the first quarter of 2020 for example, there were bond issuances of over USD 200 billion referencing SOFR, and bond issuances of over DBP 18 billion referencing SONIA. The use of these rates in futures, swaps and other derivatives is also increasing. From a transfer pricing perspective this is especially important, since as mentioned above, identifying comparables referencing a common reference rate (for a specific currency) would be important for price-setting and testing at year-end[13].

[10] *Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations – Reserve Bank of India, updated 8 August 2019, https://rbidocs.rbi.org.in/rdocs/notification/PDFs/5MD2603201979CA1390E9E546869B2A9A92614DEDBF.PDF*

[11] *Serial number 5 under sub-rule 2A of Rule 10TA of the Income-tax Rules, 1962*

[12] *LIBOR: The Rise and Fall, Ibid*

[13] *LIBOR: The Rise and Fall, Ibid*

Some of the challenges caused by the difference between the alternative reference rates and LIBOR (from a transfer pricing perspective) should be ameliorated by the emergence of such deep markets of transactions or contracts that reference alternative rates. For example, although the SOFR is constructed from interest rates on secured loans, a transfer pricing analysis for an intercompany loan that is unsecured could still identify an arm's length rate that references SOFR, provided that suitable comparable transactions that are also unsecured and that reference SOFR can be identified. Given that US regulators are keen to ensure that the SOFR is adopted in place of LIBOR, it is likely that such comparable transactions would eventually come into existence.

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Intercompany Loans Referencing LIBOR – The Way Forward

As discussed in the foregoing sections, Indian taxpayers who have entered into financial transactions where the interest rate references LIBOR and extends beyond the sunset of the relevant LIBOR rate face two risks – that the specific LIBOR rate referenced in their contract simply may not exist at a time when interest payments come due and the rate has to be calculated, and that comparables referencing LIBOR do not exist for a period where that transaction under review is still referenced to LIBOR.

Hence, Indian taxpayers with intercompany financial transactions such as ECBs, where the interest rate references LIBOR and the life of the transactions extends beyond the sunset date of the relevant LIBOR rate need to plan for the period beyond LIBOR. A first step to planning for the post-LIBOR reality would be to analyse existing intercompany loan agreements, transfer pricing policies and other documentation to determine where the exposure to LIBOR exists. Further, as discussed above, a substantial body of Indian transfer pricing case law exists that reinforces the use of LIBOR as a reference rate in the arm's length price determination of intercompany financial transactions that are undertaken in foreign currencies. Hence, transfer pricing planning reports, transfer pricing documentation studies and transfer pricing master files should also be analysed to ascertain where the Indian taxpayer and the international group of which it may be a constituent entity relies on LIBOR either to set prices for financial transactions or to determine arm's length prices.

Once the exposure of the Indian taxpayer and the group to LIBOR has been determined, however, fixing this exposure and ensuring that the company and the group are ready for the post-LIBOR world is not as simple as simply replacing LIBOR in intercompany agreements, transfer pricing policies, documentation studies and master files with the relevant successor rate such as SOFR and SONIA. As mentioned in the foregoing sections, these successor benchmark rates differ in many respects from LIBOR – for example due to their being secured rates as opposed to LIBOR, which is based on interest rates for unsecured borrowing. This would imply that the equivalent of, for example an interest rate expressed as 6-month USD LIBOR plus 200 basis points would not be SOFR plus 200 basis points due to SOFR's lack of a term structure and due to it measuring a fundamentally different set of transactions than LIBOR did.

There are two possible solutions for this issue. One approach could be relying on transitional mechanisms being developed by jurisdictions in charge of major global financial systems, such as the US State of New York and the UK Financial Conduct Authority ("FCA"). The State of New York has proposed legislative changes in its latest budget that would interpret references to "LIBOR" in contracts governed under New York law as instead referring to a replacement rate provided by the Alternative Reference Rates Committee of the Federal Reserve Bank of New York ("ARRC"). Such rates are expected to use the SOFR as a base, compounded to create a term structure and also account for the unsecured nature of the original reference to LIBOR[14]. Alternatively, the FCA is proposing to put into place a synthetic LIBOR, which would be a rate published by the ICE in place of LIBOR, which is likely to be SOFR (or SONIA or another relevant successor rate) plus a modifier[15]. Existing documents such as agreements, TP Documentation and TP policies could be modified to refer to either of these two transitional mechanisms instead of LIBOR, ensuring a smoother transition in the short term.

These transitional mechanisms are unlikely to survive in the long term, however. Hence, a second approach could be to rely on the markets. As global financial markets move from contracts that reference LIBOR to contracts that reference successor rates such as SOFR and SONIA, new contracts that refer to SOFR and SONIA from the very beginning are likely to become more and more common. As discussed in a previous section, deep financial markets for bonds and other financial instruments referencing SOFR and SONIA are already beginning to develop. Hence, for new financial transactions and existing LIBOR-referencing contracts that are expected to last several years into the post-LIBOR world, a fresh transfer pricing benchmarking analysis to identify comparables that reference these successor rates could be a better, more long-term solution.

Conclusion

LIBOR, the lynchpin of the international financial system for over three decades is coming close to its end, and Indian taxpayers with intercompany financial dealings with rates referencing this rate will have to join myriad other financial market participants in planning for the end of the benchmark. We have discussed two approaches to manage this transition for Indian taxpayers with intercompany contracts referencing LIBOR beyond the sunset dates of LIBOR – either relying on transitional mechanisms developed by global regulators such as the State of New York or the FCA, or to conduct fresh transfer pricing analyses to determine new comparable transactions whose rates reference benchmarks such as SOFR or SONIA.

> Successor benchmark rates differ in many respects from LIBOR – for example due to their being secured rates as opposed to LIBOR, which is based on interest rates for unsecured borrowing.

Whichever approach is selected, it is imperative that taxpayers act to identify their exposure to LIBOR in their intercompany dealings and put in place mechanisms to move past the end of LIBOR. While LIBOR for certain currency and maturity pairs is slated to end in less than a year, prompt action could ensure a smooth transition and operational transfer pricing and transfer pricing compliance issues for the parties involved.

[14] *Draft New York State Budget Addresses LIBOR Transition – Parisi, D. et al, Mondaq.com, 1 March 2021 https://www.mondaq.com/unitedstates/securitization-structured-finance/1041324/draft-new-york-state-budget-addresses-libor-transition*

[15] *"Synthetic LIBOR" - What is it? – Schneider, E., Nixon Peabody, 29 October 2020 https://www.nixonpeabody.com/en/ideas/articles/2020/10/29/synthetic-libor*

AMP Expenditure : A Treatise

After the reforms of economy, starting early 1990s, through liberalization, privatization and globalization, there has been increase in foreign investment in India. Even now, the Indian Government has been taking steps to attract FDI. The steps taken by the government to increase the 'ease of doing business ' and to promote the 'Make In India' are increasing. Also, the Indian Market is a major growing market, thereby attracting many international players. Hence, many foreign companies have been well established in India in various sectors right from FMCG, mobiles, electronics, e-commerce to Automobile. As a corollary, the foreign brands have been incurring huge amount of Advertising, Marketing and Promotion (AMP) Expenses. Amidst such efforts of the government to increase foreign Investment the MNE's in India continue to face the heat of tax litigations leading to increasing uncertainty among them. Read on…

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One of the major issues in this arena being faced by almost all the major MNE is with respect to Transfer Pricing (TP) adjustment of AMP expenses. The issue of AMP expenditure incurred by the Indian Associated Enterprise (AE) has been a much debated issue and continues to be litigated at various forums and is currently pending before the Supreme Court of India. The Author tries to analyze various tests laid down by the judiciary with respect to the TP analysis of AMP expenditure.

I. Issue For consideration

The foreign companies have been typically operating in India by

setting up a subsidiary in India. The Indian subsidiaries depending on the business model adopted by the foreign parent are performing variety of functions. These functions include manufacturing of the product, marketing of the product, and distribution of the product. In many of the cases, the Intellectual Property Rights (IPR) such as the technical knowhow, Trade Marks, Patent are owned by the foreign parent Associated Enterprise (AE) and the Indian subsidiary pays royalty for the use of the IPR owned by Foreign AE. In case of manufacturing entities, the parent company also supplies the raw material along with the technical knowhow and other requirements. The Indian subsidiary may also act as distributor for selling the goods supplied by the foreign parent. In order to increase their sales or as per the marketing strategy, the subsidiary often incurs expenses in the nature of Advertisement, Marketing and Promotion. The AMP controversy revolves around the issue whether the expense incurred by such AE are excessive, are of non-routine nature and are in fact being incurred for the purpose of promoting the brand which is owned by the foreign AE and in such a case the Indian subsidiary should be remunerated on Arm's Length basis for such expenses.

II. Legislative History

The TP adjustment in respect of AMP expenses has been a hotbed of perennial litigation. The issue has been considered by various Income Tax Appellate Tribunals (ITATs) and High Courts and is currently pending before the Honorable Supreme Court. Few important judgments in this respect are as follows:

1. Maruti Suzuki India Ltd. vs. Addtl. CIT/TPO (2010) 328 ITR 210 (Del)

The first Landmark judgment can be said to be the decision of Delhi High Court In the case of Maruti Suzuki. In this case it was held that the AMP expenses were an international transaction and the Indian AE was to be compensated for the excessive AMP incurred. The matter was remanded back to AO/TPO for fresh determination of the case. The said judgment was challenged before the Honorable Supreme Court, the Supreme Court while observing that the Hon HC not only remitted the case back to AO/TPO but also made certain observations on merits of the case which virtually concluded the matter. The Hon SC than directed the TPO to proceed with the matter without taking into consideration the observations made by Hon HC. Hence, the ratio of the earlier judgment of the Hon HC lost its precedential value.

> The AMP controversy revolves around the issue whether the expense incurred by such AE are excessive, are of non-routine nature and are in fact being incurred for the purpose of promoting the brand which is owned by the foreign AE and in such a case the Indian subsidiary should be remunerated on Arm's Length basis for such expenses.

2. LG Electronics India Pvt Ltd [TS-11-ITAT-2013(DEL)-TP]

The issue came up for consideration before the Special Bench of Delhi Income Tax Appellate Tribunal (ITAT) in the case of LG Electronics India Pvt Ltd . The tribunal in this case relied upon the 'Bright Line Test' to confirm the existence of international transaction in form of ALP. The tribunal also did not allow aggregation of transaction and held that AMP expenses to be benchmarked separately.

3. **Maruti Suzuki India Limited vs CIT (2016) 381 ITR 117(Delhi)**

Maruti Suzuki India Limited was Indian subsidiary engaged in manufacturing of passenger cars in India. MSIL was co-owner of the brand in this case. The net Margin of MSIL was higher than other comparables. The Honorable Delhi High Court based on the above facts in this case held that the AMP expenses does not amount to international transaction.

4. **Sony Ericsson Mobile Communications India Pvt. Ltd. v Commissioner of Income Tax [(2015) 374 ITR 118]**

In this case the Indian subsidiaries were engaged in distribution and marketing of branded products, manufactured and sold by foreign AEs. The Honorable Del HC rejected the theory of Bright Line test but held the AMP expense incurred to be an international transaction. Moreover, in this case the Delhi High Court allowed aggregation of transactions of AMP expense and calculation of Net Margin from all the transactions using TNMM method.

5. **Diageo India Pvt Ltd (ITA No 1228/Mum/2015)**

In this case it was held by the Mumbai ITAT that there exists a mutual agreement between the assessee and the foreign AE to incur AMP expense, and agreement also provides for apportionment of cost between the AEs hence this qualifies as an international transaction.

6. **NGC Network (India) (P) Ltd. v. Addl. CIT (ITA No. 6829/Mum/2012)[1]**

NGC Network (India) was engaged in business of distribution of two satellite channels and had incurred AMP expenses. The ITAT after relying on the Third member judgment in the assessee's owns case which was latter affirmed by the Honorable Bombay High Court, has held that, the AMP expenditure incurred by the assessee was to make the viewers aware about the programs and were for product promotion and not brand promotion, further there was no arrangement/ agreement with foreign AE for incurring of AMP expenses. Hence, the amount of AMP expenses cannot be termed as international transaction.

> "It is pertinent to note that the Bright Line Test does not have any statutory recognition under the Indian Income tax law.

III. Some of the important points which can be culled out from the judgments are as follows:

1. **International Transaction**

Sec 92 provides that income from any international transaction shall be computed having regard to the ALP. In the given case, it is required to be determined whether

[1] *Some of the other judgments dealing with the issue are*

1. *Nivea India (P.) Ltd. v. ACIT (2018) 92 taxmann.com 165 (Mum.) : (Mum-Trib),*
2. *Lor al India Pvt. Ltd. & Ors v. DCIT & Ors. (2016) 49 ITR (Trib.) 473 (Mum.),*
3. *Mondelez India Foods Pvt. Ltd. v. ACIT (2016) 47 CCH 98 Mum*
4. *Bausch & Lomb Eyecare (India) Pvt. Ltd. & Ors. v. Addl. CIT. (2015) (2016) 381 ITR 227 (Del.)*
5. *CIT v. Whirpool of India Ltd. (2015) (2016) 381 ITR 154 (Del-HC),*
6. *Honda Siel Power Products Ltd. v. Deputy CIT (2015) 94 CCH 170 (Del-HC).*
7. *Johnson Pvt. Ltd. v. ACIT [ITA No. 6142/Mum/2017, (Mum-Trib),*

there is any 'International Transaction' between the Indian Company and the foreign AE. Hence, it must be first ascertained as to whether AMP is an international transaction. The term International transaction has been defined under section 92B. The ambit of the definition is very wide. Sec 92B inter alia specifically includes in its ambit a mutual agreement or arrangement between two or more associated enterprises for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises. In accordance with provisions of sec 92B, there must be some mutual agreement or arrangement between the AE's or some obligation on the part of Indian AE to incur such an expense. The aspect of existence of International transaction in AMP expense is based on the peculiar facts of each case and the judiciary has laid down various tests which are relevant for this purpose.

2. The Bright Line Test

In order to prove the existence of International transaction Bright Line Test is often used by the Revenue. As per the test the total AMP expenditure is bifurcated into routine and non-routine expenses based on comparison with other companies. A Bright Line is deduced by calculating the average percentage of AMP expenses. The expenses over and above such bright line is considered to be incurred by the Indian entity for the Foreign AE and accordingly adjustment is made by charging a mark-up on the above cost of AMP applying Cost Plus Method (CPM).

It is pertinent to note that the Bright Line Test does not have any statutory recognition under the Indian Income tax law. Existence of an international transaction is a sine qua non for provisions of Transfer pricing to apply. The bright line test cannot be used to ascertain the existence of international transaction. This view stands affirmed by the Hon Delhi HC in the case of Sony Ericsson Mobile Communications India Pvt. Ltd. v Commissioner of Income, which has been followed in many cases subsequently.

3. Economic Ownership

Ownership of an asset can be divided into two parts - legal ownership and economical ownership. The legal owner refers to a person who is the registered owner of the property, while the economical owner is not the legal owner but is the entity which incurs the expenditure for developing the and subsequently my derive economic benefits from the assets. The legal owner of the Intangible Property Rights in almost all the cases is the foreign Parent Company. However, economic ownership of the asset may be with the Indian Counterpart. Economic ownership of brand can also be said to be an Intangible Asset just like a Legal ownership. Consider an example of Entity having a long term contract of Sole distribution arrangement. In such a case, if sole distributor has incurred heavy expenditure on advertisement he may

> Nevertheless, determination of economic ownership is a rigorous factual exercise and would depend on many factors such as the tenure of the contract, the functions being performed by the entities and the contractual arrangements between entities. The burden to prove economic ownership lies on the assessee.

benefit by increased volume of sales and market share. In such a case the entity is said to be economic owner of the brand. In case of economic ownership there cannot be said to be any services provided by the Indian AE to the foreign parent in respect of AMP expense incurred and no compensation is required for the purpose of the excessive expenditure. Nevertheless, determination of economic ownership is a rigorous factual exercise and would depend on many factors such as the tenure of the contract, the functions being performed by the entities and the contractual arrangements between entities. The burden to prove economic ownership lies on the assessee.

The OECD Transfer Pricing guideline in Para 6.36 to para 6.39 while dealing with marketing intangible also take into consideration the concept of economic ownership. The concept of Economic ownership of the marketing intangibles has also gained judicial recognition in India.

4. **Aggregation of transactions and set off of bundled transactions**

Yet another issue which is for consideration is whether the AMP expense incurred should be analyzed separately or should it be aggregated with other transactions of the entity for benchmarking. As per the OECD Guidelines and the judgments of Maruti Suzuki India Limited vs. CIT as referred above If the transaction is aggregated than it would be adequate if the entity is earning adequate net margin on all its transactions combined and there would be no need to benchmark AMP expenses separately. If the transactions are inter linked and inter related to such an extent that they cannot be reliably analyzed separately or if aggregating them increases the reliability of comparison than it is desirable to aggregate the transactions. However, when the bundled transactions cannot be adequately compared on aggregated basis, segmentation is essential.

The issue of segmentation gains importance especially in the case when the AE has adopted Transactional Net Margin Method (TNMM) and the Net Margin of the AE is higher than other comparable. In the case of Maruti Suzuki India Limited vs. CIT (Supra), the operating margin of the company was 11.19% whereas the margin of other comparables were 4.04%. The Honorable Delhi High Court after taking into consideration this fact and the provisions of Rule 10B, decided that no further TP adjustment is required as the Net margin of the AE is higher than the comparables.

> Hence, it can be inferred that under the Indian Tax Regime there is absence of statutory and machinery provision for determination of existence of international transaction in respect of AMP expenditure incurred by the Indian AE. In absence of such a machinery and statutory provisions no TP adjustments can be made.

5. **Direct Selling/Marketing Expenses**

The Indian AE while selling the product may allow various trade discounts, cash discounts, loyalty bonus, turnover incentives etc. These expenses are termed as direct/selling or marketing expenses. A question would arise as to whether they would be included in the AMP expenses. It is to be noted that these expenses essentially help in increasing the sales volume/

collection and as such are not incurred for the purpose of brand building. Hence, they are not to be included in the AMP expenses. This view is now settled by various judicial decisions as mentioned above.

6. **Existence of prior arrangement/agreement**

As per the Sec 92B, Existence of prior arrangement/agreement between the Indian subsidiary and foreign parent is essentialto constitute an international transaction. Even in the absence of a formal written agreement inferences can be drawn from the facts of the case. The Indian AE should be mandated to incur certain amount of AMP expense as per the agreement/arrangement with the foreign AE or the group's policy, in such a case the AMP expenses incurred can be termed to be international transaction and would require appropriate TP analysis. However, if the Indian AE determines the marketing policy and quantum of AMP expenses itself which are not dictated by foreign AE and there is no prior agreement/arrangement it cannot be termed as an international transaction.

7. **Absence of Machinery Provision under the Act**

As discussed earlier, the Bright Line Test has no statutory recognition in India. The only statutory provision which has application in this case is sec 92. Section 92 provides that in case of international transaction income shall be computed having regards to ALP. Sec 92C deals with Computation of ALP and lists down method for computation of ALP. Hence, it is evident that what is envisaged in the Statutory Provision is a price adjustment. Adjustment of quantum of AMP expense incurred is not envisaged in the Act. Moreover, determination of existence of international transaction precedes determination of ALP. Hence, it can be inferred that under the Indian Tax Regime there is absence of statutory and machinery provision for determination of existence of international transaction in respect of AMP expenditure incurred by the Indian AE. In absence of such a machinery and statutory provisions no TP adjustments can be made. The Hon SC in the case of CIT v. B.C. Srinivasa Setty (1979) 128 ITR 294 (SC) and PNB Finance Ltd. vs. CIT (2008) 307 ITR 75 (SC) has affirmed that in absence of the necessary machinery provisions to tax the income, no Income Tax can be levied on the same.

8. **Difference between product promotion and brand promotion**

AMP expenditure incurred can be necessarily differentiated into expenditure incurred for product promotion and expenditure incurred for brand promotion. The benefit of product promotion accrues to the Indian AE and whereas in the case of brand promotion the benefit would accrue in the form of increase in the brand value to owner of the brand.

The presence of an international transaction cannot be inferred merely on the pretext of

> The presence of an international transaction cannot be inferred merely on the pretext of incidental benefit accrued to the Foreign AE due to the advertisement. Hence, merely because the AE has entered huge amount of expenditure on advertisement It cannot be concluded that the AMP is an international transaction.

incidental benefit accrued to the Foreign AE due to the advertisement. Hence, merely because the AE has entered huge amount of expenditure on advertisement It cannot be concluded that the AMP is an international transaction.

IV. Relevant OECD and UN Guidelines

Paragraphs 6.36 to 6.39 of the OECD Transfer Pricing Guidelines deal with the issue of marketing intangibles which have been reproduced for ready reference:

"6.36 Difficult transfer pricing problems can arise when marketing activities are undertaken by enterprises that do not own the trademarks or tradenames that they are promoting (such as a distributor of branded goods). In such a case, it is necessary to determine how the marketer should be compensated for those activities. The issue is whether the marketer should be compensated as a service provider, i.e., for providing promotional services, or whether there are any cases in which the marketer should share in any additional return attributable to the marketing intangibles. A related question is how the return attributable to the marketing intangibles can be identified.

6.37 As regards the first issue- whether the marketer is entitled to a return on the marketing intangibles above a normal return on marketing activities- the analysis requires an assessment of the obligations and rights implied by the agreement between the parties. It will often be the case that the return on marketing activities will be sufficient and appropriate. One relatively clear case is where a distributor acts merely as an agent, being reimbursed for its promotional expenditures by the owner of the marketing intangible. In that case, the distributor would be entitled to compensation appropriate to its agency activities alone and would not be entitled to share in any return attributable to the marketing intangible.

