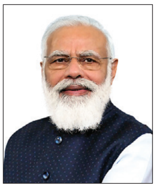
VOLUME 70 | NO. 2 | PAGES -132 | AUGUST 2021 | ₹100

THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

ICAI - SET UP BY AN ACT OF PARLIAMENT

Shri Narendra Modi, Hon'ble Prime Minister of India conveys Best Wishes



सत्यमेव जयते

प्रधान मंत्री

Prime Minister

MESSAGE

Heartiest greetings and best wishes to everyone at Institute of Chartered Accountants of India (ICAI) for 'Chartered Accountants Day' on July 1 and on completion of 72 years of ICAI's dedicated service to our nation. The publication of the special issue of ICAI journal – 'The Chartered Accountant' to trace the journey of its evolution is thoughtful.

For over seven decades, ICAI has upheld the glorious traditions and the sense of pride associated with the field of Chartered Accountancy. It is satisfying to see that ICAI has distinguished itself as a premier institute for professionals.

Trusted with the responsibility of preserving sound health of economic and financial systems, CAs have a significant role in book keeping. The financial skills of our CA professionals are widely acclaimed throughout the world.

Our Government has been steadfast in its efforts towards making the taxation process seamless and simpler, with a people-centric approach. As the interface between the government, companies and the citizen, our CAs have an enormous responsibility towards strengthening this endeavour and in contributing to nation-building.

I am sure that the Chartered Accountants Day will inspire each one of you to continue working with renewed zeal to take your profession to greater heights of glory. May you continue to serve the nation with dedication and commitment.

Best wishes for all success of Chartered Accountants Day. I am sure that the special issue of 'The Chartered Accountant' will be read and liked by all.

(Narendra Modi)

New Delhi
आषाढ़ 08, शक संवत् 1943
June 29, 2021

CA Nihar N. Jambusaria
President, ICAI
'ICAI Bhawan', Indraprastha Marg
New Delhi - 110002

Sustainability Reporting – Promoting Transition Towards Greener and Sustainable Economy

The focus on sustainable growth and the expectations of a wide group of stakeholders for much wider and relevant disclosures encompassing a range of environmental, social and governance (ESG) factors have increased manifold. However, the key to fostering sustainable growth is to fund economic activities that support the transition towards greener and sustainable economies. Comprehensive, complete and timely corporate level reporting, including non-financial information, is the pre requisite to support investors' evolving informational needs and improve the functioning of markets. Financial markets need clear and high-quality information for a comprehensive understanding of business performance, impacts and outcomes.

Over the past few years, momentum has been building in both public and private sectors towards enhanced disclosures by promoting the implementation of a global corporate sustainability reporting architecture. The global sustainability reporting architecture would provide consistent and comparable sustainability related information baseline across jurisdictions and allow flexibility for coordination on reporting requirements that capture wider sustainability impacts. The present concerns about fragmentation and lack of comparability and reliability of the reported information, expressed by companies, investor groups and other stakeholders would be appropriately addressed. Regulators and standard setters are taking concrete steps for the creation of a coherent global system of interconnected corporate reporting, involving specialist standard-setting bodies on financial and non-financial reporting and clear roles for corporate governance and assurance provider.

Recently, IFRS Foundation trustees have proposed targeted amendments to the IFRS Foundation Constitution to accommodate an International Sustainability Standards Board (ISSB) to set IFRS sustainability standards. Against this backdrop, the International Organization of Securities Commissions (IOSCO) declared that it is committed to helping advance the IFRS Foundation initiatives to set standards that meet the needs of the capital markets. The International Audit and Assurance Board (IAASB) has issued guidance on Extended External Reporting Assurance in April 2021 intended to assist practitioners in performing assurance engagements in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised). In addition, the IAASB has issued guidance on how auditors should consider climate-related risks in their audit of financial statements. The 2021 United Nations Climate Change Conference, also known as COP26, scheduled to be held in November 2021 would further galvanize efforts in this area by bringing together heads of state, climate experts and campaigners for climate talks and agree on a coordinated action to tackle climate change.

Sustainable Development Agenda has transformed the role of professional accountants as well. The present and future accountants lead and assist the organizations in understanding, demonstrating and achieving the efficiencies that organizations can gain from sustainable business practices. At the same time, increasing focus is placed on assurance and materiality of sustainability related information. The skills and procedures of the external audit function vis-a-vis financial reporting are transferable to sustainability information and reports. As assurance of sustainability-related reporting continues to develop, assurance providers will need specialized guidance on applying assurance procedures and finding ways by which the concept of materiality will be applied to sustainability reporting. Professional Accountants should be able to face the related challenges and opportunities specific to sustainability matters that are relevant to an industry/ sector/ organization.

ICAI has a strong tradition of service to the country towards sustainable as well as economic development. ICAI through Sustainability Reporting Standards Board (SRSB) is working relentlessly to augment the culture of accurate and reliable non-financial reporting, develop reporting metrices for Sustainable Development Goals (SDGs), benchmarking sustainability disclosures, and strengthening assurance frameworks for non-financial information. The Institute is taking proactive steps to not only identify and develop opportunities for Chartered Accountants in Sustainability Reporting but also to enhance knowledge, upskill and train members by conducting workshops, seminars, and courses, publish technical literature on various important topics within the sustainability domain. Further, in its endeavour to promote sustainability reporting ecosystem in the country which would lead to greener low-carbon economy, the Institute is working on two crucial aspects. Firstly, to promote compliance with existing accounting and sustainability related disclosure requirements. Secondly, to strengthen assurance framework to build a solid bridge between sustainability related risks and corporate financial reporting. ICAI is partnering with SEBI, Niti Aayog, MCA and additionally, with global bodies to enhance the quality of sustainability reporting and contributing towards attainment of SDGs.

Let's build a healthier, happier and safer planet, together!!

-Editorial Board ICAI: Partner in Nation Building

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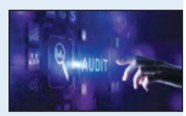

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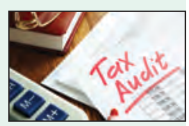

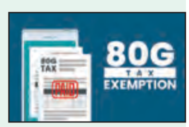

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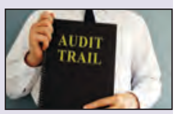

ICAI NEWS

ICAI IN MEDIA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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From the President

CA. Nihar N. Jambusaria
President, ICAI

My Dear Professional Colleagues,

For too long mankind, indiscriminately extricating natural resources has treated nature as a limitless source for its needs. In the process, what nature took millions of years to create is being used up and destroyed in a flip in the geological lifetime of the earth. Global warming, floods, droughts, avalanches, tsunamis, and pandemics are often indicators of the erosion that has already taken place and are harbingers of the worse that may happen. The effect of the global climate change issignificant on ecology with life threatening pollution, intense heat waves, shrinking glaciers, rising sea levels with severe impact on plant and animal life.

In the year 1974, the then ICAI President CA. S.K. Gupta, stated – *"All of us no doubt work to keep our body and soul together as also of those who are dependent on us. But we cannot be oblivious of the environment in which we work or ignore the calls of the society which provides us succour. We cannot draw a wall around us and work in isolation"*. About half a century later, it is the time for the leaders of business and society to take a break and redefine the path for sustainable growth to have a clean and inclusive life without damaging the overall environment.

Sustainability is not a tree huggers' fantasy. It is about the health and wellbeing of all of us and bringing the right balance between the environment, equity, and economy. Sustainable practices are built on the parameters that the resources are finite, there are long-term priorities and we should be mindful while using and should be aware of the consequences of their inappropriate use. Globally, more than ever, organizations are addressing the call for a responsible growth-based economic model, commonly known as the 2030 Global Agenda for Sustainable Development, leading towards a new path that creates sustainable as well as equitable economies and societies. The recent SEBI mandate of filing of Business Responsibility and Sustainability Reporting (BRSR) for the top 1000 listed companies (by market capitalization) with effect from the financial year 2022-2023 is India's response to the global call for national sustainable development strategies. The mandate intends to motivate the business community to fill resource gaps, focus on both financial and non-financial reporting and enhance the innovative capacities needed for the achievement of the 2030 Global Agenda.

ICAI is emerging as a global leader in the field with its Sustainability Reporting Standards Board taking various initiatives to benchmark global best practices in Sustainability Reporting and transparency of responsible business. The Institute as a part of various green initiatives has started construction of its first ever Green Building at Rohini in Delhi with Five Star GRIHA Rating whereby carbon footprints will be reduced significantly. ICAI strives to facilitate the adoption of a model of engaging multiple stakeholders across various sectors including MSME's and households among others, to develop action plans for promoting sustainable/responsible practices in India. This special issue of ICAI Journal on BRSR provides a platform for discussion on the evolving nature of the Sustainability Reporting landscape and the related emerging issues and challenges.

ICAI celebrates 73rd Chartered Accountants' Day

The 73rd Chartered Accountants' Day was celebrated on 1st of July all across the country with great enthusiasm and zeal. On the occasion this year, a 3 day Virtual CA programme on the theme 'Remembering the Glorious Existence and Envisioning the Future' was organized, from June 29 to July 1, 2021 comprising sessions by eminent speakers sharing their rich experience that covered the entire gamut of myriad contributions that the profession is making towards the society. Mindful of the pandemic, the function was attended virtually by thousands of audience consisting of Chartered Accountants, students, and other stakeholders. The event on July 1, was inaugurated by the Chief Guest Shri (CA.) Piyush Goyal, Hon'ble Minister of Railways, Commerce & Industry, Consumer Affairs and Food & Public Distribution. The Hon'ble Minister reiterated the words of Hon'ble Prime Minister of India wherein CAs were referred to as "Gurus of the Finance World". He reaffirmed his confidence in CA profession and its abilities. The Minister stated, "*Chartered Accountants take care of the health of the economy. In the times of COVID, CAs have worked diligently to keep the wheels of the economy going*" and urged all the Chartered Accountants to work collectively with sanctity and credibility so that the trust of the society on the Chartered Accountants is further strengthened.

Taking note of depletion of the green cover all across the world and consequent increase in pollution, ICAI also launched a Mega Tree Plantation Drive through the august hands of Shri Arjun Ram Meghwal, Hon'ble Minister of State for Parliamentary Affairs, Heavy Industries and Public Enterprises. The Institute through its regions and branches aims to plant ten lakh trees during the year. On the occasion, ICAI also launched a socially beneficial Financial & Tax Literacy Drive to educate the common man about financial planning and tax related matters. A dedicated multilingual portal "www.vitiyagyan.icai.org" was launched in nine different languages. During the day, ICAI made several releases and launches for the benefit of members and society.

Signing of MoU with Qatar Financial Centre (QFC)

The Institute signed a MoU with Qatar Financial Centre (QFC), Qatar for export of accounting services to Qatar and exploring professional and business opportunities for ICAI members through collaborative initiatives. The MoU is a stride forward to work closely with each other by drawing synergies from the professional expertise available at either side especially in the areas of auditing, assurance, financial services, taxation, and alike.

From the Qatar side, the MoU was signed by Mr. Yousuf Mohamed Al-Jaida, Chief Executive Officer, QFC who stated that *"The signing of the agreement with one of the largest accountancy bodies of the World marks yet another important step in our efforts to strengthen human capital and promote entrepreneurship in Qatar. Through this partnership, both QFC and ICAI will work towards enabling entrepreneurs, investors, and innovators from India to use our platform and set up their ventures in Qatar to become part of Qatar's robust market".* At the event, Dr. Deepak Mittal, His Excellency Ambassador of India to the State of Qatar as Guest of Honour mentioned that *"India and Qatar share cordial relations and the contributions of the Indian community in Qatar have strengthened the deep-rooted friendship of the two countries."* The signing of this MoU between ICAI and QFC has opened a wide range of opportunities for Indian Chartered Accountants in that part of the world and would in turn be an impetus for growth of both the economies.

Virtual Inauguration of Mauritius (Port Louis) Chapter of the ICAI

I am happy to inform that the Mauritius (Port Louis) Chapter was inaugurated as the 43rd Overseas Chapter of the ICAI at a virtual event on July 09, 2021. We had the presence of H.E. Mr. Janesh Kain, Hon'ble Acting High Commissioner of India to Mauritius; CA. Mahaveer Singhvi, Joint Secretary, Ministry of External Affairs, Government of India; Mr. Vivek Gujadhar, Chairperson, Mauritius Institute of Professional Accountants and Dr. Yousouf Ismael, Secretary General, Mauritius Chamber of Commerce and Industry, and other eminent guest speakers.

From the President

ICAI Partnering MSMEs to bolster them on the Global Map

ICAI is receptive to the emerging challenges faced by the Micro, Small and Medium Enterprises (MSMEs) & Start-ups. To address the issues faced by MSMEs & Start-ups, the ICAI will continue to undertake a number of initiatives to strengthen them in terms of competence and improve their visibility amongst the business community. To enhance the capacity building of MSMEs & Start-ups, the ICAI has launched three very important initiatives for them namely ICAI MSME Exchange, ICAI MSME Portal and Certificate course on MSME on the occasion of International MSME Day observed on June 27, 2021. With the growth of Indian economy and employment generation capabilities, the MSMEs account for nearly half of India's total exports thereby becoming the backbone of the nation's economy even during the pandemic. The MSME Sector is an important pillar to carry forward the vision of *'Atmanirbhar Bharat'* and face the economically challenging situation posed by the COVID-19 pandemic. The Central and State Governments have launched many schemes to provide a much-needed impetus for the revival of the MSMEs. However, to reach the end users, a simple and effective ecosystem which can assist MSMEs to benefit in a most optimized manner is necessary. ICAI believes that Chartered Accountants with close proximity to the business, industry and entrepreneurs can work with the focus areas of MSMEs especially after being hit by the COVID-19 tsunami.

Validity of Peer Review Certificate

Due to the ongoing effect of pandemic, several parts of the country are still under partial lockdown and considering the requests received in this regard, the Peer Review Board has decided to grant relief to the practice units by extending the expiry date of the peer review certificate having original expiry date falling anytime from 1st July 2021 to 31st July 2021 till 31st August 2021, i.e., cases where no extension benefit has been availed as per any of the earlier announcements of the Board. However, in case where reviewer has already submitted the report in respect of a Practice Unit falling in aforesaid category, which is considered by the Board and found complete up to 31st August, 2021 the peer review certificate shall be issued in continuation of the previous certificate.

Concluding Remarks

In contrast with several other courses, the Institute offers an exhaustive term of three years during which aspiring professionals get an immersive practical learning experience in the form of articleship training to complement theoretical education. Even in these pandemic times, ICAI is using best of the technological tools to reach out to the students and assist them in their learning efforts. The widespread adoption and use of mobile technologies have the potential to equip next generation with interactive learning and provide innovative ways to deliver quality services to the students. To provide quality education to the students, a mobile application has been launched by ICAI which will enable linking of student fraternity with the Institute. The application shall provide interactive learning and coaching on a single platform with a number of additional features to cater to student's need. Students will also be able to access downloaded assignments, faculty notes and study material offline.

Further, the practical training enables the students to fortify their knowledge, thereby improving their chances and possibilities of professional success. Chartered Accountants can motivate students to go beyond the general areas of accounts, taxes, financial reporting, financial management, audits, corporate and economic laws, and financial services to acquire social, ethical, leadership, communication and other soft skills for their overall personality development. Considering the vital role of CAs in the financial and economic matters as well as dynamic global influences, the Institute provides an exclusive real world training ground to the students and help them to succeed. Your support is important in honing the young minds and moulding them into real professionals.

Stay safe, stay healthy. Best wishes.

CA. Nihar N. Jambusaria
President, ICAI
New Delhi, 25th July, 2021

ICAI in Action

Key developments *vis-à-vis* accountancy profession for the information of members, students and other stakeholders

IFRS Practice Statement - Management Commentary

Indian Accounting Standards (Ind AS) are based on the IFRS Standards issued by the International Accounting Standards Board (IASB) of IFRS Foundation. The IASB, before issuing the new/ amendments to IFRS Standards, issues consultative documents (such as Discussion Paper (DP), Exposure Draft (ED) etc) seeking public comments from across the globe. In this regard, it may be mentioned that the IASB has issued the **ED of revised IFRS Practice Statement - Management Commentary**, which is not mandatory in nature. The revised Practice Statement would supersede the existing Practice Statement, issued in year 2010. The purpose of this ED is to obtain feedback on the IASB's proposals. The Accounting Standards Board (ASB) of ICAI with the aim to provide an opportunity to the various stakeholders in India to raise their concerns at the initial International Standard-setting stage itself, invites comments from public. **The downloadable version of Exposure Draft and its Basis for Conclusion is available on ICAI website.**

For details, please visit – *https://www.icai.org/post/ifrs-practice-statement-management-commentary*

Exposure Draft of Accounting Standards for Public Comments

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, and as amended from time to time are applicable to the specified class of companies as per Ind AS Roadmap. Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (replaced by Companies (Accounting Standards) Rules, 2021) and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. The ASB is working on the project of revision of these standards which will be applicable to entities to whom Ind AS are not applicable. In this direction, the Exposure Draft of AS 102, Share-based Payments, has been issued by the ASB for comments with the last date being August 7, 2021.

For details, please visit – *https://www.icai.org/post/ed-revised-as-102-share-based-payments.*

Guidance Note on Accounting for Derivative Contracts (Revised 2021)

In 2015, the Guidance Note on Accounting for Derivative Contracts to establish uniform accounting principles for accounting of derivative contracts has been revised in view of global developments in respect of Interbank Offered Rates (IBORs). A report on "Reforming Major Interest Rate Benchmarks" was issued by Financial Stability Board (FSB). The objective of the Guidance Note is to provide guidance on recognition, measurement, presentation and disclosure for derivative contracts so as to bring uniformity in their accounting and presentation in the financial statements. The Guidance Note also provides accounting treatment for such derivatives where the hedged item is covered under notified Accounting Standards.

For details, please visit – *https://resource.cdn.icai.org/65422asb060421.pdf.*

Technical Guide on Incorporation of Foreign Companies in India

India, with its booming economy, abundant natural resources, fertile lands, cultural diversity and its more than 1.3 billion inhabitants, is seen as an irresistible business destination. The Indian Government to further encourage the foreign company start up in India has taken various initiatives and the Ministry of Corporate Affairs (MCA) has duly supported the Central Governments' Ease of Doing Business initiatives and has simplified the process of incorporation of companies. However, many of the foreign entities and the professional advisers are unaware of the simplified procedures and legal framework to set up foreign business in India. The Institute through its Corporate Laws & Corporate Governance Committee has brought out a "Technical Guide on Incorporation of Foreign Companies in India" to provide detailed guidance on the procedural aspects relating to incorporation of Foreign Companies in India.

For details, please visit – *https://resource.cdn.icai.org/65422asb060421.pdf*

Applicable date of certain deferred provisions of Volume-I of Revised Code of Ethics, 2019.

The revised 12th edition of Code of Ethics has come into effect from 1st July, 2020. It may be recalled that the Council at its 393rd Meeting held on 30th June and 1st July, 2020 decided that considering the prevailing situation due to Covid-19, the effective date of the following provisions of Volume-I of Code of Ethics, 2019 be deferred till further notification and an Announcement dated 1st July, 2020 was accordingly hosted on the Website of the Institute:

1. Responding to Non-Compliance with Laws and Regulations (NOCLAR) [Sections 260 and 360]
2. Fees - Relative Size [Paragraphs 410.3 to R410.6]
3. Tax Services to Audit Clients [Subsection 604]

The Council has recently decided that the provisions namely, Responding to Non Compliance with Laws and Regulations (NOCLAR) (Sections 260 and 360), Fees-Relative Size (Paragraphs 410.3 to R410.6) and Tax Services to Audit Clients (Sub-section 604) contained in Volume-I of Code of Ethics, 2019, the applicability of which was deferred earlier, **be made applicable and effective from 1st April, 2022.**

For details, please visit - *https://www.icai.org/post/esb-applicable-date-of-certain-deferred-provisions*

Launch of Financial & Tax Literacy Drive

ICAI launched the Financial & Tax Literacy Drive to educate the common man about financial planning and tax related matters. A dedicated multilingual portal "vitiyagyan.icai.org", Vitiyagyan – English – An ICAI Initiative was launched in 9 different languages. This portal will be a one stop destination for all the digital e-learning resources for reference of the users at large.

For details, please visit - *https://vitiyagyan.icai.org/*

Further extensions regarding the validity of Peer Review Certificate

The Peer Review Board has decided to grant relief to the practice units by extending the expiry date of peer review certificate having original expiry date falling anytime from 1st July 2021 to 31st July 2021 till 31st August 2021, i.e., cases where no extension benefit has been availed as per any of the earlier announcements of the Board.

However, in case where reviewer has already submitted the report in respect of a Practice Unit falling in aforesaid category, which is considered by the Board and found complete upto 31st August, 2021 the peer review certificate shall be issued in continuation of previous certificate.

For details, please visit – *https://www.icai.org/post/further-extensions-regarding-the-validity-of-peer-review-certificate*

Last Date of updation of UDINs at e-filing Portal

The CBDT has extended the last date for updating UDINs for all the IT forms at the e-filing portal to **31st August, 2021.**

Please visit – *https://www.icai.org/post/last-date-of-updation-of-udins-at-e-filing-portal*

Release of the Audit Quality Maturity Model - Version 1.0

Audit quality is the hallmark of the audit profession. Today stakeholders have grown beyond shareholders and business organizations, industry, and the Government rely upon the assurance given by the Chartered Accountants for sound financial accounting, reporting, and effective financial management. Audit Quality Maturity Model - Version 1.0 (AQMM v1.0) is a comprehensive score-based tool to help a firm to self-identify its audit quality maturity level.

For details, please visit – *https://resource.cdn.icai.org/65383caq-aqmm-v1.pdf*

Mitigating Challenges Faced by the students.

In these challenging times, ICAI is taking a number of students and members friendly initiatives. It is observed that some of the Students/Articled Assistants are still facing difficulties in online filing of prescribed applications forms for various activities e.g. filing of Form 102/103 for registration of articleship due to non-availability of non-judicial stamp papers for the execution of articleship deed, Form 112 seeking permission to pursue another course due to closure of academic institutions, etc. It is causing delay in online submission of application forms inviting levy of condonation fees under the relevant Regulatory provisions. Considering the difficulties being faced by such Students/Articled Assistants, it was decided to further extend the last date of waiving–off Condonation Fees from 30th June, 2021 to 31st July, 2021. Students who had applied for July, 2021 examinations were also given option to opt-out in view of COVID-19. Further, under specified conditions the July 2021 examinations are not to be treated as an attempt.

For details, please visit *www.icai.org and https://resource.cdn.icai.org/65346exam010721.pdf.*

"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:

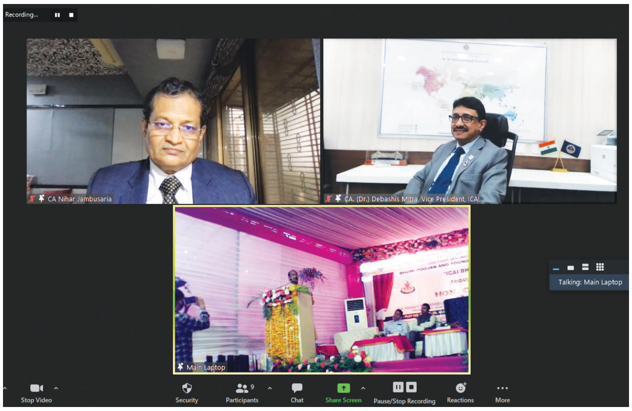
'*e-Sahaayataa*" caters only to the Queries/ Complaints/ Grievances pertaining to the day to day working of the Institute which are general in nature. This is not meant for registering or making allegations, personal observations, and personal comments. Kindly submit relevant Queries/ Complaints/ Grievances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

Photographs



ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra along with Shri Prakash Sharma, CCM virtually attending Bhoomi Poojan with Foundation Laying Ceremony at the Kota Branch of CIRC at the address of Shri Om Birla, Hon'ble Speaker of Lok Sabha. (16.7.2021)

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra along with Member of Parliament Shri (CA) Arun Singh at the Webcast on Success Stories of Chartered Accountants as Civil Servants. Also seen in picture Central Council Members CA. Babu Abraham Kallivayalil and CA. (Dr) Sanjeev K. Singhal, IAS- Shri Praveen Garg, Ms Ruchika Katyal and CA. Trilok Chand Gupta (Retd.). (17.7.2021)

ICAI President CA. Nihar N. Jambusaria along with ICAI Vice-President CA. (Dr.) Debashis Mitra planting a tree at an event organised by Northern India Regional Council of ICAI. Also seen in picture NIRC Chairman CA. Avinash Gupta. (30.6.2021)

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra at the Bhoomi Poojan of commencement of Construction of ICAI Bhawan in Agra. Also Seen in picture Central Council Members - CA. Anuj Goyal, Chairman Agra Branch, CA. Ashish Jain, Manu Agrawal and CA. Satish Kumar Gupta. (2.7.2021)

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra presenting a memento to Hon'ble Minister of Commerce & Industry, Consumer Affairs & Food & Public Distribution and Textiles, Government of India Shri (CA) Piyush Goyal at the celebrations of CA Day. (1.7.2021)

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra with Shri Arjun Ram Meghwal, Hon'ble Minister of State for Parliamentary Affairs, Heavy Industries and Public Enterprises on CA Day. Also Seen in picture Central Council Members - CA. Hans Raj Chugh, CA. (Dr) Sanjeev K. Singhal, CA. Anuj Goyal, ICAI Past President CA. Prafulla P. Chhajed, CA. Durgesh Kabra, CA. Pramod Jain, CA. Rajendra P Kumar, CA. Shriniwas Y. Joshi and CA. Rajesh Sharma. (1.7.2021)

ICAI President CA. Nihar N. Jambusaria and ICAI Vice-President CA. (Dr.) Debashis Mitra presenting a memento to Shri Arjun Ram Meghwal, Hon'ble Minister of State for Parliamentary Affairs, Heavy Industries and Public Enterprises in the Council Hall of ICAI. Also seen in picture Central Council Members - CA. P. Rajendra Kumar, CA. Anuj Goyal, ICAI Past President CA. Prafulla P. Chhajed, CA. Satish K. Gupta, CA. Rajesh Sharma, CA. Shriniwas Y. Joshi, CA. (Dr) Sanjeev K. Singhal, CA. Durgesh Kabra and CA. Hans Raj Chugh. (1.7.2021)

ICAI Vice-President CA. (Dr.) Debashis Mitra at the meeting of Sub-Committee of the Committee of Parliament on Official Language. Also seen in picture ICAI Acting Secretary CA. (Dr) Jai Kumar Batra, Deputy Chairman, Committee of Parliament on Official Language Shri Bhartruhari Mahtab, Convenor of the First Sub-Committee Shri Ram Chander Jangra, Joint Secretary in Ministry of Corporate Affairs, Sh. K.V.R. Murty and Director in Ministry of Corporate Affairs Dr Balmiki Prasad. (14.7.2021)

ICAI President CA. Nihar N. Jambusaria and Vice-President CA. (Dr.) Debashis Mitra at the e-Inauguration of 43rd Chapter of ICAI at Mauritius (Port Louis). (9.7.2021)

ICAI celebrates 73rd Foundation Day - Remembering the Glorious Existence and Envisioning the Future

Hon'ble Union Minister CA. Piyush Goyal lighting the auspicious lamp along with ICAI President CA. Nihar N. Jambusaria, ICAI Vice-President CA. (Dr.) Debashis Mitra and ICAI Past President CA. Prafulla P. Chhajed.