6.38 Where the distributor actually bears the cost of its marketing activities (i.e. there is no arrangement for the owner to reimburse the expenditures), the issue is the extent to which the distributor is able to share in the potential benefits from those activities. In general, in arm's length transactions the ability of a party that is not the legal owner of a marketing intangible to obtain the future benefits of marketing activities that increase the value of that intangible will depend principally on the substance of the rights of that party. For example, a distributor may have the ability to obtain benefits from its investments in developing the value of a trademark from its turnover and market share where it has a long-term contract of sole distribution rights for the trademarked product. In such cases, the distributor's share of benefits should be determined based on what an independent distributor would obtain in comparable circumstances. In some cases, a distributor may bear extraordinary marketing expenditures beyond what an independent distributor with similar rights might incur for the benefit of its own distribution activities. An independent distributor in such a case might obtain an additional return from the owner of the trademark, perhaps through a decrease in the purchase price of the product or a reduction in royalty rate. Para 10.4.8.17 and Para 10.4.8.18 of the UN TP manual also deal with the issue of Marketing Intangibles.

V. Conclusion

The question whether the AMP expenditure incurred is an international transaction is a complex question and needs to be answered after undertaking rigorous factual analysis based on the factors mentioned above. Special emphasis should be laid on Functional, Asset and Risk analysis as well as the contractual terms between the entities in this regards. Caution should be exercised by the MNE group while drafting the advertising policy, agreements or arrangements so as to save itself from the TP disputes.

Recent Proposed Changes in US Tax Laws and their Impact on India

Since time immemorial, taxes have been imposed on income, but the form of their imposition has evolved over time. The quality, quantum and speed of this evolution has been particularly pronounced in the last decade or so– predominantly due to globalization of world economy assisted by digitalisation. However, in spite of these changes, the basic philosophy remains the same – Collection of revenue for the government, arguably, being the first priority, followed by several other socio-economic goals, such as job creation and helping industry to grow in a desired sector / location. A critical objective that has been added lately to this list is – to create a stimulus, in order to help industry get back to the pre-pandemic position and provide job opportunities. Recently, USA has joined the efforts to create such a stimulus. Read on…

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On 31st March 2021, an outline of the *'Made in America Tax Plan'* (MATP) was introduced alongside President Biden's 'American Jobs Plan' (AJP). This has been followed by release of the MATP by the US Department of Treasury, describing President Biden's tax proposals. In this article we have analyzed the recent historical background of relevant tax laws of US, the MATP proposals, and its potential impact on India.

Historical Perspective

Last time the US tax laws underwent far reaching changes through the Tax Cuts and Jobs Act of 2017 (TCJA) signed into law by the then US President, Donald Trump, which amended the Internal Revenue Code of 1986. Some of the key changes made by TCJA were as under:

- TCJA lowered the federal corporate taxes from 35% to a flat rate of 21%. This reduction lowered the US tax rates below that of OECD's average corporate tax rates of 23.9% (2018).
- Introduction of incentives for Foreign Derived Intangible Income (FDII), which represents the category of income that is not specifically traced to intangible assets, but the same is deemed to be generated from IPs. To the extent it is received from any non-US person for services provided to persons outside USA, it

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enjoys a 37.50% deduction allowance, thereby bringing its Effective Tax Rate (ETR) down to 13.125%.

- Imposition of tax on GILTI, which stands for Global Intangible Low Taxed Income. GILTI is earned abroad by foreign Controlled Foreign Corporations (CFCs) of US companies, from easily movable intangible assets, such as IP rights. TCJA introduced provisions requiring its inclusion in the US shareholder's taxable income through pro rata attribution of CFC's gross income to such shareholder. In computing this income, an exemption is allowed for the first 10% return on the CFC's fixed assets that are depreciable as trade / business assets.
- Introduction of 'Participation Exemption' system under which a US corporation received a 100% Dividends Received Deduction (DRD) for dividends received by it from a foreign company (of which, it owned 10% or more) out of foreign-sourced earnings of the latter.
- Introduction of Base Erosion Anti-abuse Tax (BEAT), which applies if 10% of a US corporation's modified taxable income (computed after adding back cross-border payments to related parties) exceeded its regular tax liability (before certain specified tax credits). Objective of BEAT was to target US corporations that significantly reduced their US tax base by making payments to foreign affiliates.

Salient Features of MATP

Inter alia, the objectives of MATP can be identified as under:

- To incentivize job creation and investment in US;
- To stop profit-shifting to tax havens; and
- Ensuring that large corporations pay their fair share of taxes.

To fully appreciate the sentiments behind MATP, it may be worth noting the backdrop of AJP that focuses extensively upon revitalizing manufacturing sector in US, out-competing China (particularly w.r.t. investment in infrastructure and Research &Development), and creating good quality jobs for American citizens. The AJP also seeks to modernize the US transport infrastructure, improve its drinking water systems, renew the US electricity grid, bring affordable high-speed broadband to every American, build / retrofit / modernize residential and commercial buildings (including schools, child-care facilities and hospitals) and train Americans for future jobs. At the same time, the MATP is up-front in its intent to undo several of the changes introduced by the TCJA.

Following are the changes proposed to be made by MATP, to present tax laws:

1. Increasing the **federal corporate tax rate to 28%.** As mentioned above, the corporate taxes were brought down by TCJA w.e.f. 1 January 2018, to a flat rate of 21%.

   Similarly, the TCJA had eliminated the corporate Alternative Minimum Tax (although some states have alternative taxes). It is now proposed to re-introduce the same @ 15% on 'book income' of corporations.

   The MATP has justified such restoration of tax rates by citing several papers and reports to highlight that the aforesaid rate cuts did not result in any long-term economic growth. Of course, one may wonder

"The American Job Plan also seeks to modernize the US transport infrastructure, improve its drinking water systems, renew the US electricity grid, bring affordable high-speed broadband to every American, build / retrofit / modernize residential and commercial buildings (including schools, child-care facilities and hospitals) and train Americans for future jobs.

whether the economic impact of tax rate cuts could have been reasonably measured in such a short span of time (of barely over 3 years), particularly when ongoing pandemic could have significantly skewed the investment and growth statistics.

2. Introduction of **a Global Minimum Tax.** The core philosophy of this proposal is to bring to an end, the 'race to bottom' between countries to bring down their respective corporate tax rates, thereby creating tax arbitrage opportunities of shifting profits to low tax jurisdictions (or much worse, tax havens). As a matter of fact, in her recent address at the Chicago Council of Global Affairs, the US Treasury Secretary Ms. Janet Yellen has also called out all the countries to introduce a global minimum tax.

3. In tandem with the pursuit for the global minimum tax, the MATP also proposes to double the minimum tax on US shareholders of foreign CFCs with **GILTI, from 10.5% to 21%,** and removing the initial exemption therein of 10% of return on its tangible depreciable property.

   Presently, GILTI computation is undertaken at the shareholder's level, allowing corporations to offset income in one CFC against losses in another. It is now proposed that the said computation will be made on a country-by-country basis, so that it hits the profits diverted to low tax jurisdictions.

   It may be worth noting that where any tax is paid on such income (GILTI) in a country other than US, the present law allows a credit of 80% of the amount of such tax, against the US tax liability on the said income. This tax credit has not been curtailed by the MATP, which is a saving grace for US shareholders that are subjected to GILTI taxes.

4. The MATP also proposes to remove the tax incentives for Foreign Derived Intangible Income (FDII).

   As discussed above, FDII represents an income from export of services (or property) which is taxed at a low rate – even if such an export is made to a related party – which could incentivize US corporations to shift their assets abroad. This discontinuance of FDII deduction is aimed at neutralizing the abuse of such incentives as a means to reduce group level tax costs.

5. Disallowing write-off / deduction of expenses from off-shoring jobs and granting a tax credit to support on-shoring of jobs.

   The specifics of this proposal, as regards manner of identification of the expenses targeted to be disallowed, are still awaited.

6. It is proposed to replace BEAT with Stopping Harmful Inversions and Ending Low-tax Developments or SHIELD (full points for another sleek acronym!). SHIELD should deny US tax deduction by reference to payments by MNEs to related parties that are subject to a low ETR. Such ETR threshold will eventually be defined through / agreed under a multilateral agreement; however, till the time such an agreement is reached, the GILTI tax rate of 21% could act as the trigger point for SHIELD.

7. MATP proposes to introduce provisions that will make inversions of US entities difficult. Inversion is a device through which a taxpayer resident in a particular jurisdiction, changes its tax domicile (often to a low tax country). This is often achieved by merging with a foreign entity, undertaking a share-swap with an intermediate holding company located in a tax friendly jurisdiction, or by simply shifting one's headquarters. At one point of time, tax

> "Taxation is considered, as one of the tools to revitalize economy. The challenges for all jurisdictions are manifold – protect their economy from sliding down, protect their tax bases and encourage foreign investments.

inversions were rampant in USA. Even presently, it is common for US corporations to externalize their tax domicile through questionable means, to avoid US taxes.

8. MATP proposes to eliminate special preferences (by way of subsidies, special foreign tax credits, etc.) for fossil fuel industry, to penalize polluters through tax disincentives, and to restore tax on polluters to pay for Environmental Protection Agency's clean-up costs associated with Superfund sites[1]. Further, it proposes to provide a 10-year extension of the production tax credit and investment tax credit for clean energy generation and storage and making those credits direct pay[2]. It is also proposed to create incentives for long distance transmission lines, state-of-the-art carbon capture and sequestration projects.

9. Lastly, the MATP makes no reservations in proposing to reverse the trend of reduced tax audits / scrutinization of large corporations. It is expected that broader enforcement initiatives shall be announced, to address tax evasion by corporations and high income Americans.

Likely Impact on India

1. **Increased US tax costs:** Several of the MATP proposals will result in an increased tax cost for US companies. In short-term, this could make doing business in India, more tax competitive. At the same time, it will adversely affect Indian MNC groups with US subsidiaries and affiliates.

2. **Global Minimum Tax:** While convincing all the countries (particularly the one's that strive on their preferential tax regimes) to adopt a global minimum tax could pose a tall challenge, the same should, in the medium-to-long run, create a level playing field. It should also discourage unfair tax competition, particularly affecting high-tax economies such as India, which are often susceptible to base erosion through use of tax havens.

3. **Increase in GILTI taxes:** This increase should not affect India significantly, since Indian group companies of US entities are seldom the recipients of any such IPs that could redirect towards them, any royalty income of the group / US parent. Even otherwise, there is no significant gap between 80% of tax rate applicable to most Indian companies, and the US GILTI rate of 21%.

4. **Removal of FDII deduction:** This could result in an increased tax costs for asset-lean US subsidiaries of Indian groups that may be undertaking functions such as R&D, etc. Conversely, the increased tax cost of US companies from rendering services to foreign clients will, in all likelihood, be passed on to such clients, including Indian service recipients.

5. **Dis-incentivizing off-shoring of jobs and production:** While the exact mechanics of this proposal are still awaited, it could have the most far reaching impact for India, given a significant degree of dependence of the Indian outsourcing industry on US.Also, it is clear that India has been trying to benefit from the anti-China sentiments in global policy-makers' community, by positioning itself as the global manufacturing hub; and this MATP proposal could put a dampener on such aspirations. Many Indian IT companies are strengthening their subsidiaries / branches with US employees. This may reduce the impact. But, nonetheless, it may have adverse impact on India.

6. **Backstop for Inversions:** As regards proposals creating a backstop for externalization, they are unlikely to have a significant impact on India Inc – given that India has hardly ever been a choice

[1] *Superfund sites are polluted locations (such as oil refineries, smelting facilities, mines, and other industrial areas) in USA requiring a long-term response to clean up hazardous material contaminations*

[2] *Direct pay allows taxpayers (such as clean energy developers) to treat certain tax credits as an overpayment of taxes and monetize them as cash refunds from the Treasury after filing their annual tax returns.*

for such US corporations, to externalize to.

Conclusion

Tax laws are not static - they undergo changes with the need of economic, social and political situations. The proposed changes in US are driven by these factors, accentuated by COVID-19 pandemic which has been damaging the economy of countries across the globe. Taxation is considered, also, as one of the tools to revitalize economy. The challenges for all jurisdictions are manifold – protect their economy from sliding down, protect their tax bases and encourage foreign investments, under these conditions, staying abreast with the changes in US is indispensable for Indian tax and finance professionals too, since it is natural that such significant changes in tax laws of the most powerful economic jurisdiction could have a significant impact on India Inc, as well as on Indian policy makers. ■■■

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IND AS/IGAAP- Interpretation and practical application: CSR-Whether a day 1 obligation? by Dolphy D'souza. *Bombay Chartered Accountant,* Vol.52-B/2, March 2021, pp.63 & 69.

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Rebuilding faith in audit by Stuart Cobbe. *International Accountant,* January/February 2021, pp.14-15.

Staying vigilant against fraud during the pandemic: Internal controls need to be front and center, as the COVID-19 crisis has increased the incentive and opportunity for fraud by Cecilia. *Journal of Accountancy,* March 2021, pp.17-19.

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Unconventional Monetary Policy in Times of Covid-19. *R.B.I Bulletin,* Vol.75/03, March 2021, pp.41-51.

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How to shift from selling products to selling services: It takes different skills and a different focus by Doug J. Chung. *Bombay Chartered Accountant,* Vol.52-B/2, March 2021, pp.48-51.

Strategic Management and corporate governance- Two sides of the same coin by A Sekar. *Chartered Secretary,*Vol.51/3, March 2021, pp.105-108.

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6. Taxation and Finance

Acquiring the tax benefits of a corporation: Avoid recharacterization of tax losses in M & As by Ray A. Knight and Lee G Knight. *Journal of Accountancy,* February 2021, pp.36-41.

Future of inheritance tax by Dennis Petri. *International Accountant,* January/February 2021 pp.22-23.

Taxation of Digitised economy- Significant economic presence and extended source rule by Mayur B.Nayak and Tarun Kumar G. Singhal. *Bombay Chartered Accountant,* Vol.52-B/2, March 2021, pp.56-62.

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for such US corporations, to externalize to.

Conclusion

Tax laws are not static - they undergo changes with the need of economic, social and political situations. The proposed changes in US are driven by these factors, accentuated by COVID-19 pandemic which has been damaging the economy of countries across the globe. Taxation is considered, also, as one of the tools to revitalize economy. The challenges for all jurisdictions are manifold – protect their economy from sliding down, protect their tax bases and encourage foreign investments, under these conditions, staying abreast with the changes in US is indispensable for Indian tax and finance professionals too, since it is natural that such significant changes in tax laws of the most powerful economic jurisdiction could have a significant impact on India Inc, as well as on Indian policy makers. ■■■

ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Accounting services quality: A systematic literature review and bibliometric analysis by Vitor Azzari and Emerson Wagner. *Asian Journal of Accounting Research,* Vol.6/1, 2021, pp.80-94.

Financial Accounting: A new normal by Scott Dietz. *International Accountant,* January/February 2021 pp.16-17.

IND AS/IGAAP- Interpretation and practical application: CSR-Whether a day 1 obligation? by Dolphy D'souza. *Bombay Chartered Accountant,* Vol.52-B/2, March 2021, pp.63 & 69.

2. Audit

Rebuilding faith in audit by Stuart Cobbe. *International Accountant,* January/February 2021, pp.14-15.

Staying vigilant against fraud during the pandemic: Internal controls need to be front and center, as the COVID-19 crisis has increased the incentive and opportunity for fraud by Cecilia. *Journal of Accountancy,* March 2021, pp.17-19.

3. Economics

Growth transitions in India : Myth and Reality. *Economic and Political Weekly,* Vol.56/11, 13th March 2021, pp.43-49.

Unconventional Monetary Policy in Times of Covid-19. *R.B.I Bulletin,* Vol.75/03, March 2021, pp.41-51.

4. Investment

Spillover effects in the financial year cycle for Indian Markets by Parul Bhatia. *Asian Journal of Accounting Research,* Vol.6/1, 2021, pp.38-54.

5. Management

Antecedents and consequences of brand hate: Empirical evidence from the telecommunication industry by Olavo Pinto and Amelia Brandao. *European Journal of Management and Business Economics,* Vol.30/01, 2021, pp.18-35.

How to shift from selling products to selling services: It takes different skills and a different focus by Doug J. Chung. *Bombay Chartered Accountant,* Vol.52-B/2, March 2021, pp.48-51.

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Blockchain and Accountancy – A Transformation

Blockchain gained phenomenal recognition with its association with Bitcoin. The technology standouts with its habit of the decentralized database and distributed trust. This genius is just around the corner to impress each aspect of our life. Its power drives a pathway for this incredible technology to blow away accountancy with its out-of-ordinary style. Read more to deep dive into the design of Blockchain, its components, and the benefits it provides to the accountancy profession along with a review of existing applications utilizing its power. Read on...

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What is a Blockchain?

Blockchain technology, elucidated in simple words, means a digital and decentralized database that stores assets and transactions across a peer-to-peer network. Blockchain technology is a unification of two familiar words, blocks and chains. Visualize blocks of data in digital form chained together.

Breaking down Blockchain into its components

Block - A block is like a page of a ledger book. It is a structure made of information stored chronologically but in digital form.

Digital signatures or hash – It is a unique identification of a block together with data stored in it.

Chain – Chaining is a technique of linking the blocks with each other using the hash. It makes the database immutable.

Proof of work - It is a mechanism that slows down the

fabrication of new blocks.

Consensus mechanism - Each participant (node) of Blockchain performs the job of an admin of the data block. Stringing new input along-with the existing block needs acceptance or authentication by most of its participants. This process is known as consensus.

What makes a Blockchain special?

We all have heard that Blockchain is a revolutionary technology. It becomes essential we investigate what makes it so promising.

Traceability – Each block resembles a packet consisting of its data, its hash, and the hash of the previous block as its contents. Every new block added is immutably linked to the last block. The chaining of data brings into existence an audit trail making users trace back the data out of a big database with no effort. Data stored in blocks acts as a proof of ownership.

Permanent data - Changing or tempering data, any line, word, or even just a single digit in a block generates a new signature for the block. The latest signature is different from the initial hash stored in its subsequent block; this breaks the chain. The process creates an alarm for altered data to the users. Cautious users would reject this change and move back to the original record. The process makes data permanent and immutable.

Security - For an alteration to stay undetected, the hacker will need to tamper all the blocks, then redo the proof-of-work for each block till the end of the chain and take control of at least 51% of the peer-to-peer network. Only then the tampered block becomes accepted and reflected in the respective user's Blockchain. Executing this is nearly impossible. As a result, data added can never be changed.

Decentralized and distributed ledger - Instead of using a centralized network, this technology operates on a peer-to-peer network, permitting everyone to join the network. Each participant (nodes) joining the network receives a full copy of the data; gets access, verifies, and validates the data authenticity. Blockchain constructed on the concept of distributed trust requires duly convinced participants for alterations and additions to the Blockchain.

How can Blockchain impact Accountancy?

We frequently hear the term 'Blockchain technology' connected with cryptocurrencies. The use-case of its application goes far beyond just trading cryptocurrency, impacting various sectors. Let us solve the puzzle of how Blockchain can impact accountancy.

Blockchain reforms the reporting and recording of monetary transactions; through the medium of creating a decentralized ledger. Permanent and immutable recording of transactions along-with real-time access by the users; demonstrate an immense impact on accounting. It allows for:

> "Blockchain reforms the reporting and recording of monetary transactions; through the medium of creating a decentralized ledger. Permanent and immutable recording of transactions along-with real-time access by the users; demonstrate an immense impact on accounting.

- Security and Reliability
- Consolidated bookkeeping and real-time access
- Privacy of accessibility of digital data
- Smart-Contracts
- Efficiency in Auditing

To get a picture of the impact of Blockchain on accounting, we need to study and weigh each of the above points.

Security and Reliability - Transparency and immutability are necessary to avoid manipulation, fraud and offer trusted record-keeping by the accounting industry.

Traditionally, storing data in a centralized server makes it effortless for hackers to access. The resultant makes data vulnerable instigating loss and play of valuable information. Born with the talent to store dossier in a distributed manner at multiple nodes cause back up of data. The consensus mechanism acts as a defence for misrepresentation, tampering, and sew-up security.

Further, the timestamp feature acts as a digital waxed seal. It contributes to wipe-out backdating; ensure data stored are accurate, authentic, and chronological. It eliminates the chances of any duplication of transactions or fraudulent activity.

Consolidated bookkeeping and real-time access - Blocks are digital custodians of data. Bringing to play this speciality of Blockchain gives the power to build a robust database by storing different types of information, maintaining its identity and individuality. Pieces of information stretch from the ledger to transactions, contracts, agreements, purchase orders, invoices, authorizations, and reports. Blockchain stores all these in one consolidated place but distributed to every participant making it easily accessible and impossible to mess around with by any user with wrong objectives.

Data stored in blocks acts a proof of ownership. Transaction history pins down each participant's rights and obligations; these are immutable. It behaves like a registry of who owns what and who transacts what.

Its architecture permits a company to share its valuable records with other participants (nodes). A variety of participants, not limited to its employees, departments, suppliers, clients, banks, government authorities, shareholders, or the auditing company, get mileage out of the company data. The real-time element assures each participant that the data shared is dependable, not inflated, dubious, or of an older version. Hence, providing an actual picture of the company's operations, liquidity, profitability, solvency, and risks at any point in time.

Privacy of accessibility of digital data - Blockchain in a private permissioned architecture works in a network of known and identified participants rather than an open network of unknown participants. Permissions to assign 'who can see what' within a distributed ledger is built by putting cryptography to work. Plugging technology into accounting bears positive implications. The technology improves the efficiency of money, asset, and data transactions by addressing privacy and security.

We can understand more clearly with the help of the below use-cases of financial data.

- Company management (managing director, CEO, and CFO) retains full access to all accounting data to make business plans and take decisions.
- Company departments have limited access depending on their functional requirements. The warehouse department deals with stock. They would see the stock records, tracking inventory forecasts and supply, and material inward/outward entries. The human resource department deals with the workforce, would have access to information about employees. Smart-contracts could monitor the working hours or holidays; automate the generation of payslips.
- External stakeholders such as shareholders would

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have access to financial statements, analytical information, and trends, using procedures like data-analytics, which would lead to better-informed decisions.

- The government agencies would have access to data such as revenue, purchases, payable and receivable accounts, and tax filings could become automated.
- The Companies auditor would enjoy full access to ensure transactions are according to accounting standards and accounting principles.

Smart-Contracts - One of the significant developments of Blockchain technology are Smart-contracts. These are self-executing; they handle everything from execution, management, performance, payment, and the recording of transactions. The occurring of an event automatically triggers another event mentioned in the contract.

Smart-contracts are terms of an agreement stored as code. They are masters in compliance with the contract terms that reduce any doubts or ambiguity in many situations. Participants benefit by automating tasks that traditionally occur manually through a third-party intermediary. The technology described above is an expert in speeding up business processes, executing complex transactions like an exchange of money, property, shares, or any asset, thus improving cost-efficiency.

The simplest example to imagine, transfer of money to an overseas client on the delivery of goods. Traditionally, the barter materializes by a third-party intermediary. Taking advantage of Blockchain technology; reduces the number of intermediaries (e.g., banks) who settle the event manually. It self-executes the entire process from identifying trigger transactions and participants through clearing, settling, and record-keeping. The automated process makes settlements more efficient, faster, and cheaper by reducing high commissions and transfer charges.

Let us make sense with another example. Two parties may join to run a smart-contract to kick off a derivative contract to hedge the price of an item X at the end of a year. Participators decide the contract terms, collect hedged funds, and tie in with Blockchain. At year-end, the smart-contract would execute the terms. It would start from gathering the price of item X from a dependable source, defined in the smart-contract, then compute the settlement amount, and end by transfer funds.

Efficiency in Auditing - Current auditing practice is costly, laborious, and time-consuming. Blockchain works over the performance and productivity of the external audit. It amends the way auditors would trust the auditee functioning and management. Blockchain provides the auditor a whole story of the client's business. Thus, the auditor can address crucial points pumping up labour and cost-efficiency. Thrown in together, they allow zoom-in their time and energy on designing procedures on risky, complex elements and internal controls and shun away from manual data extraction or screening and analysis of repetitive transactions. Blockchain teamed up with the AI procedures would profit auditors by gaining command over transactional analysis and material queries.

Blockchain souls a storehouse. Readily available encrypted and secured data allow auditors to complete the audit within the stipulated time and refines the quality of financial reporting. Real-time access to the data via read-only nodes enables them to obtain all required audit information in a consistent and standardized format.

The footmarks of the consensus characteristic aids minimize the need for confirmations or reconciliations. Distributed trust rubs out duplication and intentional omission of data-entry. It improves transparency in asset tracking and skilfully deals with the misappropriation of assets. This hallmark of Blockchain turns out good enough to provide comfort on the existence/rights and obligations assertion and certify the completeness of data.

False transactions, collusion, bogus and unauthorized entries, and accounting fraud are the main reasons for material misstatement and fraud. The timestamp feature produces a stable audit trail making it impossible to backdate records or tamper data. It retains a permanent record of data for the auditing unit, assuring true and fair presentation and disclosure of financial statements.

Auditors work in a diverse and dynamic environment. Blockchain with a programmable personality could greet the auditors with variegated modus operandi. The auditors could shoot to advise management on risks and controls of Blockchain blueprint functioning and processing. They could also land becoming a validator of bonafide participator to access the Blockchain.

No doubt, with the use of Blockchain, the audit process and procedure may become more continuous, real-time, effective, and efficient. Still, an auditor's professional judgment needs to be applied to analyse accounting estimates and assumptions used by management in preparing financial statements. Further, automated processes; demand the auditor to evaluate and test internal controls to maintain the integrity of the financial information.

Exploring existing Blockchain developments

Having understood the vast impact Blockchain can provide on the accountancy profession, it would be unjustified to overlook the recent real-world applications developments which have aided and simplified accounting activities. Let us unfold the evolutionary outcomes against the variety of roles the technology plays.

Remittances, payment system, and bank guarantee - The master has given into existence a new virtual currency which speeds up and simplifies the cross-border payments by reducing the middlemen. Some applications which assist in this role are

- **We.trade:** an IBM product has the expertise to make cross-border trade easier. Leading banks of Europe have joined hands to raise global remittances and payment processes. The We.trade Blockchain platform reduces conflicts and improves the trading process for participating companies, creating trust for global trade. It has simple trading options and standard rules which decrease risk and increase trading opportunities for banks and SMEs.
- **ABRA:** is a cryptocurrency wallet. It enables buying, trading, borrowing, and earning interest on cryptocurrencies. It helps to track the balance in different currencies.
- **Bitpesa:** is a Blockchain payments start-up and digital foreign exchange. It focuses on simplifying and polishing payments to and from African markets.
- **Circle:** builds a treasury infrastructure effectively for smoother global payments, pay-outs, and high-yield digital dollar accounts built on USD coin (USDC).
- **Lygon:** Blockchain platform is first-of-a-kind to digitize and transform the bank guarantee process for both financial and performance guarantees. It enables applicants, issuers, and beneficiaries for paperless, standardized, secure, and safe management legally binding guarantees.

Derivative and trading– There has been revolution in the process, transparency, and complexity of derivative contracts by providing real-time information on a decentralized distributed network. With proper regulations and controls, trading and short-term investment avenues have been opened. Some applications which assist in this role are:

- **Chain analysis:** are builds tools to help financial institutions and governments to understand, monitor, and comply with regulatory guidance of cryptocurrencies. It has an Investigating nature that detects fraudulent trading, monitors laundering and violations of compliances, and builds trust.
- **Chain**: using sequence a cloud Blockchain infrastructure provides for building safe and efficient financial services.

It manages financial assets in token format and transfers them across public networks.

Supplier/customer KYC Management – The technology helps build and retain the reliability of suppliers and customers. It serves to identify the parties to the contract are reputable, qualified, and with no fraudulent background. Some applications which assist in this role are:

- **Trust Your Supplier:** is an IBM Blockchain-based solution for identifying, onboarding, and managing qualified suppliers.
- **KYC-Chain:** provides services of individual and corporate KYC. They help in document identification, ID verification, and crypto funds screening. Thus, provides a check on customer and supplier identities

Supply Chain Management- The technology improves the tracking of the origin of manufactured goods from the stage of production to retail destinations, as a result boosting transparency and traceability for everyone in the chain curbing fraud and cheating. It aids in efficient inventory management by enabling accessibility of real-time inventory records by everyone in the network namely, supplies, distributors, or even retailers, thereby eliminating confusion, tampering, and excessive pricing and hoarding of goods. Blockchain enables digitally secure payment automatically on satisfying the credit terms and conditions. An applications which assist in this role is TradeLens, which is an IBM Blockchain that works on a permissioned network and serves as a digital shipment freight management tool. It provides real-time transport insight, quick access to immutable documents, reduces the cost, and improving security.

Warranty Management - Blockchain manages false claims, misunderstandings, and fake products by bringing a better customer experience. The company also benefits from using Blockchain for the reconciliation of invoices and resolution of the dispute. An application in this regard is Pega which provides warranty solutions with faster and easy tracking of authentic transactions and claims settlements.

Taxation and Risk Management – Blockchain assists in early identification of risk and fraud and makes the audit and taxation process more continuous, real-time, effective, and efficient. There are different applications that have been developed to assist in taxation and risk management by some of the leading accounting firms.

Endnote

The world of Blockchain is eye-catching and fascinating, drawing professionals towards its charm. The technology opens the road to bring in its expertise on many unknowns and undiscovered zones. Company management, accountants, auditors, IT professionals, and start-ups must focus on taking action to put 'theory' into 'practice' and make research and developments. The advantages urge to raise the curtain and capitalize on the rapidly changing technology to digitally transform the picture of accountancy but various other aspects of life. ■■■

Impact of Artificial Intelligence on Economics, Finance and Accounting

The strong artificial intelligence (AI) revolution is bringing significant changes in the world of economics, finance and significantly altering the accounting profession. From the perspective of accounting professionals a wise move will be to espouse the technological challenges and adapt to the new business and management requirements by developing new AI skill sets and competencies. The advent of artificial intelligence is a highly important event in the history of economics, finance and accounting and objective should be set to effectively harness the power of AI to enhance the economic conditions in which we all can flourish. Read on...

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Artificial intelligence (AI) is the imitation of intelligent human behavior and thought processes in performing of various tasks. The mindboggling processing of almost infinite data at super speed, enormous storing capability and the development of mobile devices using technology are transforming the global economic system fundamentally as steam power did during first industrial revolution with almost godlike capabilities. With the present growth of computational capabilities AI will soon have the skills and intelligence of the human brain. With the developments in machine learning (ML) and deep learning (DL), machines are performing human tasks right from calculations to car driving, speech recognition, legal services, radiology, vaccine research and used in factories and battlefields.

Apart from automating routine low-skilled jobs, AI is increasingly automating creative work performed by high-skilled workers. AI has potential not only to compliment human labour but to replace

> AI is moving toward super intelligence, an intellect much smarter than the best human brains in practically every field, including scientific creativity, general wisdom and social skills.

human labour in an entirety. AI is moving toward super intelligence, an intellect much smarter than the best human brains in practically every field, including scientific creativity, general wisdom and social skills.

The big data science, machine and deep learning algorithms such as Natural language processing(NLP), Support vector machine (SVM), genetic algorithms, clustering/ classification-Nearest Neighbor (KNN) and Reinforcement learning (neural network, Bayesian network, Naïve Bayes), Random Forests (RF), Logistic Regression (LR), Naive Bayes (NB) and Convolutional Neural Networks (CNN)are enhancing AI capabilities which can be used in production of goods and services in all the industries and even changing the organization structures of firms using this technology.AI is helping to solve complex problems by creating new ideas and scaling creative efforts. AI's great ability of self-improvement can lead to "singularities" where boundless computer intelligence and economic prosperity materialize in finite time.AI is the most profound technological advance in human history in the age of "4th Industrial Revolution".

At the heart of AI revolution is data which is called as new oil. For deploying a machine learning system in organization, an infrastructure of data, collecting and mining the useful data is required. The construction of data pipeline is laborious and costly due to idiosyncratic legacy systems of businesses difficult to interconnect. In data management process, a raw data needs to collected, organize and analyze into information understood by humans like a text document. After organizing the data, it is stored in a data warehouse further used by AI based system to interpret and visualize the data.

AI is used in financial accounting, auditing, cost accounting, taxation and financial planning. The expert systems (ESs) used in the accounting discipline replicates human expert's behaviour and expertise and transforms it into system of rules to accomplish accounting jobs and resolve accounting issues and facilitates accounting-based decision processes.

This article analyze impact of AI on economic theories and the future prospects of finance and accounting occupations, to explore the required new skill set and competencies, the way humans and machines could work efficiently and effectively together. Based on review of published literature and recently performed surveys and reports, it is an attempt to shed light on some possible development trends in an AI in the context of economics, finance and accounting. It is based on interviews of 50 senior professionals in finance and accounting to study the key characteristics of finance and accounting profession based on standardized and measurable set of variables based on the up-to-date descriptions of the tasks and required set of the knowledge and skills to sustain and grow in future AI environment.

Impact of AI on Economic Theories

AI is transforming the global industries in unexampled ways and reformulating walks of all fields of humane strive. Economics which was antagonist towards AI has started realizing the value of AI in solving humanity problems. The economists usually adhere to theoretical models despite having no value in practical world due to inability to predict unpredictable human behavior in response to rapid technological changes like AI and big data due to inherent prejudices and biases and take decisions based on inadequate knowledge. The economic theories of rational expectations and efficient market are based on assumption that people react rationally in the given situation. But crises like euro debt crisis and 2008 economic slowdown proved it wrong again and again.

> An economic model does not work all the times similar to theories in pure sciences due to changing perceptions and mood swings of economic actors and falsification of assumptions based on past experiences. The implementation of AI in economics can change this situation for better.

An economic model does not work all the times similar to theories in pure sciences due to changing perceptions and mood swings of economic actors and falsification of assumptions based on past experiences. The implementation of AI in economics can change this situation for better.AI can be used to correct these issues by doing data driven modeling of human behaviour by doing sentiment analysis which can improve the accuracy of forecasting future bubbles in economy. By implementing AI techniques and statistics in behavioural economics, economists can predict human behavior under changing situations.

The central banks and policy makers by estimating correctly when a recession may irrupt can swiftly implement monetary and fiscal policies to mitigate the effects of business cycles. The changes in supply and demand can be predicted correctly to enact required changes in order to avoid economic downturns by harnessing real time data coming from social media mimicking the price mechanism and consumer sentiments.AI will help the government authorities to base their decisions on correct real time data.AI can significantly contribute in policy formulation, analysis and evaluation using real time data and can accurately predict human responses to policies. With these possibilities, AI will help economics to be closer to pure science.

Interaction between Artificial Intelligence and Economic Theories

1. Game Theory	The model of "self-programmed machine learning" is an entrancing model for the game theory. So far such models are applied for full information games. The advanced neural networks can compete and cooperate with other players and the learned behavior will create the equilibrium for game theoretic models. The prevailing tax policy models are restricted in accounting for individual behaviour responding to a change in tax policy. With application of reinforcement learning based AI algorithms, the actions of the computational economic agent can be deciphered from an abridged game economy where AI agents can maneuver the game mechanics against its creator's expectations.
2. Decreasing Marginal Returns	The AI data also experience diminishing returns to scale similar to other factors of production. The accuracy of the machine learning based model revamp according to rising training dataset but at diminishing rate.
3. Make or Buy Decision	Every organization worried about amount of value creation using AI technology and whether to develop AI capabilities like data mining, labeling and model buildings and data analysis within the firm or outsource it to cloud vendors which resembles classic make or by dilemma.
4. Standardization vs. Differentiation	The AI services vendors contest fiercely to provide standard products and cloud services along with some sort of differentiation like better speed and effective performance to eliminate the competition.

5. Minimum Efficient Scale	The relationship between fixed costs and variable costs of ML products will increase or decrease minimum efficient scale. The firm needs to occur high fixed cost to develop its own customized solution instead of buying standardized products from vendors. The innovative pricing mechanism like auctions and differentiated pricing can be used by vendors to optimize its cost.
6. Returns to Scale	The supply side returns to scale requires incurring a large fixed cost for designing AI system and a small variable cost for distribution. The demand side return to scale depends upon economies of scale, pricing of product and number of incremental customers and quality of the service post sell.
7. Bounded Rationality	As per Economics Nobel Laureate Herbert Simon, human lacks perfect information and brain to process facts and take rational decisions which keep on changing as per mood swings. This is called as bounded rationality. Using AI person can collect information and use it for effective decision making. Due to super increment in processing power of computers as per Moore's law the human bounds can become flexible.
8. Efficient Market Hypothesis	As per efficient market hypothesis of Nobel Laureate Eugene Fama states that it is challenging for individual trader with incomplete and imperfect information to beat the efficient market. But with the advent of AI powered computer traders in the markets, the more efficient the market become and degree at which market is efficient depends on the amount of traders in the markets use AI based algo trading.
9. Prospect Theory	As per prospect theory of Nobel Laureate Daniel Kahneman and Amos Tversky (1979) when human make decisions with known probability of result, they compare probable losses against profits to make decisions. But in case of AI based technology such decisions are taken by programmed machines challenging the applicability of Prospect Theory.
10. Taxation Policy	In Harvard-Salesforce researcher's game theory model, AI agents with varied skills and specializations assemble resources and then earn money by constructing real estate assets or selling the products and services among themselves which creates inequality in their incomes. An optimal outcome is programmed as a judicial mix of money and leisure time and then the actors make their own choices. The reinforcement learning models creates activities in humans like tax avoidance strategies mimicking real economic actors. This model also creates an agent imitating policy regulators who change marginal tax rates to obtain efficiency and equality in income.
11. Labour Market	A data in a firm is useless in terms of decision making if not analyzed efficiently internally by some expert. So it is crucial to hire people with requisite skills and competence to deal with data to gain competitive advantage in the new age of AI and big data. The shortage of such skilled workforce is acute problem firms are facing creating heterogeneity in productivity as this new data science competencies percolates through the labour markets.

Impact of AI in Finance

1. Natural Language Processing (NLP) allows banks and FIs to appraise the risk of a credit applicant, observe consumer sentiments about their brand and customer service across the internet,

> The leadership skills like strategic thinking, coaching, mentorship, morality and cross functional interventions will take on increased importance in accounting profession. Such professionals can significantly contribute towards organization's strategic thinking collaborating with other parts of the organization.

develop credit score for under-banked clients and superfast document search for business intelligence.

2. The financial institutes firms in developing countries like India can offer mortgages and monetary services using AI to flourishing middle-class natives with lessoned or no credit history by understanding risk involved by analysing their social media footprints using natural language processing(NLP) algorithm based software. The digital footprint of such customer's such as usage of social media, data about their net browsing, geolocation information is quantified into credit scores using AI.
3. The customer's spending and investments patterns are observed through their financial transactions which are correlated with market trends evolving through market research through social media, news sites using sentiment analysis software to offer personalized investment suggestion to customers.
4. The NLP software select most suitable data as per customer's profile and his financial needs and collate it with other data such as name or age and present it on the FI's dashboard.
5. The sentiment analysis software enables the customer care executive to deal with the customer more effectively. A customer care group can better service the customers by arranging tickets with the specific sentiments of the customers.
6. AI transforms issues in terms of risk management, scam detection into as set of numbers which can be easily accessed by the bank staff to make proper decisions and actions.
7. By using AI based NLP software influencers who can advocate brand of institute in their community can be spotted through their social media footprints such as blogs. The analyzed trend data about investments, trading can be passed on to customers through such influencers.
8. The enterprise wide documentation pertaining to loans and mortgages can be automated using NLP and further integrated into existing system without affecting ongoing operations. The historical data can be used as training set and useful information can be extracted out of tons of documents. The output data can be incorporated in dashboards which can be speedily accessed by loan or mortgage officers. The AI system provides a dashboard where employees can access a loan or mortgage application simultaneously.
9. A Chatbot interface for the bank allows the bank's customers to scout the required information on bank's webpage and get answers to basic transactional questions. Banks can develop their own search engines for extracting useful market information from tons of public company filings, equity research reports for treading in heterogeneous financial markets based on their own investment strategies.

Case of Axis Bank's Multilingual Voice Bot

During Covid-19 the operations in Axis bank were challenged during the initial phase of lockdown due to extreme spikes in volumes, increment in complaints and escalations transpired by customer anxiety, which was a repercussion of limited services to customers during the lockdown phase. This affected Axis Bank's customer experience index and the cross-functional service levels. Axis Bank partnered with an AI-based SaaS voice automation platform Vernacular.ai to optimise voice AI solutions and automate customer interactions via an intelligent human-like dialogue. The company created a multilingual voice bot for Axis Bank that can converse in English, Hindi as well as in mixed dialect. The bot employs automatic speech recognition and natural language conversion technology backed by AI based algorithms to provide an enhanced customer experience through automation of the contact operations and can deal with tons of customer issues raised every day with higher scalability. The state-of-the-art, deep neural networks trained on thousands of hours of acoustic data for text to speech recognition were used.

The system was launched in July 2020.AI Voice BOT has catered more than 2.23 million customers at an industry best success rate of an average of 85% and above. Approximately 65%-70% of customers were being touched by the BOT and attempted to connect with the contact center. In case BOT cannot resolve customer issue, the call is delegated to the human experts minimizing the navigation time .The AI system and human expert work together to deliver a rich and satisfying experience to customers. In the next phase, the bank is working on expanding the language capabilities to 10 Indian languages and adds 27 more self-service options.

Impact of AI on Accounting

Post world financial crisis of 2008, the businesses are delving means of new opportunities for augmenting raising revenue and return on capital through added income, reduction in cost and innovative sources of value creation to become more competitive and sustainable.

1. ***Opportunities to accounting profession due to AI***

   AI is transforming the future of many professions and accounting is one of the most significant such occupation. Various new job opportunities and roles are emerging as professional competence is augmented by applying AI tools along with creation of new job functions for accounting professionals in organizational setup. The advocator of AI upholds this AI revolution as a leap forward to espouse future challenges while the antagonists look at it as a balk due to skeptical attitude of some accountants to adapt to new changes in the business environment.

   The accounting and financial activities which are less susceptible to automation such as interfacing with stakeholders, managing and developing people, applying expertise to decision making, planning, and creative tasks. The accountants can gain by using their AI competencies to solve broad issues, support decision-making by providing better and cheaper data, doing rigorous data analysis, imparting new insights on business and focusing on more valuable tasks after freeing up from routine working due to AI applications. There is a scant risk of job displacement for accounting professionals if they adapt to new technology, if accountants adopt new skills according to their changing role in the organization.

2. ***Challenges for accounting profession due to AI***

   1. Frey and Osborne examined effects of AI on 700 plus by categorizing them as high, medium and low risk professions setting probabilities thresholds at 0.8 and 0.2. In this study the accounting profession is classified as risky in terms of job displacement due to AI with probability of 0.92.