The Institute of Chartered Accountants of India (ICAI) celebrated its 73rd Foundation Day with great fervour, zest, and enthusiasm on first of July, a day marked in the Indian history with indelible ink. With the objective of widespread of financial sustainability and capacity building, ICAI celebrated the remarkable day across the country through the virtually mode amid the challenging pandemic times with the commitment to serve the society through thick and thin. First of July is the day, when the future of Indian business and society was written in the year 1949, as the Institute was set up to regulate the Profession of Chartered Accountancy in the country. To celebrate the occasion, a 3 day Virtual CA programme on the theme 'Remembering the Glorious Existence and Envisioning the Future' was organized, from June 29 to July 1, 2021 comprising sessions by eminent speakers sharing their rich experience that covered the entire gamut of myriad contributions that the profession is making towards the society.

On July 1, 2021, the 73rd Chartered Accountants' Day function was inaugurated by the Chief Guest Shri (CA.) Piyush Goyal, then Hon'ble Minister of Railways, Commerce & Industry, Consumer Affairs and Food & Public Distribution (After recent cabinet reshuffle, Shri (CA.) Goyal is presently Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution, Textiles) in the presence of CA. Nihar N. Jambusaria, President, CA. (Dr.) Debashis Mitra, Vice-President, ICAI and Central & Regional Council Members of ICAI. The function was attended virtually by thousands of Chartered Accountants, students, and other stakeholders from all over the world.

Taking note of the fact that rapid construction and mushrooming of housing colonies has led to depletion of the green covering the world, ICAI also launched a Mega Tree Plantation Drive by the august hands of Shri Arjun Ram Meghwal, Hon'ble Minister of State for Parliamentary Affairs, Heavy Industries and Public Enterprises. (After recent cabinet reshuffle, Shri Meghwal is presently Minister of State for Parliamentary Affairs, Culture). The Regional Councils and Branches of ICAI from all over India also joined in the launching ceremony by planting trees at their respective place through virtual mode and took a pledge to nurture the plants for a minimum period of three years. The Institute plans to plant 10 lakh trees during the year with the support of its Branches, Regional Councils, members, and the students.

During the day, the Institute has launched a national drive on Financial and Tax Literacy - Vitiya Gyan – ICAI Ka Abhiyaan, to educate people on the basics of tax laws, accounting and various aspects of the financial system in India and the ways to manage personal finances, financial well-being and tax compliances with the goal of increasing compliance and reducing the knowledge gap in the society. Under the drive education will be imparted in different vernacular languages using innovative learning with experiential activities, financial calculators, and multilingual site and it shall go a long way towards educating people of all strata of society.

The ICAI has also launched a nationwide ICAI Sustainability Literacy Drive that would make the process of sustainable development more feasible and operational by establishing a common focus of various distinct stakeholders.

Welcome Address

ICAI Acting Secretary, CA. (Dr.) Jai Kumar Batra welcomed the chief guest Shri (CA.) Piyush Goyal, Hon'ble Minister of Commerce & Industry, Consumer Affairs & Food & Public Distribution and Textiles , CA. Nihar N Jambusaria, President, CA. (Dr.) Debashis Mitra, Vice-President, ICAI, Past Presidents of ICAI, all council and regional council members, member and students of the institute. Dr. Batra said as the second largest accounting professional body, the institute is contributing to the success of individuals, communities and economy globally. While congratulating all on this very proud moment, he elaborated the extensive network of ICAI, saying that the institute has now a pan-India presence with 5 regional councils, 164 branches, 135 study circles, 42 oversees chapters and 26 representative offices which spreads over 68 cities in 45 countries. Terming the profession as highly respected and globally recognised, he said that CA qualification is the most appropriate qualification for business, industry, and trade.

Presidential Address

ICAI President CA. Nihar N Jambusaria, celebrating the momentous day, extended a warm welcome to the Chief Guest on the occasion. Highlighting the socially committed approach of the ICAI, the President announced that the Council has approved waiver of complete **registration fee** for the CA Course (all levels) for those students whose parents or any of the parent has expired on account of Covid. This facility will continue for a period of two years. Apart from this, he also informed that Ministry of Corporate Affairs has approved the Multi-Disciplinary partnership (MDP) guidelines of ICAI which will pave way for CA Firms to partner with members of other professions and offer varied services under one roof. He further added, "*ICAI is certain that with the approval of MDP guidelines, we would be able to work towards making the dream of Hon'ble Prime Minister, of establishing Global world class Audit Firms come true*".

Through the process of multi-disciplinary partnerships, ICAI will be able to popularise, propagate and encourage Indian firms to come together and grow big. He emphasised that networking of MDP alone is not enough to grow big as there is need to build up an ecosystem and culture whereby the Indian firms will be encouraged to come together, work together and grow through collaborative mechanism.

Terming the power of technology essentially in covid times, President stated that the "*Institute started using technology to spread skills and knowledge through webinars. Apart from that, even functions like audit which we never imagined can be done on virtual mode are being performed by our CA firms this year and last year on virtual mode. Our committee on Digital Accounting and Assurance Board (DAAB) took various steps to roll out programs on Artificial Intelligence, block chain, data analytics, cyber security and our members are taking full advantage of it*".

While talking about the quality of audit, ICAI president stated that the Institute established a Centre for Audit Quality (CAQ). The centre, this year has come out with Audit Quality Indicators and Audit Quality Maturity Model. CA members will be able to take full advantage of this initiative. He informed that "*ICAI is also coming out with audit tools which generally large firms have the privilege to use to boost the capacity building and expertise of small and mid-size CA firms. Going forward, once these tools are out, even smaller firms will be able to use these to ensure that the quality of services is further enhanced.*" He also said that the Financial Reporting Review Board of ICAI is taking all steps to bring to the knowledge of members what common mistakes in financial statements they make and create awareness to enhance the reliability and correctness.

Expressing the commitment towards independence, excellence and integrity, President stated that we have set up a dedicated Committee on MSME and various activities have been rolled out in the area including training of chartered accountants who would further guide MSMEs.

Explaining the priorities on account of present challenging times and the ecological needs, President stated that the continuous focus has been laid on sustainability. He explained that the Hon'ble Prime Minister has been talking about triple bottom line – profit, people, and planet and accordingly last year, Sustainability Report Standards Board was set up by ICAI. He said that giving priority to climate change and health care issues is of prime importance today. This Board has made its space in SEBI and Niti Aayog and the ICAI is actively engaged in the activities of sustainability.

He also informed that the institute has set up a Committee for Review of Education and Training to ensure that all changes are incorporated in the syllabus and in the training module well in time and as per stated conditions. ICAI has also played an important role in settling tax related issues. With innovative ideas and skills, the Institute helped the CBDT and Infosys to remove the glitches and issues in the new tax portal.

Touching upon the humanitarian approach of the Institute on a professional front, President informed that several applications were received from members for support during Covid period particularly for the medical assistance. Relating to their genuine issues, ICAI disbursed 4.72 crores for the benefit of members as financial assistance.

Address by Chief Guest

Chief Guest Shri (CA.) Piyush Goyal, Hon'ble Cabinet Minister in government of India was delighted on being part of the 73rd Chartered Accountants Day celebrations, stated that "*Over last 72 years, the CA profession has shown to the world that how a well-managed and organised professional body, i.e.,* *ICAI can work independently with great degree of transparency and successfully steer the future of CA profession to glorious heights*". He further reiterated the words of Hon'ble Prime Minister of India wherein CAs were referred to as "*Gurus of the Finance World*". The Hon'ble Minister reaffirmed his confidence in CA profession and its abilities. He further added that the Hon'ble Prime Minister through his message in "*Mann ki Baat*" has reaffirmed his faith in CA profession and his desire to see CA profession prosper, to work as an engine towards brighter future of India and take India to surmountable heights globally.

Terming ICAI as a well-managed, organized, professional and regulatory body, Hon'ble Minister stated that "*Chartered Accountants take care of the health of the economy. In the times of COVID, the CAs have worked diligently to keep the wheels of the economy going*". He urged all Chartered Accountants to work collectively with sanctity & credibility so that the trust of the society and world on seal of the Chartered Accountants is further strengthened. Appreciating ICAI's initiatives during pandemic times, he said that by spending 4.72 Crores, ICAI is doing a praiseworthy efforts and it should be continued with more liberty.

Addressing the gathering, Union Minister expressed his hope, that the Institute may also consider rolling out vaccination programs for students, chartered accountants, tying up with some hospitals in remote parts of the country. Referring the term Chartered Accountant, with commitment and accountability, Hon'ble Minister expressed the trust that Chartered Accountants have with the competency to handle the challenges with highest level of transparency, integrity, commitment, and intelligence.

The Union Minister urged the professional members of CA community and leaders of the profession to encourage more and more chartered accountants to look at the possibilities of mergers, acquisitions, partnerships as working in a larger networks truly can help in becoming a world class institution. The minister expressed his confidence saying that if we want to become ambassadors of India worldwide, we need to invest in research, technology, knowledge, and better practices. Consistently raising the standards of the accounting profession is the key in present time.

Focusing on the new and evolved working patterns, Shri (CA.) Piyush Goyal gave examples of work from home idea and said that, "*Working from home opens up large opportunities for us to export our capabilities and in the last fifteen months we have all experienced as to how work from home can improve our efficiency manifold*". Urging chartered accountants to find solutions and properly guiding clients, Union Minister said that the signature of a CA carries a lot of responsibility, and they should be very much careful about it. Reemphasising Prime Minister Narendra Modi's suggestion, he said "*Your signature is more powerful than that of a prime minister. It is your moral responsibility to guide one towards righteous conduct and practice*".

Vote of Thanks

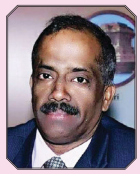
ICAI Vice President CA. (Dr.) Debashis Mitra, delivering the Vote of Thanks addressed the special event stating that "ICAI bears testimony to the fact that strong foundations go a long way in creating a unique and historic Institution". ICAI is contributing to the nation's growth path with a model that defines "*Excellence, Independence and Integrity*". With strong commitment, hard work and dedication, ICAI has emerged as one of the most revered institutions in the field of education and professional excellence. In his address, he also said that the institute is pushing towards new technology, artificial intelligence and block chain and the Institute is trying hard to move away from the usual ways of doing things and taking suitable initiatives to evolve, innovate and grow.

ICAI has achieved significant milestones in the field of accountancy and is poised to play a greater role in changing the global landscape and strengthening the foundation of resurgent India by taking the profession to the newer zeniths.

Voluntary Contribution to the Chartered Accountants' Benevolent Fund (CABF)

The Chartered Accountants' Benevolent Fund (CABF) was established in December, 1962 with the objective to provide financial assistance for maintenance, and other similar purposes to needy members of our Institute, their wives, widows, children and dependent parent(s). In these challenging pandemic times, hundreds of our members have lost their battle and many are struggling hard to pass through this difficult time. The impact is deep and has certainly shattered their dreams. The Institute has tried to help our members in distress. Financial assistance upto Rs.1,50,000/- is being granted to eligible members/widows/dependant parent(s) where gross total income of family is less than Rs. 10 lacs. Financial Assistance is also considered for the remaining amount in the cases (including dependent) where Member has received a partial claim from the insurance company. A considerable number of members/ family have been granted such assistance. Members who voluntary contributed a sum of Rs 1,00,000 or more from June 2020 onwards to the CABF are:

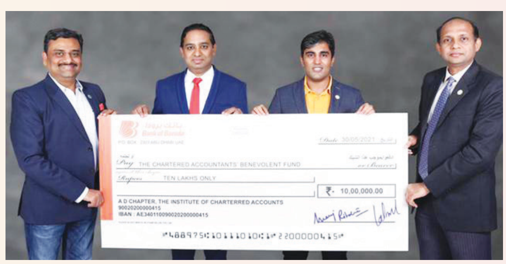
	**Name**	CA. Kamlesh Shivji Vikamsey
	Membership No.	034025
	Amount	2,00,000
	**Name**	CA. Nilesh Shivji Vikamsey
	Membership No.	037665
	Amount	2,00,000
	**Name**	CA. Chidambaram R
	Membership No.	038654
	Amount	2,00,000

	**Name**	CA. Ajay Bahl
	Membership No.	080791
	Amount	1,00,000
	**Name**	CA. Ganesh B Kanchan
	Membership No.	200654
	Amount	1,00,000
	**Name**	CA. Gopalakrishnan B
	Membership No.	018702
	Amount	1,00,000
	**Name**	CA. Mansukhlal Prabhudas Khadawala
	Membership No.	005796
	Amount	1,00,000

Firm / Trust					
1.	M/s. M R Narain & Co.	100,000	**2.**	H T Kanabar Higher Education Trust	5,00,000

Many ICAI Chapters, Regional Councils and Branches also come forward to arrange for societal emergencies. Recently. India had been at the epicentre of the global pandemic and the number of new recorded daily infections were exponentially rising. This second wave with larger caseloads of infections required home isolation or hospitalization with many having lost their loved ones. Rising to the occasion, our ICAI regional councils, branches and overseas chapters have come forward and donated generously in CABF and other social organizations. ICAI Overseas Chapters have worked closely with the Indian Embassies in their jurisdiction and arranged to send necessary assistance to Indians in need. Our Chapters have directly or indirectly supported us in fighting with the second wave.

ICAI Overseas Chapters		
1.	Abu Dhabi	10,00,000
2.	Doha Chapter	2,00,000
3.	Dubai Chapter	55 Oxygen Concentrators



Abu Dhabi Chapter of ICAI arranging contribution of 10 lakh rupees

Be a part of this Noble Mission - Contribute to CABF. Visit - cabf.icai.org

Know Your Ethics

FAQs on Communication and changes in professional appointments

Q. Whether a Chartered Accountant can accept an appointment as auditor of a company without first ascertaining from it whether the requirements of the Companies Act, in respect of such appointment have been duly complied with?

No, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of sections 139 and 140 of Companies Act, 2013 in respect of such appointment have been duly complied with.

In this regard, the Council has laid down detailed guidelines that are appearing in Paragraph 2.14.1.9(ii) to 2.14.1.9(xxxix) under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949 appearing in Volume II of the Code of Ethics.

Q. Whether a statutory auditor of a company can be appointed in the adjourned meeting in place of existing statutory auditor where no special notice for removal or replacement of the retiring auditor is received at the time of the original meeting?

No, if any annual general meeting is adjourned without appointing an auditor, no special notice for removal or replacement of the retiring auditor received after the adjournment can be taken note of and acted upon by the Company, since in terms of Section 115 of the Companies Act, 2013, special notice should be given to the Company at least fourteen clear days before the meeting in which the subject matter of the notice is to be considered. The meeting contemplated in Section 115 undoubtedly is the original meeting. Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company mentioned in Section 139 of Companies Act, 2013.

Q. Can a company remove the auditor before the expiry of his term?

The Company can remove the auditor appointed under Section 139 of Companies Act, 2013, before the expiry of his term of office only by a resolution passed at any General Meeting and after obtaining previous approval of the Central Government.

Q. What would be recourse taken by the Incoming auditor in case of qualified Audit Report by retiring auditor?

Incoming auditor may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit. There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him in these circumstances. However, before accepting the audit, he should ascertain the full facts of the case. For nothing will bring the profession to disrepute so much as the knowledge amongst the public that if an auditor

Follow us on: www.esb.icai.org | esb@icai.in |@icaiesb is found to be "inconvenient" by the client, he could readily be replaced by another who would not displease the client and this point cannot be too over-emphasised.

Q. What are the duties of retiring auditor?

On the request of the Incoming Auditor to the retiring auditor for providing known information regarding any facts or other information of which, in the opinion of the retiring auditor, the Incoming auditor needs to be aware before deciding whether to accept the engagement, the retiring auditor shall provide the information diligently.

Further, the paragraph R 320.8 in Volume-I of Code of Ethics provides that subject to provisions of Clause (8) of Part I of First Schedule of the Chartered Accountants Act, 1949, and Council directions thereunder, the existing or predecessor accountant, when asked to respond a communication from a proposed accountant, shall provide the information honestly and unambiguously to the proposed accountant.

Q. Whether there are any Know Your Client (KYC) Norms to be followed by members in practice?

Yes, members in practice are required to follow Know Your Client (KYC) Norms, which are mandatory w.e.f 1.1.2017.

As per paragraph R320.3 A6 of Volume-I of Code of Ethics, professional accountants while accepting engagement of attest functions are required to comply with the "Know Your client" (KYC) Norms of the Institute, which are as below:-

1. *Where Client is an individual /proprietor*

A. General Information

- Name of the Individual
- PAN No. or Aadhar Card No. of the Individual
- Business Description
- Copy of last Audited Financial Statement

B. Engagement Information

- Type of Engagement

2. Where Client is a Corporate Entity

A. General Information

- Name and Address of the Entity
- Business Description
- Name of the Parent Company in case of Subsidiary
- Copy of last Audited Financial Statement

B. Engagement Information

- Type of Engagement

C. Regulatory Information

- Company PAN No.
- Company Identification No.
- Directors' Names & Addresses
- Directors' Identification No.

3. Where Client is a Non- Corporate Entity

A. General Information

- Name and Address of the Entity
- Copy of PAN No.
- Business Description
- Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)
- Copy of last Audited Financial Statement

B. Engagement Information

- Type of Engagement

Explanation: "Attest Functions" for this purpose will include services pertaining to Audit, Review, Agreed upon Procedures and Compilation of Financial Statements.

Q. Whether the auditor should periodically review whether to continue with the recurring client engagement?

As per paragraph R320.9 of Volume-I of Code of Ethics, for a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

In view of paragraph 320.9 A1, potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

Members may like to access the Video on "FAQs on Communication and changes in professional appointments" at http://esb.icai.org/esb-videos/

Measurement of residual value of Property, Plant and Equipment / Intangible Assets as a percentage to 'Original Cost' as mentioned in the Companies Act vs. 'Deemed Cost' referred to in Ind AS 101

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') is a public limited company registered under the Companies Act, listed in Stock Exchanges and thereby governed under the relevant Regulations. It is a Maharatna public sector undertaking under the administrative Ministry of Petroleum and Natural Gas, Government of India and is engaged in the business of refining and marketing of petroleum products. By virtue of its granted status as a Government Company, its audited financial statements for a financial year are subjected to supplementary audit under section 143(6) of the Companies Act, 2013 by the Comptroller and Auditor General of India (C&AG).

2. The querist has stated that during the supplementary audit by the C&AG for the financial year (F.Y.) 2019-20, the accounting treatment followed in the Company's books of account with respect to appropriateness of consideration of 'residual value', more particularly, with respect to linking of it to 'Historical Cost', in place of 'Deemed Cost' came up for audit scrutiny. In line with the assurance given to C&AG that the matter would be referred to Expert Advisory Committee of Institute of Chartered Accountants of India, the querist has sought the extant opinion.

3. Until the financial year 2015-16, the Company's accounts had been prepared under the then prevailing Generally Accepted Accounting Principles (IGAAP) and pursuant to introduction of Indian Accounting Standards (Ind ASs), the Company's books of account for financial year 2016-17 was drawn for the 1st time under Ind AS, duly recasting the previous year's figure for the financial year 2015-16 under these Standards. By virtue of specific provision under Ind AS 101, First-time adoption of Indian Accounting Standards that permits exemptions during transition, the Company has availed the exemption to continue with the carrying value for all of its property, plant and equipment and intangible assets as recognised in the financial statements as on the date of transition to Ind AS, i.e., 1st April, 2015.

4. As on March 31, 2015, the Company's property, plant and equipment (PPE) and intangible assets together, were stated at a cost of Rs. 48,175 crore and written down value of Rs. 29,063 crore. By virtue of adopting 'Deemed Cost' in reporting PPE/intangible assets in the financial statements, the said written down value was considered to be deemed cost under the transition provision as stated above. Over the years, the Company has been consistently estimating 5% of cost (original cost or historical cost) of assets as its residual value, unless there are assets that could be considered even at a lower valuation. The carrying value of depreciable asset, being the cost of an asset less its residual value, is being depreciated over the useful life of the assets.

5. In the financial year 2019-20, in case of 'LPG Cylinders and Pressure Regulator' (one of the PPE having a useful life of 15 years), the 'residual value' was revised on account of change in accounting estimate by the management from the existing 5% of historical cost to 15% of historical cost. The revision and consequential disclosure is in compliance with the requirements of Schedule II of Companies Act, 2013 (As per Part A, paragraph 3).

6. In this regard, C&AG has expressed a view that in the backdrop of the Company having adopted deemed cost as cost pursuant to adoption of Ind AS, such residual value should have been fixed by the Company as a percentage of deemed cost of PPE. They have further stated that, by virtue of the Company, continuing to keep residual value as a percentage of historical cost of PPE, depreciation charge for the financial year 2019-20 has been understated.

7. According to the querist, the view of C&AG (i.e. *residual value shall be a percentage of deemed cost* of PPE) is considering inter alia, the following:

   i. Under the provisions of Ind AS 101, a first-time Ind AS adopter was allowed to elect to continue with the carrying value of all of its PPE as at the date of transition measured as per the previous GAAP and use that as its deemed cost on the date of transition.

   ii. The term deemed cost has been defined in Appendix A of Ind AS 101 as an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

   iii. By virtue of having applied the transitional provision during first time adoption, the view of C&AG is that the change in residual value should not have been measured on the historical cost of the 'cylinders & pressure regulators' which was capitalised before Ind AS period, but should have been on deemed cost adopted on the date of transition (1st April 2015) to Ind AS.

   iv. During discussions over the Provisional Comments issued on the Company's financial statements for the year 2019-20, a view was expressed by the Government Auditors that:

   a) The Accounting Standards Board of the ICAI has issued a Frequently Asked Question (FAQ) on deemed cost of Property, Plant and Equipment under Ind AS 101, *First-time Adoption of Indian Accounting Standards*;

   b) The said FAQ contains following reference:

      "… As per the definition of deemed cost, it is the amount used as a surrogate for the cost or depreciated cost and for the purpose of subsequent depreciation or amortisation, deemed cost becomes the cost as the starting point…"

   c) Accordingly, deemed cost is the cost and drawing reference from the said FAQ, Government Auditor's view was that historical cost of PPE is no more relevant once 'Deemed Cost' is adopted by the entity.

8. The Company, however, is of the following view:

   (i) The "residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset…" (Paragraph 6 of Ind AS 16, Property, Plant and Equipment). Thus, 'residual value' is an absolute value (amount) and need not have any nexus to the historical cost or deemed cost of the asset. Nevertheless, for ease of measurement, it is linked as a percentage of historical cost, which aspect finds support in the Companies Act, 2013. Paragraph 5[1] of Notes to Schedule II of Companies Act, 2013 states as under:

      "5. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Ordinarily, the residual value of an asset is often insignificant but it should generally be not more *than* 5% of *the original cost of the asset.*"

[1] *This was omitted wide Notification No. GSR 237(E) dated 31.03.2014.*

Further, paragraph 3(i)[1] of Schedule II specifies as follows:

" (i) In case of such class of companies, as may be prescribed and whose financial statements comply with the accounting standards prescribed for such class of companies under section 133, the useful life of an asset shall not normally be different from the useful life and the residual value shall not be different from that as indicated in Part C, provided that if such a company uses a useful life or residual value which is different from the useful life or residual value indicated therein, it shall disclose the justification for the same."