   2. AI systems will substitute accountants in day to day routine activities by doing it speedily and precisely than human beings posing a threat in terms

of job displacement.

3. A practical challenge in converting rules and regulations into if-then rules and decision trees to be exercised in AI logic.

4. The diverse and complex nature and large volume of AI and Big data makes it imperative for accountants to acquire new job skills for big data analytics.

5. Technical practicability, higher outlay for setting automation, structural changes in labour markets, regulative and acculturational acceptance are essential elements luring speed of automation in accounting and finance.

6. In changing work culture the productivity from combined efforts of human labour and machines will depend on organization's structure and culture, patterns of business models and competition in idiosyncratic industry.

7. The key challenges for policy makers are encouraging investment in new technologies and framing policies to assist labour force and organisations to deal with adverse impact of adapting AI automation if any in future.

3. *Potential Application of AI in accounting*

1. Book keeping is the most routine and laborious accounting activity susceptible to automation. The double entry system logic enables the coding of accounting entries. The complex accounting transactions can be expressed in accounting terms and entered into the ledgers. The accounting tasks can be automated using AI to improve accounting accuracy.

2. AI can be used for fraud prevention and detection as computers driven by predetermined rules cannot be enticed. The malicious activities like asset embezzlement, tax evasion, cash skimming and larceny, financial statement falsification can be traced with AI.

3. The sales forecasting accuracy is crucial for preparing operations budget and AI can improve forecasting accuracy during uncertain and risky environment.

4. The big data provides new acumen to managers enabling to take better decisions, crafting tactical solutions, valuation of data assets and management of risk. If accountants collect and analyze structured and unstructured data accurately, it would become a great support system for decision making and redefining business strategies.

6. Accountants can use AI based big data and predictive models to improve budgeting and forecasting accuracy. They can improve internal control and risk management by using advanced outlier detection analysis and improve the efficacy facet of auditing by analysis available data sets.

7. Accountants can effectively apply their natural prudence and skepticism for improving the quality of data and data testing. Accountant with strong theoretical knowledge, practical skills and communication skills such as presentation skills, credibility, confidence, understanding people's view point, critical thinking can acquire significant importance in the AI age.

8. The leadership skills like strategic thinking, coaching, mentorship, morality and cross functional interventions will take on increased importance in

accounting profession. Such professionals can significantly contribute towards organization's strategic thinking collaborating with other parts of the organization.

9. Equipped with data analytics skills and complemented by their inherent business awareness and strong numeracy skills, accounts will become more valuable beyond makers of historical financial statements across organisational boundaries.

10. The accountants can participate in training or testing models, auditing algorithms in various projects and integrate results into business processes, handling outliers and preparing data. In the future accounting profession will be become of hybrid nature due to the interaction of finance, analytics and AI capabilities.

11. AI can be used for sorting and examining business transactions susceptible to fraud during internal audit. AI expert systems can be applied for authorizing and processing various claims, cash-flow examinations, evaluation of merger and acquisitions and investment decisions, calculating financial ratios and preparation of financial reports for filing with regulators. Various expert systems are used in the tax area such as tax treatment on stocks investments, assisting in the work of corporate tax accrual and planning process, calculating value added tax, and international tax planning and optimizing international corporation tax position.

Way-Forward

The strong AI revolution is bringing significant changes in the economics, finance and accounting profession's role and functions. The advent of artificial intelligence is a single most important event in the history of economics, finance and accounting and objective should be set to effectively harness the power of AI to enhance the economic conditions in which we all can flourish. In this direction following may be considered for harnessing AI in the best interest of mankind.

1. An exhaustive listing of the accounting activities may be done to ascertain activities most receptive to automation.

2. The accountants should be sufficiently equipped with a proper skill set to work in AI ecosystem to derive benefit from the technology advances in a volatile business environment and changing management requirements.

3. The right approach to deal with the challenge of job displacement is to analyse which accounting activities can be substituted by AI, when and how. Accountants can play higher level roles in strategic areas.

4. Such skills can be instill through suitable education and training. The continuous and lifelong training and learning is the key for successful adaptation to the ever changing competency requirements.

It is important to espouse the technological wherewithal and adapt to the new business and management requirements by developing competencies in AI. The future lies in AI and we must prepare for it. ■■■

"Various expert systems are used in the tax area such as tax treatment on stocks investments, assisting in the work of corporate tax accrual and planning process, calculating value added tax, and international tax planning and optimizing international corporation tax position.

I. Indian Accounting Standards: Update

- **COVID-19 Rent Related Concession beyond June 30, 2021** - On March 31, 2021, the IASB issued Covid-19-Related Rent Concessions beyond June 30, 2021 - Amendment to IFRS 16, Leases, to extend the availability of the practical expedient in paragraph 46A so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Exposure Draft of Amendments to Ind AS 116, Leases, corresponding to amendments to IFRS 16 was issued on April 6, 2021, seeking comments till April 17, 2021. The Amendments to Ind AS 116 are under finalisation and will be recommended to National Financial Reporting Authority shortly as per due process.
- **Interest rate Benchmark Reform- Phase II - Amendment to Ind AS (Ind AS 104, Ind AS 107, Ind AS 109 and Ind AS 116) corresponding to amendments to respective IFRS Standards** – The recommendations of ICAI on Interest rate Benchmark Reform- Phase II - Amendments to Ind AS, finalised after following due process, have been considered by the National Financial Reporting Authority and recommended to MCA for notification. The amendments focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform. The amendments relate to specific requirements of these Ind AS to assist companies to provide investors with useful information about the effects of the reform on the financial statements.

II. IFRS Foundation & IASB: Stakeholder Consultations

(A) Global webinar on IASB's Exposure Draft on Regulatory Assets and Regulatory Liabilities

The IASB, in January 2021, issued an Exposure Draft titled as 'Regulatory Assets and Regulatory Liabilities'. In the Exposure Draft, IASB proposes an accounting model to supplement the information that an entity already provides by applying IFRS Standards. IASB is proposing that when the regulatory agreement requires entity to charge compensation in different period (difference in timing), an entity reports regulatory income and regulatory expense in its income statement, and regulatory assets and regulatory liabilities in its balance sheet. The proposals are based on the principle that an entity should reflect the compensation for goods or services supplied as part of its reported financial performance for the period in which it supplies those goods or services.

As informed in the last edition, to invite comments from Indian stakeholders, the above Exposure Draft has been issued on ICAI website and the same can be assessed at *https://www.icai.org/post/ed-regulatory-assets-and-regulatory-liabilities* with last of comments till May 10, 2021.

A Global webinar was organized by the ICAI jointly with IASB on April 16, 2021 to give overview on the IASB's Exposure Draft. The webcast was addressed by the President, Vice-President, ICAI, Chairman and Vice-Chairman of the Accounting Stanadrds Board. IASB Board member and IASB's Technical Staff presented the proposals set out in the IASB's Exposure Draft. A panel discussion was held with eminent subject matter expert. Suggestions were provided to IASB regarding the concerns emerged during panel discussions. Around 600 participants including international participants attended the webinar.

(B) Exposure Draft – Lack of Exchangeability - The IASB has issued for public consultation the proposed amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, to help

Contributed by Accounting Standards Board of ICAI. Comments can be sent to asb@icai.in. Refer https://www.icai.org/post.html?post_id=14058 for Ind AS –IFRS Standards Convergence Status, https://www.icai.org/post.html?post_id=15770 for Ind AS Implementation Guidance companies determine whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged. The comments can be submitted till September 1, 2021.

IAS 21 sets out the exchange rate a company uses when it reports foreign currency transactions or a foreign operation's results in a different currency. However, the Standard does not set out the exchange rate to use when there is no observable exchange rate the company can use—such as when a currency cannot be converted into a foreign currency. The proposed amendments to IAS 21 would help companies identify if this situation applies to them and the accounting to apply when it does. The proposed amendments would improve the usefulness of the information provided to investors by requiring a consistent approach to determining whether a currency is exchangeable into another currency and, when it is not, determining the exchange rate to use and the disclosures to provide.

(C) **Exposure Draft on Disclosure Requirements in IFRS Standards** — A Pilot Approach – The IASB has issued an Exposure Draft on 'Disclosure Requirements in IFRS Standards - A Pilot Approach' to seek public comments by **21 October 2021** on a new approach to developing disclosure requirements in IFRS Standards and new disclosure requirements for the Standards on fair value measurement and employee benefits. These proposals would enable companies to enhance their judgement and reduce 'boilerplate' information, giving investors more useful information. The IASB has tested this new approach using two IFRS Standards—IFRS 13 Fair Value Measurement and IAS 19 Employee Benefits—and has proposed amendments to the disclosure requirements in those Standards in the Exposure Draft.

(D) **IFRS Interpretation Committee (IFRS IC) Agenda Decision:** The IFRS IC from time to time issues Tentative Agenda Decisions for public comments across the globe on various issues considered by it. In this regard, following Tentative Agenda Decisions are have been issued with last date of comments being May 24, 2021:

- Non-refundable Value Added Tax on Lease Payments (IFRS 16)
- Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)

Classifieds

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5849 CA firm in Gurugram requires Articles having both groups of IPCC passed & CA with minimum 2 to 3 years of experience in Statutory Audit or GST. Good academic record. Excellent communication skills must. Contact : Nisha Rana, RKACA & Associates LLP, Phone :- 0124-4102000, Extn.108, E-mail: nisha.rana@rka-india.com

National Update

Setting up makeshift hospitals, temporary Covid care facilities to be CSR activity: MCA

In a significant boost to corporate India looking to undertake CSR around the Covid-19 pandemic, the corporate affairs ministry (MCA) has clarified spending of CSR funds for setting up “makeshift hospitals and temporary Covid care facilities” would be treated as an eligible CSR activity. This would be permitted as an eligible Corporate Social Responsibility (CSR) activity under schedule VII of the companies Act regarding promotion of healthcare, including preventive healthcare and, disaster management respectively, the MCA said in a circular.

This clarification from MCA may come in handy for India Inc as the government had recently allowed corporate India to vaccinate their employees at the companies’ premises without them having to go to vaccination Centres. Recently, there has been a lot of debate on whether India Inc can treat the inoculation expenses that they want to spend on behalf of their employees as an eligible CSR spend or not. While the current thinking is that the Centre may not agree to such expenses undertaken solely for employees as being counted as CSR activity, however the latest move to allow corporates to set up makeshift hospitals and temporary Covid care facilities as an eligible CSR activity would certainly encourage India Inc to take up such activities, corporate observers said.

Source: https://www.thehindubusinessline.com

ESG Funds Gain Pace on Focus Shift to Sustainability

Investors rushed to park money into environmental, social and governance (ESG) focussed funds as the disruption caused by covid-19 pandemic drove focus to the importance of building sustainable and resilient business models. Data provided by a a leading provider of independent investment research showed that India ESG funds received a net inflow of ₹103.78 crore in March following an outflow of ₹102.78 crore combined in January and February. In the previous quarter ending December, these funds received net inflow of ₹3748.96 crore.

The demand for sustainable investing has gone up due to the covid led crisis. The launch of ESG funds, though still in its early days in India, has been instrumental in increasing investor awareness. ESG principles are already being implemented by many domestic asset managers in their investing framework. Corporate India is also increasingly acknowledging the need to effectively manage the ESG factors as means to mitigate business risks as well as attract long term capital from investors who are increasingly considering ESG factors to make investment decisions.

Driven by increased investor interest in environmental, social, and governance issues and sustainable investing, sustainable funds notched up a record-breaking quarter in terms of flows, assets, and product launches globally. Global inflows into sustainable funds were up 88% in the fourth quarter of 2020 to $152.3 billion compared to previous quarter.

Source: https://www.livemint.com/

RBI makes prior approval mandatory for appointment of bank auditors

The Reserve Bank has made it mandatory for commercial banks, urban co-operative banks (UCBs) and non-banking finance companies (NBFCs) to take its prior approval for the appointment and re-appointment of statutory central auditors and statutory auditors. "Commercial Banks (excluding regional rural banks) and urban co-operative banks will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of statutory central auditors and statutory auditors, on an annual basis," the banking regulator said in its guidelines issued on Tuesday.

These guidelines will be applicable to commercial banks from financial year 2021-22. The commercial banks and urban co-operative banks will have to apply to the Department of Supervision, RBI before July 31 of the reference year, RBI said. Commercial banks (excluding regional rural banks) in India and urban co-operative banks under the Mumbai Region have been directed to approach the Central Office of RBI (Department of Supervision), whereas other urban co-operative banks will have to approach the concerned Regional Office of the central bank.

Source: https://www.ndtv.com/

RBI sets up panel to review working of asset reconstruction companies

The RBI recently set-up a committee to undertake a comprehensive review of the working of asset reconstruction companies (ARCs) in the financial sector ecosystem and recommend suitable measures for enabling them to meet the growing requirements. Earlier this month, the Reserve Bank had announced setting-up of a committee to undertake a comprehensive review of the working of ARCs. As per the terms of reference of the committee, the panel will review the existing legal and regulatory framework applicable to ARCs and recommend measures to improve efficacy of ARCs. It will also review role of ARCs in resolution of stressed assets including under Insolvency and Bankruptcy Code (IBC), and give suggestions for improving liquidity in and trading of security receipts.

Besides, it has also been asked to review business models of the ARCs. "The committee will submit its report within three months from the date of its first meeting. Department of Regulation, Reserve Bank of India, will provide the necessary secretarial support to the Committee," the central bank said in a statement. After enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act in 2002, regulatory guidelines for Asset Reconstruction Companies (ARCs) were issued in 2003 to enable development of this sector and to facilitate smooth functioning of ARCs.

Since then, while ARCs have grown in number and size, their potential for resolving stressed assets is yet to be realised fully.

Source: https://www.financialexpress.com

High Courts cannot exercise Section 482 powers to undermine statutory dictate under Sections 14, 17 of IBC: Supreme Court

The inherent power of High Court under Section 482 of the Code of Criminal Procedure should not be used to undermine statutory dictate under Sections 14 and 17 of the Insolvency and Bankruptcy Code (IBC), the Supreme Court ruled in a recently delivered judgement (Sandeep Khaitan, Resolution Professional v. JSVM Plywood Industries). It cannot pass interim orders which overlook the salutary limits on its power under Section 482, a Bench of Justices UU Lalit and KM Joseph held.

"The power under Section 482 may not be available to the Court to countenance the breach of a statuary provision. The words 'to secure the ends of justice' in Section 482 cannot mean to overlook the undermining of a statutory dictate, which in this case is the provisions of Section 14, and Section 17 of the IBC," the Court said.

The Court further held that the impact of the moratorium under IBC includes prohibition of transferring, encumbering, alienating or disposing of by the Corporate Debtor of any of its asset. From the date of admission of insolvency application and the appointment of Interim Resolution Professional (IRP), the management of the affairs of the Corporate Debtor is to vest in the IRP. With such appointment, the powers of the Board of Directors or the partners of the Corporate Debtor will stand suspended, the Court ruled. Section 17 further declares that the powers of the Board of Directors or partners are to be exercised by the IRP and financial institutions are to act on the instructions of the IRP, the Court underscored.

Source: https://www.barandbench.com

NCLAT: IBC to hold precedence over other laws like PMLA

The National Company Law Appellate Tribunal (NCLAT) has reiterated that rules and actions under the Insolvency and Bankruptcy Code (IBC) would hold precedence over other laws and actions such as attachment of property by the Enforcement Directorate (ED) under the Prevention of Money Laundering Act (PMLA). Hearing an appeal moved by the ED against an order of the Mumbai Bench of the National Company Law Tribunal (NCLT), the NCLAT held that even if the probe agency had already attached a property under PMLA, it must vacate its claim over the assets once insolvency process starts against the same company. This is not the first time the NCLAT has held that laws of IBC would hold precedence over others such as attachment of properties of corporate debtor under PMLA. Earlier, during the insolvency resolution of Bhushan Steel and Power Limited, the NCLAT had held that the ED cannot attach the properties of the company, thereby giving immunity to the new owners. The issue of IBC's precedence over actions under all other laws is pending in the Supreme Court as the ED had last July moved the top court seeking clarification on it.

Source: https://indianexpress.com

International Update

IFAC Sees Continued Opportunity to Harmonize Corporate Sustainability Reporting

The International Federation of Accountants (IFAC) welcomes the publication of the much-anticipated draft text of the European Union's revised Corporate Sustainability Reporting Directive.

This ambitious proposal demonstrates leadership on the issue of corporate reporting. The legislation seeks to put sustainability-related reporting on the same footing as traditional financial reporting. This is long overdue. Specific proposals, such as where sustainability information is reported, mandatory assurance, a digital reporting taxonomy, and expanded scope for oversight by audit committees, are all important elements of enhancing the corporate reporting ecosystem to include sustainability-related information.

As progress on the IFRS Foundation's Sustainability Standards Board accelerates, IFAC believes policymakers have a unique opportunity to build a truly global system for sustainability reporting.

Source: https://www.ifac.org/

IFAC Continues to Advocate for Convergence in Global Sustainability Standards

IFAC continues its work to support the establishment of global sustainability standards in the public interest. In this regard, IFAC endorses the most recent actions announced by the IFRS Foundation Trustees and IOSCO. Specifically, IFAC supports the IFRS Foundation's formation of a working group and efforts to set up a multi-stakeholder expert consultative committee, both of which will accelerate progress towards a successful standards setting board. These steps demonstrate the IFRS Foundation's focus on delivering with speed by leveraging and bringing together the work of existing initiatives.

IFAC further supports IOSCO's establishment of a new Technical Expert Group under its Sustainable Finance Task Force, which demonstrates growing international demand for the work of the IFRS Foundation.

Source: https://www.ifac.org/

IASB proposes changes to the IFRS Taxonomy 2021 for Disclosure of Accounting Policies and Definition of Accounting Estimates

The International Accounting Standards Board (Board) recently published a proposed update to the IFRS Taxonomy 2021 for the following amendments to IFRS Standards:

- Disclosure of Accounting Policies, which amended IAS 1 and IFRS Practice Statement 2; and
- Definition of Accounting Estimates, which amended IAS 8.

The Proposed IFRS Taxonomy Update includes changes to the IFRS Taxonomy elements to reflect the new and amended disclosure requirements introduced by the amendments, issued by the Board in February 2021. Access the IFRS Taxonomy 2021—Proposed Update 1 Disclosure of Accounting Policies and Definition of Accounting Estimates. The deadline for submitting comments is 21 June 2021.

Source: https://www.ifrs.org/

IASB proposes amendments setting out accounting for when no foreign exchange rate exists

The International Accounting Standards Board (IASB) recently published for public consultation proposed amendments to IAS 21- The Effects of Changes in Foreign Exchange Rates. The proposed amendments aim to help companies determine whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged. IAS 21 sets out the exchange rate a company uses when it reports foreign currency transactions or a foreign operation's results in a different currency. However, the Standard does not set out the exchange rate to use when there is no observable exchange rate the company can use—such as when a currency cannot be converted into a foreign currency. The Board's proposed amendments to IAS 21 would help companies identify if this situation applies to them and the accounting to apply when it does.

The proposed amendments would improve the usefulness of the information provided to investors by requiring a consistent approach to determining whether a currency is exchangeable into another currency and, when it is not, determining the exchange rate to use and the disclosures to provide.

The deadline for comments is 1 September 2021. The Exposure Draft is accompanied by a webcast in which an overview of the Exposure Draft is provided and commonly asked questions are answered.

Source: https://www.ifrs.org

EC publishes proposed Corporate Sustainability Reporting Directive

In its efforts to revise the EU Non-Financial Reporting Directive (NFRD), the European Commission (EC) recently published a proposal for a Corporate Sustainability Reporting Directive (CSRD). The objective of the proposed CSRD is to improve sustainability reporting to better exploit the potential of the European single market and to contribute to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals. The key proposals include a massive broadening of scope of the NFRD from 11,600 to approximately 49,000 entities in the EU including foreign subsidiaries.

The CSRD would require companies to provide qualitative and quantitative information, forward-look-ing and retrospective information, and information that covers short, medium and long-term time horizons.

The information would have to be provided mandatorily as part of management report, and entities would have to report using European sustainability reporting standards (still to be developed with a first set standards expected by October 2022, a second one year later). The proposed CSRD includes mandatory audit of the information provided (limited assurance) and mandatory digital reporting in ESEF format with corresponding labeling of sustainability information using a taxonomy yet to be developed.

The EC proposes a transposition of the CSRD into national law by member states by 1 December 2022, so that the amendments would be applicable for the first time for fiscal years beginning on or after 1 January 2023. The CSRD also comments on the context of the proposal and in the introductory ex-planatory memorandum especially notes the IFRS Foundation's proposal to establish a new international Sustainability Standards Board.

Source: https://www.iasplus.com/

New IAASB Guidance Helps Advance Assurance for Non-Financial Reporting

Marking a significant step forward in supporting assurance for non-financial reporting, the International Auditing and Assurance Standards Board (IAASB) recently published Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements.

The Guidance responds to ten key stakeholder-identified challenges commonly encountered in applying International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The guidance promotes consistent high-quality application of ISAE 3000 (Revised) in extended external reporting assurance engagements to:

- strengthen the influence of such engagements on the quality of extended external reporting;
- enhance trust in the resulting assurance reports; and
- increase the credibility of extended external reports so that they can be trusted and relied upon by their intended users.

The Guidance addresses a number of overarching matters, including applying appropriate competence and capabilities, exercising professional skepticism and professional judgement, and the preconditions for an assurance engagement, as well as more specific technical matters. The Guidance also provides further explanation and examples to better understand the distinction between limited assurance and reasonable assurance engagements.