(ii) It is brought to the attention of the Committee that management, having determined residual value based on the actual realisation of similar assets, has linked the same as percentage of original cost for ease of measurement which is in compliance with the Companies Act, 2013. Further, having chosen residual value as a percentage of original cost, the same has been adequately disclosed vide Note 3, sub-note 10 under Property, Plant and Equipment, as under:

"Includes reduction in depreciation for the year by 127.60 Crore (2018-19: NIL) in respect of LPG cylinders and pressure regulators, arising pursuant to change in accounting estimate over increase in residual value from *5% to 15% of Original Cost effective 01.04.2019.* The revised estimate is based on historical data."

(iii) Notwithstanding the contention that the manner of accounting is correct and appropriate, even if the calculation of residual value were benchmarked to 'Deemed Cost', the quantum of residual value of PPE, continuing to be the same, the percentage of residual value, as a factor of 'deemed cost' would only get revised.

(iv) The concept of deemed cost is in vogue since implementation of Ind AS, effective from 01/04/2015. Over the last 4 years, since then, the Company has been consistently computing the depreciation charge by reference to carrying value of assets as reduced by residual value, which is linked to original cost. Thus, there has not been any change in the facts of the case except for revision in accounting estimate of residual value of a particular class of PPE during the financial year 2019-20.

(v) If the Company were to fix residual value as a percentage of deemed cost for a portion of its PPEs/intangible assets, the Company will also have to fix another residual value for the same class of assets, as a percentage of historical cost for the rest of PPE/intangible assets capitalised during Ind AS period. Whereas, having 2 sets of residual value, one quantified as a percentage of deemed cost (pre Ind AS assets) and another, quantified as a percentage of historical cost (Ind AS period assets) is not envisaged in Companies Act/Ind AS. It would also be an administrative nightmare for implementation of the same in the Company's ERP system besides leading to multiple disclosures, thus complicating the understanding of readers of the financial statements.

(vi) The estimation of residual value of an asset need not have any nexus with the cost or deemed cost for the purpose of requirement of Ind AS. The oil marketing companies (OMCs) have fixed the residual value of LPG cylinders and pressure regulators, based on the actual realisation (historical data) of similar assets and for ease of measurement and linked the same as percentage to 'Original Cost' which is also well established in Schedule II to Companies Act.

(vii) The querist has stated that to his best knowledge, there are no explicit provisions in the Companies Act / Ind AS that warrants linkage of residual value to deemed cost. Further in the management's view, as long as depreciation charge for the period is computed in a manner whereby systematic allocation of depreciable amounts over the useful life of the asset is ensured and the same is consistently followed, it is immaterial as to how residual value of an asset is measured, i.e., substance overriding form.

(viii) If the contention of Government auditors were to be correct, then, linking residual value to deemed cost would not only be restricted to 'LPG Cylinders and Pressure Regulators' (wherein management estimate of residual value was changed during the financial year 2019-20 from 5% to 15%), but *on entire fixed assets* of the Company that are carried in the books at deemed cost. It may be noted that the entity has been consistently computing the depreciation by systematically allocating the cost of assets less its residual value over the useful life of the asset.

[2] *This was substituted wide Notification No. GSR 237(E) dated 31.03.2014.*

(ix) Accordingly, it was replied by the Company during issuance of Provisional Comments for the financial year 2019-20 that linking of residual value to a percentage of original cost is appropriate and thus, depreciation and amortisation expenses for the year and profit for the year have been correctly stated.

(Emphasis supplied by the querist.)

9. At a conceptual level, this issue is common to other OMCs, who also have similar lines of business and similar accounting practice followed as that of the Company. Statutory auditors are satisfied with the accounting treatment followed by the Company.

B. Query

10. In view of the above, the opinion of the Expert Advisory Committee is sought on the following issues:

    i. Is there any specific provision, either under Companies Act, 2013 or under Ind AS warranting fixation of residual value (in cases where assets have been carried in books by following deemed cost under Ind AS 101) by the entity, by linking it as a percentage of deemed cost?

    ii. If reply to query (i) above is affirmative, whether such prescription is the one and only manner of measurement of residual value? Or else, whether the entity is free to estimate by linking residual value of asset either to original cost or to deemed cost or in any other manner, as long as systematic allocation of cost of assets over useful life of the assets is ensured.

    iii. If reply to 1st part of query (ii) above is affirmative, isn't it true that the guiding principle under Companies Act, 2013, namely, residual value, should generally be not more than 5% of the original cost of the asset would be contrary to the said prescription?

    iv. In the event, opinion of EAC would be to measure residual value as a percentage of 'deemed cost' only, would this opinion cover entire assets of the entity irrespective of whatever be the 'percentage of residual value' or else, would this requirement be applicable only when residual value as a percentage of original cost exceeds 5%?

    v. Any other connected issues that EAC wishes to add to the query and answer the same for better clarification.

C. Points considered by the Committee

11. The Committee notes that the basic issue raised in the query relates to whether for the purposes of requirements of Schedule II to the Companies Act, 2013, historical cost or deemed cost should be considered for change in residual value of the 'cylinders and pressure regulators' which were capitalised before Ind AS period and when the Company has elected to measure its Property, Plant and Equipment at deemed cost as per Ind AS 101. 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, other accounting aspects, such as depreciation, etc. for cylinders and pressure regulators, accounting treatment in respect of any other item of property, plant and equipment or intangible asset, whether estimates of residual value, earlier (initial) and now (revised), have been determined appropriately, compliance with the requirements of Ind AS 101 and other Standards on transition to Ind ASs, accounting for change in estimates of residual value as per the requirements of Ind AS 8, 16 and 38, etc. The Opinion expressed hereinafter is purely from accounting perspective and not from the perspective of legal interpretation of various legal enactments including, in particular, the Companies Act, 2013. Further, 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.

12. In the context of the issue raised, the Committee notes the following definitions and requirements of Ind AS 16 and Ind AS 38 and the Schedule II to the Companies Act, 2013, as follows:

    Ind AS 16

    "*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, e.g., Ind AS 102, *Share-based Payment*."

"The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life."

"51 **The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*"**

"53 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount."

"76 In accordance with Ind AS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) ..."

Ind AS 38

"The *residual value* of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life."

"102 An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with Ind AS 8, Accounting *Policies, Changes in Accounting Estimates and Errors.*

103 The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount."

"121 Ind AS 8 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) the assessment of an intangible asset's useful life;

(b) the amortisation method; or

(c) residual values."

Part A of Schedule II to the Companies Act:

"**1.** Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. ..."

"**3.** Without prejudice to the foregoing provisions of paragraph 1,—

(i) The useful life of an asset shall not ordinarily be different from the useful life specified in Part C and the residual value of an asset shall not be more than five percent of the original cost of the asset:

Provided that where a company adopts a useful life different from what is specified in Part C or uses a residual value different from the limit specified above, the financial statements shall disclose such difference and provide justification in this behalf duly supported by technical advice."

The Committee also notes the following requirements of the Guidance Note on Accounting for Depreciation in Companies in the context of Schedule II to the Companies Act, 2013, issued by the ICAI as follows:

"Residual Value of an Asset

15. As mentioned above, paragraph 3(i) of Part A of Schedule II, inter alia, states that the residual value of an asset shall not be more than five percent of the original cost of the asset; provided that where a company uses a residual value different from the limit specified above, the financial statements shall disclose such difference and provide justification in this behalf duly supported by technical advice. The aforesaid proviso can be taken to mean that the residual value of the asset is indicative in nature. Thus, where the estimate of the residual value of the asset is more than five percent of the original cost of the asset, the company should use that estimate of residual value provided it is supported by technical advice, external or internal, and disclosures in this regard are made as recommended later in this Guidance Note. In case the residual value is estimated to be less than five percent of the original cost of the asset, the same should be used and it would not be necessary to make a disclosure in such a case. ..."

From the above, the Committee notes that residual value is determined for the purpose of determining the depreciable amount of an asset so as to allocate that depreciable amount over the useful life of the asset in a systematic manner. Determination of residual value of PPE or intangible asset is an independent technical process of estimation based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The Committee is of the view that the residual value is estimated technically at the beginning of the useful life of the asset and is assessed/reviewed periodically to determine whether there is any change in the original estimate or not. Thus, such process of estimation of residual value is an independent exercise and should not be benchmarked with the cost of the asset (either historical or deemed). In practice, the residual value of an asset is often insignificant and immaterial. Further, as per the requirements of Schedule II to the Companies Act, 2013, it shall not be more than 5% of the original cost of asset unless it is properly justified, duly supported by technical advice and adequately disclosed in the financial statements. Thus, for the purpose of compliance with the requirements of Schedule II to the Companies Act, 2013, the Company has to link it with the original cost (which is also sometimes termed as 'historical cost') so as to ensure that the residual value is not normally more than 5% of the original cost and in case, it is so, to provide adequate and appropriate disclosures considering the requirements of Schedule II.

13. The Committee notes that the Schedule II uses the term 'original cost', which is normally construed as the actual cost incurred by the Company on an asset and which as per Ind AS 16 is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards. Accordingly, the Committee is of the view that as per the requirements of the Schedule II, the residual value or any changes in such residual value are linked or compared with/to original cost and not with the deemed cost.

D. Opinion

14. On the basis of above, the Committee is of the following opinion on the issues raised in paragraph 10 above:

    i. The process of estimation of residual value is an independent exercise and should not be benchmarked with the cost of the asset (historical/original or deemed). Further, as per the requirements of the Schedule II to the Companies Act, 2013, the residual value or any changes in such residual value are linked/compared with/to original cost and not with the deemed cost.

    (ii) to (iv) In view of (i) above, answer to these questions does not arise.

    (v) The question raised by the querist is not any specific issue; rather is a generic question. Therefore, this cannot be answered as the Committee answers only specific issues.

SDG Agenda – Partnerships in the Decade of Action

The target to achieve the Sustainable Development Goals (SDGs) by 2030 requires all hands on deck. We need a well-integrated pooling of resources, expertise and actions from different stakeholders to achieve our 2030 Agenda. India needs a multi-stakeholder partnership to attain the 17 entwined SDGs and 169 targets. The outbreak of COVID-19 has impacted the journey towards this goal and this article focuses on India's initiative towards attaining SDGs and also discusses about the impact of COVID 19 on scoreboard of SDGs. Further, the article focuses on what initiatives stakeholders have taken to achieve the SDGs by 2030. Read on…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Introduction

The historic Millennium Declaration had been signed by leaders from 189 countries gathered at the United Nations headquarters in September 2000, in which they pledged to meet a set of eight measurable goals by the year 2015, ranging from halving extreme poverty and hunger to promoting gender equality and lowering child mortality. After 2015, as work on the new goals began, the legacy and accomplishments of the MDGs give essential insights and perspectives. In September 2015, the United Nations General Assembly officially approved the 2030 Agenda for Sustainable Development, a set of 17 SDGs replaced the MDGs and they are universal, integrated, and transformative. From 2016 to 2030, the goals must be implemented and achieved in every country. The Sustainable Development Goals (SDGs)[1] are an inter-governmental set of aspirational goals with 169 targets to alter the planet following the Millennium Development Goals (MDGs). India is a signatory to the SDGs and has noble ambitions. All SDGs are extremely important and relevant in India. In terms

[1]*Sustainable Development Goals. Retrieved from (https://www1.undp.org/content/oslo-governance-centre/en/home/sustainable-development-goals/background.html) on 11/07/2021.*

of the Millennium Development Goals, India failed to meet the targets on 8 out of 12 targets recognized as relevant from India's standpoint (Millennium Development Goals India Country Report, 2015)[2].

Because of the outbreak of the COVID-19 pandemic, the world is lagging behind the schedule in terms of achieving the 2030 Agenda with ten years remaining. India is also not an exception to this, but the position of India holds great importance in the overall attainment of the SDGs. India is home to one-sixth of the world's population and accounts for 8% of global GDP, making it imperative to the attainment of the global SDGs. A decade of aggressive action is needed to speed sustainable solutions to the world's largest challenges and help achieve these goals. This requires a multi-stakeholder approach, because the target can not be achieved without the participation of all the stakeholders.

India moving towards attainment of SDGs

India has adopted the UN SDG framework and has aligned its priorities according to the global goals. The Government of India is taking all possible steps in fulfilling the framework, supervising the development, and bringing on board different stakeholders in the voyage towards accomplishment of the targets. India is a large and diverse country and each region requires different ways of handling the accomplishment of the SDGs. Government has taken many actions to localize the SDG goals. Indian business houses, being the most important stakeholder has started adopting the Triple bottom line which is very important step in attainment of the SDGs. Indian civil society organizations which are an important stakeholder in the attainment of SDGs have been making incredible contributions through spreading awareness and educating the society about the framework. This gives a comprehensive society based approach towards attainment of the SDGs.

Through this comprehensive approach, India has been able to improve the education level, improve the infrastructural level, reduce poverty and develop a partnership for the attainment of SDGs. Coverage of citizens by health insurance, covering more than 500 million citizens is one of the great achievements of the government. "Swachh Bharat Abhiyan" which emphasized on building millions of household toilets and 99% electrification of our villages are some other achievements which are worth mentioning. India has also improved in the 'Ease of doing business' ranking from 142 in 2014 to 63 in 2021. Also, the initiatives taken by the government in the field of renewable power generation is exceedingly notable.

While India has been doing fairly well in accomplishing the SDGs, the task ahead is a grueling assignment. With huge population size, diverse regions with different economic, social and cultural backgrounds this is a daunting challenge. COVID-19 has further pushed us back in accomplishing the target and created several challenges. Bringing the economy back to track and accomplishing the SDGs targets is the most pressing task which requires partnership among different stakeholders. India also needs to focus on gender equality, nutrition accomplishment, education at all levels, pollution reduction and employment generation. The SDG India Index is one of the most important steps taken by the government which measures the SDG progress at the state level. The index also facilitates to stimulate competition among the states which eventually will drive the achievement of the SDG targets.

As the world enters the "Decade of Action", India's commitment to the principles of SDGs can be attained with the help of Central and State Governments, business houses, NGOs, community and society at large. The principle of "Sabka Saath Sabka Vikas" with sustainability at its core should be our mantra to achieve the SDGs. Harmony with the global community and efforts from each level of community in our country is the need of the hour.

Multi-stakeholder Partnerships (MSP) - Response to the pandemic

Covid-19 has provoked an extraordinary multiple-sector—quick response. Governments, Public sector, private sector, international organizations, and society's immediate collaboration is required to accelerate the effort against Covid-19. Partnerships between public and private sector, public sector and society, and private sector and society are the desired ones for the accomplishment of the SDGs. ACT Accelerator is one such example which has given increased access to shared knowledge, technology, data and resources. Below is the summary of India's SDGs performance and impact of Covid-19 on the attainment of SDGs.

[2] *Millennium Development Goals, India Country Report 2015. Retrieved from: http://mospi.nic.in/sites/default/files/publication_reports/mdg_2july15_1.pdf*

Table 1– India SDGs scoreboard with indicator of performance

SDG Goals	Improvement in Performance	Impact of COVID-19 on SDG Goals
SDG 1. No Poverty	←	COVID-19 is estimated to have pushed an additional 354 million people in below the poverty line (Kumar, 2020[3]) bringing the overall poverty rate to 46.3 percent. It has also boosted the rate of unemployment to 27.1 percent (Express Healthcare, 2020[4]) with informal labourers and small traders accounting for more than three quarters.
SDG 2. Zero Hunger	←	Extreme food insecurity affects an estimated 16 million people (8 percent of the total undernourished population). Due to the pause in mid-day meals, 97 million youngsters are at risk of malnutrition (Business World, 2020[5]).
SDG 3. Good Heath and Well Being	→	While the pandemic has brought public health to the forefront, with increased financing and policy attention, the focus on COVID-19 care has hampered the delivery of some critical health services, with 1 million children at danger of missing immunization (Business Line, 2020[6]).
SDG 4. Quality Education	↔	Due to the COVID-19 lockdown, education of over 154 crore students have been disrupted. This increases the gender gap in education as the girls are more at risk than the boys. The dropout rate of girls is high at the secondary level (19.8%) as compared to primary (6.3%), very few complete their education till Class 12 (Sonawane, 2020)[7].
SDG 5. Gender Equality	→	Women have been disproportionately affected by COVID-19, which has resulted in an increase in occurrences of violence calls by 27 percent (Iyengar and Defterios, 2019)[8].
SDG 6. Clean Water and Sanitization	→	Due to increased handwashing, COVID-19 has resulted in a 20% increase in per capita water consumption. COVID-19 has become more prevalent in locations where there is a lack of clean water, inadequate sanitation, and long distances to water sources (Aggarwal, 2019)[9].
SDG 7. Affordable and Clean Energy	→	In the first four months of the lockdown, COVID-19 had a transient positive impact on energy usage, with per capita power use falling by 13% (Parnell, 2020)[10].

[3] *Kumar, S. (July 19, 2020). Opinion Impact of COVID 19 pandemic on food security of India. Economic Times. Retrieved from: (https://government.economictimes.indiatimes.com/news/policy/opinon-impact-of-the-covid-19-pandemic-on-food-security-of-india/77048453) on 10/07/2021.*

[4] *India's Health system will witness the ripple effects of the COVID 19 pandemic (July 16, 2020). Express Healthcare. Retrieved from (https://www.expresshealthcare.in/blogs/indias-health-sys-tem-will-witness-the-ripple-effects-of-covid-19/423343/) on 10/07/2021.*

[5] *COVID-19 Pandemic Accelerated Pace of Broadband Penetration in India: (November 6, 2020). Business World. Retrieved from (http://www.businessworld.in/article/COVID-19-pandemic-accelerated-pace-of-broadband-penetration-in-India- 06-11-2020-339934/) on 11/07/2021.*

[6] *Fintech: Digital Payments got a COVID boost in 2020, Business Line (25 December,2020). Retrieved from (https://www.thehindubusinessline.com/money-and-banking/digital-payments-got-a-covid-boost-in-2020/article33419349.ece) on 10/07/2021.*

[7] *Sonawane, S. (December 1, 2020). The Gendered Impact of COVID-19 on School Education. CBGA. Retrieved from (https://www.cbgaindia.org/blog/gendered-impact-covid-19-school-education/) on 14/07/2021.*

[8] *Iyengar, R. and Defterios, J. (July 1, 2019). Women are bringing solar energy to thousands of Indian villages. CNN Business. Retrieved from (https://edition.cnn.com/2019/07/01/business/india-solar-frontier-markets/index.html) on 09/07/2021.*

[9] *Agarwal, R. (August 16, 2019). Auto slump to hit investors, Indian economy; Here's what government needs to do. Financial Express. Retrieved from (https://www.financialexpress.com/money/auto-slump-to-hit-investors-indian-economy-heres-what-government-needs-to-do/1677080/#:~:text=In%20the%20Indian%20context%2C%20the,and%20services%20sector%2C%%2020including%20dealerships) on 09/07/2021.*

[10] *Parnell, J. (January 14, 2020). WoodMac: Volkswagen will be world's Biggest Electric Car maker by 2030. Greentech Media. Retrieved from (https://www.greentechmedia.com/articles/read/volkswagen-will-be-worlds-biggest-ev-manufacturer-by-2030) on 10/07/2021.*

SDG 8. Decent work and Economic Growth	←	There has been a severe impact on economic growth, with GDP contractions of -7.965 percent in 2020 and 14.8 percent expected in 2021 (Dave, 2020)[11]. This has had a cascading effect on employment and per capita income.
SDG 9. Industry Innovation and Infrastructure	→	The industrial sector took the brunt of the economic downturn, with the Index of Industrial Production falling by 55 percent (Press Information Bureau, 2020)[12]. Cost escalations and project delays reports cost overruns of 4 lakh crores for 1682 projects (Science Based Projects, 2020)[13] in the infrastructure industry.
SDG 10. Reduce Inequalities	←	COVID-19 has expanded inequality, the wealth of billionaires increased by 35% during the lockdown and by 90% since 2009. It would take an unskilled worker 10,000 years to make what Mukesh Ambani made in an hour during the pandemic and 3 years to make what he made in a second (The Wire, 2021)[14].
SDG 11. Sustainable Cities and Communities	→	During the shutdown, 2.6 million migrants were stranded across metropolitan India, highlighting the lack of inclusive cities (Patel, 2020)[15]. Furthermore, with more than three people per room, 42 percent of HHs in India are unsuitable for social distancing, indicating a lack of progress toward sustainable communities and affordable homes (UNDP, 2016)[16].
SDG 12. Responsible Consumption and Production	NA	During the lockdown, resource consumption fell by 44 percent (although it has since recovered to pre-lockdown levels), while minerals such as coal saw a decrease in demand (-16 percent in March). However, garbage creation grew, with India producing 18000 tonnes of COVID-19 waste (Business Roundtable, 2017)[17].
SDG 13. Climate Action	NA	COVID-19 had a favorable influence on climate change, resulting in a 26 percent reduction in emissions during the lockdown period and an overall reduction of 8.2 percent in 2020. It has also attracted more attention to climate change and the need to conserve to avoid future disasters (Shead, 2020)[18].
SDG 14. Life Below water	NA	It was expected that India will produce over 18000 tonnes of COVID-19 trash by 2020, with a substantial percentage of that being plastics (gloves, masks, sanitizer bottles) and medical waste tossed into inland lakes, rivers, and oceans, exacerbating marine pollution. The COVID-19 shutdown has had a negative impact on the fisheries industry, resulting in a decrease in production and exports due to fishing restrictions (Accenture and Global Compact Network India, 2021)[19].

[11] *Dave, S. (August 11, 2020). India GDP to shrink by 4.5% in 2020 due to COVID 19 pandemic: Dun & Bradstreet Report. Retrieved from (https://economictimes.indiatimes.com/news/economy/indicators/india-gdp-to-shrink-by-4-5-in-2020-due-to-covid-19-pandemic-dun-bradstreet-report/articleshow/77483208.cms?from=mdr) on 10/07/2021.*

[12] *Launch of 'Aatma Nirbhar Bharat Abhiyaan' is a "Watershed" moment in the economic history of India: Raksha Mantri. PIB Delhi (December 14, 2020). Retrieved from (https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1680603) on 11/07/2021.*

[13] *Companies Taking Action. Science Based Targets. Retrieved From (https://sciencebasedtargets.Org/Companies-Taking-Action/) on 10/07/2021.*

[14] *COVID-19 Sharpened Inequalities in India, Billionaires' Wealth Increased by 35%: Report. The Wire (January 25, 2021). Retrieved from (https://thewire.in/rights/covid-19-sharpened-inequalities-in-india-billionaires-wealth-increased-by-35-report) on 11/07/2021.*

[15] *Patel, C. (July 13, 2020). COVID-19: The Hidden Majority in India's Migration Crisis. Chatham House. Retrieved from (https://www.chathamhouse.org/2020/07/covid-19-hidden-majority-indias-migration-crisis) on 14/07/2021.*

[16] *Mapping Mining to the SDGs: An Atlas. UNDP (2016). Retrieved from (https://www.undp.org/publications/mapping-mining-sdgs-atlas) on 10/07/2021.*

[17] *Work in Progress. How CEOs are helping Close America's skill gap. Business Roundtable 2017). Retrieved from (https://s3.amazonaws.com/brt.org/archive/immigration_reports/BRT%20Work%20in%20Progress_0.pdf) on 10/07/2021.*

[18] *Shead, S. (July 16, 2020). Tesla plans to use Glencore cobalt in new Gigafactories. CNBC. Retrieved from (https://www.cnbc.com/2020/06/16/tesla-glencore-cobalt-gigafactory.html) on 10/07/2021.*

[19] *Raising India's SDG Ambition-Pathways for sustainable recovery and growth, Accenture (2021). Retreived from https://www.globalcompact.in/uploads/knowledge-center/1612422074raising-india-sdg-accenture-white-paper-15th-convention.pdf*

SDG 15. Life on Land		The COVID-19-related lockdown resulted in an increase in urban wildlife appearances. Wildlife poaching, on the other hand, more than doubled during the COVID-19 lockdown, with 88 incidents compared to 35 in the 2019 year (Mishra, 2021)[20].
SDG 16. Peace, Justice and Strong Institutions		COVID-19 had a major impact on judicial activity, with a 95 percent drop in cases filed due to the courts' inability to function during the lockdown. Serious crime rates, on the other hand, have dropped by 40 percent to 50 percent (Business World, 2021)[21].
SDG 17. Partnerships for the Goals	NA	COVID-19 sparked a surge in international cooperation to achieve development goals, particularly in the field of public health. A vast number of Indian companies, including SII, Zydus, DRL, and Bharat Biotech, have partnered with international organizations for R&D and manufacturing to create a COVID-19 vaccine. In bilateral agreements, there was also more traction on education, health, and economic growth (Accenture and Global Compact Network India, 2021).

Note: Green shows improvement in performance, red shows decline in performance and blue shows no change in improvement.