Source: https://www.iaasb.org

IASB publishes proposed amendments to IAS 21 to clarify the accounting when there is a lack of exchangeability

The International Accounting Standards Board (IASB) has published an exposure draft 'Lack of Ex-changeability (Proposed amendments to IAS 21)' that contains proposed guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. Comments are requested by 1 September 2021.

The proposed amendments in exposure draft ED/2021/4 Lack of Exchangeability (Proposed amend-ments to IAS 21) would amend IAS 21 to:

- o Specify when a currency is exchangeable into another currency and when it is not
- o Specify how an entity determines the exchange rate to apply when a currency is not exchange-able
- o Require the disclosure of additional information when a currency is not exchangeable

Comments on the proposed changes are requested by 1 September 2021. The exposure draft does not contain a proposed effective date as the IASB intends to decide on this after exposure. Early appli-cation would be permitted. The amendments would apply prospectively from the date of initial application of the amendments.

Source: https://www.iasplus.com

Legal Decisions

Income Tax

LD/69/134, [Delhi High Court: WP (C) No. 3470/2021], BT (India) Private Ltd. Vs. Income Tax Officer, 19/03/2021

Proceedings under section 201(1)/(1A) cannot be initiated without determining whether the concerned remittance is chargeable to tax or not. High Court held that if a statutory authority exercises its powers without determining whether or not it has jurisdiction in the matter, that would call for interference by the High Court. High Court directed the Revenue to first pass a speaking order on whether the remittances in issue are chargeable to tax. Assessee submitted that that 85-90% of the remittances have been made to BT Plc (non-resident payee) for which an application preferred by the payee is lying pending before AAR after being admitted. High Court remarked that large part of problem has its genesis in the AAR not acting with due alacrity.

LD/69/135, [Gujarat High Court: SCA No. 18617 of 2018], M/s Vrundavan Ginning and Oil Mill Vs. Asst. Registrar / President, ITAT, 18/03/ 2021

Assessee had preferred an appeal before ITAT, raising three grounds against confirmation of addition including that on valuation of closing stock. ITAT partly allowed assessee's appeal and subsequently, assessee filed a Miscellaneous Application (MA) contending that the ground against addition on valuation of closing stock was not dealt with by ITAT. ITAT rejected assessee's MA noting that scope of Sec. 254(2) is restricted to rectification of mistakes apparent from the record, not review of earlier order. High Court rejected assessee's writ against such rejection of MA by the ITAT. High Court held that ITAT in its own way has dealt with the ground and it cannot be said that the ground was not dealt with at all. If the assessee is dissatisfied with the order of ITAT, he may prefer an appeal under section 260A.

LD/69/136, [Delhi High Court: WP (C) No. 10764/2020], Ingenico International India Pvt. Ltd. Vs. The Dy. Commissioner of Income Tax, 18/03/2021

Revenue issued notice under section 143(2) followed by intimation under section 143(1) determining a refund of Rs. 5.89 Cr. and despite repeated requests from the assessee, neither the refund was issued nor an order under section 241A intimating reasons for withholding the refund was passed. Also, a mere issuance of the scrutiny notice under Section 143 (2) of the Act cannot stall the remittance of refund to the assessee. The refund can only be stalled if the conditions stipulated in Section 241A of the Act are fulfilled. High Court held that no refund could be withheld by Revenue without passing an order under section 241A, and directed the Revenue to remit the refund along with requisite interest to assessee-company within 10 days.

LD/69/137, [ITAT Mumbai: ITA No. 3775/ MUM/2016], UHDE India Pvt. Ltd. Vs. Addl. Commissioner of Income Tax, 16/03/ 2021

Assessee changed its revenue recognition method from Completed Contract Method (CCM) to Percentage of Completion Method (POCM) and raised invoices on its customers based on milestone reached in the projects undertaken. AO geld that revenue recognition should be based on the progressive billings, not POCM and computed the differential revenue at Rs. 63 Cr. ITAT deleted such addition. Further, expenditure incurred for reconfiguring leased space to accommodate more employees held to be revenue in nature. As per ITAT, such expenditure has been incurred by the assessee for maintaining its business, for increasing its efficiency and for preserving its already existing asset.

Contributed by CA. Sahil Garud, GST & Indirect Taxes Committee (CA. Mandar Telang), Disciplinary Directorate and ICAI's Editorial Board Secretariat. For details please visit Editorial Page webpage at https://www.icai.org/post/editorial-board. Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.in. For full judgement write to eboard@icai.in.

LD/69/138,[ITAT Kolkata: ITA No.01/ Kol/2020], Asst. Commissioner of Income Tax Vs. M/s Simplex Infrastructures Ltd.,10/03/2021

Assessee entered into an agreement with Rail Vikas Nigam Ltd. for construction of embankment and station in connection with extension of railway lines and claimed deduction under section 80IA(4), which was disallowed by Revenue on the grounds that assessee is engaged in civil construction in the nature of works contract attracting ineligibility under section 80IA(13). ITAT allowed this deduction holding that assessee is a developer and not a contractor. ITAT observed that assessee bore substantial amount of risk similar to an entrepreneur and an additional risk of damages resulting from non-completion of work within stipulated time. As per ITAT, this is not a case of works contractor simplicitor, where the entire set up of plant, machinery, infrastructure, and material was provided, requiring the assessee to employ only labour to complete the work.

LD/69/139, [ITAT Mumbai: ITA no.4928/ Mum./2017], Asst. Commissioner of Income Tax Vs. NKGSB Co–operative Bank Ltd., 05/03/2021

During the AY 2009-10, assesse (a co-operative bank) acquired Shri Shahu Cooperative Bank Ltd. (SSCBL) under the directions of the Reserve Bank of India and claimed depreciation on the excess of liabilities over the assets, which was rejected by Revenue. Held that expenditure claimed by the assessee on acquisition of the Bank is capital in nature eligible for depreciation under section 32(1)(ii). ITAT notes that excess of liabilities over the realizable values of the assets taken-over ostensibly is a reflection of the value of the aforesaid intangible advantages obtained by the assessee. ITAT ruled in assessee's favour.

LD/69/140, [Delhi High Court: CM APPL. 6677/2021], Shyam Sundar Sethi Vs. Pr. Commissioner of Income Tax, 03/03/2021

Assessee's application filed under Vivad se Vishwas (VsV)Act was rejected by the designated authority on the ground that it was not 'pending' on the specified date i.e 31.1.2020 as stipulated in Sec. 2(1)(a)(i). High Court Rejects Revenue's interpretation that the appeal can be construed as pending on the specified date i.e. 31.01.2020, only if it is "admitted" by the appellate authority before the filing of the declaration in the form prescribed under the 2020 Act. High Court clarifies that an appeal would be "pending" in the context of Sec. 2(1)(a) of the 2020 Act when it is first filed till its disposal, rules that Sec. 2(1)(a) does not stipulate that the appeal should be admitted before the specified date, it only adverts to its pendency.

LD/69/141, [Bengaluru High Court: I.T.A. NO. 275/2015], M/s Karnataka State Co-operative Apex Bank Ltd. Vs.Dy. Commissioner of Income Tax, 01/03/2021

Incentives paid by a co-operative bank to its member banks towards development of co-operative sector, allowed as deduction under section 37 by the High Court. Assessee-bank paid incentives of Rs. 4.45 Cr. to various District Central Co-operative Banks and Primary Agricultural Co-operative Societies, this was disallowed by Revenue. High Court rejected Revenue's contention that the said payment was an appropriation of net profits and notes that the said amount is debited to P&L A/c. High Court noted that Revenue was not opposed to the action of giving incentives, but the manner of giving incentives. As per High Court it is not for the revenue to decide how the incentive has to be paid by the assesse and the revenue cannot sit in an armchair of the businessman and to decide as to the manner in which payment has to be made.

LD/69/142, [Karnataka High Court: I.T.A. NO. 43/2013], Smt. Jamuna Vernekar Vs. Dy. Commissioner of Income Tax, 10/02/2021

Assessee had received certain sums from a company in which assessee held beneficial interest, towards construction of building on assessee's plot for the purpose of letting it out to the company, which sum was partly adjusted with security deposit and balance towards lease rentals. AO held such receipt of sum as deemed dividend under section 2(22)(e). High Court observed that provisions of Sec. 2(22)

(e) and explains that the word 'loan' means anything lent specifically on interest whereas deposit means a sum paid to secure an article, clarifies that deposit is not covered within the ambit of Sec. 2(22)(e). Company was benefitted as the building was let out to it at much lower than market rate and therefore was a commercial transaction, which was outside the purview of Sec.2(22)(e). Ruled in assessee's favour.

LD/69/143, [Gujarat High Court: R/Spcl. Civil App. No. 20161/2019], Cemach Machineries Ltd. Vs. Income Tax Officer, 05/02/2021,

Revenue initiated reassessment proceedings after expiry of 4 years, on assessee based on information obtained during scrutiny proceedings of one Smt. Harshaben Gosai indicating receipt of Rs. 14.82 Cr. by the assesse through bogus billings by three entities. Assessee challenged the re-assessment and contended that the sanction accorded by authority under section 151 was illegal because it was given mechanically in a consolidated manner for 53 entities. AO had verified the bank statement of the assessee and Smt. Harshaben and also that all the three entities had no business activities and had only shown transactions of sale and purchase by issuing bogus invoices. High Court held that reassessment was initiated not only based on information from the concerned department, but independent verification by AO. Reassessment proceedings were thus upheld.

GST

LD/69/144 , M/s Fosroc Chemicals India Pvt. Ltd. Vs. Commissioner of Central Tax GST Bangalore, [2021-TIOL-900-HC-KAR-CX], 01/04/2021

When Tribunal confirmed the order of first appellate authority without citing the reason or case laws cited by the Appellant having bearing on the issue before Tribunal, High Court remitted the matter to the Tribunal for consideration afresh.

On perusal of the order of the Tribunal, Hon'ble High Court held that the said order is cryptic and suffers from the vice of non-application of mind. The Tribunal has not assigned any reasons in respect of its finding and has merely recorded the conclusions. It further held that the decision of CCE vs. ECOF Industries Pvt. Ltd., 2011 (271) ELT 58 (Kar) = 2011-TIOL-770-HC-KAR-ST which has a bearing on the controversy involved in the appeal has also not been considered by the Tribunal. The Appeal was therefore allowed and the matter was remitted to the Tribunal for decision afresh and in accordance with law.

LD/69/145, M/s DY Beathel Enterprises Vs. State Tax Officer (Data Cell) - 2021-TIOL-890-HC-MAD-GST, 24/02/2021

When the assessee is denied ITC on the ground that the assessee has not received the goods and that the sellers have not paid tax to the government, the demand of ITC cannot be confirmed against the ITC automatically and the defaulting sellers need to be examined as a witness and be subjected to recovery proceedings if the circumstances so require, without which demand confirmed against such assessee is flawed and liable to be set aside.

SERVICE TAX

LD/69/146, Tektronix India Pvt. Ltd. Vs. Commissioner of Central Tax [2021-TIOL-207-CESTAT-BANG], 06/04/2021

When CENVAT Credit is reversed during the inquiry and duly communicated to the department and the assessee had sufficient credit balance to arrive at the conclusion that the said credit is not utilised, the penalty under section 78 cannot be imposed unless there is material to prove the suppression or other ingredients of Section 78.

LD/69/147, The Regional Testing Laboratory Vs. Customs, Excise and Service Tax Appellate Tribunal and Ors, [2021-TIOL-902-HC-MAD-ST], 29/03/2021

Where there was a genuine doubt as regards the applicability of tax and consequently the tax was neither collected nor paid to the Government, no demand can be raised by invoking an extended period of limitation if the fact of such non-payment was well within the knowledge of the Department.

LD/69/148, Guniting Corporation Vs. Commissioner of Central Tax, [2021-TIOL-100-CESTAT-DEL], 10/02/2021

A demand made in SCN under a particular category of service cannot be confirmed under a different category of service.

EXCISE

LD/69/149, M/s C N S Comnet Solution Pvt. Ltd. Vs. Commissioner of Central Excise and Service Tax – [2021-TIOL-94-CESTAT-CHD], 03/02/2021

Refund claim cannot be denied on the grounds of non-admissibility of Cenvat Credit, where availment of Cenvat Credit was not challenged.

Disciplinary Case

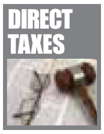
Signing of Compilation Report by a Chartered Accountant without adhering to Standard on Related Services (SRS) 4410 -- Held, Respondent is guilty of professional misconduct falling under the Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949 (as amended).

Held:

In the instant case, the allegation against the Respondent is that he had signed the Balance Sheet of Samithi (entity) for the period from 15th July 2007 to 31st July 2013, though the accounts were not being properly maintained, and did not comply with certain provisions of law. The Respondent in his defence submitted that the Report dated 9.11.2013 prepared by him containing financial statements of the said Samithi were not subject to Audit rather it was only a compilation report along with a Receipt and payment account for the period from 15th July 2007 to 31st July 2013 along with addendum to the Compilation Report dated 9.11.2013 disclosing the important findings in the accounting records and other documents produced before him simply for the internal consumption of members of the Samithi. The Committee noted that the Respondent has not compiled with requirement of Standard on Related Services (SRS) 4410 titled Engagements to Compile financial Information issued by ICAI which deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information .The Committee noted that in the extant case Respondent was dealing with historical financial information from 2007 to 2013 the compilation report was required to be prepared in accordance with SRS 4410 but the Respondent has not followed the same and failed to bring into the attention of management the limitations and prepared compilation report from incomplete information available with him. The committee further noted that the defence of the Respondent that only Compilation report was given by him not an Audit Report, but at the same time the Respondent has failed to give any disclaimer in his compilation Report. In view of above noted facts, the Committee was of the opinion that as far as SRS 4410 issued by ICAI has not been followed by the Respondent and there are serious lapse in the overall compilation and non-review of the various legal provisions to be compiled by the Samithi which reflects the casual approach towards handling his professional duties Therefore, the Committee, was of the opinion that Respondent is guilty of professional misconduct falling within the meaning Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST, MCA, SEBI and FEMA since the publication of the last issue of the journal, for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. Suggestions on this column can be submitted at eboard@icai.in



I. NOTIFICATIONS

1. Insertion of Rule 29BA and Form 15E w.e.f. 01.04.2021 vide the Income-tax (5th Amendment) Rules, 2021 - Notification No. 18/2021, dated 16-03-2021

Sub-section (2) and (7) of Section 195 empowers the CBDT to notify the form and manner of application to be made by a person for determination of appropriate proportion of sum chargeable in the case of non-resident recipient. Accordingly, vide this notification, Rule 29BA pertaining to application for grant of certificate for determination of appropriate proportion of sum (other than Salary), payable to non-resident, chargeable in case of the recipients and Form No. 15E {Application by a person for a certificate under section 195(2) and 195(7) for determination of appropriate proportion of sum (other than salary) payable to non-resident, chargeable to tax in case of the recipient} has been notified.

Refer: https://incometaxindia.gov.in/communicati ons/notifi cation /notification_18_2021.pdf

2. Insertion of new rules/forms and amendment of existing rules/forms vide the Income-tax (6th Amendment) Rules, 2021 – Notification No. 19/2021, dated 26-03-2021

In order to incorporate the changes being affected by the Finance Act 2020 in sections 10(23C), 12A, 12AB, 35 and 80G pertaining to registration and approval of trusts, institutions and funds etc., the CBDT vide this notification has inserted new rules/ forms (Rule 5CA, 18AB and Form No. 10AB, 10AC, 10AD, 10BD and 10BE) and amended/ substituted existing rules/forms (Rule 2C, 5C, 5F, 11AA, 17A and Form No. 3CF, 10A) w.e.f. 01.04.2021.

Refer:https://incometaxindia.gov.in/communications/ notification/notification_19_2021.pdf

3. Extension of Time for intimation of Aadhaar from 31.03.2021 to 30.06.2021 – Notification No. 20/2021, dated 31-03-2021

Vide this notification, the CBDT has extended the last date for the intimation of Aadhaar number and linking thereof with PAN to 30.06.2021. The said notification has also extended time-limits for issue of notice u/s 148, passing of consequential order for direction issued by the DRP and processing of equalisation levy statements to 30.04.2021.

Refer: https://www.incometaxindia.gov.in/communications/ notification/notification_20_2021.pdf

4. CBDT notifies New Income Tax Return Forms for AY 2021-22 – Notification No. 21/2021, dated 31-03-2021

Keeping in view the ongoing crisis due to COVID pandemic and to facilitate the taxpayers, no significant change has been made to the ITR Forms in comparison to the last year's ITR Forms. Only the bare minimum changes necessitated due to amendments in the Income-tax Act, 1961 have been made. Further, there is no change in the manner of filing of ITR Forms as compared to last year.

Refer: https://www.incometaxindia.gov.in/communications/ notification/notification_21_2021.pdf

5. CBDT specifies Income-tax Authorities of the National/Regional Faceless Assessment Centres (NFAC/RFAC) to exercise the powers and functions of AO – Notification No. 22&23/2021, dated 31-03-2021

In exercise of powers conferred u/s 120, the CBDT has directed the Income-tax Authorities of the NFAS/RFAC as specified in this notification to exercise the powers and functions of AO concurrently to facilitate the conduct of Faceless Assessment proceedings u/s 144B in respect of all persons, incomes, cases excluding the ones

(Matter on Direct and Indirect Taxes, is contributed by Direct Taxes Committee, GST & Indirect Taxes Committee and Corporate Laws and Corporate Governance Committee of ICAI respectively. FEMA updates by CA. Manoj Shah, CA Hinesh Doshi and CA. Sudha G. Bhushan) specified in Notification No. 57 & 70 of 2014 dated 03.11.2021 & 13.11.2014 respectively. This notification shall come into force w.e.f. 01.04.2021.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_22_2021.pdf and https://www.incometaxindia.gov.in/communications/notification/notification_23_2021.pdf

6. CBDT authorises various Income-tax Authorities as specified to exercise the concurrent powers along with any other authority and do various other specified functions – Notification No. 24/2021, dated 31-03-2021

In exercise of powers conferred u/s 120 & 133C r.w.r 12D, the CBDT has authorised various Income-tax Authorities (i.e. PCIT/ACIT (ReFAC) (VU and others) as specified to exercise the concurrent powers along with any other authority and do various other specified functions w.e.f. 01.04.2021. The jurisdiction has been specified as all cases of persons in respect of all incomes within the limits of all States and Union Territories of India with respect to whom there is any information in the possession of DIT (Systems).

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_24_2021.pdf

7. CBDT authorises ACIT/DCIT (NaFC) to act as the 'Prescribed Income-tax Authority' for the purposes of section 143(2) w.e.f. 01.04.2021 – Notification No. 25/2021, dated 31-03-2021

In exercise of powers conferred u/s 143(2) r.w.r. 12E, CBDT has authorised ACIT/DCIT (NaFC) to act as the 'Prescribed Income-tax Authority' in respect of returns furnished u/s 139 or in response to a notice issued u/s 142(1) or 148(1), for the purpose of issuance of notice u/s 143(2).

Refer:https://www.incometaxindia.gov.in/communications/notification/notification_25_2021.pdf

8. CBDT amends the Faceless Appeal Scheme, 2020 w.e.f. 01.04.2021 – Notification No. 26/2021, dated 31-03-2021

In exercise of powers conferred u/s 250(6B), the CBDT has amended the Faceless Appeal Scheme, 2020 so as to define the term "National Faceless Assessment Centre" and also substituted the term "National e-Assessment Centre" with "National Faceless Assessment Centre".

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_26_2021.pdf

9. CBDT amends tax audit report (TAR) {i.e. Form 3CD) and relevant Rule 6G(2) – Notification No. 28/2021, dated 01-04-2021

In exercise of powers conferred u/s 44AB r.w.s. 295, CBDT has amended Rule 6G(2) to provide that TAR can now be revised before end of relevant AY if there is payment by the concerned assessee necessitating recalculation of disallowance under section 40 or section 43B. Further, Form 3CD has also been amended. Clause 8A, 17, 18(ca)/(cb), 32(a) has been substituted and clause 36 has been omitted vide the Income-tax (eighth Amendment) Rules, 2021 w.e.f. 01.04.2021.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_28_2021.pdf

10. Agreement between India and Iran for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income notified – Notification No. 29/2021, dated 01-04-2021

In exercise of powers conferred u/s 90(1), the Central Government has notified that all the provisions of DTAA between India and Iran, as annexed to this notification, shall be given effect to in the Union of India. The agreement was signed in Delhi on 17.02.2018. The Agreement is on similar lines as entered into by India with other countries. The Agreement will stimulate flow of investment, technology and personnel from India to Iran & vice versa, and will prevent double taxation.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_29_2021.pdf

11. CBDT authorises DIT (CPC), Bengaluru and CIT (Exemption), Bengaluru for various purposes in exercise of powers under Rule 2C, 5CA, 11AA and 17A w.e.f. 01.04.2021 – Notification No. 30/2021, dated 01-04-2021

CBDT has authorized the DIT(CPC), Bengaluru and CIT (Exemption), Bengaluru, for the following purposes:

(i) for receiving applications for provisional registration or registration or provisional approval or approval or intimation in Form 10A.

(ii) for passing order granting provisional registration or registration or provisional approval or approval in Form 10AC.

(iii) for issuing Unique Registration Number (URN) to the applicants.

(iv) for cancelling the approval granted in Form 10AC and Unique Registration Number (URN).