Pathways And Realignment Opportunities for Recovery and Development

When it comes to the SDGs, various stakeholders (governments, private companies, NGOs, and civil society) have already taken the road to realize value and achieve shared success. By aligning company strategy with the SDGs, global concerns can be turned into business opportunities while also helping to make the world a better place. Businesses can use the SDGs as a strategic framework to track performance, create targets, and engage with diverse stakeholders in order to encourage private investment in important industries, the Indian government has implemented a variety of policies, programmes, and packages. Below are some of the most promising initiatives and major investments from a business, societal, and environmental perspective that can help in accomplishing SDG targets. The realignment strategy will state the focus area of each SDG, the initiatives taken by Government and the investments made by stakeholders in achieving the focus area. As per the points listed below, the opportunities to achieve SDG ambition has been categorized into three:

1. **Build a strong and resilient economy**: It covers SDG 3 (Good Health and well-being), SDG 4 (Quality Education) and SDG 11 (Sustainable Cities and Communities).

a. In SDG 3, the focus area is "*Telemedicine*" which will include ICT to exchange patient information and provide healthcare services in remote regions. Through collaboration, NITI Aayog and the Ministry of Health and Family Welfare (MoHFW) has released Telemedicine Practice Guidelines, which establish the groundwork for regulating remote clinical consultations. The National Health Stack (NHS) and National eHealth Authority (NeHA) have launched a digital framework with the aim to compile digital health records of all citizens by 2022 to leverage benefits of telemedicine and e-health. The hospital mergers and acquisitions

[20] *Mishra, D. (September 21, 2021). Edtech funding jumps 4x to $1.5 billion this year. Times of India. Retrieved from (https://timesofindia.indiatimes.com/business/india-busi-ness/edtech-funding-jumps-4x-to-1-5bn-this-yr/articleshow/78224787.*

[21] *Mindspark in Rajasthan: Personalized Adaptive Learning Tools To Improve Learning Outcomes. Business World (July 12, 2021). Retrieved from (http://www.businessworld.in/article/Mindspark-In-Rajas-than-Personalized-Adaptive-Learning-Tools-To-Improve-Learning-Outcomes/01-11-2019-178372/) on 10/07/2021.*

increased by 155 percent to INR 76.15 billion (US$1.09 billion) in the fiscal year ended March 2019 (Cyrill, 2020)[22].

b. In SDG 4, the focus area is "*EdTech*" which targets to make education easier with the use of technology instruments. The Government has developed SWAYAM (Study Webs of Active Learning for Young Aspiring Minds) which is a holistic platform that connects to various online courses. Till date, approximately 1.02 crore students have enrolled under the 2769 MOOCs (Massive Open Online Courses)[23]. The investment in ed tech startup has increased to four times from $409 million in 2019 to $1.5 billion in 2020.

c. In SDG 11, the focus area is "*Affordable Housing*" in which Provision of housing (that is deemed economical) for persons with a median household income or less, as determined by the government. The Government is supporting cheaper home loan rates and framed the Public Private Partnerships for Affordable Housing' policy to attract private developers. With the help of IFC, the Bhubaneswar Development Authority (BDA) formulated the "Policy on Housing for All in Urban Areas" as country's first ever Public Private Partnership (PPP) for Affordable Housing.

2. **Opportunities for Equitable Business Growth**: It includes SDG 1 (No poverty), SDG 8 (Decent work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

d. In SDG 1, the focus area is "Financial Inclusion through Fintech" which encompasses inclusion of financial products and services to every person and firm. Under the Pradhan Mantri Jan-Dhan Yojana 365 million accounts have been opened and under the mission "The National Mission for Financial Inclusion (NMFI), 2014" over 35 crore people are introduced to the formal banking system. FSS (Financial Software and Systems) has partnered up with India Post Payments Bank (IPPB) to promote financial inclusion using the FSS's Aadhaar-Enabled Payment System (AePS) services to provide customers across India with cheap doorstep banking services.

e. In SDG 8, the focus area is "Remote Working (Virtualization enablement)" which focuses on work arrangement so that employees need not commute or travel to a physical place, rather they can work remotely. Due to COVID 19, the work-from-home mode has been going on since the break of the pandemic. Over the course of a year, more than 10,000 vehicles could be removed from the roads reducing 29,000 metric tonnes of CO2 emissions (Prasad, 2020)[24].

f. In SDG 9, the focus area is "E-Commerce and Delivery Services" supports that the rise of e-commerce and delivery services will be able to assist entrepreneurs in scaling up and reviving our ailing economy. To promote digitalization, the government established numerous programmes such as Umang, Startup India Portal, Bharat Interface for Money (BHIM), and others as part of the Digital India movement.

3. **Opportunities to strengthen the Green Economy:** It includes SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

g. In SDG 7, "Clean Energy" is focused with the aim to

[22] Cyrill, M. (October 22, 2021). India's Healthcare Investment Outlook: A Brief Profile. Retrieved from (https://www.india-briefing.com/news/indias-healthcare-investment-outlook-a-brief-profile-20757.html/) on 10/07/2021.

[23] Press Information Bureau, Ministry of Education. Retrieved from (Various initiatives have been taken to promote digital learning under 'National Mission on Education through Information and Communication Technology' (NMEICT) (pib.gov.in)) on 10/07/2021.

[24] Prasad, N.T. (August 31, 2020). India power demand is almost back to pre-covid levels: POSOCO Report. Retrieved from (India's Power Demand is Almost Back to Pre-COVID Levels: POSOCO Report - Mercom India) on 10/07/2021.

accelerate the transition to renewable, zero-emission energy sources, as well as energy conserved through energy efficiency initiatives. The Jawaharlal Nehru National Solar Mission is a Government of India project to promote solar energy in India. In 2018, the original aim of 20 GW of solar PV was exceeded, four years ahead of schedule for the 2022 deadline. By 2022, the target was raised to 100 GW. In March 2018, ReNew Power, one of India's biggest sustainable energy firms, agreed to buy Ostro Energy for INR 60,000 million (USD 836 million). This strategic investment will help the company realise its aim of contributing to the Government of India's 175 GW renewable energy goal by 2022.

h. In SDG 13, "Electric Mobility" focuses on increasing the production and use of electric vehicles in India by creating a growth-friendly ecosystem. To minimize expenses, the Union Cabinet has recommended eliminating customs duties on certain electric vehicle parts. Special policy measures include lowering the GST on electric vehicles to 5% compared to 28%. Loans to buy electric vehicles are eligible for a tax exemption of INR 1.5 lakh. Until now, nearly a dozen states have adopted or proposed electric car rules, with Delhi being the most recent. The India Energy Storage Alliance (IESA) expects to attract over $3 billion in investment to build four "giga factories" in India. Bharat Heavy Electricals Limited (BHEL) is in the talks to build India's first Li-ion Gigafactory with a multi-national consortium.

i. In SDG 13, "Green Finance" focuses on mobilizing and promoting sustainable funding to help India's economy transition to sustainable growth. SIDBI has launched a new plan called the Sustainable Finance Scheme to finance sustainable development initiatives such as renewable energy projects, Bureau of Energy Efficiency (BEE) star rating, green microfinance, green buildings, and eco-friendly labelling, among others. In 2016, Hero Future Energies released 300 crore rupees in Climate Bonds certified green bonds. Yes Bank is the only commercial bank from India which is a signatory to the Principles for Responsible Banking (PRB) and is a member of UN Environment Finance Initiative (UNEP FI).

Conclusion

With a vigorous SDG localisation model which exemplifies our belief in cooperative and competitive federalism, buoyed by evidence-based policy-making mechanisms, India has marched ahead on multiple facades which are key to achieving these Goals. The SDG India Index and Dashboards – the first government-led measure of subnational progress on SDGs, have provided guidance to endeavors of subnational governments. But COVID-19 has shaken the growth rate and has created a sea of tasks to be accomplished for the 2030 agenda. A unified strong multiple- stakeholder partnership among the centre, states, community, business and society is the answer to this massive problem.

The shockwaves from the pandemic COVID 19 will further disrupt society's socio-economic structure and harm the natural environment unless decisive efforts are aimed at achieving sustainable growth. This is the decade for achieving the Sustainable Development Goals, and leaders must commit to increase sustainability and accountability. A number of stakeholders have begun to take steps in this approach. The Indian government has been aggressively enacting laws to increase renewable energy production and focus investments on clean energy and electric mobility in India. To foster start-up concepts aiming at social innovation, private investments are being pooled. With the government's increasing support and incentives, India is becoming an appealing destination for many big private companies' sustainability-focused products and services. An environment like this is favorable for appealing, sustainable, and implementable routes to recover and expand in order to achieve SDG goals. It is time to seize the emerging opportunities, capitalize on capabilities and strengths, and reimagine a more equitable, inclusive, and greener world. ■■■

Aligning Corporate Social Responsibility Initiatives with Sustainable Development Goals

Corporate Social Responsibility (CSR) initiatives have become an important plank for businesses to position themselves as good corporate citizens. The corporate sector is working in collaboration with government and individuals on social and environment causes beyond the policy mandates and compliance requirements. For leading Indian companies, like their peers across globe, following sustainable practices has become an integral aspect of doing business for the good of all stakeholders – including the society. The impact of businesses on Sustainable Development Goals (SDGs) is inextricably linked with their CSR initiatives. The SDGs provide universally accepted principles to enable companies to formulate their CSR strategy in a holistic manner and provide well-defined targets to enable monitoring of the outcomes of those strategies. Several corporates are making continued efforts in this direction and are ably supported by the accounting professionals who play a key role in the sustainability reporting by the businesses. Read on…

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CSR as a measure to offset the social cost of doing business

Very often it is not realized that doing business extracts costs beyond the economic costs reported in the accounting statements prepared by the companies. In an ideal scenario, businesses would be adjusting their profits to net out the impact of social and environmental costs but the difficulty in estimation and non-standardization of such an approach renders the idea of accounting for such costs untenable. These costs in an economic sense are negative externalities and stakeholders have become more cognizant of the impact that businesses have on the society and the environment. It is no longer important for businesses to just 'do well' but it has also become important to 'do good'. Therefore, companies all over the globe are making increased efforts to demonstrate that they are committed towards the social and environmental causes. In this context, CSR initiatives prove to be a useful tool to demonstrate this commitment with concrete actionable initiatives.

Corporate Social Responsibility Regulations

The CSR initiatives impact not only just the companies' performance and brand perception but it also has an impact on the local

communities, which in turn impact the country as well. This is the reason policymakers often make it a point to encourage these programs.

Many countries around the world have enacted CSR laws encouraging positive corporate citizenship. There already are mandatory CSR reporting requirements in several countries, including UK, France, Sweden, Norway, Australia etc. CSR is taken very seriously in India as well. In fact, India is among few countries in the world to have rolled out regulations mandating CSR spending. Section 135 on CSR under the Companies Act 2013, provides a framework to help companies to work towards various development challenges. It allows companies to proactively identify and implement projects to meet the social and environmental challenges.

The Act provides the criteria to demarcate companies which fall under the ambit of the law. It also prescribes the quantum of the mandatory spends and a broad list of activities which business should undertake using CSR funds, leaving no scope for ambiguity. This also helps the businesses to align their CSR strategy with the key priorities of the nation including health, poverty alleviation, education, clean and safe water etc. which are de-facto part of the SDGs as well.

How Corporates contribute towards SDGs

Climate change risks are now a usual agenda item for discussion in corporate boardrooms. With the shifting focus on Sustainable practices, organization performance is increasingly considering the extent to which Environment, Social, and Governance (ESG) factors are integrated into the long-term value creation. Organizations are witnessing increased expectations from both shareholders and consumers to work on sustainability front and provide transparent disclosures on their impact on climate and put efforts for making operations and products sustainable in terms of impact on climate.

Reporting on sustainable practices together with higher degree of disclosures and accountability has become a common practice among businesses across the globe. This is substantiated by the fact that more than 300 of the Fortune 500 companies have set sustainability-related management targets on which they report regularly[1]. The sustainability reporting and accountability practices in India are at par with global standards.

In India, pioneering business houses have done exemplary work in terms of not only sustainability reporting but rather incorporating sustainability into the business models and thereby creating value for shareholders while simultaneously having a positive impact on society and environment. For example: India grows around 300 million tonnes of food-grain on the same amount of land on which it used to grow 190 million tonnes at the turn of the century. One of the key factors behind this 50% increase in productivity is farm mechanization. Tractor penetration has increased from 16 per 1000 ha. to 35 per 1000 ha. The farm equipment industry has made a huge contribution to crop productivity and therefore to rural prosperity and reduction of inequalities.

Further, since independence, the Per capita water availability has reduced to one-third today, which will head towards becoming a water scarce country. Around 70% - 80% of the fresh-water usage in the country is in farm irrigation and therefore it is a key lever to increase water usage efficiency.

[1]*Pivot Goals, www.pivotgoals.com*

Use of Micro-irrigation can reduce the water required for irrigation by up to 30%. The companies propagating the micro-irrigation technology in India are therefore creating economic value while simultaneously having a positive impact on the water resources of the country.

SDGs and their connect with CSR

The SDGs highlight a set of large, chronic, inter-connected and complex challenges plaguing the world. The genesis of SDGs can also be linked with the concept of hidden social and environmental costs. Since Industrial revolution 1.0, the model of development has been to focus on the economic gains i.e. Profit and Loss, which led to the economic growth while adversely affecting the Balance Sheet of natural assets including air, water, soil, forests, etc. which are used to create economic value. This practice is clearly unsustainable and hence, SDGs are in place to monitor progress on these aspects as well. Given that both CSR and SDGs have a similar genesis, it is no surprise that both are interlinked and together they have tremendous potential to provide a suitable model for sustainable growth.

In fact, in the Indian context, the CSR activities mentioned in the Schedule VII of the Companies Act, 2013 provides guidelines of the areas under which CSR initiatives can be undertaken. Each of these guidelines can be mapped to one or more SDGs. For example, CSR initiative of contributions to technology incubators located within Central Government approved academic institution is linked with SDG 9 (Industry, Innovation, and Infrastructure). Similarly, CSR spends on Rural development projects would be inextricably linked to SDGs 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good Health & Well-being) and SDG 4 (Quality Education).

In a nutshell, CSR regulations provide a broad direction for corporates to engage in activities which will lead to a sustainable future whereas SDGs help in defining tangible well-defined targets to measure the outcome of those activities. Global surveys by leading consulting firms show growing importance of the SDGs to business activity including the CSR strategies. Further, focusing on the SDGs also allows multi-national companies to address a significant challenge – how to devise an effective CSR approach for businesses spanning across multiple geographies. Without common guiding principles in place, developing a cohesive CSR approach may have been difficult for companies with cross-border business operations. Since SDGs are inherently universal, they can serve as a framework to address cross-border CSR issues.

Another important connect comes from the requirement for funding for SDGs. It has been estimated that funding of USD 5000 to 7000 Bn will be required to achieve the SDGs by 2030. The corresponding estimates peg the spending needed in India at USD 960 Bn of which more than USD 500 Bn is the funding gap based on the current and planned public expenditures[1]. A significant chunk of this gap is expected to be bridged from private sector sources. The CSR spends provide a possible way to fund these requirements.

Ways to align CSR strategies with SDGs

Measuring social impact has been an evolving effort for companies over the years. At times, businesses prefer to

[2] *FICCI – TTC Report: Sustainable Development Goals – Linkages with Corporate Actions in India, 2018*

report efforts rather than impact and most of these disclosures are those that are mandated by the government. However, the pandemic has brought a sharp focus on the 'S' in ESG. Investors and businesses are now getting a lot more serious about their social metrics. They are looking for more measurable and meaningful disclosures for social reporting.

The SDGs cover a broad spectrum of issues ranging from climate change, gender inequality and the eradication of poverty. It is therefore imperative for companies to map their line of work and then take on goals that they can contribute to and shape their CSR strategies accordingly.

Some of the CSR initiatives taken by leading Indian businesses, having impact on several SDGs are substantiated below -

- A leading auto major has an ongoing flagship CSR initiative to provide opportunities for girl children to attend school by providing them economic and social support. This has positively impacted the lives of 4 lakh girls in the country by enabling them to have quality education.
- A renowned Indian conglomerate is working towards upskilling the youth in multiple sectors such as IT, hospitality, automotive, retail etc. and has set an ambitious commitment to skill as many as 10 lakh youth by 2025. This would have a major impact on job creation in the country.
- Similarly, in the financial services domain, a company with substantial rural presence is providing financing support to SMEs in these areas thereby ensuring business growth and employment generation in rural India as well.
- Corporates are also working towards providing better access to healthcare facilities by providing mobile paramedical units to reach out to remote and less accessible areas benefiting lakhs of people.
- Several businesses have regular tree plantation drives. Indian corporates have planted millions of trees under such drives while maintaining a high rate of survival of the planted saplings. This has resulted in dramatic changes in the ambient temperature and weather conditions of these locations.

In a nutshell, businesses have tried to touch upon key SDG targets in various ways through their CSR initiatives. These examples are for the purpose of illustrating how CSR initiatives can align with SDGs. However, it may be unrealistic to work out an all-encompassing strategy impacting all the 17 SDGs for most companies. A practical strategy is to focus on specific targets, perhaps those which align with already existing CSR activities. This is a pragmatic and useful way for companies to make the transition, paving way for a longer-term approach through which they commit holistically to working on several SDGs through CSR activities.

Chartered accountants can also play an important role in this process. CAs have a visibility of company's compliance and reporting requirements along with its financial position. They can therefore help in advising the company to aim at CSR initiatives which have financial suitability and would also meet the statutory obligations. Also, while monitoring the expenditure under the CSR head they can also monitor the progress on these initiatives and ensure that they are well on track towards meeting the organization's stated social objectives. Further, when in leadership role, they can play an even more proactive role by helping the corporates to work out strategies and initiatives that serve both the business as well as social goals. By ensuring that highest levels of corporate governance and transparency of disclosures and reporting are maintained, they can ensure that the business goals and social values align harmoniously. This would be perhaps one of the biggest contributions from the community of accounting professionals towards the cause of SDGs. ■■■

BRSR and its Disclosure Challenges

With the global Environmental, Social and Governance (ESG) reporting landscape changing rapidly, SEBI's Business Responsibility and Sustainability Report (BRSR) is an upgrade over Business Responsibility Report (BRR) and is the next step for Sustainability Reporting in India. The new format is more comprehensive and is formulated after considering with various international reporting standards/ frameworks. Though the transition from BRR to BRSR has its own short-term challenges, these developments will benefit India Inc.'s business sustainability in the long run. As a next step to reporting, assurance of non-financial information is being widely adopted globally for ensuring credibility of information, however there are some challenges associated with it. Read on...

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Business Responsibility and Sustainability Report - An opportunity for companies

Context

The push towards climate change adaptation along with responsible corporate behavior has thrusted the investors and companies to embed ESG in their overall business activities. Whilst the globally accepted voluntary frameworks/ standards such as Global Reporting Initiative (GRI), Integrated Reporting (<IR>), Sustainability Accounting Standards Board (SASB) are driving the sustainability reporting scenario, several countries have gone to the extent of mandating non-financial disclosures. In April 2021, the Government of New Zealand announced the introduction of legislation that would align climate-related disclosures with the Recommendations of the Task-Force on Climate-related Financial Disclosures (TCFD) mandatory for certain financial services organizations, as well as all equity and debt issuers listed on the New Zealand's Exchange.

India is not behind in this context. The ESG reporting started as early as 2009 in the

country with the Ministry of Corporate Affairs (MCA) issuing the 'Voluntary Guidelines on Corporate Social Responsibility'. In 2012, SEBI mandated the BRR for the top 100 companies by market capitalization. The mandate was then extended to 500 companies in 2015 and later to 1000 companies in 2019. In the same year The National Guideline on Responsible Business Conduct (NGRBC) was released.

Recently, in May 2021, SEBI came out with a circular ('SEBI circular[1]') introducing BRSR for the top 1000 listed companies by market capitalization with a new prescribed format of sustainability reporting on the ESG parameters.

SEBI Circular

The MCA Committee[2] ('Committee') examined the NGRBC-BRR framework within the broader context of UNGPs, SDGs, and other widely accepted non-financial/ sustainability reporting frameworks and refined/ enhanced the BRR to be called the **Business Responsibility and Sustainability Report (BRSR)**.

The SEBI circular mandates BRSR for top 1000 companies by market capitalization from FY2022-23 onwards; keeping it voluntary for FY2021-22. The structure of BRSR format consists of three sections-

1. **General Disclosures** - aims to capture basic information of the company such as name, year of incorporation, office address, website, product information, operations, market served by entity, employees, turnover, CSR details etc.
2. **Management and Process Disclosures** - captures data on the policy and process put in place by the company and requires companies to provide a web-link of the policies that are on their website. Additionally, it also requests for information on Governance, leadership and oversight.
3. **Principle-wise Performance Disclosures** - this is further divided into **Essential (mandatory)** and **Leadership (voluntary)** Indicators/ Key Performance Indicators (KPIs) which are taken from the nine principles of NGRBC. The indicators in Principle-wise performance are aligned with the Sustainable Development Goals (SDGs).

BRSR circular also provides flexibility to companies already preparing sustainability reports based on international frameworks (such as GRI, SASB, TCFD or <IR>) to cross-refer the information disclosed under such frameworks with the BRSR, thus, avoiding duplication in reporting. It also provides a **Guidance Note** that shall help companies interpret and understand the requirements under each section for better disclosures.

Advancements in BRSR

Overall, BRSR is an improvement over the BRR. The structure of BRSR now incorporates Essential and Leadership indicators with quantitative, in-depth questions and granular level KPIs. BRSR covers more KPIs under the three pillars of ESG as compared to the BRR, especially around environmental KPIs such as energy, emissions, water and waste, and health & safety indicators. For instance, under BRR, the KPIs under emissions included details on

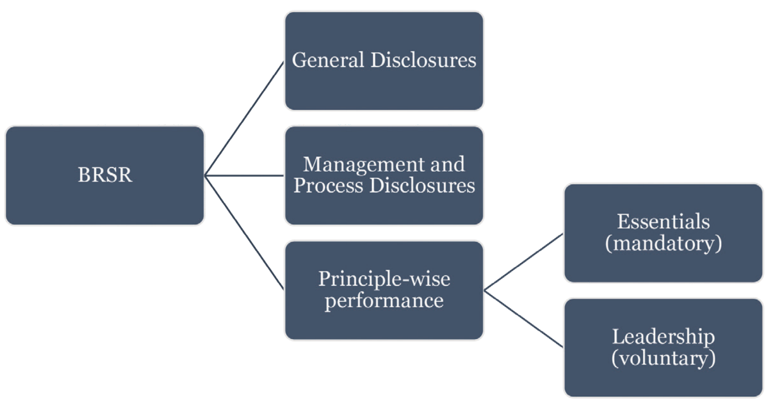

Figure 1: Structure of BRSR

[1]*Available at: https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html*

[2]*Available at: https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf*

the emissions generated by the company within the permissible limits given by CPCB/SPCB for the financial year and if the company had undertaken any initiatives for clean technology, energy efficiency, renewable energy or others (web link has to be provided, if it exists). KPIs on emissions under BRSR include details on GHG Gas emissions and intensity; other emissions details such as NOx, SOx, Particulate matter (PM), Persistent organic pollutants (POP), Volatile organic compounds (VOC), Hazardous air pollutants (HAP); details on GHG reduction projects (if existing). BRSR also requires companies to disclose the current and the previous year data for certain KPIs. From this, we can infer the granularity expected from companies in BRSR disclosures.

BRSR also incorporates questions on value chain partners in its disclosure questionnaire such as training programs conducted, details on health & safety and working condition assessments conducted, corrective actions undertaken, etc.

Semblance with the WEF Metrics

In 2020, World Economic Forum (WEF) International Business Council[3] (IBC) after consultation with various stakeholders came up with a common set of metrics, based on five voluntary frameworks- CDP, the Climate Disclosure Standards Board (CDSB), GRI, <IR> and SASB. Similarly, the MCA's committee report on BRSR framework draws inference from the globally recognized Sustainability Reporting frameworks - UNGC, CDP, GRI, <IR> and ISO 26000.

The following figure is an attempt to categorize some of the BRSR indicators under the 4 WEF pillars to understand if BRSR broadly covers all the 4 pillars of WEF. Figure 2 depicts the same.

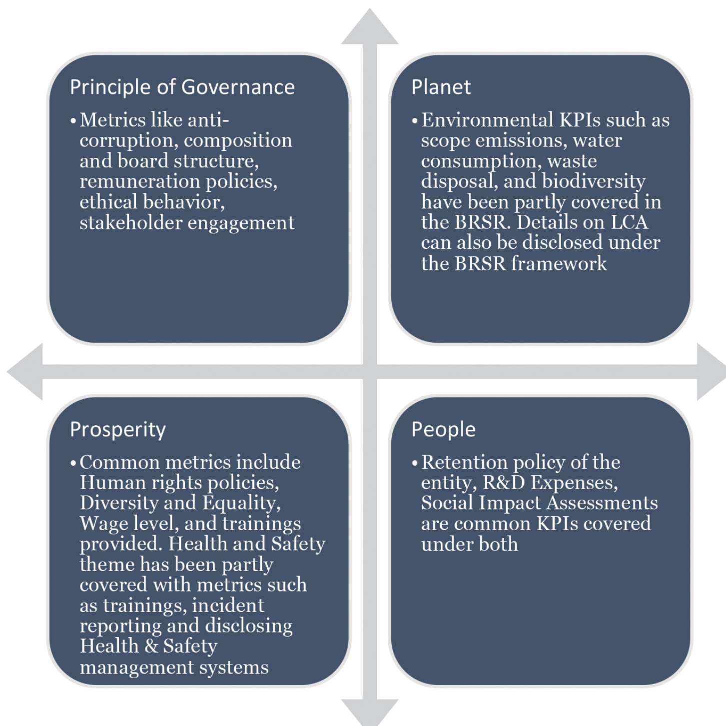

Figure 2: Semblance of BRSR KPIs with WEF pillars

BRSR partly covers the WEF metrics, there being areas that can be enhanced further in the framework such as implementation of TCFD framework, disclosure on whether the goals and targets set are in alignment with the Paris agreement, societal cost of carbon, land use and ecological sensitivity, societal value generated etc.

Challenges in BRSR Disclosures

As mentioned above, BRSR is a new requirement and has come into being in May 2021. While it is a positive move and a big change over the current BRR, but only time will tell how the India Inc. adopts or embraces the BRSR. Rather than viewing as a compliance requirement, if corporates use introduction of the BRSR as an opportunity to embed ESG aspects into their strategy and operations, it will be easier and more worthwhile to embrace BRSR.

[3]*Available at: http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf*

Some of the challenges that companies could face while adopting and implementing BRSR are as follows:

- **Continued Challenges:** Though BRR was a very simple format, companies found it challenging to complete it, BRSR is much comprehensive in that manner. The question remains if companies can adhere to the same. For example, the National Stock Exchange - Stakeholder Empowerment Services Report "ESG Analysis on 50 listed companies in India"[4], pointed out several deficiencies in reporting for various aspects in BRR. These deficiencies are likely to reflect in the BRSR reporting due to the increase of both qualitative and quantitative disclosures.
- **Transition Process:** The BRR mandate was extended from top 500 listed companies to top 1000 listed companies by market capitalization recently in 2019. While the bottom 500 companies have relatively less experience and were still getting to mature with respect to the BRR disclosures, BRSR poses a significant transitional challenge for these companies.
- **Prescriptive Format:** Considering that the BRSR has a very specific format to respond upon, companies may find it restrictive and may not be able to disclose information on all initiatives taken other than what the format is requesting for.
- **Accountable Disclosures:** BRSR structure comprises of mandatory and voluntary KPIs that are to be reported upon. Being a regulatory compliance, it is anticipated that companies will opt to disclose only under the mandatory section. Companies may choose not to disclose voluntary indicators.
- **Lack of Assurance Guidelines:** There is no mention of third-party assurance on the BRSR disclosure data. Hence, the challenge lies in the fact that it would be very difficult to authenticate the veracity of information disclosed therein.
- **Common Template Structure:** BRSR provides a common template that is to be followed by all the companies. Considering that all the questions will not be applicable to all the sectors, hence inter-sectoral comparability will be a challenge, especially for the investors.
- **Not completely mapped with International framework:** A lot of companies in India are already following some or the other international reporting framework. Considering that companies will not want to stop publishing their sustainability reports following an international standard, completing the BRSR might be a burden to them. Though BRSR gives the option of cross-referencing data points between Sustainability Reporting and BRSR, inconsistency between the definitions of the KPIs may lead to confusion. For e.g., The GRI 403-9 Work related Injuries indicator provides an option to the companies to choose between 200,000 and 1,000,000 man-hours of work for calculating different work-related injury rates. However, the Loss Time Injury Frequency Rate (LTFIR) indicator in Principle 3 of BRSR is calculated per 1,000,000 man-hours of work. This may create a problem for the companies which are looking to map their BRSR indicators with the GRI standards in their Sustainability Report.

Assurance of BRSR

Context

The growth in the number of companies disclosing their non-financial data on ESG performance raises the question pertaining to the credibility of data being disclosed. Sustainability reporting or ESG reporting (as it now being called) always faces a challenge of consistent and accurate disclosures which can be achieved through conducting non-financial data assurance. Also, investors are focusing on embedding ESG aspects in the company's strategy and their alignment towards developing a low carbon future. Assurance can help ensure the reliability of the data that can help strengthen the trustworthiness of investors and stakeholders.

Further, assurance of non-financial data can lead to improved corporate governance practices, risk management process, improved reporting definitions, scope and methodologies. Also, rating agencies such as CDP and Dow Jones Sustainability index (DJSI) provide a better score if the non-financial data is assured by an independent third-party.

[4] *Available at: https://www.sesgovernance.com/pdf/home-reports/1594458276_ESG-Analysis-on-50-Listed-Companies-in-India_2020.pdf*

Some of the prominent assurance standards used globally and in India are International Auditing and Assurance Standards Boards (IAASB)'s International Standards on Assurance Engagements (Revised) [ISAE 3000 (Revised[5])], ISAE 3410, Account Ability's AA1000 series of standards and in India ICAI's Standards of Assurance Engagements (SAE) 3410 on Assurance Engagements on Greenhouse Gas Statements[6].

As per ISAE 3000 (Revised), there are two types of assurance engagements –

1) Reasonable Assurance, and 2) Limited Assurance.

Since BRSR is a very important national sustainability reporting tool, it is important that the data presented in the same is also assured to ensure accuracy and credibility. The guidance note on the BRSR can be used as a base for providing assurance on BRSR.

Challenges of BRSR Assurance

As mentioned earlier, while it is yet to be seen how companies adopt the BRSR, conducting an assurance can help companies in complementing their internal processes and enhancing the credibility of information and data that are used to make decisions.

However, assurance on BRSR could have the following set of challenges -

- **Assurance not a mandatory compliance**: Since assurance of BRSR is not mandated, most companies may not see the need to invest in it. Even if they are in full compliance of reporting and disclosing of sustainability/ESG related data under BRSR, without a proper assurance, the data lacks credibility.
- **Limited guidance on assurance**: Sustainability assurance standards sometimes lack preciseness when compared to financial audit standards, the latter being more developed and in existence for a much longer period. Sustainability Reporting Standards Board of ICAI is now taking significant efforts in bridging the gap.
- **Possibility of indicators material to business getting left out**: With the current practices for assurance, companies may choose the indicators under BRSR that they want an assurance based upon on their reporting strategies, degree of information provided and management systems. This may lead to selection of those indicators for assurance which may not be material to the business of the company.
- **Tick in the Box**: While BRSR may have become mandatory, most companies have limited knowledge on the importance and usefulness of getting an assurance upon the same.
- **Lack of system improvement:** Conducting an assurance leads the corporates to realize the inadequacies and weaknesses in process/controls around data capturing, collation and reporting. As generally companies may not see the need of conducting an assurance of BRSR, it hinders the scope of improvements of such processes and it may also impact the accuracy of information being reported.

There has been a constant development and evolution of non-financial reporting. With time, it has become more forward looking and integrated with defined boundaries and scope. With BRSR replacing BRR, this requires corporates to disclose accurate data in a more holistic manner. Hence, assurance of BRSR should ideally be conducted to provide reliable and credible data for all the stakeholders.

Conclusion

The post-COVID "new normal" narrative revolves around mainstreaming sustainability into business practices. The introduction of BRSR mandate is an inflection point in the Indian ESG reporting scenario which provides an opportunity for the companies to embed sustainability in their core strategy. SEBI has attempted to benchmark it against some of the leading global reporting frameworks, while keeping in mind the local sustainability challenges. BRSR is an attempt to standardize the ESG reporting landscape in India. As an overall format, it tries to encompass KPIs from all the three pillars of ESG.

On a closer look, though BRSR will have transitional and implementation challenges in terms of disclosures, it will pivot the organizations towards more exhaustive non-financial reporting practices, which will be a major contributor in India Inc.'s corporate sustainability journey.

Assurance of BRSR will help companies to disclose reliable and provide credible data under BRSR. It will also help in maintaining transparency and aid all the stakeholders (especially investors) to make better decisions.

Corporates, regulators and other stakeholders are the key players who can exercise the need and importance of getting BRSR assured. ■■■

[5] *Available at: https://www.ifac.org/system/files/publications/files/ISAE%203000%20Revised%20-%20for%20IAASB.pdf*
[6] *Available at: https://resource.cdn.icai.org/62857srsb50843.pdf*

Sustainability Reporting Frameworks and SEBI Circular on BRSR

A growing realization that non-financial aspects are critical to positive business outcomes in the long term, coupled with rising disclosure expectations from investors and stakeholders on these issues, has led to a proliferation of new frameworks to support non-financial reporting among corporates. While several global coalitions and standards setting bodies have taken a lead in this direction, the launch of Business Responsibility and Sustainability Reporting (BRSR) framework as well as the SEBI mandate for BRSR reporting for the top listed companies signify an important milestone in propagating sustainability and business responsibility principles among Indian companies, through an India-made and India-centric framework. Read on…

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Growing Focus on Corporate Sustainability

As the COVID-19 pandemic continues to test our societies and economies in drastic, unforeseen ways, it has also brought an unprecedented shift in the business environment. Corporates are re-doubling efforts to strengthen their organizational purpose, chart out strategies to ensure long-term resilience and redefine the metrics of success and value creation. This emergent crisis has presented an opportunity for businesses to sharpen their priorities and re-focus on the role they play in larger society and the planet. Together with the growing urgency around climate change, natural resource constraints and social inequities, the pandemic has served to sharply put the spotlight back on several critical issues around the triple bottom lines of *People*, *Planet* and *Profits*. The *Global Risk Report 2021* released by the World Economic Forum strikingly captures the key risks arising out of these issues.[1]

All of these varied crises have accelerated the momentum around corporate sustainability

[1] *The Global Risk Report 2021, World Economic Forum, 2021, http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf*

and responsible business conduct. Companies today are expected to perform well on a range of metrics beyond financial performance, underlining the realization among investors that Environmental, Social and Governance (ESG) factors often have a material outcome on a company's long-term growth and success. There is also growing awareness and appreciation for the various forms of 'values' that a business creates beyond what gets reflected in traditional balance sheets. Such non-financial value is often intangible and difficult to quantify, but can have far-reaching impacts beyond the investors and shareholders of a company. These emerging concepts have aptly been described under the moniker of '*Stakeholder Capitalism*' by the World Economic Forum, which describes it as a form of capitalism in which companies seek long-term value creation by taking into account the needs of all their stakeholders, and society at large.[2]

While organizations are internally recognizing that social and environmental responsibility can lead to positive business outcomes, investors are one of the key stakeholder groups driving momentum around ESG actions and disclosures from the outside. Institutional investors are raising the stakes when it comes to assessing company performance using ESG factors. Recent Institutional Investor Survey indicate that ESG information has become significantly important, with the majority of investors surveyed (98%) signalling a move to a more disciplined and rigorous approach to evaluating non-financial performance of companies. Specifically, 91% of respondents said that non-financial performance played a pivotal role in their investment decision-making. The call for action and demands for transparency on sustainability aspects is also being supported by other stakeholder groups, including issue-driven civic society organizations, an informed customer and employee base, as well as activist media, all of whom are eager to commend positive actions and call out failures in the corporate world.

Emergence of Sustainability Reporting Frameworks

As sustainability, corporate responsibility and ESG issues continue to evolve as strategic business imperatives, there is a greater demand from companies to communicate more information pertaining to their performance, material risks and opportunities as well as strategies around these issues. Investors and other stakeholder groups are keen to assess whether companies are adopting sustainable and resilient business models. Insightful reporting that provides a clear understanding of those models and communicates the company's performance on a broad variety of metrics is becoming critical for stakeholders while making informed decisions on investment, procurement and other forms of business relationships. The need for sustainability information that is consistent, high-quality, material and easily accessible within the public domain was recently reemphasized by BlackRock CEO Larry Fink in his annual letter to CEOs in 2021.[3]

A large number of reporting standards and frameworks have emerged globally over the last decade in response to the growing demand for non-financial information. They help provide structure to the multitude of thematic areas and diversity of topics that constitute corporate sustainability. These frameworks are most commonly developed by standard setting bodies, not-for-profit bodies, investor-backed coalitions and analyst agencies. While some frameworks have attempted to comprehensively address the broad spectrum of sustainability and ESG topics, others are more thematic and focussed on individual issues such as climate change. Some of the more popular and globally accepted reporting frameworks

[2] *World Economic Forum: What is Stakeholder Capitalism? https://www.weforum.org/agenda/2021/01/klaus-schwab-on-what-is-stakeholder-capitalism-history-relevance/*

[3] *Larry Fink's 2021 letter to CEOs, 2021, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter*

are agnostic of geography, size and nature of business, and therefore are easier to adopt by any company. A brief overview of six prominent global frameworks for sustainability reporting is presented below:

I. ***Global Reporting Initiative (GRI) Standards:*** GRI, formed in 1997, developed the first and most widely used global standards for sustainability reporting useful to a broad set of stakeholders. It covers a wide range of topics under the triple bottom line approach (Economic, Environmental and Social performance), with each topic individually comprising of a series of quantitative and qualitative indicators. The principle of materiality guides the reporting organizations in prioritizing those topics in their sustainability reports which "*have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large*".[4] This framework is commonly adopted by companies used for preparing standalone Sustainability Reports.

II. ***Sustainability Accounting Standards Board (SASB):*** First published in 2018, the SASB Standards comprises a set of globally applicable standards for 77 different industry sectors, identifying the minimal set of financially material sustainability topics and their associated metrics for each sector. The standards are explained in the form of SASB's Materiality Map, and are intended to help companies and investors analyse the material ESG issues likely to affect a company's financial performance.[5]

III. ***Taskforce on Climate Related Finance Disclosures (TCFD):*** Created by the Financial Stability Board to improve and increase reporting of climate-related financial information, the TCFD in 2017 released climate-related financial disclosure recommendations designed to help provide companies, banks and investors better information to support informed capital allocation. These recommendations are structured around four thematic areas of governance, strategy, risk management, metrics and targets.[6]

IV. ***Climate Disclosure Standards Board (CDSB):*** CDSB is an international consortium of business and environmental organizations committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. It has developed a framework for companies to report environmental and climate change-related information in their mainstream financial reporting, such as the annual report. This is aimed at ensuring the same rigour in the environmental information as financial information, so as to provide investors with decision-making information to ensure resilient capital markets.[7]

V. ***International Integrated Reporting Council (IIRC):*** IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs that have come together to propagate integrated thinking and integrated reporting. Its IR Framework provides a principles-based approach that helps companies communicate the full range of factors that affect its ability to create value over time. Its value creation model comprises of six forms of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and is meant to promote an understanding of their interdependencies and inculcate integrated thinking around value

[4] *GRI Standards, https://www.globalreporting.org/standards*
[5] *SASB, https://www.sasb.org/standards/*
[6] *TCFD, https://www.fsb-tcfd.org/*
[7] *CDSB, https://www.cdsb.net/our-story*

creation. The IR Framework is increasingly being used by companies to prepare integrated annual reports, and is commonly used in conjunction with other indicators-based frameworks such as GRI to communicate performance on non-financial matters.[8]

VI. CDP: Formerly known as the Carbon Disclosure Project, CDP is an international non-profit organization that helps companies and cities disclose their environmental impact across the three focus areas of climate, water security and forests. It provides one of the most comprehensive dataset of comparable metrics on these thematic areas globally. The annual collection of data through formalized survey questionnaires is supported by over 590 institutional investors with over US$110 trillion in combined assets.[9]

Although these and several other reporting frameworks have individually proven useful for reporting organizations and their stakeholders, they have also led to a crowded field of sustainability reporting, with overlapping requirements and multiple approaches towards what are fundamentally near-similar principles and topics. This is predictably leading to some level of duplication of efforts and repetition of information as reporting companies attempt to fulfil the information needs of different stakeholder groups preferring different frameworks. Hence, while individual frameworks keep evolving, the broader stakeholder community has understandably called for simplification and rationalization of the sustainability reporting landscape. In response, several initial small steps in the direction of alignment and convergence are now being explored by organizations worldwide.

A noteworthy development in this direction is the coming together of five leading independent global framework and standard setters, namely CDP, CDSB, GRI, IIRC and SASB, who have shown a commitment to working towards comprehensive corporate reporting system. Their joint commitment was formally released in September 2020 in the form of a '*Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*', an initiative facilitated by the *Impact Management Project*. Key elements of their commitment include developing joint market guidance for complementary and additive way of applying the frameworks, a joint vision for complementarity with Financial GAAP and future comprehensive corporate reporting system, and a joint commitment to deepen the collaboration with each other and other interested stakeholders towards this goal.[10] Furthermore, in June 2021, the IIRC and SASB officially merged to form the *Value Reporting Foundation* in order to encourage the complementary use of both the frameworks.[11]

Another significant step, which is likely going to impact the sustainability reporting landscape of the future, is the consultation carried out by the Trustees of the International Financial Reporting Standards (IFRS) Foundation, which confirmed an urgent need for global sustainability reporting standards and support for the Foundation to play a role in their development. The Trustees remain on track to make a final determination on constitution of Sustainability Reporting Standards Board in advance of the November 2021 United Nations COP26 conference.[12]

Background on Business Responsibility and Sustainability Reporting

Growing stakeholder interest in non-financial performance

[8] *IIRC, https://integratedreporting.org/the-iirc-2/*

[9] *CDP, https://www.cdp.net/en/info/about-us/what-we-do*

[10] *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, Impact Management Project, 2020, https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/*

[11] *Answering Your Questions about the Value Reporting Foundation, 2020, https://www.sasb.org/blog/answering-your-questions-about-the-value-reporting-foundation/*

[12] *IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation , 2021, https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/*

and the corresponding growth in sustainability disclosures by corporates are increasingly being witnessed in India too. Over the past decade, there has been a manifold growth in the number of companies voluntarily publishing such disclosures, mainly in the form of Sustainability Reports or Integrated Annual Reports, based on global frameworks. Participation of Indian companies in industry-led sustainability coalitions as well as investor driven ESG assessments is also seeing an upswing. All of this has resulted in a greater volume of information available publically on how companies are addressing sustainability and ESG related priorities as well as creating long-term stakeholder value.

While the initial push for non-financial reporting in India may have been led by overseas investors and customers, the year 2011 saw an important national milestone when the Ministry of Corporate Affairs (MCA) released the '*National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business*' (NVGs).[13] The Guidelines represented the first comprehensive effort of the Indian government in defining expectations from companies with respect to responsibility towards all stakeholders. The nine principles outlined in the NVGs are based on global priorities and commitments but also rooted in India's socio-cultural context. The NVGs also served to provide further thrust to the Companies Act, 2013 which casts fiduciary duties on the Directors of a Company, requiring them to "*promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment*". Subsequently, in 2012, the NVGs became the basis for *Business Responsibility Report* (BRR) requirement mandated by the Securities and Exchange Board of India (SEBI) for the top 100 listed companies by market capitalization. This BRR mandate has since been gradually expanded to top 1000 listed companies through SEBI's listing regulations.

In 2019, the nine principles of NVGs were revised and released in the form of '*National Guidelines on Responsible Business Conduct*' (NGRBC) in order to align them with emerging global concerns and priorities.[14] The nine principles under NGRBC are -

Principle 1: Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.

Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.

Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains.

Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

Principle 5: Businesses should respect and promote human rights.

Principle 6: Businesses should respect and make efforts to protect and restore the environment.

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

Principle 8: Businesses should promote inclusive growth and equitable development.

Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

Also, in 2018, the MCA constituted the *Committee on Business Responsibility* with an objective to study the lessons learnt from several years of BRR filing. The Committee, after holding extensive stakeholder discussions on how to improve the quality and utility of BRR disclosures, released its report in August 2020. The report presented updated reporting formats for

[13] *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business https://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf*

[14] *National Guidelines on Responsible Business Conduct, https://www.mca.gov.in/Ministry/pdf/NationalGuildeline_15032019.pdf*

listed and unlisted companies in the form of *Business Responsibility and Sustainability Reporting* (BRSR).[15] It aligns the existing BRR format to global sustainability reporting frameworks and is intended to encourage companies in taking up leadership role in sustainability practices and disclosures. The Committee's report recommended that BRSR would be eventually made applicable for all companies including unlisted entities. Attention has also been paid to enable smaller companies - who may have less experience in preparing sustainability disclosures – by way of proposing a separate format called *Lite* version, and also categorizing principle-wise indicators as *Essential* and *Leadership Indicators*, which will enable a gradual and phase-wise adoption.

BRSR is meant to act as a single source of sustainability information among companies in India while also enhancing comparability and consistency of reporting, which will benefit the users of information. In order to reduce duplication and compliance efforts by companies, an integration of BRSR filing with the MCA21 portal has also been recommended. The MCA Committee has also envisioned that BRSR reporting may in the future form the basis for a potential *BRSR Index*, which can support public procurement agencies and other stakeholders in giving preference to companies with demonstrated responsible business conduct.

SEBI Circular on BRSR

In the light of the MCA Committee report, SEBI released a Consultation Paper in August 2020, seeking public comments on the proposal to make BRSR applicable for the top 1000 listed entities in place of the existing BRR reporting requirement. After holding several industry consultations, SEBI released a Circular on May 10th, 2021, notifying the new BRSR reporting requirements for the top 1000 listed companies (by market capitalization). As per the Circular, filing of BRSR will be voluntary for FY 2021-22 and mandatory from FY 2022-23 for these companies.[16]

The format for BRSR and the corresponding guidance notes have been published by SEBI as part of the Circular. The reporting requirements under each of the nine NGRBC principles are divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is voluntary.

Further, the Circular states that listed entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD or IIRC) may cross-reference the disclosures made under such framework to the disclosures sought under the BRSR. This is a welcome step and appears to be an acknowledgement of the fact that several leading companies are voluntarily publishing non-financial disclosures using global frameworks, and the fact that the growing alignment between BRSR and such global frameworks may lead to duplication of reporting by such companies.

Implications and Outlook of BRSR

The BRSR reporting framework is the culmination of extensive industry dialogue and a comprehensive assessment of global frameworks on non-financial sustainability reporting. It heralds a new age of corporate responsibility and corporate transparency for India Inc., with the potential of putting Indian companies at par with several leading jurisdictions globally with respect to disclosure norms. Although rooted in our unique local context of the nine principles of responsible business conduct, the disclosure requirements are in step with the global frameworks that many overseas investors and other stakeholders may be better familiar with. The recommendation by the MCA Committee to gradually expand the BRSR reporting requirements to all companies (listed and unlisted) is a welcome move towards strengthening responsible business conduct across our country. Regular stock-take of global developments and evolving understanding of corporate responsibility, in addition to continual industry feedback, will help ensure that the BRSR continues to be fit-for-purpose and best-in-class for the decades to come.

For the corporate sector, BRSR provides a locally developed

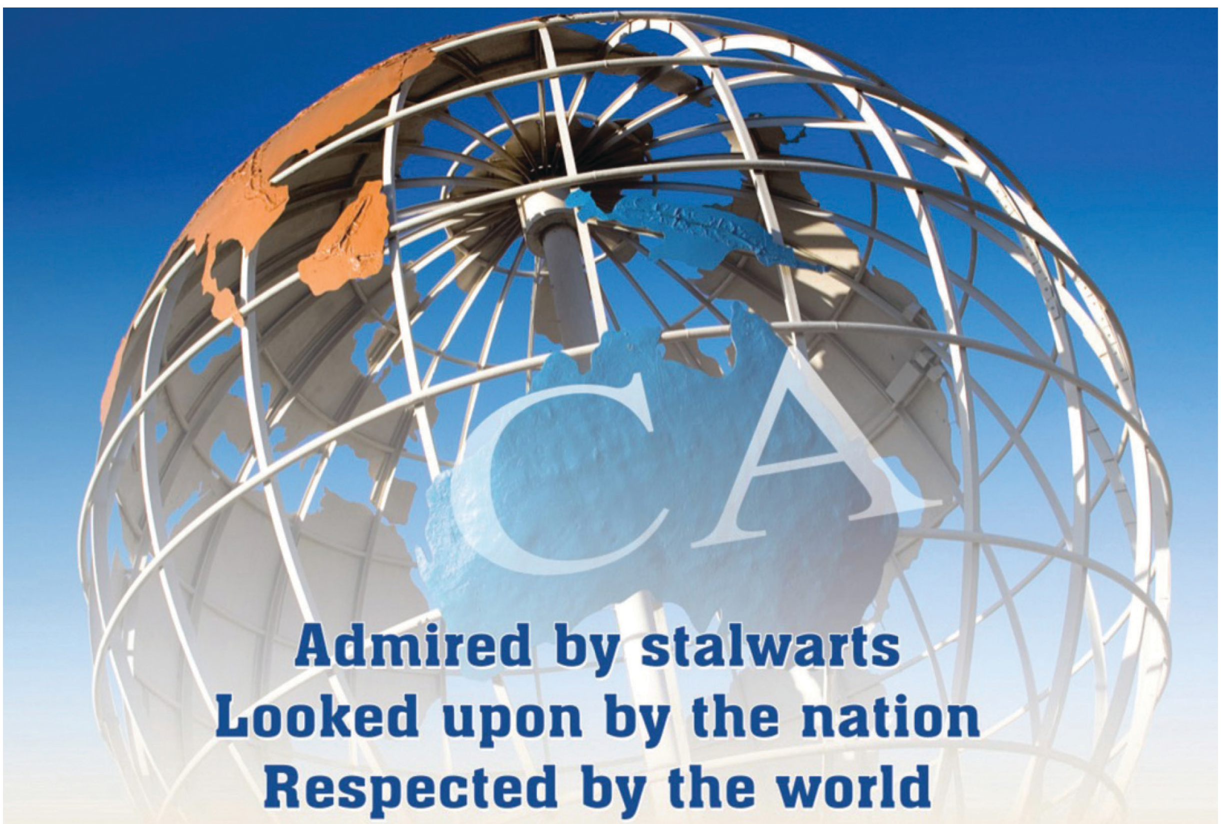
[15] *Report of the Committee on Business Responsibility Reporting, Ministry of Corporate Affairs, 2020, https://ies.gov.in/pdfs/Report-Committee-BRR.pdf*

[16] *SEBI Circular on BRSR, https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html*

yet globally relevant platform for meaningfully engaging with stakeholders on emerging priority topics. Companies responding to overseas investors, analysts or customers are likely to find it easier to dovetail BRSR reporting with other frameworks, thereby reducing duplication of effort in data management and report preparation. For others, BRSR will be a useful stepping-stone to begin their journey of non-financial reporting. Whereas the top 1000 listed entities are expected to find it easier to comply with the new reporting format within a shorter-term, efforts to appropriately hand-hold and build capabilities for other entities, including smaller, unlisted companies and SMEs, will be crucial for its broader acceptance and use in true letter and spirit. Companies will need to focus on strengthening internal processes that underpin accurate and high-quality reporting, including data management systems and robust internal controls, similar to those in financial reporting.