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_30_2021.pdf

12. CBDT amends Rule 10DA and 10DB vide the Income-tax (9th Amendment) Rules, 2021 w.e.f. 01.04.2021 - Notification No. 31/2021, dated 05-04-2021

In exercise of powers conferred u/s 92D and 286 r.w.s. 295, CBDT has amended Rule 10DA pertaining to maintenance and furnishing of information and document by certain person under section 92D and Rule 10DB pertaining to furnishing of Report in respect of an International Group. In Rule 10DB, the condition relating to threshold limit i.e. total consolidated group revenue of the international group has been raised from Rs 5500 crore to Rs 6400 crore.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_31_2021.pdf

13. CBDT amends Rule 2DB and substitutes Form No. 10BBA vide the Income-tax (10th Amendment) Rules, 2021 w.e.f. 15.04.2021 - Notification No. 32/2021, dated 15-04-2021

In exercise of powers conferred u/s 10(23E) r.w.s. 295, CBDT has amended Rule 2DB pertaining to specified conditions to be satisfied by the pension fund in order to be eligible 'specified fund' for claiming exemption u/s section 10(23FE). An exception in the form of proviso has been inserted after clause (iii) of Rule 2DB which provides that the provisions of clause (iii) shall not apply to any payment made to creditors or depositors for loan taken or borrowing for the purposes other than for making investment in India. Further, Form No. 10BBA (Application for notification under sub-clause (iv) of clause (c) of Explanation 1 to section 10(23FE) has also been substituted.

Refer: https://www.incometaxindia.gov.in/communications/notification/notification_32_2021.pdf

II. CIRCULARS

1. Clarification on provisions of the Direct Tax Vivad se Vishwas Act, 2020 - Circular No. 04/2021, dated 23-03-2021

Vide this Circular, CBDT has clarified that a 'search case' means an assessment or reassessment made under sections 143(3)/ 144/ 147/ 153A/ 153C/ 158BC in the case of a person referred to in section 153A or section 153C or section 158BC or section 158BD on the basis of search initiated under section 132, or requisition made under section 132A of the Act. The FAQ no. 70 pertaining to eligibility for search case under DTVSV of Circular No. 21/2020 dated 04.12.2020 stands modified to this extent.

Refer:https://incometaxindia.gov.in/communications/circular/circular_4_2021.pdf

2. CBDT further defers reporting under clause 30C and clause 44 of the Tax Audit Report till 31.03.2022 - Circular No. 05/2021, dated 25-03-2021

Vide this Circular, CBDT has issued an Order u/s 119 and has decided that the reporting under clause 30C (pertaining to General Anti-Avoidance Rules (GAAR)) and clause 44 ((pertaining to Goods and Services Tax (GST) compliance) of the Tax Audit Report shall be kept in abeyance till 31.03.2022. This has been done keeping in view of the prevailing situation due to COVID-19 pandemic across the country.

Refer:https://incometaxindia.gov.in/communications/circular/circular_no_5_2021.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. Clarification on continuation of concessional rate of tax on certain interest income of the FPIs – Press Release, dated 17-03-2021

Proviso to section 115AD(1)(i) provides that the tax shall be chargeable at the concessional rate of 5% on interest income referred to in section 194LD. Vide this Press Release, CBDT has clarified that there is no change in the said proviso even after amendment of section 115AD vide Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 and the concessional rate of tax of 5% shall continue to be applicable for interest income referred to in section 194LD of the Act.

Refer:https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/924/PressRelease_Continuation_of_concessional_rate_of_tax_18_3_21.pdf

2. Allotment of one PAN to two or more taxpayers - resolution regarding – ITBA-PAN Instruction No. 9, dated 25-03-2021

In order to resolve the issues arising due to allotment of one PAN to two persons and in rare cases even to more than two persons, CBDT had earlier issued AIS Instruction No. 82 dated 21.06.2013 which stated that " the person who has been allotted PAN earlier in time will be the actual owner of that PAN and the same will be retained by him and the person who has been inadvertently allotted the same PAN later in time, will have to obtain a new PAN by surrendering his wrongly allotted PAN". The said instructions have been modified now as it has resulted in some grievances.

Refer:https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/445/ITBA_PAN_Instruction_No_9.pdf

3. Assigning jurisdiction to CsIT(A) over certain Direct Tax Acts – F. No. 279/Misc./M-44/2018-ITJ, dated 07-04-2021

CBDT has given approval for notifying CIT(Appeals) as specified to exercise jurisdiction over appeals in cases pertaining to Direct Taxes/ Direct Tax Acts including Wealth-tax Act, 1957; Interest-tax Act, 1974; Gift Tax Act, 1958; Expenditure-tax Act, 1987; Securities Transaction Tax in Chapter VII of Finance (No.2) Act, 2004; Commodities Transaction Tax in Chapter VII of Finance Act, 2013 and Equalization Levy in Chapter VIII of Finance Act, 2016 (other than Income-tax Act, 1961) post Faceless Appeal Scheme,2020 vide this letter addressed to all PCITs and PDGITs. This approval shall be deemed to have come into force on 25.09.2020.

Refer:https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/447/Assigning_jurisdiction_to_CsIT_A_over_certain_Direct_tax_Acts_7_4_1.pdf

GST

Notifications

1. Penalty for non- compliance of provisions for Dynamic QR Code to be waived off till 30th June 2021, if provisions are complied with from July 1, 2021

The penalty payable by a registered person under section 125 of the CGST Act, 2017 for not complying with the requirement of Dynamic QR Code, as notified vide *Notification No. 14/2020-CT dated 21st March, 2020,* has been waived off till 30th June, 2021 subject to the condition that the said person complies with the provisions of the said notification from July 1, 2021.

CUSTOMS

I. Notifications

1. Common Customs Electronic Portal notified

The CBIC has notified the common portal accessible through (URL) https://www.icegate.gov.in as the Common Customs Electronic Portal for facilitating registration, filing of bills of entry, shipping bills, other documents and forms, payment of duty, functions specified to be carried out through common portal through the Customs Act or rules and regulations made thereunder and for data exchange with other systems within or outside India.

[Notification No. 33/2021-Cus (N.T.) dated 29th March 2021]

2. Amendment to Bill of Entry (Electronic Integrated Declaration and Paperless Processing) Regulations, 2021 and Bill of Entry (Forms) Regulations, 1976

Section 46 of the Customs Act, 1962 has been amended by the Finance Act, 2021 to require an importer to file a BE before the end of the day (including holidays) preceding the day of arrival of the vessel/aircraft/vehicle carrying the imported goods at a Customs port/station at which such goods are to be cleared for home consumption or warehousing. However, the Board has been empowered to prescribe different time limits for such filing in certain cases, but by not later than the end of the day of arrival of the vessel/aircraft/ vehicle at the Customs port/station.

Accordingly, the CBIC vide Notification No. 34 /2021-Cus (N.T.) dated 29th March, 2021 has amended the Bill of Entry (Electronic Integrated Declaration and Paperless Processing) Regulations, 2018 to prescribe different time-limits for filing BE in respect of goods imported by various modes of transport. It may be noted that the existing provision that a BE may be presented upto 30 days prior to the expected arrival of the aircraft or vessel or vehicle carrying the imported goods continues. Thus, with certain exceptions, as notified, the BE can now be filed anytime from 30 days prior to the expected arrival of the aircraft or vessel or vehicle upto the end of day preceding the day of such arrival. Similarly, changes have been carried out in the Bill of Entry (Forms) Regulations, 1976 vide *Notification No. 35/2021-Cus (N.T.) dated 29th March, 2021 in case of manual filing of BEs.*

Detailed notifications can be accessed at: https://www.cbic.

gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt34-2021.pdf and https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt35-2021.pdf

3. Amendment for self-approval under section 149 of the Customs Act, 1962, notified

In exercise of the powers conferred by the third proviso to the section 149 of the Customs Act, 1962, the CBIC vide Notification No. 36/2021 -Cus (N.T.) dated 29th March, 2021 has specified the following amendment which may be made by an importer on the common portal in the bill of entry presented late under the second proviso to the sub section (3) of section 46 of the said Act:

Supplementing of Bill of Lading details in the Bill of Entry.

4. Customs (Verification of Identity and Compliance) Regulations, 2021 notified

The CBIC vide Notification No. 41/2021- Cus (N.T.) dated 5th April, 2021 has notified verification regulations for importers; exporters; and customs brokers namely, Customs (Verification of Identity and Compliance) Regulations, 2021. In case of failure of verification of identity, benefits of goods clearance, refunds, drawback or any other any monetary benefit arising out of import or export will be suspended. A penalty of up to Rs. 50,000 may be imposed on a person who contravenes any provision of these regulations or who fails to comply with any provision of these regulations. These regulations will not apply to Central Government, State Governments, and public sector undertakings.

Detailed notification can be accessed at: https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt41-2021.pdf

5. Exemption from IGST and GST Compensation Cess to imports under Advance Authorization/EPCG and imports by EOU/EHTP/STP/BTP units extended till 31.03.2022

Imports against Advance Authorizations for physical exports and capital goods imported under EPCG Authorization for physical exports were exempted from payment of integrated tax and GST compensation cess up to 31.03.2021. Likewise, goods imported by EOU/EHTP/STP/BTP units were also exempted from payment of integrated tax and GST compensation cess up to 31.03.2021.

All the above exemptions have now been extended up to 31.03.2022.

[Notification No. 23/2021 Cus dated 31st March 2021 & Notification No. 19/2021 Cus dated 30th March, 2021]

Detailed notifications can be accessed at: https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-tarr2021/cs23-2021.pdf and https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-tarr2021/cs19-2021.pdf

6. Implementation of India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)

The CBIC has notified the implementation of India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement ("CECPA") by exempting various goods from payment of customs duty when imported into India from Mauritius. Further, it has also issued the Customs Tariff (Determination of Origin of Goods under the Comprehensive Economic Cooperation and Partnership Agreement between the Republic of India and the Republic of Mauritius) Rules, 2021. These rules have come into force from 1st April, 2021.

[Notification No. 25/2021 Cus, dated 31st March, 2021 & Notification No. 38/2021 Cus (N.T.), dated 31st March, 2021]

Detailed Notifications can be accessed at: https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-tarr2021/cs25-2021.pdf and https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt38-2021.pdf

II. Circulars

1. Clarification on the legislative changes in section 46 of Customs Act, 1962

Section 46 of the Customs Act, 1962 has been amended through Finance Act, 2021 to facilitate pre-arrival processing and assessment of Bills of Entry (BE) by mandating their advance filing thus leading to significant decrease in the Customs clearance time.

With a view to facilitating the importers, Board has amended the Bill of Entry (Electronic Integrated Declaration) Regulations, 2018 by the issue of Notification No.34/2021-Cus (N.T.), dated 29th March, 2021, thereby prescribing different time-limits for filing BE in respect of goods imported by various modes of transport as under:

Sr. No.	Customs Station	BE is Required to be Filed Latest by End of the Day of Arrival of the Vessel/Aircraft/Vehicle	BE is Required to be Filed Latest by the End of Day Preceding the Day of Arrival of the Vessel/Aircraft/Vehicle
(1)	(2)	(3)	(4)
1.	Sea Port	Imports consigned from following countries viz. 1. Bangladesh 2. Maldives 3. Myanmar 4. Pakistan 5. Sri Lanka	Imports consigned from all countries other than those mentioned in column (3)
2.	Airport	All imports	None
3.	Land Customs Station (LCS)	All imports	None
4.	Inland Container Depot (ICD)	None	All Imports

A BE that is filed after the above timelines shall attract late charges. Relevant date for determining the late charges is date of entry inwards for the seaport and date of arrival at the airport, ICDs/air freight stations and land customs stations.

The requirement of Master Bill of Lading (MBL)/ Master Airway Bill (MAWB) for the filing of advance BE has been done away with. Only the reference to House Bill of Lading (HBL)/ House Airway Bill (HAWB) would be sufficient at the time of advance filing. Thus, an importer can now file the advance BE on the strength of either an MBL/MAWB or the HBL/HAWB or both.

Further, to regularize the BE filed in advance with the Arrival Manifest (IGM) when a BE has been filed only with the HBL/HAWB (and not MBL/ MAWB), it is proposed to enable an option in ICEGATE for the importer to subsequently update the MBL/MAWB in the BE. This amendment to the already filed BE would be auto approved in the Customs Automated System without the need for approval of a Customs officer. Since all such amendments would be auto approved by the Customs Automated System, these would not be subject to levy of fees under the Levy of Fees (Customs Documents) Regulations, 1970.

[Circular No. 08/2021-Cus dated 29th March 2021]

Detailed Circular can be accessed at: https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-circulars/cs-circulars-2021/Circular-No-08-2021.pdf

Establishment of Central Scrutiny Centre (CSC) for carrying out scrutiny of Straight through Processes (STP) e-forms filed by the Companies under the Act w.e.f. 23rd March 2021

The Central Government has established a Central Scrutiny Centre (CSC) for carrying out scrutiny of STP e-forms filed by the companies under the Act and the rules made thereunder and which shall function under the administrative control of the e-governance Cell of the MCA w.e.f 23.03.2021.

An announcement in this regard has also been hosted on ICAI website. *Refer: https://resource.cdn.icai.org/63822clcgc51351a.pdf*

Commencement notification of provisions of Companies (Amendment) Act, 2020 w.e.f. 18th March, 2021

The Central Government has appointed the 18th March, 2021 as the date on which the provisions u/s 32 and 40 of the Companies (Amendment) Act, 2020 shall come into force.

Accordingly, after amendment, non-executive directors including independent directors may receive remuneration, in case of absence or inadequacy of profits, in accordance with Schedule V of the Companies Act, 2013.

Legal Update

An announcement in this regard has also been hosted on ICAI website. *Refer: https://resource.cdn.icai.org/63823clcgc51351b.pdf*

Amendment to the Schedule V of the Companies Act, 2013

The Ministry of Corporate Affairs has amended the provisions of Schedule V of the Companies Act, 2013 vide its notification dated 18.03.2021 pursuant to the changes made by Companies (Amendment) Act, 2020 in the provisions of section 149(3) and section 197(3) of the Act which relates to remuneration of Non-executive Directors (including Independent Directors).

Modifications have been made in the Section I, II and III of part II (i.e. Remuneration) of the Schedule V of the Act.

Moreover, an explanation has been added defining the term "or other director" i.e. Explanation- For the purpose of Section I, II and III, the term "or other director" shall mean a nonexecutive director or an independent director.

An announcement in this regard has also been hosted on ICAI website. *Refer: https://resource.cdn.icai.org/63824clcgc51351c.pdf*

Commencement notification of provisions of Companies (Amendment) Act, 2020 relating to Unpaid Dividend Account and Valuation by Registered Valuers w.e.f. 24th March, 2021

The Ministry of Corporate Affairs on March 24, 2021 has issued a notification specifying that the provision under Section 23 (Unpaid Dividend Account) and Section 45 (Valuation by Registered Valuers) of the Companies (Amendment) Act, 2020 shall come into force from March 24, 2021.

Accordingly, w.e.f. 24.03.2021, penalty has been reduced under section 124(7) and 247(3) of the Companies Act, 2013 for failure in complying with the provisions under section 124 and contravention of the provisions of section 247 or the rules made thereunder respectively.

An announcement in this regard has also been hosted on ICAI website. *Refer: https://resource.cdn.icai.org/64147clcgc51489c.pdf*

Amendment to Schedule III to the Companies Act, 2013

The Ministry of Corporate Affairs, Government of India has issued notification to make certain amendments in Division I, II and III of Schedule III to the Companies Act, 2013, which are applicable w.e.f. 01st April 2021.

Refer:http://www.mca.gov.in/Ministry/pdf/ScheduleIIIAmendmen tNotification_24032021.pdf

Amendment in the provisions of Companies (Accounts) Rules, 2014 w.e.f. 01.04.2021

The Ministry of Corporate Affairs has amended the rules relating to Manner of books of accounts to be kept in electronic mode and Matters to be included in Board's Report i.e. Rule 3 and Rule 8 of Companies (Accounts) Rules, 2014 respectively w.e.f 01st April, 2021.

Accordingly, Rule 3(1) of Companies (Accounts) Rules, 2014 has mandated every company, irrespective of its capital or turnover, to use accounting software having feature of audit trail w.e.f. 01.04.2021.

Further, in respect of amendment in rule 8, two more matters are specified in sub rule 5 of rule 8 which shall be contained in Board report in addition to the details required sub rule (5) and (4) of Rule 8.

An announcement in this regard has also been hosted on ICAI website. *Refer:https://resource.cdn.icai.org/64145clcgc51489b.pdf*

Amendment in Companies (Audit and Auditors) Rules, 2014

The Ministry of Corporate Affairs has issued a notification dated 24.03.2021 amending the provisions of Rule 11 of Companies (Audit and Auditors) Rules, 2014, to include additional matters in the Auditor's Report, w.e.f. 01st April 2021.

However, w.e.f. 01.04.2021, the matter related to specified bank notes during demonetisation period is no more required to be stated in the auditor's report.

An announcement in this regard has also been hosted on ICAI website. *Refer: https://resource.cdn.icai.org/64146clcgc51489a.pdf*

Second Amendment to Companies (Accounts) Rules, 2014 and Companies (Audit and Auditors) Rules, 2014

The Ministry of Corporate Affairs has issued two notifications dated 01.04.2021 amending the provisions of Rule 3(1) of Companies (Accounts) Rules, 2014 and Rule 11 of Companies (Audit and Auditors) Rules, 2014.

The amendment has been made to defer the applicability of provision related to Audit trail as provided in clause (g) in rule 11 of the Companies (Audit and Auditors) Rules, 2014 and in rule 3(1) of Companies (Accounts) Rules, 2021 by one year.

Accordingly, post amendment, the provision relating to feature of audit trail in software is applicable in respect of financial years commencing on or after 01st April, 2022.

An announcement in this regard, has also been hosted on the ICAI website. *Refer: https://resource.cdn.icai.org/64323clcgc050421.pdf*

SEBI (Investment Advisers) (Second Amendment) Regulations, 2021

SEBI vide its notification dated 16th March, 2021 has amended the Regulation 7(1)(a) of the SEBI (Investment Advisers) Regulations, 2013. Accordingly, one more qualification has been inserted in Regulation 7(1)(a) of the Regulations which is as follows: "or a professional qualification by completing a Post Graduate Program in the Securities Market (Investment Advisory) from NISM of a duration not less than one year".

Refer: https://www.sebi.gov.in/legal/regulations/mar-2021/securities-and-exchange-board-of-indiainvestment-advisers-second-amendment-regulations-2021_49542.html

Reduction in unblocking/refund of application money

SEBI has issued a circular dated 31st March, 2021 for reducing the timelines for refund of the moneys to the investors in the below mentioned events to "four days"

- In case of non-receipt of minimum subscription.
- In case the issuer fails to obtain listing or trading permission from the stock exchanges where the specified securities were to be listed.

Thus, in SEBI(ICDR) Regulations, 2018, Regulation 45(2), 86(2), 141(2), 202(2)(b) and 202(3)(a) and (b) the words 'fifteen days' shall be read as 'four days' and in Regulation 53(2), 94(2), 149(2), 208(2), 272(2) the word 'seven days' and 'eighth day' shall be read as 'four days'.

Refer:https://www.sebi.gov.in/legal/circulars/mar2021/reduction-in-unblocking-refund-of-applicationmoney_49722.html

SEBI vide Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 has laid down the framework for Schemes of Arrangement by listed entities and relaxation under Rule 19(7) of the Securities Contracts (Regulation) Rules, 1957.

Further vide circular no SEBI/HO/CFD/DIL1/CIR/P/2020/215 dated 3rd November 2020, the process for filing the draft schemes with the stock exchanges has been further streamlined. Therefore certain amendments have been made to the aforesaid circular dated 10th March and the amendments so introduced have been provided in the annexure to this circular.

These amendments are aimed at ensuring that the recognized stock exchanges refer draft schemes to SEBI only upon being fully convinced that the listed entity is in compliance with SEBI Act, Rules, Regulations and circulars issued thereunder.

Furthermore, this Circular shall be applicable for all the schemes filed with the stock exchanges after November 17, 2020. The amendment indicated at Para 7 of the Annexure shall be applicable for all listed entities seeking listing and/or trading approval from the stock exchanges after November 3, 2020.

Refer:https://www.sebi.gov.in/legal/circulars/nov-2020/schemes-of-arrangement-by-listed-entities-and-ii-relaxation-under-sub-rule-7-of-rule-19-of-the-securities-contracts-regulation-rules-1957_48064.html

SEBI extends the Settlement Scheme 2020

The Securities and Exchange Board of India (SEBI) on October 31, 2020 has issued a Public Notice in reference to its earlier Public Notice dated July 27, 2020 wherein SEBI has introduced the Settlement Scheme 2020 (the Scheme) which proposes to provide a onetime settlement opportunity to those entities that have executed trade reversals in the stock options segment of BSE during the period from April 01, 2014 to September 30, 2015.

The period of the Scheme commenced on August 01, 2020 and was to end on October 31, 2020. However, in view of the large scale disruption caused by Covid-19 pandemic, competent authority in the current Public Notice, extended such period of the Scheme till **December 31, 2020.**

Refer:https://www.sebi.gov.in/media/public-notices/oct-2020/public-notice-in-respect-of-extension-of-the-sebi-settlement-scheme-2020_48049.html

Non-compliance with provisions related to continuous disclosures

SEBI vide Circular No. SEBI/HO/DDHS/DDHS/CIR/P/2020/231 dated 13th November 2020, has laid down a similar uniform structure for imposing fines for non-compliance with continuous disclosure requirements by issuers of listed Non-Convertible Debt Securities and/ or NCRPS and/ or Commercial Papers as specified in Annexure I and Annexure II of this circular respectively.

However, the Stock Exchanges may deviate from the above, if found necessary, only after recording reasons in writing.

Refer:https://www.sebi.gov.in/legal/circulars/nov-2020/non-compliance-with-provisions-related-to-continuous-disclosures_48171.html

Investment by Foreign Portfolio Investors (FPI): Investment Limits A.P. (DIR Series) Circular No. 14 dated March 31, 2021

a. Investment Limits for FY 2021-22 a. The limits for FPI investment in Corporate bonds shall remain unchanged at 15% of outstanding stock of securities for FY 2021-22. Accordingly, the revised limits for FPI investment in corporate bonds, after rounding off, shall be as under (Table - 1)

Table - 1: Limits for FPI investment in Corporate bonds for FY 2021-22	(₹ Crore)
Current FPI limit	5,41,488
Revised limit for HY Apr 2021-Sep 2021	5,74,263
Revised limit for HY Oct 2021-Mar 2022	6,07,039

b. The revised limits for FPI investment in Central Government securities (G-secs) and State Development Loans (SDLs) for FY 2021-22 will be advised separately. Till such announcement, the current limits (as in Table - 2), shall continue to be applicable.

Table - 2: Limits for FPI investments in G-Sec and SDL				(₹ Crore)
	G-Sec General	G-Sec Long Term	SDL General	SDL Long Term
FPI investment limits	2,34,531	1,03,531	67,630	7,100

FETERS – Cards: Monthly Reporting A.P. (DIR Series) Circular No. 13 dated March 25, 2021

It has been decided to collect more details of international transactions using credit card / debit card / unified payment interface (UPI) along with their economic classification (merchant category code – MCC) through a new return called 'FETERS-Cards', using the same web-portal (https://bop.rbi.org.in).

2. Nodal offices of Authorised Dealers (ADs) may submit FETERS-Cards details on the web-portal in the following manner:

A. For transactions through credit card / debit card / UPI:

   (i) Sale of forex by AD towards international transaction made by Indian resident (to be reported by the card issuing / transaction originating AD); and

   (ii) Purchase of forex by AD under transaction by foreign resident with Indian resident (to be reported by merchant acquirer AD).

B. The information shall be submitted in the following fixed format (details given in Annex):

   a. For transactions using credit/debit card: MCC X Country X Currency X Amount (Payment/Refund) X Card Status (Present /Not present)

   b. For transactions through UPI: MCC X Country X Currency X Amount (Payment/ Refund) X QR Code Scan (Yes/No) 3. AD Banks need to report all card transactions (e.g., through PoS terminals / ecommerce (online purchase) / for transferring funds to bank accounts).

4. Data submission by ADs:

(i) ADs shall submit the FETERS-Cards data on the web portal (https://bop.rbi.org.in) by using the RBI-provided login-name and password, within seven working days from the last date of the month for which data are being reported. The web-portal provides detailed guidance and help material.

(ii) FETERS-Cards reporting will be implemented for the transactions taking place from April 1, 2021. Hence, details of the transactions in April 2021 may be reported in the first week of May 2021.

RESEARCH COMMITTEE
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Setup by an Act of Parliament)

ICAI - DOCTORAL SCHOLARSHIP SCHEME 2021

Last Date for submission of application:
15th JUNE 2021

ABOUT THE SCHOLARSHIP

Doctoral scholarship will be awarded to members of the Institute who are registered as Ph.D. Scholars in UGC recognized Indian Universities/ Deemed Universities/ Colleges, IIMs having University/ IIMs approved Ph.D. Programme to pursue and complete their Doctoral Research in Auditing, Taxation, Commerce, Management and Accounting Discipline.The candidates must have confirmed Ph.D. Registration at any of the institutions mentioned above on the last date of application.

ELIGIBILITY CRITERIA

- Member of the ICAI.
- Minimum of 75% marks in 10th and 12th standard.
- Candidate should not be more than 40 years of age on the last date of application.
- NET/SLET and M.Phil. from a recognized university will carry weightage in the assessment of research proposal.
- Candidates who have already availed any other doctoral fellowship awards are not eligible to apply.

HOW TO APPLY

- Applications are invited through ICAI website, ICAI journal, Mass email to members and should be received before 15th June 2021.
- The application along with research proposal, abstract (3000 and 300 words respectively) along with all the enclosures must be sent to Research Committee at the given address before the last date mentioned in the advertisement duly signed and stamped by the Ph.D. Registered institution.

PROCEDURE FOR THE AWARD OF SCHOLARSHIP

- Applications are initially scrutinized by the Research Committee Secretariat.
- Thereafter, Shortlisting Committee will short-list region wise meritorious proposals from the eligible applications.
- Such candidates may also be invited for a presentation before Shortlisting Committee.
- The recommendations of the Shortlisting Committee will then be placed before the Research Committee for its final approval.

SCHOLARSHIP

The scholarship of Rs 50,000 per month for maximum period of 36 months will be given to maximum 5 scholars annually.

CONTINGENCY GRANT

Yearly grant not exceeding Rs. 50000/- per year.

SCHOLARSHIP TOPICS

The following topics are suggested:

1. Human Resource Accounting
2. Simplification of Human Resource Laws
3. Government Sector Accounting
4. Integrated Reporting
5. International Taxation Laws
6. Water Audit

The Research Committee will decide the suitability of the topics from time to time.

For further details please write to:
Secretary, Research Committee
The Institute of Chartered Accountants of India (ICAI)
(Set up by an Act of Parliament)
ICAI Bhawan, 8th Floor, Administrative Building, A-29, Sector-62, Noida-20 1309
Tel.: 0120-387 6877, Mob.: +91 7836040914, Email: doctoral.research@icai.in, website: www.icai.org

Scan for weblink
https://icai.org/post/icai-doctoral-scholarship-scheme-2021

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2021

ICAI INTERNATIONAL RESEARCH AWARDS 2021

ira.icai.org

Accounting Finance Taxation Auditing Economics

31st MAY, 2021
Last Date for Submission of Published Research Paper

Introduction

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 for regulating the profession of Chartered Accountants in India. ICAI is the second largest accounting body in the whole world with a strong tradition of service to the public interest and to the Indian economy.

The Research Committee of the Institute of Chartered Accountants of India is one of the oldest technical committees set up in 1955 with a view to undertake research activities to improve the quality of services rendered by the profession.

Objective

The objective of ICAI International Research Awards 2021 is to recognise the research community across the globe and their contribution in fostering innovation and value creation in the areas of Accounting, Auditing, Finance, Economics and Taxation in order to enhance the research activities in the concerned areas and contribute towards development of society and economy.

The International Research Awards Aspires To Build Global Research Community

Nomination Process and General Guidelines

1. An individual can submit published research paper at **(ira.icai.org).**
2. The research paper should be nominated online by nominating agency in the form of Research Institution/Agency, Educational Institutions, Corporates, and Individual. Self Nomination is not allowed.
3. Nomination will be accepted only between invite open dates to close date.
4. Nominating agency has to submit nomination form for each recommendation.
5. One Research Paper is to be nominated in one category only.
6. Nomination must contain consent of Author and contact details of Author and Nominating Entity.
7. The awardee may be asked to present their Research Paper for the benefit of larger audience.
8. Decisions of the Panel of Judges (Jury) in all the matters relating to the Competition will be final.
9. Selection of awardees in specified categories are made through software, review by subject matter experts and then by eminent Jury.

Coverage of the Awards

The areas/scope of the awards would be to identify the topics of international and societal importance where accounting profession can leverage its due role.

The award will be given in five broad categories:

Organised by **Research Committee of ICAI**

Scan for Web Link https://ira.icai.org/

For further information please write at
ira@icai.in or visit our website ira.icai.org
Secretary, Research Committee
The Institute of Chartered Accountants of India
ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi-110002

Eligibility Criteria of the Awards

1. An Individual undertaking research in the mentioned coverage areas.
2. Participant could be from any country as jurisdiction is international.
3. The research work should be published.

RESEARCH COMMITTEE
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Setup by an Act of Parliament)

Maximum: Rs. 10 Lakhs per study

ICAI - RESEARCH PROJECT SCHEME 2021

THRUST AREAS

1. Impact of CSR on society
2. Sustainability and Integrated Reporting
3. Financial and Tax Literacy
4. Human Resource Laws
5. Forensic Accounting/Auditing and Investigation Standards
6. Blockchain & Cryptocurrencies
7. Others contemporary areas pertaining to profession.

THE ELIGIBILITY CRITERIA

Projects will be supported to the extent that they are strategic in nature, have a strong research dimension, inter alia, by involving qualified research scholars such as:

a. The applicant must be a member of the Institute of Chartered Accountants of India with a research aptitude having at least 10 years post-qualification experience either in the practice of the profession or as an employee with a reputed manufacturing/service organisation; or

b. An experienced research scholar with Ph.D. or faculty of a recognized University/ Institute of a high repute.

Applications from persons having an experience less than as stated above might also be considered on the basis of merit.

MONITORING

The Research Committee would monitor the implementation and progress of the research projects approved under this project facility. The applicant (researcher) may, at any point of time during the project, be requested to provide the details of work done/remaining, the draft of the project/publication, etc, so that Research Committee may evaluate the implementation and progress. If Research Committee feels that the project is not being carried out as mentioned in the research proposal or the progress made by the researcher is not satisfactory, the Research Committee may consider withdrawal of the project from the researcher. In such a case, the work already completed would be the property of ICAI.

DURATION

The duration of research project should not exceed 6 months from the date the project proposal is approved by Research Committee of ICAI unless a longer period is otherwise justified

EXPECTED OUTPUTS OF THE RESEARCH PROJECT

- Research Report/Paper/Publication
- Dissemination of best practices and launching/implementation of the results, policy-oriented seminars, workshops and exchanges.
- Capacity building of the members of the profession and of the targeted beneficiaries as may be agreed in the project.

COPYRIGHT, PATENT, ETC.

Any copyright or intellectual property right or patent, etc. arising out of the research work done would vest with ICAI. The ICAI would, however, duly acknowledge the researcher.

For further details please write to:
Secretary, Research Committee
The Institute of Chartered Accountants of India (ICAI)
(Set up by an Act of Parliament)
ICAI Bhawan, 8th Floor, Administrative Building, A-29, Sector-62, Noida-20 1309
Tel.: 0120-387 6877, Mob.: +91 7836040914, Email: research.project@icai.in, website: www.icai.org

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https://resource.cdn.icai.org/64169research51506.pdf

Campus for Newly Qualified Chartered Accountants (NQCAs) April- May, 2021

Maintaining strong and spontaneous relationship with the industry and other business houses remains the main focus of the Committee for members in Industry & Business (CMI&B) of the Institute of Chartered Accountants of India (ICAI). An initiative to that effect remains the Campus Placement Programme (held twice a year) that provides a platform to both the NQCAs and the organizations looking for to hire the best available talents to fulfil their human resource requirement. ICAI simply acts as a facilitator to bring the recruiter and NQCAs together.

Invitation to Organisations: Any organisation, irrespective of its size, standing in the market and boundary of its business, can take part in this placement programme being held at several centres across the country during April- May, 2021.

Campus Interview Schedule:

No.	Centre	Dates
1.	Mumbai	3rd, 4th, 5th,6th, 7th & 8th May, 2021
2.	New Delhi	4th, 5th, 6th, 7th, 8th & 10th May, 2021
3.	Bengaluru	5th, 6th ,7th, 8th & 10th May, 2021
4.	Chennai	6th, 7th, 8th, 10th & 11th May, 2021
5.	Kolkata	7th, 8th, 10th, 11th & 12th May, 2021
6.	Ahmedabad, Hyderabad, Jaipur & Pune	10th, 11th & 12th May, 2021
7.	Durgapur, Ernakulam, Nagpur, Rajkot & Visakhapatnam	1st June, 2021
8.	Kanpur	2nd & 3rd June, 2021
9.	Noida & Thane	4th & 5th June, 2021
10.	Bhubaneswar, Chandigarh, Coimbatore & Indore	7th & 8th June, 2021

Invitation to Candidates: The above Campus is meant for the candidates, who would be passing the CA Final examination held in Jan-Feb, 21 and also for others who have qualified earlier and are fulfilling the criteria mentioned in the Announcement.

Organizations intending to recruit NQCAs through campus scheme are requested to get in touch with the CMI&B Secretariat, ICAI Bhawan, Indraprastha Marg, New Delhi -110002, and Email: **campus@icai.in,** Tel No. (011)30110555 and to register log on to **https://cmib.icai.org/.**

Candidates may email at **cajob@icai.in,** Tel No. (011)30110491/550 and to register log on to **https://cmib.icai.org/.**

Chairman
Committee for Members in Industry & Business
The Institute of Chartered Accountants of India

Organised By:
Committee for Members in Industry & Business (CMI&B)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
'ICAI BHAWAN', Post Box No.: 7100, Indraprastha Marg, New Delhi – 110002
Tel. No.: (011) 30110555 | E-mail: campus@icai.in

Announcement providing Temporary Exceptions to Hedge Accounting prescribed under Guidance Note on Accounting for Derivative Contracts due to Interest Rate Benchmark Reform

Interest Rate Benchmark Reform such as Interbank Offered Rates (IBORs), e.g., LIBOR, TIBOR, NIBOR, etc. play an important role in global financial markets and index (benchmark) a variety of financial products including derivatives. Market developments have undermined the reliability of some existing benchmarks. Consequently, some major interest rate benchmarks will cease to be published across the globe after December 2021. The ongoing reform in IBOR, will impact the way financial information is accounted for in the financial statements.

With international developments taking place, global financial reporting Standards have been amended to address the issues affecting financial reporting arising from these reforms. Two groups of accounting issues that could affect financial reporting have been identified globally:

- **Phase 1 - Pre-replacement issues**— issues affecting financial reporting in the period during which there is uncertainty about the timing or the amount of interest rate benchmark-based cash flows. To address these issues, the amendments have been made to the relevant IFRS Standards. In India, corresponding changes have been made under Ind AS that are effective from April 1, 2020.

  For the entities that do not apply Ind AS, the provisions regarding hedge accounting are prescribed in the *Guidance Note on Accounting for Derivative Contracts* issued by the Institute of Chartered Accountants of India in year 2015.

  This Announcement is issued in order to provide corresponding temporary relief to the entities not following Ind AS having transactions in financial market products, for accounting periods beginning on or after April 1, 2020.

- **Phase 2 - Replacement issues** — issues affecting financial reporting when the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows is resolved and hedging relationships are affected as a result of the reform. IFRS Standards have been amended to provide practical expedient for modifications of the financial contracts that are affected by IBOR Reform with the view to avoid undue impact on the financial statements where the transactions are economically equivalent to the previous basis (i.e., before and after IBOR reforms). In absence of such practical expedient, due to change in benchmark rate, there could be unintended consequences, such as discontinuation of hedge accounting, etc.

  In India, corresponding changes are being made under Ind AS to be effective from accounting periods beginning on or after April 1, 2021. Corresponding amendments to provide additional temporary exceptions to hedge accounting for entities not following Ind AS are under formulation and will be issued in due course.

  In the aforementioned background and to address the exigent issue, this Announcement prescribes the temporary relief to the entities not following Ind AS corresponding to that provided in Phase 1 to the entities following Ind AS.

Temporary exceptions from applying specific hedge accounting requirements prescribed in *Guidance Note on Accounting for Derivative Contracts*

1. An entity shall apply paragraphs 4–11 and paragraphs 13-14 to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

   (a) the interest rate benchmark designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

2. For the purpose of applying paragraphs 4–11, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.[1]

3. Paragraphs 4–11 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements prescribed in the *Guidance Note for Accounting for Derivative Contracts* for hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

4. For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

5. For the purpose of applying the requirements in the Guidance Note in order to determine whether the hedged future cash flows are probable to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

6. For the purpose of applying the requirements in paragraph 44(i) of the Guidance Note, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

7. For a hedge of a non-contractually specified[2] benchmark component of interest rate risk if any, an entity shall apply the requirement that the risk component shall be separately identifiable only at the inception of the hedging relationship.

End of application of temporary exceptions from applying specific hedge accounting requirements

8. An entity shall prospectively cease applying paragraph 4 to a hedged item at the earlier of:

   (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

   (b) when the hedging relationship that the hedged item is part of is discontinued.

9. An entity shall prospectively cease applying paragraph 5 at the earlier of:

   (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and

   (b) when the entire amount accumulated in the cash flow hedge reserve with respect

[1] *The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf. Also refer to Report of the Committee on Financial Benchmarks of RBI dated 7th Feb 2014 at https://m.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=761*

[2] *When risk components are designated as hedged items, an entity considers whether the risk components are explicitly specified in a contract (contractually specified risk components) or whether they are implicit in the fair value or the cash flows of an item of which they are a part (non-contractually specified risk components). A risk component to be eligible for hedge designation should be separately identifiable and reliably measurable.*

to that discontinued hedging relationship has been reclassified to profit or loss.

10. An entity shall prospectively cease applying paragraph 6:

    (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

    (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

    If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 10(a) or the date specified in paragraph 10(b), the entity shall prospectively cease applying paragraph 6 to that hedging relationship at the date of discontinuation.

11. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 4–6 to an individual item or financial instrument in accordance with paragraphs 8, 9, or 10, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Disclosures -Uncertainty arising from interest rate benchmark reform

12. For hedging relationships to which an entity applies the exceptions set out in paragraphs 4–11, an entity shall disclose:
    (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
    (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
    (c) how the entity is managing the process to transition to alternative benchmark rates;
    (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
    (e) the nominal amount of the hedging instruments in those hedging relationships.

Effective Date

13. An entity shall apply the temporary exceptions stated in paragraphs 1-12 and 14 for annual periods beginning on or after 1st April 2020.

14. The requirements of this Announcement apply only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies these requirements.

Announcement : Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 400th meeting, held on March 18-19, 2021, considered the matter relating to applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI), to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020.

1. For the purpose of applicability of Accounting

Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.

Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The criteria for classification of Non-company entities into different levels are given in Annexure 1.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively.

2. Level I entities are required to comply in full with all the Accounting Standards.
3. Certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities. Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 2.
4. This Announcement supersedes the earlier Announcement of the ICAI on **'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government'** issued in February 2008, to the extent it prescribes the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement **'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.**
5. This Announcement is not relevant for Non-company entities who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.
6. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Annexure 1 : Criteria for classification of Non-company Entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-company entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees two-fifty crore in the immediately preceding accounting year.

(iv) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees fifty crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities

Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees fifty crore but does not exceed rupees two-fifty crore in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees ten crore but not in excess of rupees fifty crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities

Non-company entities which are not covered under Level I and Level II but fall in any one or more of the following categories are classified as Level III entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crore but does not exceed rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level IV Entities

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

Additional requirements

(1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards in so far as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.

(2) Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.

(3) Where an entity has been covered in Level I and subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/ relaxation available to that Level, until the entity ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.

(4) If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III or Level IV opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.

(6) An entity covered in Level II or Level III or Level IV may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, *Employee Benefits*, exemptions/ relaxations are available to Level II and Level III entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these sub-classifications.

Annexure 2 : Applicability of Accounting Standards to Non-company Entities

The Accounting Standards issued by the ICAI, as on April 1, 2020, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2020, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

(1) Applicability of the Accounting Standards to Level 1 Non- company entities.

Level I entities are required to comply in full with all the Accounting Standards.

(2) Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities

(A) Accounting Standards applicable to Non-company entities

AS	**Level II Entities**	**Level III Entities**	**Level IV Entities**
AS 1	Applicable	Applicable	Applicable
AS 2	Applicable	Applicable	Applicable
AS 3	Not Applicable	Not Applicable	Not Applicable
AS 4	Applicable	Applicable	Applicable
AS 5	Applicable	Applicable	Applicable
AS 7	Applicable	Applicable	Applicable

AS 9	Applicable	Applicable	Applicable
AS 10	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 11	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 12	Applicable	Applicable	Applicable
AS 13	Applicable	Applicable	Applicable with disclosures exemption
AS 14	Applicable	Applicable	Not Applicable (Refer note 2(C))
AS 15	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions
AS 16	Applicable	Applicable	Applicable
AS 17	Not Applicable	Not Applicable	Not Applicable
AS 18	Applicable	Not Applicable	Not Applicable
AS 19	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	Not Applicable	Not Applicable	Not Applicable
AS 21	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))
AS 22	Applicable	Applicable	Applicable only for current tax related provisions (Refer note 2(B)(vi))
AS 23	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))
AS 24	Applicable	Not Applicable	Not Applicable
AS 25	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))	Not Applicable (Refer note 2(D))
AS 26	Applicable	Applicable	Applicable with disclosures exemption
AS 27	Not Applicable (Refer notes 2(C) and 2(D))	Not Applicable (Refer notes 2(C) and 2(D))	Not Applicable (Refer notes 2(C) and 2(D))
AS 28	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

(B) Accounting Standards in respect of which relaxations/exemptions from certain requirements have been given to Level II, Level III and Level IV Non-company entities:

(i) Accounting Standard (AS) 10, Property, Plant and Equipments

Paragraph 87 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.

(ii) AS 11, The Effects of Changes in Foreign Exchange Rates (revised 2018)

Paragraph 44 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.

(iii) AS 13, Accounting for Investments

Paragraph 35(f) relating to disclosures is not applicable to Level IV Non-company entities.

(iv) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(1) Level II and Level III Non-company entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such entities should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such entities should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(2) Level II and Level III Non-company entities whose average number of persons employed during the year is less than 50 and Level IV Non-company entities irrespective of number of employees are exempted from the applicability of the following paragraphs:

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method,

e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(v) AS 19, Leases

(a) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to Level II Non-company entities.

(b) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III Non-company entities.

(c) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures are not applicable to Level IV Non-company entities.