The investor community and other users of corporate information are expected to find the future BRSR reports relevant to national and global priorities on which they wish to assess company performance. BRSR will provide them with concise, comparable data across topics ranging from climate change and supply chain sustainability to human rights and workforce diversity. The breadth of the nine principles of NGRBC will also ensure that the BRSR reporting remains relevant and useful for other stakeholder groups including civic society organizations, local communities and regulators.

Specifically for the accountancy profession, BRSR presents an exciting new opportunity to widen the horizons beyond its traditional role. It will encourage them to assess company performance on triple bottom line and ESG issues, understand the different forms of “values’ that a company creates for its stakeholders, and open a window for future accounting of impacts and outcomes across various non-financial facets of business responsibility and sustainability. Accountants are also well placed to support companies in strengthening the data management systems and enhancing the quality and accuracy of BRSR reporting. ■■■



Building Sustainability Reporting Maturity – SRMM Version 1.0

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Disclosure of non-financial information provides an opportunity for businesses to improve their communication with regulators, employees and other stakeholders by integrating financial and non-financial drivers of value creation into a sustainable business model. Despite the existence of mandatory as well as voluntary disclosures vis-a-vis sustainability reporting, sustainability reporting is an evolving area for businesses. Very few businesses could be seen at higher levels of sustainability reporting maturity where there is a clear focus on Environment, Social and Governance (ESG) issues. It is rightly said that moving towards higher levels of maturity or entering the domain of sustainability reporting needs not only the vision and motivation towards the same but also a model that would facilitate it. Sustainability Reporting Maturity Model (SRMM) Version 1.0 is intended to help businesses assess their current capabilities and conceptualize their progress towards an ideal state of sustainability reporting maturity by providing a score to sustainability disclosures. Read on…

Introduction

The triple bottom line framework to the concept of sustainability has gained momentum in terms of increased business sense and encompasses the need for businesses to achieve a balance among its economic, environmental and social bottom lines. Global critical issues such as climate change, gender diversity, energy management, water scarcity, and greenhouse gas emissions, among others, stress the fact that sustainability will continue to be a priority for the foreseeable future. Leading global investment entities investing capital on behalf of pension funds, large institutions and individuals increasingly ask businesses about their environmental and social impact and push for more comprehensive and uniform reporting on sustainability efforts, pushing major global businesses to make significant investments in their ESG initiatives. This has led an increasing number of businesses to not only integrate sustainability into their business, operational, and developmental activities but also advance for consistent measurement and reporting of their sustainability related attributes. Organisations are required to provide commentary on how their operations/ activities are directed towards being more sustainable and resilient. Such disclosures come under the ambit of Sustainability Reporting and are included in Annual Reports or as separate Sustainability Reports.

Sustainability reporting is the systematic presentation of sustainability data/ information so that the present data can be compared with the past and used for measuring progress vis-a-vis selected targets. It has become an important strategic tool for businesses with various internal and external motivations. The internal motivations include—access to better information, improved risk management and performance as well as savings of resources and money. The external motivations include—long-term value creation as well as improved stakeholder communication, accountability and transparency.

Sustainability reporting involves the disclosure of information across various ESG parameters for stakeholders of varied concerns/ interests. Sustainability information can be both quantitative, such as tons (or units) of greenhouse gas, or qualitative, such as governance processes, the reputation of an organisation or the organisation's impact on the state of biodiversity. This is where the task of report preparers becomes important and challenging. Challenges faced by preparers of sustainability reports include:

1. Increased expectations for the level of detail and sophistication to be provided in the business communications on a wide range of sustainability topics —everything from climate change to human rights, and privacy to labour standards.
2. Difficulties of estimation and projections to capture the data around the entity's environmental and social performance/ impact.
3. The usage of the term "materiality" in the context of sustainability reporting and identification of issues relevant to stakeholders beyond investors.
4. Availability of limited assurance frameworks and the challenge of applying the frameworks/ standards of assurance and reporting.
5. Lastly, lack of organisational skills to provide a summary of the business rationale for reporting and internal education on the value of given frameworks/ standards of reporting. These challenges at times result in reactive and tactical, rather than strategic, approaches to sustainability reporting.

Background

In the last three decades, Sustainability Reporting has evolved from the production of environmental reports to broader reports that also cover social issues. At the same time, different reporting frameworks from different regulators/ initiators have emerged which call for mandatory or voluntary disclosures. Such disclosure requirements keep pace with the increasing investor focus on sustainable investing as well growing demands from other stakeholders. In response to the understanding of the increasing importance of ESG issues, there has been a significant increase in the number of companies reporting on sustainability. A 2020 study by the World Business Council for Sustainable Development (WBCSD) indicated that sustainability reporting is improving with 78% of companies improving their overall scores and 26% improving their materiality score.

India is increasingly seeking businesses to be responsible and sustainable towards their environment and society with increasing regulatory oversight and progressive market reforms. Regulators have focused on making business disclosures comprehensive and going beyond financial disclosures in the past few years. The market regulator, the Securities and Exchange Board of India (SEBI) mandated the top 100 listed entities by market capitalisation to file Business Responsibility Reports (BRR) as part of their annual report, as per the disclosure requirement emanating from the "National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business" (NVGs) in 2012. The requirement for filing BRRs was later progressively extended to the top 500 listed entities by market capitalisation in 2015 and the top 1000 listed entities in 2019. As a market-driven approach, integrated reporting has gained momentum after SEBI soft law passed in 2017 on voluntary adoption of Integrated Reporting by top 500 listed companies. In March 2019, the NVGs were revised and released as the National Guidelines on

Responsible Business Conduct (NGRBCs). Later, in 2020 the Committee on Business Responsibility Reporting of the Ministry of Corporate Affairs recommended that the Business Responsibility Report may be called the Business Responsibility and Sustainability Report (BRSR) to better reflect the scope of the reporting requirements. Recently, in May 2021, SEBI mandated the filing of BRSR for the top 1000 listed companies (by market capitalization) as per the prescribed formats and BRSR shall replace the existing BRR with effect from the financial year 2022-2023. However, filing of BRSR stands voluntary for the financial year 2021-22.

Sustainability measurement is prospective, positive and credible assessment which correlates with all components that matter in the organisation. The top management or Board vouches a solid business case for pursuing a sustainability strategy. Boards aim to meet their obligations over sustainability and equally see pressure coming from outside the boardroom, with business leaders feeling that stakeholders are driving sustainability activity and policies. Business leaders rank sustainability second only to financial results in terms of the top issues. There is an equally strong belief that the sustainability principles and intentions of their organisations are delivered by effective business policies and objectives. Boards can manage sustainability in several different ways, and there no hard and fast rule over the right ways to do it as long as it is managed. The Board is well positioned to steer the sustainability agenda by structuring a strategy and a roadmap covering all the organisations resources.

Every organisation will have a unique way of crafting ESG issues and value creation at the centre of business decision making. The Board needs to ensure that there are no disconnects between what they believe is happening, and what the reality is. They need to have a clear understanding of why sustainability is a key boardroom issue—is it an end in itself or does it form part of a wider, integrated business strategy? They need to be able to measure progress on their sustainability journey.

In the nutshell, sustainability is a very broad subject area that encompasses many diverse issues. Businesses must adopt a framework or model for sustainability reporting maturity that allows them to identify the actions required to meet the sustainability related needs of customers, employees, and other stakeholders.

The Maturity Model

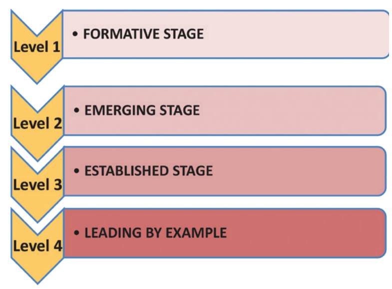
Maturity models are the description of the development of specific capabilities within an organisation over time. Maturity models for a particular capability are built on empirical data derived by studying information of various companies that display varying levels of the capability of interest. Most frameworks for maturity models include four or five levels of maturity, with each level representing a greater degree of competency in the capability than the previous one. All the levels are labelled and refer to a set of behaviours, processes, tools, and outcomes that an organisation at that particular level of competency should demonstrate.

"Sustainability Reporting Maturity Model (SRMM) Version 1.0" is an innovative solution for Indian corporates to individually assess its position vis–a-vis various sustainability reporting maturity levels and achieve its vision of sustainable business. The robust, practical, value adding self-assessment tool is based on Business Responsibility and Sustainability Reporting (BRSR) formats issued by the Committee on Business Responsibility Reporting of the Ministry of Corporate Affairs. With effect from the financial year 2022-2023, filing of BRSR is mandatory for the top 1000 listed companies (by market capitalization) as per the formats prescribed by SEBI and BRSR shall replace the existing BRR. For the financial year 2021-22, filing of BRSR is voluntary.

Presently, the non-existence of a comprehensive scoring tool limits Indian companies from aligning their BRR/ BRSR with the standardized international scale. The rating agencies and assurance providers are thus unable to compare the sustainable nature of the Indian companies with other international companies. SRMM based on BRSR Scoring provides a quantitative score to the sustainability measurement by converting qualitative information to a measurable and machine-readable quantitative data. The tool would also act as a basis for providing a "comparability index".

SRMM would also be used to deploy an evolutionary path to help organisations increase the capability of their processes through four consecutive stages or maturity levels. The model offers the possibility for each corporate complying with BRSR to individually assess its position vis-a-vis various sustainability reporting maturity levels and achieve its vision of sustainable business. In other words, the model will help companies identify where their capabilities lie on a maturity continuum. Corporates can self- evaluate their current level of maturity on the SRMM, identify areas where more focus is required, and then develop a road map for upgrading to a higher level of maturity. This would include formulation of strategies for internal controls and data collection to the progress towards achievement of sustainable goals and thereby moving to a higher level of sustainable reporting.

The maturity continuum is associated with four discrete levels of sustainability reporting maturity to becoming a sustainable and responsible enterprise. Each maturity level portrays the present level of sustainability reporting and where a new cycle of reporting starts towards a higher level of sustainability reporting. The four levels of maturity of sustainability reporting are –



SUSTAINABILITY REPORTING MATURITY LEVELS

Level	Level 1	Level 2	Level 3	Level 4
Stage	**Formative Stage**	**Emerging Stage**	**Established Stage**	**Leading by Example**
BRSR Score (Percentage of Grand Total Score)	Up to 25%	> 25% and Up to 50%	> 50% and Up to 75%	> 75%
Explanation	The organisations are at the initial level of reporting and are in the process of identifying the need and responsibility of BRSR.	The organisations realize the value of BRSR and responds to it by setting up robust mechanism for reporting, etc.	The organisations have established formal functions/ policies/ systems for BRSR.	The organisations strive for more than compliance and work towards being a market leader.

The total score is 300 with leadership indicators given prominence by allocating a total score of 75 for encouraging companies to target achievement of the same. The balance score of 225 belongs to disclosures as per Section A, Section B and essential indicators of Section C of the BRSR Comprehensive Format.

The levels are defined based on the BRSR score obtained by a corporate in a financial year as per the BRSR scoring mechanism.

The calculation of BRSR score is percentage of Grand Total Score. In other words, the total score obtained by the entity from Section A, Section B and Section C, shall be the numerator and total score of 300 shall be the denominator to calculate BRSR Score. The percentage obtained should be considered for assessing the maturity level of the corporate for the particular year.

Since BRSR formats are generic which applies to all businesses across sectors, there may be some disclosure requirements that may not be applicable to a particular entity. Thus, it is suggested that in case of non-applicability of certain disclosure requirement(s) to a particular entity, the entity shall ignore that respective requirement(s) and deduct its respective score from the grand total score. Accordingly, the grand total score should be calculated considering only the applicable disclosure requirements to a particular entity.

The below table provides details of the same -

Section Wise BRSR Scoring	Essential Indicators Score	Leadership Indicators Score	Score
Section A: General Disclosures			37
Section B: Management and Process Disclosures			20
Section C: Principle Wise Performance Disclosure	168	75	243
Total			**300**

Section C: Principle Wise Performance Disclosure	Essential Indicators Score	Leadership Indicators Score	Total
PRINCIPLE 1 Businesses should conduct and govern themselves with integrity in a manner that is Ethical, Transparent and Accountable	18	7	25
PRINCIPLE 2 Businesses should provide goods and services in a manner that is sustainable and safe	22	13	35
PRINCIPLE 3 Businesses should respect and promote the well-being of all employees, including those in their value chains	30	10	40
PRINCIPLE 4: Businesses should respect the interests and be responsive to all its stakeholders	4	5	9
PRINCIPLE 5: Businesses should respect and promote human rights	11	4	15
PRINCIPLE 6: Businesses should respect and make efforts to protect and restore the environment	40	19	59
PRINCIPLE 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent	2	4	6
PRINCIPLE 8: Businesses should promote inclusive growth and equitable development	16	7	23
PRINCIPLE 9: Businesses should engage with and provide value to their consumers in a responsible manner	25	6	31
Total	**168**	**75**	**243**

The model fits well within the corporate reporting framework and is helpful and useful for all stakeholders in identifying the exact maturity level related to the sustainability of an organisation. The organisations would not only know the present maturity level of their sustainability reporting but would also be able to identify and bridge their planning and operational gaps. The regulators and other related organisations can identify organisations that require improvement in sustainability reporting and measurement. Based on the model, investors will also be able to make appropriate decisions toward their current investments and potential future investments by identifying the maturity level of sustainability, as their decisions can be impacted by the level of maturity, for instance, investors can be eager to invest in companies which are more mature in terms of sustainability reporting instead of those which are immature. Last but not the least, the model obliges management to be proactive in implementing ESG focussed decisions as well as showcasing the stakeholder's improvement in their overall score over a period. SRMM Version 1.0 is the beginning of a more effective sustainability reporting.

Further versions would be developed based on feedbacks received and issues identified in implementation of the same.

The BRSR Scoring and SRMM are critical to the survival and resilience of businesses. The non-financial information disclosed in the BRSR provides valuable material information for business decision-making, action-planning and innovation along with information on initiatives, actions and outcomes towards achievement of SDGs. Likewise, BRSR disclosures provide a review against the SDGs of an organisation's current policies and practices, overall governance structure, initiatives, and gaps in relation to environment and social parameters, such as—health and safety, human rights, stakeholder engagement, sustainable and safe goods and services, to name a few. The BRSR formats are aligned to the broader context of the SDGs so that businesses may also be able to demonstrate their performance on SDG targets. The NGRBC-BRSR formats put together all relevant information on sustainability emanating from the NGRBCs and further depend on the principles of SDGs and UNGPs.

The nine principles of NGRBC-BRSR framework are mapped with 17 SDGs as under –

NGRBC Principle	Sustainable Development Goals (SDGs) which can be mapped
1	SDG 16, SDG 17
2	SDG 2, SDG 6, SDG 7, SDG 8, SDG 9, SDG 10, SDG 12, SDG 13, SDG 14, SDG 15
3	SDG 1, SDG 3, SDG 4, SDG 5, SDG 8, SDG 11, SDG 16
4	SDG 1, SDG 5, SDG 11, SDG 16
5	SDG 5, SDG 8, SDG 16
6	SDG 2, SDG 3, SDG 6, SDG 7, SDG 9, SDG 10, SDG 12, SDG 13, SDG 14, SDG 15
7	SDG 2, SDG 7, SDG 9, SDG 10, SDG 11, SDG 13, SDG 14, SDG 15, SDG 17
8	SDG 1, SDG 2, SDG 3, SDG 4, SDG 5, SDG 6, SDG 8, SDG 11, SDG 13, SDG 14, SDG 15, SDG 16, SDG 17
9	SDG 2, SDG 4, SDG 12, SDG 14, SDG 15

The 2030 Global Agenda of Sustainable Development comprising of 17 SDGs would be broad and ambitious for all businesses to contribute. Organisations should consider how their activities are making a material contribution to (or conversely a negative impact on) achieving the SDGs. Regardless to say, by contributing to just one SDG, other SDGs may be strengthened by default. For example, significant progress on SDG 1 - Poverty would bring progress on SDG 8 - Decent work and Economic growth (Goal 8) and SDG 12 - Responsible consumption and production.

Role of Chartered Accountants

In the present dynamic environment where businesses need to extend the boundaries of responsible business conduct, the accountancy profession needs to respond to the growing and enhanced interest in sustainability and call for the contribution of organisations towards sustainable development. ICAI is emerging as a global leader in the domain of sustainability and working on creating a global network of partnership and linkages with the best of related institutions and organisations on issues related to Sustainability Practices and Disclosures and to propagate the use of Sustainability Reporting Requirements and Assurance Standards both for general purpose reporting and/or specifically for a regulatory requirement. Sustainability Reporting Standards Board (SRSB) of ICAI is undertaking several initiatives to strengthen the sustainability reporting ecosystem in the country, build capacity of chartered accountants and creating awareness of stakeholders towards the environmental and social issues through certificate courses for members, webinars for stakeholders, launching sustainability literacy drive, to name a few.

The Government of India has permitted audit firms to transform themselves into multidisciplinary partnerships (MDPs). Thus, Chartered Accountant firms can now tie-up with company secretaries, actuaries, cost accountants, engineers, lawyers and architects to offer a whole bouquet of services. Chartered Accountants can play a key role as internal accountants/ auditors as well as external auditors in the sustainability domain. The small and medium firms can scale up and offer a variety of services under one roof while building capacity in the industry. In this regard, accountants need to gain working knowledge of performance measurement and reporting vis-a-vis specific areas such as greenhouse gas emissions applicable to the businesses with which they are involved. However, they may refer to other area specific experts, where necessary. Many Chartered Accountants have up-skilled and specialised in the sustainability domain, for example in green audit, environment audit, CSR audit and the like.

An illustrative list of ways that are directly relevant to the role of chartered accountants as internal accountants/ auditors and external auditors is as under -

For internal accountants/ auditors

- Support in collecting and interpreting information, monitoring, and controlling market activities.
- Push and assist organisations increasingly towards assessing their sustainability reporting maturity levels via SRMM.
- Assist in designing and monitoring of policies that address sustainability issues, such as purchasing policies.
- Support the stakeholder engagement process with accessible and reliable information.
- Identify disclosure standards / framework appropriate to the business and integrate the same with the existing management information system.
- Support benchmarking by providing relevant, material and reliable sustainability information in an coherent and transparent manner.

For external auditors

- Review the application and results of the stakeholder engagement process.
- Review the related operating controls for compliance with mandatory / voluntary code(s) adopted.
- Support benchmarking of sustainability disclosures by providing credibility of information via assurance reports.

To conclude, participation in policy formulation and education of stakeholders will bring about the real required changes for business transformations towards sustainability. Businesses need to recognise the impact of their activities on business value and sustainability with the support of accountants/auditors with progressive importance on the valid concerns of multiple stakeholder groups.

References

- Report of the Committee on Business Responsibility Reporting, Ministry of Corporate Affairs. Available at: http://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf
- SEBI Circular “Business responsibility and sustainability reporting by listed entities”, No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562 Dated May 10, 2021 Available at: https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html
- Sustainability Reporting Maturity Model (SRMM) Version 1.0 is available on ICAI website at https://resource.cdn.icai.org/63191srsb51141.pdf

Sustainability & ESG: The Next Frontier of Board Room Action

The coronavirus pandemic has highlighted the importance of financial market risks that arise in the changing landscape including ESG expectations from various stakeholders. The COVID-19 crisis has brought sustainability and ESG focus to the center stage in board room discussions. There are stakeholders across the globe to pushing to move from measuring quarterly financial performance to long term value creation. As ESG moves from 'good-to-have' territory to becoming core of corporate thinking – the board of the company has got into the driver's seat to guide the organization on the ESG mandate as well deliver results. Read on...

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Looking at recent trends, ESG regulations and expectations are bound to rise. as is The interest of stakeholders like customers, investors, value chain partners, employees, civil organizations, regulators, and the media have in ESG policies & practices that have a positive impact on the society.

1.0 Which way is the wind blowing?

There are several countries and supervisory authorities in the financial ecosystem that have enhanced focus on climate risk disclosures, and this will only intensify transparency around climate in the buildup to the United Nations Climate Change Conference, or COP26, taking place in Glasgow in November, 2021.

Similarly, several international and regional policy and regulatory initiatives have also taken the same path. The IFRS Foundation's proposals around sustainability reporting demonstrates an important international attempt to build further transparency and coherency around disclosures. The Network for Greening the Financial System is coordinating best practices in the domain of financial supervision of climate-related risks. There is a new sustainability disclosure requirement for market participants in the EU under the Sustainability Disclosures

Regulation[1] and the Taxonomy have created new drivers for better ESG information and data. The UK also has announced that it will make TCFD reporting mandatory.

The response to ESG has not been limited to regulators and governments. It had been kick-started by the leaders from large investors, asset management companies and corporates. The world's biggest asset management companies are taking a proactive stance on issues across the ESG spectrum, and that will continue to propel discussions around high quality disclosure and data. In his annual letter released early this year, BlackRock's Larry Fink urged companies to disclose how they are preparing for a "net zero world" where net greenhouse gas emissions are eliminated by 2050. The pressure is not only from investors but from other stakeholders as well. One such example has been State Street announcement that it will start voting against the boards of companies that underperform their peers when it comes to ESG standards.

The story is no different when we look at evolution of the ESG landscape in our backyard. The Indian journey on ESG started way back from 2007 and there have been developments like the MCA CSR guidelines, National Voluntary Guidelines (NVGs), SEBI's Green Bonds guidelines and the very recent Stewardship code and Business Responsibility and Sustainability Reporting (BRSR). These developments have influenced the evolution of disclosures and ESG reporting in India. There are various other framework like Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), SASB and CDP which Indian companies have adopted.

2.0 What is ESG?

ESG is on the radar of several investors today. Focusing on ESG issues can bring out risk and opportunities for the company's ability for sustainable value creation. The key environmental aspects under consideration are climate change and natural resource scarcity. It covers social issues like diversity and inclusivity, labor practices, health & safety, and cyber security. There is greater emphasis on governance aspect covering topics like board diversity and independence, executive pay, and tax transparency.

2.1 Key trends in ESG

There has been tremendous momentum in the whole ESG game plan and the summary of key developments are captured as below:

- *Investment pace in ESG funds:* ESG funds tapped in excess of $ 50 billion in 2020 and total assets with ESG focus crossed more than $35 trillion in the same period.[2]
- *Green bonds have been of significant focus:* The green bonds market in 2020 crossed a major milestone of $ 1 trillion dollars.
- *Sustainability taxonomy on the rise:* Key regions have already defined sustainability taxonomy for e.g. European Union (EU). Several other countries / region are in process of introducing taxonomy related to sustainability / ESG.
- *Up next - Convergence of ESG framework:* IFRS launched an important work to develop single global reporting standard on ESG.

		
Environmental	**Social**	**Governance**
Climate change	Employee development	Board Independence
Water	Diversity & inclusion	Board diversity
Waste generation	Community development	Anti-Corruption & Bribery
Emissions	Health & Safety	Tax transparency
Biodiversity	Customer	Ethical conduct

[1] *https://gresb.com/eu-regulatory-environment-changes-sfdr-eu-taxonomy/*

[2] *Source: Crisil ESG Compendium*

2.2 What do different global frameworks talk about the role of Board on ESG oversight?

There are several global sustainability and ESG framework followed by companies, and each of these frameworks have a component of governance focus on sustainability and ESG. The three major standards i.e., GRI, TCFD and CDP have a high level of focus on board oversight on ESG and sustainability issues. A summary of the framework's expectation of the Board's oversight on ESG topics has been presented in the table below:

Global Reporting Initiative (GRI)[3]	Task Force for Climate related Financial Disclosure (TCFD)[4]	Carbon Disclosure Project (CDP)[5]
Under the General Disclosure 102, GRI has requirements of oversight of Board on economic, environmental and social topics GRI Standard – 102-18	The Task Force's recommendations are structured around four thematic areas that are core elements of how organizations operate—**governance**, strategy, risk management, and metrics and targets. Under the governance the expectation is to "Disclose the organization's governance around climate related risks and opportunities." The specific recommendation to be included in financial disclosure is: a) Describe the board's oversight of climate-related risks and opportunities.	CDP is a not-for-profit that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Companies are reporting to various CDP disclosures and the key one is the climate disclosure. The CDP framework tries to measure the involvement and oversight of the highest governance body on climate change issues impacting the business. The specific question in the CDP questionnaire is shown below: *C1.1b) Provide further details on the board's oversight of climate-related issues*

3.0 Board – the role of custodian

The Board of Directors represent the best interests of stakeholders. As custodians, board directors are also usually involved with building brand recognition. As administrators of risk and stewards of long-term value creation, directors on Board have a vital oversight role in evaluating the company's environmental and social impacts. Looking at these factors and stakeholder interest, boards are reimagining and enhancing their ESG positions. The trend that was in few geographies and sectors has become mainstream now. The same trend has been observed in India where the expectations on ESG performance has become prominent, and one can

[3] *https://www.globalreporting.org/standards/*
[4] *https://www.fsb-tcfd.org/*
[5] *https://www.cdp.net/en*

foresee the role of Board as core influencer to make this transition. The recent introduction of the Stewardship code[6] and BRSR[7] by SEBI signals how important the role of the Board has become.

3.1 Board's first flight of ESG journey

The Board of Directors recognizes the need to narrow down objectives the company stands for maximizing shareholder value, which may prepare the company towards targeting ESG goals and in turn, create value for stakeholders.

The mix of right policies, process and disclosure standards / framework can set the tone for the company in the ESG journey, and the board should guide the management to adopt these requirements. Directors should emphasize that a well-articulated organizational purpose has the power to rally employees, and a company's social and environmental contributions can help create a compelling employee value proposition. The Board would also get signals from consumer behavior and they could design the strategy to bring change in buying trends with a shift towards companies and brand those to contribute positively to the society. The key initiatives the board could take are:

Activate Board level committee on ESG: There are several Board level committees that could play a pivotal role in mainstreaming ESG agenda under the guidance of the full Board.

Adopt charters: There are several important charters which the company may adopt to set their course in fast tracking their response to ESG management. For e.g. TERI - Industry Charter for Near Net Zero Emission Ambition by 2050, Business ambition for 1.5 °C by SBTi etc.

Assigning Responsibility
Consider assigning responsibility for your ESG program to one person: CFO, head of investor relations, Chief Sustainability Officer or Chief ESG Officer.

Awareness / capacity building
Managing ESG issues requires change in outlook, where one needs to consider the impact on the environment and society along with profit maximization. This may require awareness building at all levels including board members, executive committee, senior management and across the organization.

3.2 Sustainable value creation: Board agenda

Directors on board of the company admit that along with building a profitable business, sustainable value creation as well as balancing the interest of all stakeholders is going to be key, going forward. The company's board that can generate value with a clear focus on ESG performance would be protecting the interest of every stakeholder group.

The ESG performance and linked ratings have begun to play an influencing role for companies going to market to raise funds for future growth. The high ESG focus from investors, lenders and financial institution in the recent times has reached the tipping point and have started to impact the financing options for companies. Companies with high ESG focus stand to get benefits in the form of preferential / lower cost of debt or access to specialized financial products like the Green, Social and Sustainability linked Bonds.

Traditional belief was that ESG was 'good to have' in the area of business ethics, sustainability, diversity and community. However with the heightened interests from different stakeholders groups, directors realise that it is now moving into the 'must-to-have' territory. The business case for ESG generally begins with operational efficiency and risk reduction as primary goals and then extends to longer-term operational and organizational resiliency and sustainability. Boards recognize the strong and direct link to build a profitable business with a strong focus on environmental and social considerations. They also know that focus on E&S issues requires robust governance practices which will fortify their company's portfolio as a strong contender with investors and shareholders.

3.3 Board oversight and investors' expectations

Investors continue to expect increasing transparency from boards in how they oversee particular topics. ESG oversight is no exception. Boards can find different ways to provide shareholders with the information they look for.

- Comprehensive disclosure in the proxy statement describing the board's oversight efforts.
- Updates to board committee charters to address committee oversight responsibilities related to ESG.
- More information about directors' skills that enhance

[6] https://www.sebi.gov.in/legal/circulars/dec-2019/stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-in-relation-to-their-investment-in-listed-equities_45451.html

[7] https://www.sebi.gov.in/media/press-releases/may-2021/sebi-issues-circular-on-business-responsibility-and-sustainability-reporting-by-listed-entities-_50097.html

their contribution to ESG oversight efforts.

4.0 Mainstreaming ESG into the Board committees

With respect to ESG oversight matters, boards may choose to take on additional responsibility at the board level or delegate this responsibility to a dedicated sustainability committee. In the restructuring process by the Board on ESG issues, it is critical that the arrangement is effective, comprehensive and adequately disclosed to its stakeholders. ESG should be part of a company's strategy, and boards should prioritize ESG policy, execution and disclosure. The board needs accurate resources to understand the ESG risks and opportunities to manage handling of these issues. The Board should assess the adequacy of its structure and oversight processes. Board must understand expectations from various stakeholders and expand the responsibilities of various Board level committees by asking relevant questions for these committees.

Oversight

- Business strategy: Are ESG risks and opportunities integral part of long-term business strategy? How does the organization measure and review its progress, goals, and target as part of the strategy?
- Business context: Does ESG sit at the core of the company's purpose and stakeholder interests?
- Risk management: What is the process of identification of ESG/sustainability issues and integration of these issues into the enterprise risk management framework? How does the board assess the enterprise risk management (ERM) process and its effectiveness?
- Reporting: What is the best approach and communication channel for making disclosures on ESG?

Audit Committee

Oversight

- *Disclosures:* Do the ESG disclosures meet the investor grade for the company i.e., does the company meet investment criteria including ESG performance? Which ESG framework is appropriate for the business and sector?
- *Processes and controls:* ESG disclosures impacting the financial performance of the organization. Does the organization have effective processes and controls that ensures ESG disclosures are accurate, consistent and comparable?
- *Assurance:* Is there a need to conduct independent assurance of ESG disclosures?

Compensation Committee

Oversight

- Accountability: How do the ESG goals and targets reflect in executive compensation structure?
- Talent and culture: How well placed are the management in terms of people and processes to execute the ESG strategy? Does the company have a culture which embraces ESG efforts?

Nominating and governance committee

Oversight

- Engagement: Is the company's ESG strategy being effectively communicated to investors and other stakeholders?
- Board composition: Does the board have appropriate skills and expertise to oversee ESG risks and opportunities? Is the board is diverse enough to deal with ESG issues?
- Capacity building: What is the awareness level of the board about ESG importance to investors and stakeholders? Is the board appropriately equipped to deal with ESG issues?

5.0 Conclusion

Boards should be ready to engage on their ESG areas with priority on sustainability, climate change, biodiversity, diversity, and other social responsibility themes to gain momentum. Investors in particular, insist publicly listed companies to provide more meaningful and comparable ESG reporting metrics, starting with climate-change.

Stakeholders now assess how the company unlocks long term business value creation by using ESG at its core strategy. Companies will have to find the right approach to manage ESG depending on their sector, organizational maturity and stakeholder focus. There is no one-size-fits-all solution.

ESG will be an integral component of board governance, as opposed to a "good to have" topic to be covered annually, if at all. Ideally, ESG will be part of company strategy and integrated into the work of the board and its core committees.

Progressive companies value being a frontrunner on ESG issues because they see the connection to the company's long-term success. ■■■

ISRS 4400 (Revised), Agreed-Upon Procedures Engagements

In April 2020, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has issued the International Standard on Related Services (ISRS) 4400 (Revised), "Agreed-Upon Procedures Engagements". ISRS 4400 (Revised) will replace extant ISRS 4400, "Engagements to Perform Agreed-Upon Procedures regarding Financial Information" issued by IAASB. The main reason for revision of the standard is that extant ISRS 4400 was developed over 20 years ago and it has not kept pace with the significant changes that have occurred in the business environment driving the demand for agreed-upon procedures (AUP) engagements on both financial and non-financial subject matters. Read on…

ISRS 4400 (Revised) is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. For engagements covering multiple years, practitioners may wish to update the terms of engagement so that the AUP engagement will be conducted in accordance with ISRS 4400 (Revised).

Outcomes that ISRS 4400 (Revised) is seeking to achieve

- Respond to the needs of stakeholders-The scope of ISRS 4400 (Revised) has been broadened to meet the demand for AUP engagements on both financial and non-financial subject matters.
- New requirements and application material clarify the practitioner's responsibilities in relation to the various parties involved in an AUP engagement such as the engaging party, the intended users of the AUP report and the responsible party for the subject matter on which the AUP are performed.
- Provide clarity in the AUP report.
- Enhance consistency in the performance of AUP engagements- for example in relation to:
    - Exercising professional judgment in an AUP engagement.
    - Considering acceptance and continuance conditions.

Contributed by Secretariat, Auditing and Assurance Standards Board of ICAI.

> New requirements and application material clarify the practitioner's responsibilities in relation to the various parties involved in an AUP engagement.

- Using a practitioner's expert.
- Disclosure of compliance with independence requirements, as applicable.

Key Points of ISRS 4400 (Revised)

What are Agreed-upon procedures (AUP)?

"Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties)". In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.

What is an Agreed-upon procedures engagement?

In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed- upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

What are subject matters on which Agreed-upon procedures engagements are performed?

Agreed-upon procedures are performed on anything including information, documents, measurements or compliance with laws and regulations, as relevant. ISRS 4400 (Revised) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. Some examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:

- **Financial subject matters relating to:**
  - The entity's financial statements or specific classes of transactions, account balances or disclosures within the financial statements.
  - Eligibility of expenditures claimed from a funding program.
  - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
  - Capital adequacy ratios for regulatory authorities.
- **Non-financial subject matters relating to:**
  - Numbers of passengers reported to a civil aviation authority.
  - Observation of destruction of fake or defective goods reported to a regulatory authority.
  - Data generating processes for lottery draws reported to a regulatory authority.
  - Volume of greenhouse gas emissions reported to a regulatory authority.

> In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.

Significant differences between Extant ISRS 4400 *vis-a-vis* ISRS 4400 (Revised)

The significant differences between Extant ISRS 4400 vis-a-vis ISRS 4400 (Revised) are briefly discussed in the table given below:

S.No.	Topic	Extant ISRS 4400	ISRS 4400 (Revised)
1.	**Structure of Standard**	There is no bifurcation between Requirements & Application in extant ISRS 4400	It is drafted in clarity format, which contains Introduction, Objective, Definitions, Requirements and Application and Other Explanatory Material
2.	**Definitions**	Extant ISRS 4400 does not include definitions	ISRS 4400 (Revised) includes definitions of various terms used such as Agreed-upon procedures, Agreed-upon procedures engagement, Engagement partner, Engaging party, Engagement team, Findings, Intended users, Practitioner, Practitioner's expert, Professional judgment, Relevant ethical requirements, and Responsible party.
3.	**Professional Judgment**	Extant ISRS 4400 is silent on the aspect of Professional Judgment.	ISRS 4400 (Revised) has included new requirement for the practitioner to exercise professional judgment throughout the engagement, including in accepting, conducting and reporting on the AUP engagement, taking into account the circumstances of the engagement. Further, supporting application material is given to explain, and provide examples of, how professional judgment is exercised in an AUP engagement.
4.	**Disclosure of Independence**	Extant ISRS 4400 requires disclosure of Independence in the report of factual findings only when Auditor is not Independent.	ISRS 4400 (Revised) enhances transparency regarding the Practitioner's Independence.
5.	**Quality Control**	There is no linkage of Quality Control with AUP Engagements in extant ISRS 4400.	ISRS 4400 (Revised) has linked the AUP Engagements with Quality Control (i.e. ISQC 1)
6.	**Factual Findings**	The term 'factual findings' is used in extant ISRS 4400.	The term 'factual findings' has been replaced by the term 'findings,' which is defined as the factual results of agreed-upon procedures performed. In addition, findings are capable of being objectively verified, and exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make.

7.	**Practitioner's Expert**	Extant ISRS 4400 does not cover the aspect of Use of Practitioner's expert.	ISRS 4400 (Revised) prescribes requirements and application material dealing with the use of Practitioner's expert. However, paragraph 31 explicitly states that the wording of the report shall not imply that the practitioner's responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert.
8.	**AUP Report Restrictions**	Extant ISRS 4400 requires the practitioner to include a statement in the AUP report that the report is restricted to those parties that have agreed to the procedures to be performed.	ISRS 4400 (Revised) does not require the practitioner to include a statement in the AUP report that the report is restricted to those parties that have agreed to the procedures to be performed. Such a restriction is now based on the discretion of the practitioner. Further, new application material is given to guide the practitioner in deciding whether to restrict the use or distribution of the AUP report.
9.	**Undertaking an AUP Engagement together with Another Engagement**	Extant ISRS 4400 does not cover the aspect of undertaking an AUP engagement together with Another engagement	ISRS 4400 (Revised) has included new requirement and application material to address circumstances when the practitioner is undertaking an AUP engagement together with another engagement.
10.	**Clarity on Non-Financial Subject Matters**	In extant ISRS 4400, there is no explicit statement w.r.t. applicability /scope of the Standard on Non-Financial Information.	ISRS 4400 (Revised) clarifies that the scope includes both Financial and Non-Financial Subject Matters.
11.	**Written Representations**	Extant ISRS 4400 does not include requirement on written representations.	ISRS 4400 (Revised) includes requirement on written representations.
12.	**Documentation**	There is limited guidance on documentation in the Extant ISRS 4400	Detailed guidance has been given on documentation in ISRS 4400 (Revised).
13.	**Engagement Acceptance and Continuance**	Extant ISRS 4400 does not explicitly state requirements w.r.t. engagement acceptance and continuance	ISRS 4400 (Revised) provides detailed requirements w.r.t. engagement acceptance and continuance considerations, including: • Understanding the purpose of the engagement, and declining the engagement if the practitioner becomes aware of any facts or circumstances indicating that the procedures are inappropriate for the purpose of the engagement;

			• Only accepting or continuing the engagement when certain conditions are met; and • Communicating with the firm if information is obtained that would have caused the firm to decline the engagement had that information been available earlier, so that necessary action can be taken. • Further, supporting application material is given to support the new requirements, including: • Clarifying the specificity with which AUP and findings are described and describing which terms may or may not be appropriate in the context of a particular engagement; and • Highlighting that certain procedures may be prescribed by law or regulation– However, these will still be subject to the conditions of specificity referred to above.

References

- Extant ISRS 4400 issued by IAASB
- ISRS 4400(Revised) issued by IAASB
- Fact Sheet of ISRS 4400(Revised) issued by IAASB

Audit Quality Maturity Model – Version 1.0 (AQMM v1.0)

Audit Quality is a very important aspect of the Chartered Accountancy Profession. Today stakeholders have grown beyond shareholders and auditors need to do more in less time. The auditors need to use technologies like Robotic Process Automation and Data Analytics as force and speed multipliers. The expectation from auditors has increased manifold. They would need to upskill themselves and invest in their people. Likewise, there are a variety of factors that will contribute to the success of the auditor- independence of the auditor, ethics, knowledge, and experience of the staff being some factors that are directly proportional to audit quality. Communication is as important as reporting just as prevention is better than cure. Read on…

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The case for enhancement of audit quality

Audit documentation is extremely important as what is not documented is not considered done. In these times it becomes almost essential to have an audit documentation tool. Data Analytics also take centre stage as substantive analytical procedures provide the most appropriate audit evidence. Firms need to have these go-to-market tools with checklists.

Audit quality cannot be measured but a relative comparison between firms can be done

Audit quality is a complex subject and no analysis of it has achieved universal recognition. At a macro level, all this can be achieved when there is awareness about audit quality, key stakeholders are encouraged to explore ways to improve audit quality and greater dialogue is facilitated between the key stakeholders on audit quality. Audit quality cannot be measured and judging audit quality can be highly subjective. However a relative comparison is possible between two audit firms.

Even though the bird's eye view of an audit firm's overall audit quality is important, what is relevant is the worm's eye view of the quality of the engagement. The performance of each engagement adds to the overall audit quality and one audit gone wrong can undo all the good the firm has done over decades.

Our auditors are grappling with new accounting standards and auditing in special circumstances of the pandemic where the fraud triangle is certainly present. The uncertainties and judgment calls of the auditor pose big challenges for the auditor. Is the auditor ready enough to take on the projects that they have taken or would it be better than the

auditor had a self-assessment tool that would help it to check its audit quality and diagnose what remedial measured it needs to take? Such a model and Implementation Guide would work like mass education for the already literate chartered accountant.

Capacity Building measure initiated by the Centre for Audit Quality

The Centre for Audit Quality (CAQ) strives to provide an angular discussion on audit quality. To help bridge the expectation gap the CAQ launched a recommendatory Audit Quality Maturity Model -Version 1.0 (AQMM v1.0), which is a capacity-building measure. The objective of this Evaluation Matrix is for sole proprietors and Audit firms to be able to self-evaluate their current level of Audit Maturity, identify areas where competencies are good or lacking and then develop a road map for upgrading to a higher level of maturity.

> Today stakeholders have grown beyond shareholders and auditors need to do more in less time. The auditors need to use technologies like Robotic Process Automation and Data Analytics as force and speed multipliers.

Both the Peer Review Board and the Centre for Audit Quality (CAQ) have adopted a collaborative approach, with the CAQ having developed the quality standards and Peer Review Board testing the said standards when they become mandatory.

Using the above-mentioned collaborative approach, the AQMM v1.0 would be recommendatory initially and after 1 year the Council will review the date from which it would become mandatory.

Firms auditing the following entities are covered in AQMM v1.0:

(a) A listed entity; or

(b) Banks other than co-operative banks *(except multi-state co-operative banks)*; or

(c) Insurance Companies

However, firms doing only branch audits of the above-mentioned entities are not covered.

> Communication is as important as reporting just as prevention is better than cure.

The AQMM v1.0 is divided into three sections and a minimum scoring is required in ***each*** section to make it to a certain level of audit maturity.

Firm Maturity Rating

Section Reference	Total Possible Points
Section 1. Practice Management – Operation	280
Section 2. Human Resource Management	240
Section 3. Practice Management - Strategic/ Functional	80
Total	**600**

Basis:

Up to 25% in each section	Level 1 Firm	Indicates that the firm is very nascent -will have to take immediate steps to upgrade its competency or will be left lagging behind
Above 25% to 50% in each section	Level 2 Firm	Indicates firm has made some progress -will have to fine-tune further to reach the next level of competency
Above 50% to 75% in each section	Level 3 Firm	Indicates firm has made substantial progress -will have to fine-tune further to reach the highest level of competency
Above 75% in each section	Level 4 firm	Indicates firms that have made significant adoption of standards and procedures - Should focus on optimising further

Section 1 - Practice Management - Operation

Evaluation Criteria	Max Scores
1.1 Practice Areas of the Firm	12
1.2 Work Flow - Practice Manuals	16
1.3 Quality Review Manuals or Audit Tool	24
1.4 Service Delivery - Effort monitoring	36
1.5 Quality Control for engagements	80
1.6 Benchmarking of Service delivery	16
1.7 Client Sensitisation	16
1.8 Technology Adoption	64
1.9 Revenue, Budgeting & Pricing	16
Total of Section 1.	**280**

Section 2 – Human Resource Management

Evaluation Criteria	Max Scores
2.1 Resource Planning & Monitoring as per the firm's policy	28
2.2 Employee Training & Development	44
2.3 Resources Turnover & Compensation Management	104
2.4 Qualification Skill Set of employees and use of experts	32
2.5 Performance evaluation measures carried out by the firm (KPI's)	32
Total of Section 2.	**240**

Section 3 - Practice Management- Strategic/ Functional

Evaluation Criteria	Max Scores
3.1. Practice Management	20
3.2. Infrastructure – Physical & Others	48
3.3. Practice Credentials	12
Total of Section 3.	**80**

High scores are awarded for Quality control and Technology adoption in section 1, Resources turnover and compensation management in section 2, and Infrastructure (Physical & Others) in section 3.

The Implementation Guide for the AQMM v1.0 shall follow soon and shall appropriately and effectively guide the users about the relevant tools and techniques to be utilized along with their respective significance, mechanism, and utility.

Availability and use of standard formats of documentation

The Yes/No criteria in many instances talk of 'availability' and 'use' of standard formats of checklists and engagement documentation. The firm should

> Audit documentation is extremely important as what is not documented is not considered done.

allocate 25% of the respective allocated score to the presence of the document format and 75% of the respective allocated score should be for actual implementation and use of the standard formats of documentation/policies.

Audit tools

The recent advances in technology have significantly changed the way we audit these days. The Audit Documentation tool, Data Analytics tool, Digital Library and the Practice Management tool are the key essential audit tools needed by auditors today. These go-to-market tools provide a one-stop solution to all the audit documentation and monitoring requirements of the firm. The audit documentation tool should include audit and accounting standard checklists.

Technology Adoption

The one thing that all successful firms have in common is technology. Technology in today's scenario has become the backbone of every industry, be it manufacturing or service industry. Not just for survival but an organization uses technology to have a competitive advantage over its peers. The AQMM v1.0 provides a list of to-dos that the organization must maintain as these practices at the office will lead to the smooth and enhanced functioning of the organization. Scoring is based on the presence of items mentioned in the checklist in a binary Yes/ No pattern.

> Audit quality cannot be measured and judging audit quality can be highly subjective. However a relative comparison is possible between two audit firms.

Technology adoption in service delivery like the use of audit tools, analytical tools and Digital Competency Maturity Model (DCMM) Version 2.0 attracts points. The DCMM Version 2.0 may be referred to arrive at the technical maturity of the firm.

Human Resources

This model recognizes the importance of human capital, the most crucial resource for the firms, and will help to strengthen its operations. Firms having a revolving door with high staff turnover will attract lower scores.

Employee training and development and use of experts

The AQMM v1.0 pegs training hours at 60 for junior level, 30-60 for mid-level, and more than 30 for partners. All partners need to comply with the CPE requirements of ICAI. If the firm does not have the qualified resources, then the services of an expert should be taken.

> The Audit Documentation tool, Data Analytics tool, Digital Library and the Practice Management tool are the key essential audit tools needed by auditors today. These go-to-market tools will provide a one-stop solution to all the audit documentation and monitoring requirements of the firm.

Negative scoring

The firm will attract negative scoring in case advisory has been issued by a government/ ICAI, debarment/ blacklisting, or if there is a case of professional misconduct on the part of the member of the firm where he has been proven guilty. A firm will attract negative scoring only once for a particular incident.

A firm also attracts negative scoring when the statutory audit engagements are reworked after the auditor's report is signed. The same could result from filing errors, information insufficiency or wrong interpretation of provisions, etc. The audit team moonwalking at a client's place may lead to a disciplinary case and hence the firm needs to monitor the percentage of assignments re-worked.

"This model recognizes the importance of human capital, the most crucial resource for the firms, and will help to strengthen its operations.

The number of client disputes (other than fees disputes) and how they are addressed also attract negative scoring. Auditor-client disagreement is defined as disputes occurring between the client and audit firm involving accounting principles or practices, financial statement disclosure, or auditing scope or procedures. There is a significant positive relation between auditor resignation and auditor client disagreement. The results often suggest that auditor resignations are more often accompanied by auditor-client disagreement disclosure. The disagreements (other than fees disputes) affect the client retention decisions and result in loss due to audit failure. Relative to non-disagreeing clients, disagreeing clients are more likely to have earning manipulations and a higher risk of material misstatement. Thus, successor auditors are more likely to charge disagreement firms with higher audit fees. So, it is highly recommended to avoid disagreements and express opinion on the audit conducted by the firm.

AQMM v1.0 status should not be publicised

The AQMM v.1.0 status should however not be publicized or mentioned by sole proprietors and Audit firms on the public domain e.g. on professional documents, visiting cards, letterheads, or signboards, etc. as it may amount to solicitation in view of the provisions of Chartered Accountants Act, 1949. It should not be disclosed even on a website. It may, however, be made available to anyone on the specific pull basis i.e. where he wishes to see the said status, it may be provided to him.

Conclusion

The Audit Quality Indicators (AQIs) should raise more questions, bring about competition between audit firms and create market demand for audit quality. The AQMM not only helps firms arrive at their maturity level but also has a mechanism to help guide the members to specifically improve upon their audit quality.

"The firm will attract negative scoring in case advisory has been issued by a government/ ICAI, debarment/ blacklisting, or if there is a case of professional misconduct on the part of the member of the firm where he has been proven guilty.

"The Audit Quality Maturity Model – Version 1.0 (AQMM v1.0) is a cross-functional evaluation model for practicing firms covering engagement teams, firm leadership, IT helpdesks, human resources team, administration department, legal matters, and the management information systems of the firm.