(vi) AS 22, Accounting for Taxes on Income

(a) Level IV Non-company entities shall apply the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

(b) Transitional requirements

On the first occasion when a Non-company entity gets classified as Level IV entity, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves.

(vii) AS 26, Intangible Assets

Paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures are not applicable to Level IV Non-company entities.

(viii) AS 28, Impairment of Assets

(a) Level II and Level III Non-company entities are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if Level II or Level III Non-company entity chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(b) Also, paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures are not applicable to Level III Non-company entities.

(ix) AS 29, Provisions, Contingent Liabilities and Contingent Assets (revised 2016)

Paragraphs 66 and 67 relating to disclosures are not applicable to Level II, Level III and Level IV Non-company entities.

(C) In case of Level IV Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Level IV Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

(D) AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

ICAI in Media : Glimpses of March-April, 2021

BW BUSINESSWORLD

Pandemic, Technology And Impact On Chartered Accountancy

20 April, 2021 by Urvi Shrivasta

ICAI's technology driven initiatives of DCMM, UDIN and Digital Learning Hub are well recognized, used and acknowledged by various professional organisations globally. In fact, we have offered our digital learning platform to the members of many foreign institutions on complimentary basis.

C.A. Nihar N Jambusaria, President ICAI, speaks to Ms Urvi Shrivastva of BW Businessworld about the latest developments under The Institute of Chartered Accounts of India (ICAI). In an exclusive interview, he talks about the impact of pandemic on CA exams, development of new skill sets, leadership, and new initiatives taken by ICAI.

Q This is your third term as ICAI council member. Given the unprecedented times we live in, how will this term be different from the previous two ones?

Last year was an unprecedented year and brought a mammoth change in the world. The unparalleled challenges arising out of COVID-19 pandemic; which is yet unfolding; have impacted the professional and social strata altogether. However, the ICAI continued its services without any interruption or slackness throughout the period of lockdown using technology to the maximum. ICAI has always remained at the forefront for taking technological initiatives. Despite all the challenges faced due to restriction on physical movement, ICAI initiated various reforms to ensure that the profession is not only having inclusive growth but also ensured that its members & students are kept updated on various professional matters of contemporary relevance.

Read full interview at http://www.businessworld.in/article/Pandemic-Technology-And-Impact-On-Chartered-Accountancy/20-04-2021-386919/

ET THE ECONOMIC TIMES

ICAI's Sustainability Reporting Standards Board now has Greater Role to Play: ICAI President

PTI Last Updated: Mar 26, 2021, 04:49 PM IST

Synopsis

The new reporting requirements are expected to bring in greater transparency through disclosure of material environmental, social and governance-related information to enable market participants to identify and assess sustainability-related risks and opportunities.

Sustainability Reporting Standards Board of the Institute of Chartered Accountants (ICAI) will now have a greater role to play with Sebi making it mandatory from 2022-23 for top 1,000 listed companies to prepare business responsibility and sustainability reports, ICAI President Nihar N Jambusaria said on Friday.

Speaking at an event, Jambusaria noted that there are various challenges like climate change, poverty, gender inequality and proper awareness on these areas need to be spread.

He said that the institute had set up a Sustainability Reporting Standard Board last year which is taking all initiatives to spread awareness.

"With Sebi from 2022-23 making BRSR reporting mandatory for firms, the role of this board will become even more important," he said.

After the conclusion of its board meeting on Thursday, Sebi in a press release said it has decided to have a new format for business responsibility and sustainability reporting, and top 1,000 listed companies will be compulsorily required to prepare such reports from the financial year 2022-23.

The new reporting requirements are expected to bring in greater transparency through disclosure of material environmental, social and governance-related information to enable market participants to identify and assess sustainability-related risks and opportunities.

The Business Responsibility and Sustainability Report (BRSR) will be applicable to the top 1,000 listed entities on a voluntary basis for 2021-22 and on a mandatory basis from financial year 2022-23.

"Here non-financial information will be required to be reported," Jambusaria said.

He added that the government is also talking about "people bottom line" which is profit, people and planet.

All the corporates, therefore, now not only have to bother about profit but also take care of people and the planet, as per Jambusaria.

Underlining the importance of technology, he said that robotics, data analytics, cybersecurity are the buzzwords now.

"We have been talking about "ABCD" in the last two to three years," he said referring to artificial intelligence, block chain, cybersecurity and data analytics and added that amidst the COVID-19 pandemic, in the past one year, in the past one year, we have realised that these need to be learnt very fast.

The institute is making efforts in this direction by providing intensive courses to the professionals, he said.

He further noted that the government last year identified 17 champion sectors for the purpose of export of services. One of these sectors is finance and accounting which falls under the purview of ICAI.

"We have more than 45 chapters outside India in different countries...we are trying to use these chapters' services for export of CA services and looking to expand global footprints," he said.

With technology, working for a firm located in any part of the world has become possible, Jambusaria noted.

There are many common subjects, like accounting, similar insolvency laws, financial services, advisory services. "We are training members on how to export their services to foreign countries."

THE ECONOMIC TIMES

Forensic accounting standards have adequate flexibility to address unique situations: ICAI

Synopsis

Institute of Chartered Accountants of India (ICAI) has issued 13 Forensic Accounting and Investigation Standards (FAIS). There are also three overarching documents. These have been issued by the institute's Digital Accounting and Assurance Board.

By PTI, Mar 21, 2021, 03:36 PM IST

The forensic accounting and investigation standards have "adequate flexibility to address unique situations" and will ensure uniformity in forensic audits carried out by financial institutions, according to chartered accountants' apex body ICAI.

Institute of Chartered Accountants of India (ICAI) has issued 13 Forensic Accounting and Investigation Standards (FAIS). There are also three overarching documents. These have been issued by the institute's Digital Accounting and Assurance Board.

ICAI President Nihar N Jambusaria told PTI that another eight standards are in the pipeline.

Forensic audits play a key role in assessing the financial health of institutions, especially banks and their loan portfolios.

When asked whether the standards will help in ensuring uniformity in forensic audits conducted by banks and other financial institutions, Jambusaria replied in the affirmative.

"Absolutely, there will be uniformity in forensic audits conducted by banks and other financial institutions. The overall quality of the engagements will also improve.

"FAIS will also be useful to the law enforcement agencies, corporates, banks and other stakeholders to appreciate the common practices and finer nuances of conducting forensic accounting and investigation engagements," he said.

The FAIS is a minimum set of requirements that apply to all ICAI members.

According to Jambusaria, the institute's council at an appropriate time decides to make the FAIS mandatory and if deemed suitable in a phased manner.

"The mandatory nature of FAIS implies that while carrying out any forensic accounting and investigations, it shall be the duty of the professional to ensure that they comply with the standards. Hence, ICAI standards are binding only on ICAI members," he noted.

Each of these principle-based standards operates within a pre-defined framework and seeks to ensure a consistent application of basic principles, best practices and standards, he said, adding that they also provide adequate flexibility to address unique situations.

Education TIMES

CA is a dynamic profession with inexpensive course fee

The number of applicants in Chartered Accountancy has been increasing over the years despite low pass percentage

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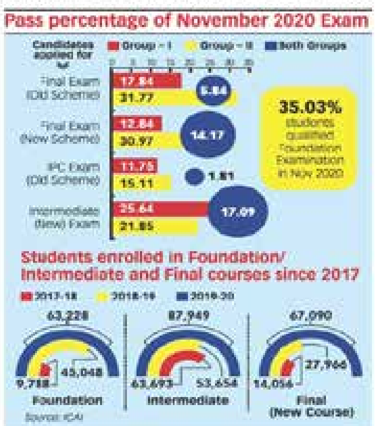

Chartered Accountancy has over the years seen a rising inclination with more youngsters opting for this course. In 2017-18, the number of registrations in the Foundation course was 9,788, which rose to 45,048 in 2018-19 and has gone up to 63,228 in 2019-20.

In the Intermediate course, the registrations of candidates were recorded at 63,693 in 2017-18, 53,654 in 2018-19 and 87,949 in 2019-20. The applications for Final course have also seen a drastic rise from 14,056 in 2017-18 to 27,966 in 2018-19 and 67,090 in 2019-20.

Highlighting the reasons for the significant rise in the number of applicants for the CA course, Nihar N Jambusaria, president, ICAI says, "The role of a chartered accountant is evolving day-by-day to assume newer responsibilities in a dynamic global business environment. Today, qualified chartered accountants are adept at easily solving most complex and intriguing business problems covering the whole spectrum of business and industry."

The conventional roles of financial reporting, accounting, auditing and financial analyst have undergone a remarkable shift during recent times, says Jambusaria. The expectation of industry from CAs is continuously increasing to match the economic and technological changes taking place globally.

The course is attracting students despite the low pass percentage at the three levels in the course. In 2020, around 35% of candidates had qualified the CA Foundation, 25% cleared the Intermediate New Course (Group 1), 21% cleared the Intermediate (Group II). The pass percentage in CA Final New Course was 12.84% (Group I), 30.97% (Group II) and 14.47% for both the groups.

Explaining the concerns regarding the low pass percentage of candidates in CA exams, Jambusaria says, "The remuneration of a CA professional is not affected by the attempts taken to clear the CA exam. Very rare occasions are seen where recruiters offer more pay to candidates who pass the examination in the first attempt as compared to repeat attempt candidates. Once a CA is employed at whatever pay, he has an equal chance of going up the ladder with his dedication and skills."

During the last campus placement organised by ICAI in August-September, 2020, the highest salary offered for domestic posting was Rs 23.28 lakh per annum and the average salary was Rs 8.91 lakh per annum, he says.

Further explaining the opportunities that the profession offers, Jambusaria adds, "The scope of CA profession is quite different from that of other professions such as doctors and engineers. Chartered Accountancy is a dynamic, challenging and rewarding profession and is growing progressively to include various value-added services. The practical industrial training offered during the course provides the much needed industrial exposure that helps a student become CEO from CFO of a company in the future. It is the most economical professional course and can be completed within a minimal amount of Rs 75,000."

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10 New Delhi, Wednesday 21 April 2021 FOCUS NEWS

Cabinet approves Memorandum of Understanding between the Institute of Chartered Accountants of India and Chartered Accountants Australia and New Zealand

New Delhi, The Cabinet, chaired by Prime Minister Shri Narendra Modi, has approved a fresh Memorandum of Understanding (MoU) between the Institute of Chartered Accountants of India (ICAI) and Chartered Accountants Australia and New Zealand (CA ANZ).

Impact: The MRA intends to develop mutually beneficial relationship in the best interest of members, students and their organizations and is expected to provide an opportunity to the ICAI members to expand their professional horizons and to foster working relations between the two accounting institutes. The two accountancy institutes will have an opportunity to play the leadership role in addressing new challenges facing the profession in a globalized environment.

Benefits: The engagement between the two Institutes is expected to result in greater employment opportunities for Indian Chartered Accountants and also greater remittances back to India.

Details: The Memorandum of Understanding (MoU) between the Institute of Chartered Accountants of India (ICAI) & Chartered Accountants Australia and New Zealand (CA ANZ) would mutually recognize the qualification and admit the Members in good standing by prescribing a bridging mechanism between the two Institutes. The ICAI and CA ANZ aim to establish a mutual co-operation framework for the advancement of accounting knowledge, professional and intellectual development, advancement of the interests of their respective members and contribute positively to the development of the accounting profession in Australia, New Zealand and India.

Implementation strategy and Targets: The MoU provides for mutual recognition of qualification of members of other body, who have achieved membership by completing the Examination, professional program and practical experience membership requirements of the two parties.

Background: The Institute of Chartered Accountants of India (ICAI) is a statutory body established by an Act of Parliament of India, The Chartered Accountants Act, 1949', to regulate the profession of Chartered Accountancy in India. Chartered Accountants Australia and New Zealand (CA ANZ), emerged from the merger of the Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants in October 2014.

ICAI in Media

BusinessLine
New Delhi | March 27, 2021

Auditor's job is not to become a bloodhound, says new ICAI head

Members to soon get a scoring model to rate audit quality

Nihar Jambusaria, President, ICAI

OUR BUREAU
New Delhi, March 26

The CA Institute and the National Financial Reporting Authority (NFRA) are yet to come on the same page as far as the law on fraud-related responsibilities of an auditor is concerned, said the new President of the Institute of Chartered Accountants of India (ICAI), Nihar Jambusaria, on Thursday.

"An auditor's job is not to become a bloodhound and should not be seen as an investigator. An auditor can be a little bit of a watchdog and at the most what one can expect them to become is a sniffer dog – which smells and passes on the feeling to the audit committee," Jambusaria said at his first press conference, after assuming charge of the ICAI in February this year.

Different perspective

He was responding to a question on the increased trust deficit on the auditing fraternity, post the series of audit and corporate failures like Kingfisher Airlines, IL&FS and DHFL. This position of the new ICAI President is in contrast to the NFRA Chairman R Sridharan's well-publicised view in December last year, who said that the audit fraternity must forget the "watchdog and not bloodhound" description as this "serious misconception" had a very "far-reaching consequences".

Jambusaria said, "Many stakeholders don't understand the scope of audit because of which perception gap arises. So in the meantime when people's expectations increase, our advice to auditors is to be a little more careful. Wherever you find things fishy, alert the audit committee or suggest a forensic audit. But the scope of an audit is not an investigation. The ICAI is trying to communicate this to the SFIO, the EOW and the government. At the most, an auditor can sensitise the management. He cannot convert an audit into an investigation."

Review model

The ICAI will soon roll out an 'Audit Quality Maturity Model' for its members to self assess the audit quality in their firms. Jambusaria said that they will be asked to take a self proficiency test around quality aspects of their audit work and will be assigned a score. He added that this will be "purely voluntary" to begin with. "Maybe after a year, it can be made mandatory for audit firms of public interest entities," said Debhashis Mitra, Vice President, ICAI.

Jambusaria said that the ICAI's Auditing and Assurance Standards Board will soon issue guidance to members on the latest MCA directive asking corporates to disclose the profits or loss incurred by them in dealing with crypocurrency or virtual currency. It is understood that the MCA had not consulted the ICAI before making such disclosure mandatory for corporates in their financial statements.

BusinessLine
New Delhi | April 5, 2021

10 POLLSCAPE

DELHI
BusinessLine
MONDAY · APRIL 5 · 2021

In relief to micro-enterprises, ICAI softens accounting standards blow

A special category has been created

KR SRIVATS
New Delhi, April 4

The Institute of Chartered Accountants of India (ICAI) has exempted micro-enterprises from the adoption of certain accounting standards mandated for non-corporate entities.

This was decided at a recent meeting of the central council held on March 18-19, where the matter relating to applicability of accounting standards issued by the ICAI to non-company entities (enterprises) was considered, sources said.

Specific category created

For the purpose of applicability of accounting standards, non-company entities have been classified into four categories– Level-I; Level-II; Level -III and Level -IV. The new scheme will come into effect for accounting periods commencing on or after April 1, 2020.

The main change now is that a special category (Level IV) has been created for micro-enterprises and the ICAI has specified that complex accounting standards related to segment reporting, party transactions, and impairment of assets will not be applicable to them. As the Level-IV entities are those with annual turnover less than ₹10 crore and borrowings less than ₹2 crore, they will not be subjected to the adoption of these accounting standards, sources added.

Non-company entities have been classified into 4 categories

The ICAI also revised the turnover and borrowing limits for deciding the criteria for classification of non-company entities for the applicability of accounting standards. This follows the government's revision of the definition of MSME last year. In tune with the changed MSME definition, the ICAI has also changed the turnover and borrowing limits in deciding the categories of non-corporate entities, they said.

However, the latest relaxations/exemptions will not apply to non-corporate entities which may also be required to follow Ind AS as per the relevant regulatory requirements applicable to such entities, the CA Institute said.

BusinessLine
New Delhi | March 24, 2021

ICAI okays revised networking guidelines

To approach RBI, CAG to recognise 'networks'

Chartered accountants can now share their fees with others

KR SRIVATS
New Delhi, March 23

The CA Institute's central council has approved revised networking guidelines that would help Indian audit firms to grow big and gain larger assignments in the country. "The revised guidelines are expected to make it conducive for Indian audit firms to come together," Nihar Jambusaria, President, Institute of Chartered Accountants of India (ICAI), told BusinessLine.

The networking guidelines were initially framed in 2005 and later revised in 2011.

"A group was formed last year to revise the guidelines and make them conducive to enable CA firms to go in for networking, which is much required," he added.

'Allotment purpose'

ICAI will now approach regulators like Reserve Bank of India and Comptroller and Auditor General of India to submit that "registered networks within the fold of ICAI should be recognised" by them for the purpose of allotment of public sector and bank branch audits. "For public sector audits, it may take some time to recognise such networks. But we will take efforts," Jambusaria said. It has also been specified in the guidelines that chartered accountants can share their fees with others.

In February this year, at the council meeting, some changes were suggested to the guidelines and they have now been carried out. "I think there will be positive response from RBI and CAG too," Jambusaria said. These guidelines have already been forwarded to the Corporate Affairs Ministry (MCA).

Meanwhile, the ICAI President also said that separate guidelines have to be framed for networking of domestic firms with foreign firms and a separate group has been set up for this purpose. "During this year itself we will come with guidelines for networking with foreign firms," he said.

BusinessLine
New Delhi | March 25, 2021

ICAI allows members to trade in equity derivatives

They still can't trade in commodity derivatives though

Nihar Jambusaria, President, ICAI

KR SRIVATS
New Delhi, March 24

The Central Council of the CA Institute has given its approval for members to trade in equity derivatives. However, ICAI members cannot trade in commodity derivatives, Nihar Jambusaria, President, Institute of Chartered Accountants of India (ICAI), told BusinessLine.

When it came to clients, a CA Institute member cannot trade in both equity and commodity derivatives, he added. Jambusaria said this issue was referred to the Central Council by the Ethical Standards Board of the Institute. The question before the council was whether members can invest or trade in equity derivatives on a proprietary basis.

ICAI's reasoning

"We have, in the council meeting that concluded last Friday last, given formal approval allowing members to trade in equity derivatives on their own accounts. Our reasoning was that when trading in shares is allowed for members, then equity derivatives should also be allowed, but only for self and not on behalf of anybody," Jambusaria said.

The ICAI President noted that this question of allowing members to trade in equity derivatives had been coming up before the Ethical Standards Board from time to time. This Board had, in the past, rejected approval for the same.

A chartered accountant in practice has always been allowed to invest or trade in equity shares (and not their derivatives) on a proprietary basis. They cannot do it on behalf of clients as this was not allowed when one is engaged in a CA practice.

The CA Institute has over 3.15 lakh members and over 90,000 firms specialising in traditional areas of audit, direct, indirect and international taxes, including GST, and in emergent areas like insolvency, financial services and corporate re-structuring.

ICAI Digital Learning Hub

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https://learning.icai.org/

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Research Committee of the ICAI Presents

ICAI AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING

LAST DATE FOR RECEIPT OF ENTRIES

30TH SEPTEMBER 2021

Unique opportunity to participate in the Competition for the year 2020-21

OBJECTIVE OF ICAI AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING

To recognise and encourage excellence in preparation and presentation of financial information.

PROCESS FOR DECIDING AWARDEES

Selection of awardees in specified categories are made through a robust three tier process:

- Review by Technical Reviewers
- Review of short-listed annual reports by Shield Panel and
- Selection by External Jury consisting of representatives from regulatory bodies, professionals, academicians etc.

PROCEDURE FOR PARTICIPATION

- There is **no fee for participation** in the competition.
- Annual Report relating to the financial year ending on any day between April 1, 2020 and March 31, 2021 (both days inclusive) is eligible for participation in this competition.
- Decisions of the Panel of Judges in all the matters relating to the Competition will be final.
- An entity awarded **'Hall of Fame'** may again participate in the competition after the cooling period of three years of receiving the award of 'Hall of Fame'.
- Fill in the Entry Form and submit with requisite documents on or **before September 30, 2021** to Secretary, Research Committee.

Note: The documents submitted by the entities for the competition will not be utilized for any other purpose.

AWARD CATEGORIES

- Hall of Fame awarded to the entity that has been winning the first prize under the same category continuously **for five years.**
- One Gold Shield in each category for the best entry.
- One Silver Shield in each category for the next best entry.
- Plaques to be awarded to the entities who are following better financial reporting practices as is decided by the Jury.

AWARD CATEGORIES OF THE COMPETITION 'ICAI AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING' FOR THE YEAR 2020-21

Category I	:	Public Sector Banks
Category II	:	Private Sector Banks *(including Foreign Banks)*
Category III	:	Co-operative Banks
Category IV	:	Life Insurance
Category V	:	Non-Life Insurance
Category VI	:	Financial Services Sector *(other than Banking and Insurance)*
Category VII(a)	:	Manufacturing and Trading Sector *(including entities engaged in processing, mining, plantations, oil and gas enterprises) (Turnover equal to 3000 crores or more)*
Category VII(b)	:	Manufacturing and Trading Sector *(Turnover equal to and between 500 crores and 3000 crores)*
Category VII(c)	:	Manufacturing and Trading Sector *(Turnover less than 500 crores)*
Category VIII(a)	:	Service Sector *(Other than financial services sector) (Turnover equal to or more than 500 crore)*
Category VIII(b)	:	Service Sector *(Other than financial services sector) (Turnover less than 500 crores)*
Category IX	:	Not-for-Profit Sector
Category X(a)	:	Infrastructure and Construction Sector *(Turnover equal to or more than 500 crore)*
Category X(b)	:	Infrastructure and Construction Sector *(Turnover less than 500 crore)*
Category XI	:	Public Sector Entities
Category XII	:	Municipal Body

For further information please write at research@icai.in **or** visit our website www.icai.org or Mobile: +918299735462
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