The Audit Quality Maturity Model – Version 1.0 (AQMM v1.0) is a cross-functional evaluation model for practicing firms covering engagement teams, firm leadership, IT helpdesks, human resources team, administration department, legal matters, and the management information systems of the firm. It is a unifying force for having all hands on deck to help steer the firm from the brown waters of unplanned audits to the blue waters of being globally recognized for audit quality. ■■■

Whither Tax Audit and Presumptive Taxation

The Finance Act, 2021 increased the threshold limit for applicability of the provisions of section 44AB(a) of the Income Tax Act, 1961 from five crore rupees to ten crore rupees, w.e.f. 1-4-2021. The Memorandum accompanying the relevant Finance Bill, 2021 explained the purpose of the amendment as to incentivise non-cash transactions to promote digital economy and to further reduce compliance burden of small and medium enterprises. Notwithstanding what is stated in the Memorandum, the author feels that the above amendment is a part of a larger strategy to render the provisions of sections 44AB and 44AD of the Act futile in case of assessees having income from business. Moreover, a distinction is made between an assessee carrying on business and others. Read on...

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Tracing the history of the introduction of the provisions relating to compulsory audit and presumptive scheme of taxation contained in sections 44AB and 44AD of the Act, respectively, and certain recent amendments, it is opined that the scope and coverage of these two sections are being reduced in a phased manner. The assessees having income from business would no longer be able to claim profits lower than presumptive rate by getting their accounts audited and furnishing the audit report. The declared aims for introduction of these provisions would, thus, be negated.

Historical background

The Finance Act, 1984 had inserted section 44AB in the Income Tax Act, 1961 ("the Act") w.e.f. 1-4-1985 with the expectation, *inter alia,* that a proper audit for tax purposes would ensure that the books of accounts and other records are properly maintained, that they faithfully reflect the income of the taxpayer and claims for deduction are correctly made by him.

Overview of the presumptive scheme

The Finance Act, 1994 had inserted sections 44AD and

44AE in the Income Tax Act, 1961 ("the Act"). Section 44AD was inserted with a view to providing for a method of estimating income from the business of civil construction or supply of labour for civil construction work. Section 44AE was inserted with a view to providing for a method of estimating income from the business of plying, hiring, or leasing trucks owned by a taxpayer, not owning more than ten trucks. **The scheme, when introduced, was optional** and an assessee could claim that his income in respect of the abovementioned business was lower than the specified estimate of income, i.e., the presumptive rate. In such a case, he was subjected to compulsory scrutiny. But initially, he was not required to get his accounts audited. Later, the requirement of compulsory scrutiny was removed and in lieu thereof, the requirements of audit and furnishing of audit report were imposed.

Realising the benefit of the above-mentioned two presumptive provisions, following amendments were made by the Finance Act, 1997 to make the scheme more popular:

1. It removed the requirement of compulsory scrutiny.

2. It settled the controversy regarding allowability of deduction for salary and interest paid by a Firm to its partners in favour of the taxpayers; and

3. It introduced section 44AF in the Act providing similar benefits to retail traders.

The benefits of presumptive taxation scheme were further extended to all businesses by Finance (No. 2) Act, 2009 w.e.f. 1-4-2011 except in case of income from profession, commission, brokerage and agency.

But the approach of the Department to the scheme has been changing since its introduction. Beginning from 1-4-1998, a series of steps were taken contrary to its declared beneficial objects so far as small traders are concerned. For example:

1. The Finance Act, 1999 amended sections 44AD, 44AE and 44AF of the Act w.e.f. 1-4-1998 providing for enabling provisions to allow an assessee to claim his income to be lower than the deemed profits and gains, subject to the condition that the books of accounts or other documents are kept and maintained as required under section 44AA(2) and the assessee gets his accounts audited and furnishes a report of such audit as prescribed under section 44AB.

2. Section 44AD as substituted by the Finance (No. 2) Act, 2009 enlarged the scope of this section by making it applicable to all businesses (except professionals, income from commission, brokerage and agency) but enhanced the presumptive rate of estimating income from 5 per cent to 8 per cent of gross turnover/gross receipts.

3. The Finance Act, 2016 made, *inter alia*, the following amendments to section 44AD which cannot be considered as "assessee-friendly":

   a. No deduction was allowed for expenditure in the nature of salary, remuneration, interest, etc. paid to the partner as per clause (b) of section 40, while computing the income under section 44AD.

   b. Restrictions were imposed upon the eligibility to claim the benefit of section 44AD. It was provided that where an eligible assessee declares profit for any previous

> "The assessees having income from business would no longer be able to claim profits lower than presumptive rate by getting their accounts audited and furnishing the audit report. The declared aims for introduction of these provisions would, thus, be negated.

year in accordance with the provisions of this section and he declares profit for any of the five consecutive assessment years relevant to the previous year succeeding such previous year not in accordance with the provisions of this section, he shall not be eligible to claim the benefits of the provisions of this section for five assessment years subsequent to the assessment year relevant to the previous year to which the profit has not been declared in accordance with the provisions of this section.

c. The assessee was required to pay advance tax.

Right to adopt lower than presumptive rate upto 31-3-2017

Although sub-section (1) of section 44AD mandated that the specified percentage of gross receipts or gross turnover **shall be deemed** to be the profits of an eligible business covered by this section, sub-section (5) thereof, starting with a non-obstante clause, provided that an eligible assessee (i.e. a small trader) could claim that his profits and gains from the eligible business are lower than the presumptive rate specified in sub-section (1), subject to the prescribed conditions.

The Finance Act, 2016 substituted the existing sub-section (5) of section 44AD w.e.f 1-4-2017 which resulted in preventing the claim for profits lower than the presumptive rates. The words *"who claims that his profits and gains from the eligible business are lower than the profits and gains specified in sub-section (1)'* appearing in existing sub-section were replaced by the words *"to whom the provisions of sub-section (4) are applicable".*

Restrictions in availing the presumptive scheme

The sub-section (4) postulates that if an assessee who has declared his profits as per the presumptive rates for any previous year, he must do so for five succeeding years to claim the benefit of section 44AD and if in any of these five years, he does not do so, he will not be eligible to claim the benefit of this section for five years succeeding the assessment year in which the profit was not so declared.

Let us understand the above provision with the help of the following example:

An eligible assessee claims to be taxed on presumptive basis under section 44AD for Assessment Year 2017-18 and offers income of Rs. 8 lakh (or 6 lakh depending upon digital transactions) on the turnover of Rs. 1 crore. For two succeeding assessment Years 2018-19 and 2019-2020, he offers income in accordance with the provisions of section 44AD. However, in the third assessment year 2020-21, he offers income of Rs. 4 lakh on turnover of Rs. 1 crore. Thus, he has not offered income in accordance with the provisions of section 44AD for five consecutive assessment years beginning from Assessment Year 2017-18. Consequently, after assessment year 2020-21, he will not be eligible to claim the benefit of section 44AD for next five assessment years i.e. from assessment year 2021-22 to 2025-26.

Let us consider what are the benefits of section 44AD. These are:

1. An assessee is not required to maintain books of accounts and other documents as prescribed under section 44AA(2); and
2. His income is computed at the rate of 8 per cent of his gross turnover/ gross receipts or at the rate of 6 per cent in case of prescribed digital transactions w.e.f. 1-4-2017.

[Other benefits of section 44AD have since been withdrawn.]

Scope and impact of section 44AD(4)

The provisions of sub-section (4) apply if the following **cumulative** conditions are fulfilled:

1. The assessee must have declared profit **for any previous year** in accordance with the provisions of this section i.e.

at the rate of 8% (or 6% in case of digital transactions) of his gross turnover or gross receipts; and

2. The assessee declares profit for any of the five assessment years relevant to the previous year succeeding such previous year not in accordance with the provisions of sub-section (1), i.e., **not at the** presumptive rate applicable in his case.

If it is so, a question arises what the restriction imposed by sub-section (4) contemplates. It contemplates that if an assessee does not declare his profits at presumptive rate or higher than that in any succeeding previous year, he cannot revert and claim benefit of section 44AD for five assessment years thereafter. It simply means that after having declared profit not in accordance with section 44AD, even if an assessee declares profit at presumptive rate or higher than that, he would have to maintain accounts and other documents as prescribed under section 44AA(2) for the said succeeding years.

It is understandable that an assessee will, voluntarily, stop enjoying the benefit of section 44AD only when his profits are lower than the presumptive rates and obviously, for substantiating lower profits, he would maintain the prescribed accounts and other documents. He would also get them audited and furnish the audit report so that the presumptive rates are not applied in his case.

So, the question arises what the amendment achieves by providing that he would be deprived of the benefits of section 44AD for five assessment years succeeding the year when he stops taking benefit of this scheme. Logically, it seems that for such five assessment years, he cannot return to the presumptive scheme and he would have to continue to maintain accounts, get them audited and furnish audit report. It may so happen that his profits increase and are no longer lower than the presumptive rates during the said five assessment years. Even then, he will have to continue to maintain the accounts, get them audited and furnish audit report.

Referring to the example given earlier, section 44AD(4) would operate for assessment years 2021-22 to 2025-26 in case of an assessee who opts out of the presumptive scheme in assessment year 2020-21. Thus, the scope of this sub-section is limited to assessment year 2025-26, in the instant case. If in the example, the assessee opts out of the presumptive scheme in assessment year 2022-23, this sub-section will apply till assessment year 2027-28.

The restriction imposed by the substituted sub-section (4) applies to a taxpayer returning to the scheme after having opted out within the stipulated period.

This sub-section will cease to be applicable latest by assessment year 2027-28 as illustrated in the foregoing example.

“It is understandable that an assessee will, voluntarily, stop enjoying the benefit of section 44AD only when his profits are lower than the presumptive rates and obviously, for substantiating lower profits, he would maintain the prescribed accounts and other documents.

Case of a new assessee

From the foregoing discussions, it is apparent that section 44AD(4) is applicable to an assessee who opts out of the presumptive scheme in the specified period. So, this sub-section does not apply to a person who starts a business and is assessed for the first time. In the first year of his operation, he would not get the benefit of section 44AD.

The scope of section 44AB

Clause (a) of section 44AB contains a mandatory provision that a person carrying on the eligible business exceeding the threshold limit must get his accounts audited and furnish the audit report.

It is important to note that an assessee can get his accounts audited only if either of the clauses of section 44AB is applicable in his case and not otherwise. For claiming profits lower than presumptive rate, he can get his accounts audited only if his case is covered by clauses (c) or (d). It is seen that a professional required to get his accounts compulsorily audited under clause (b) of this section can get his accounts audited to claim profits lower than presumptive rates, by virtue of enabling provisions contained in clause (d) of the section. **In case of an assessee covered by clause (a), there is no such provision enabling him to get his accounts audited to claim profits lower than the presumptive rate.**

Right to adopt lower than presumptive rate after 31-3-2017

It is seen earlier that right to adopt lower than presumptive rate was bestowed upon an eligible assessee being a small trader by sub-section (5) of section 44AD which, prior to its substitution, negated the mandatory provisions of sub-section (1). It no longer overrides sub-section (1) of this section.

It is clear from the comparative study of clause (d) of section 44AB before and after its amendment, that if a person carrying on business claims that his profits and gains are lower than the presumptive rates, he cannot get his accounts audited.

Clause (e) in section 44AB provides that every person carrying on business shall, if the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, get his accounts of such previous year audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed.

Thus, a person carrying on an eligible business can get his accounts audited only if his case is covered by clause (e) read with sub-section (4) of section 44AD. It has been stated hereinabove that section 44AD(4) does not apply to persons claiming profits lower than presumptive rate.

Therefore, as regards the issue of claiming profits lower than the presumptive rate by maintaining the required books of account and without getting them audited under section 44AB, there can be following contrary views in the matter:

1. One view is that since section 44AD prescribes a mandatory presumptive rate (the section uses the word "shall") and since the provisions enabling declaring a profit lower than presumptive rates have been removed from the Act, he must declare profits at presumptive rates.
2. Another view is that section 44AD is not a charging section and so, the mandatory deeming presumptive rate of profit specified in this section cannot be applied to every person. It is for the Department to decide whether to scrutinise his accounts or not.

If the first view is upheld, there would be injustice to many small businessmen whose profits from business are lower than the presumptive rates.

Even if the second view is upheld and he can declare lower profits than the presumptive rates, he would have to undergo the rigours of maintaining accounts and face scrutiny. This would cause hardship to him, increase his compliance cost, and increase the administrative burden on the tax machinery. These factors are against the aim of introducing the presumptive scheme.

It would not be out of context to mention here that the said Finance Act, 2016 not only inserted section 44ADA in the Act making special provision for computing profits and gains of profession on presumptive basis, it also amended clause (d) of section 44AB of the Act to provide that a person carrying on a profession could declare profits lower than the presumptive rates by fulfilling the conditions imposed.

It is worth noting that, on the one hand, the Finance Act, 2016 introduces deeming provisions for the professionals and enacts enabling provisions to claim profits lower than presumptive rates for them, on the other hand, it takes away similar benefits in case of other eligible business. The newly inserted clause (e) to section 44AB is discriminatory.

Conclusion

A person carrying on a business is no longer allowed to claim profits lower than presumptive rate by getting his accounts audited under section 44AB.

It is pertinent to ask whether, in the absence of the above-stated enabling provisions, an assessee can claim profits lower than presumptive rates and if so, how. If it is held that a small trader must declare his profits at presumptive rates as provided in sub-section (1) of section 44AD, there would be injustice to him. If he claims profits lower than presumptive rates by maintaining the prescribed accounts and if he is subjected to scrutiny to prove the same, he would be facing hardships and the aim of introducing presumptive scheme would be lost. ■■■

New Compliances & Re-Approval process under 80G (An Incisive Analysis)

This article covers analysis of new compliances u/s 80G which are introduced under Income-tax Law from 01.04.2021. It also covers questions, Key Challenges and certain vital issues, for which clarity is required. All these aspects related to these new compliances, are very meaningful for all NGOs (Charitable Institutions i.e., Trust, Society etc.) having / applying for 80G approval. These amendments will ensure better accountability and transparency. However, non-compliance of the same may lead to serious repercussions for the Institutions. Read on …

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The very objective of section 80G is to provide a motivation in the form of incentive (i.e., deduction) for the tax payers to contribute to charity. Charity may be defined as "an altruistic thought and action which comes together for the benefits of others".

The Income-tax Act through Finance Act 2020 made it mandatory for all the **NGOs (herein after referred as Institution)** to obtain re-approval for 80G. However, due to COVID-19, this amendment was postponed to 31.03.2021. CBDT vide notification dated 26.03.2021, notified that, "The Income-tax (6th Amendment) Rules, 2021" for re-approval of 80G, which is to be ensured by 31.08.2021 (Original due date is 30.06.2021 which has extended vide circular No. 12 of 2021 dated 25.06.2021.

It will not be surprising if in future, the Department comes out with the concept of rating the Institutions, on the basis of their conduct and compliance. Therefore it is imperative for all concerned Institutions to strengthen their internal systems and compliance departments.

Through this article, an attempt has been made to present the discussion in a simple manner. This includes the key challenges to the new process of approval very specific to re-approval of existing 80G and compliances of return filing, which is divided into following sections

1. Timeline of filing application under different situations.
2. List of enclosures to be uploaded in the case of Re-approval of existing 80G.
3. Filing of annual return of donation and issuance of certificate.
4. Consequences in case of failure to file Form 10BD & 10BE.
5. Information to be maintained by the Institution.
6. Issues, which require clarity.
7. FAQs.

1. Timeline of filing application under different situations:

The timeline of filing application, disposal thereof, the prescribed forms etc. w.r.t seeking re-approval and fresh approval of 80G which were brought by way of amending 1^{st} Proviso to section 80G(5) and introducing new rule 18AB & substituting rule 11AA, is summarized as under:

1^{st} proviso to section 80G (5)	Situations	Timeline of filing application	Validity of approval	Disposal of pplication	Enquiry from Dept.	Type of Approval	Form to be Filed
(i)	Re-approval of existing Approval	within three months from the 1^{st} day of April, 2021	5 Years	3 months*	No	Regular	10A
(ii)	Regular Approval is due to expire	at least six months prior to expiry of the said period (i.e., 5 Years)	5 Years	6 months*	Yes	Regular	10AB
(iii)	Provisional Approval is due to expire	at least six months prior to expiry of period of the provisional approval (i.e., 3 years) or within six months of commencement of its activities, whichever is earlier					
(iv)	In any other case (Provisional Approval)	at least one month prior to the commencement of the previous year relevant to the A.Y. from which the said approval is sought	3 Years	1 month*	No	Provisional	10A
*from the end of the month in which application was received							

Major Amendment - 80G approval will now be granted for a period of 5 years, requiring renewals. The concept of perpetuity has been done away with.

Also, the Provisional approval of 80G will be granted immediately after incorporation, which in the earlier law was a very challenging task. It will help the Institution receive donations and start operations immediately, for the benefit of the public at large.

2. List of enclosures to be uploaded in the case of Re-approval of existing 80G

✓	Copy of Instrument - Trust Deed/Society Bye Laws/MOA, AOA
✓	Copy of other document evidencing creation i.e., Revenue Records, 143(3) Order etc., if Institution is not created under an instrument
✓	Copy of Registration with Registrar of Public Trusts / Societies / Companies
✓	Copy of FCRA registration
✓	Copy of existing approval of 80G
✓	Copy of Last 3 Years' Annual Accounts, only if, ITR of A.Y. 2020-21 is not filed
All the enclosures have to be self-certified	

3. Filing of annual return of donation and issuance of certificate

The concept of filing of Annual Returns has been introduced for declaring various types of donations.

Key Highlights

a) Annual Return is to be filed electronically in Form 10BD for the donations received in F.Y. beginning from 2021-22. [Section 80G(5)(viii)].

> The Provisional approval of 80G will be granted immediately after incorporation, which in the earlier law was a very challenging task. It will help the Institution receive donations and start operations immediately, for the benefit of the public at large.

b) Donee has to issue a certificate to each donor in Form 10BE. [Section 80G(5)(ix)].

c) Both the forms have to be furnished on or before 31st May, immediately following the respective F.Y. [Rule 18AB(9)].

d) Related details w.r.t Donor and Donee will be reflected in Donor's ITR, which is a pre-condition to avail deduction u/s 80G. (Explanation 2A of section 80G).

4. Consequences in case of failure to file Form 10BD & 10BE

a) A fee of Rs. 200 per day to be paid, for every day (Section 234G).

b) Penalty of Rs.10, 000 to Rs. 1,00,000 may be levied (Section 271K).

Problem, which one may face

The due date of filing of Annual Return and issuance of certificate are on or before the 31st May, immediately following the F.Y. in which the donation is received. It seems very impractical to ensure both compliances on the last day. The Department should come out with some clarification for generating and issuing the certificate to the respective donor, after certain days of filing of return, such as in case of TDS return and certificate.

Practical Advice

In the given situation, if the Institution has to be law compliant, it needs to file the Annual Returns at least before two days, from 31st May, so as to ensure issuance of certificate within the due date hereby ensuring both compliances in a timely and hassle-free manner.

5. Information to be maintained by the Institution

(From 01.4.2021 for each donor and for each type of donation)

a) Name of the Donor

b) Unique Identification Number (UIN) –PAN or AADHAAR

Note- If the above is not available, any one of the following UIN, can be taken:

i. Tax payer identification of the country where the person resides

ii. Passport

iii. Electors photo identity

iv. Driving license

v. Ration card

c) Address of the Donor

d) Type of Donation (Corpus/ Specific grant/Others)

e) Mode of receipt (Cash/ Kind/Electronic modes/ Others)

f) Amount of Donation

g) Section under which Donor is allowed to claim deduction

i) 80G or (ii) 35(1)– (Statistical /Social / Scientific Research)

Accounting Challenge

Form 10BD provides that, while reporting the aggregate amount of donation received from any person, the donation type should be reported on the basis of nature of donation i.e., (Corpus, specific grant, others) and mode of receipt (Cash/Kind/Electronic modes/Others) as well.

Practical Advice

Due to the concept of auto-population of donation figure in ITR, inaccurate data in annual returns would deny the deduction benefit to the donor u/s 80G.

Therefore, timely compliance with accurate particulars should be ensured. Otherwise, correction, revision, rectification of the return filed has to be done which will unnecessarily increase cost, time, burden and lead to inefficient utilization of human resources.

Institutions need to customize the present accounting framework so that the list of donations can be generated from the accounting system itself for each nature of donation, donor wise, so that the correct reporting can be done.

6. Issues, which require clarity w.r.t practical challenges

The following issues may crop up as a result of practical implications of the above-mentioned amendments, which in our considered opinion shall be of great relevance to the Institutions:

Issue 1: Can NIL Return be filed?

Opinion:

Nothing is currently prescribed in the law in this regard. Since this return is to be filed for the first time by 31.05.2022, some clarifications should develop in this regard.

Issue 2: Can Institutions receive 80G donations after getting provisional approval?

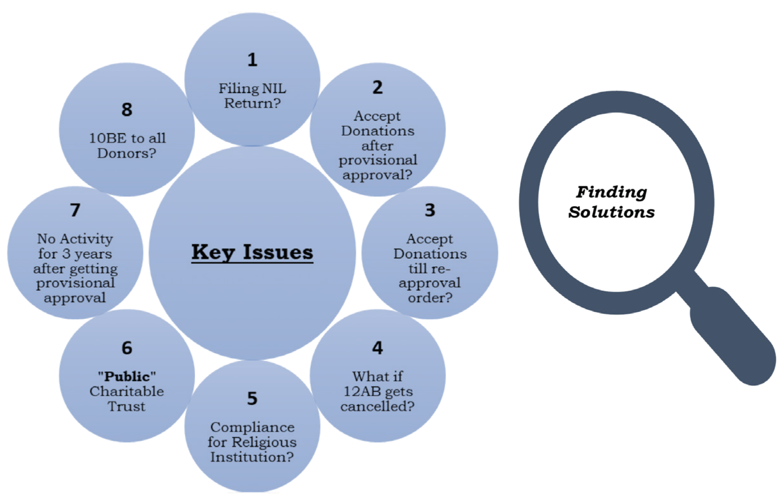
Provisionally approved Institutions shall be required to apply for regular approval, as per the following time limit (whichever is earlier):

a) at least six months prior to expiry of the period of the provisional registration; or

b) within six months of commencement of its activities

Now, the question that arises –

What if regular approval is not granted? Whether it would result in the donor being denied the benefit of 80G for the donations made in between (provisional to regular)?



> If the Institution has to be law compliant, it needs to file the Annual Returns at least before two days, from 31st May, so as to ensure issuance of certificate within the due date hereby ensuring both compliances in a timely and hassle-free manner.

1. There is no clarification by the Income-tax Department on whether the donor can claim the benefit of 80G in such circumstances or not.
2. Also, there is no concept of filing Quarterly Returns.
3. Donor may face that the donation will be held ineligible for the purpose of deduction u/s 80G, if regular approval of 5 years is not received.

Opinion

Institution should not accept any donation during provisional approval period, in order to avoid any difficulty in future till any clarification from the Department in this regard.

Issue 3: For existing Institution holding the 80G approval as on 31.03.2021, will there be any problem in accepting the 80G donations before issuance of order granting re-approval, under new procedure?

In this regard, it is imperative to compare the position with reference to the sub-section (Sunset Clause) inserted in 12AA, which can be taken as a base to conclude an opinion to this situation. Section 12AA(5) states as follows –

> *"Nothing contained in this section shall apply on or after the 1st day of April, 2021".*

As such, a 'Sunset Clause' has not been inserted for Section 80G, it can be concluded that the approval of 80G should not become ineffective like in the case of 12AA.

Opinion

Institution can receive donations in the above situation and there should not be any problem to both donor and donee. It is also to be noted that as per the new procedure of re-approval of 80G, the Department is duty bound to re-approve the existing 80G approval for 5 years, subject to filing of Form 10A within due date, as prescribed.

Issue 4: What will be the position of 80G Deduction, if 12AB registration gets cancelled at later stage?

Quarterly Return of donations and certificates are not proposed in the Rules. Thereby, the donors may be denied 80G benefit against the donation given to Institutions from 1st April 2021 to 30th June 2021, if they lose their 12AB registration.

Opinion

This appears to be harsh, as the donor should not be penalized by subsequent actions of the donee, when the donee clearly had the approval u/s 80G on the date of the donation and loses the registration on a subsequent date. The Department should clarify this issue at the earliest.

Whereas, in case of donations given to an approved Institution u/s 35(1), safeguard is provided to the donor in Explanation to Section 35(1) and various case laws uphold that deduction for donations before withdrawal cannot be withdrawn.

Issue 5: Is 80G Return applicable on Religious Institutions?

As per **Explanation 3 of section 80G,** "charitable purpose" does not include any purpose on the whole or substantially the whole of which is of a religious nature.

Opinion

Meaning thereby, only those Institutions who are approved of 80G are required to file this Annual Return.

However, an important thing which is to be understood is that other than Religious Institutions, all other Institutions, not approved under 80G, should ensure complete details of donation along with the KYC information of the donor, so that section 115 BBC which is related to taxation on **anonymous donations**, will not get attracted.

> A 'Sunset Clause' has not been inserted for Section 80G, it can be concluded that the approval of 80G should not become ineffective like in the case of 12AA.

Issue 6: What are the implications, if a Trust is not a "Public Charitable Trust", in case of 80G approval or re-approval?

1. Section 80G (5) – prescribes certain conditions which are to be fulfilled compulsorily by Institution or funds engaged in charitable purposes.

   One of the conditions is that if the Institution or fund is a Trust, then it should be **constituted as a Public Charitable Trust.**

2. This implies that **only a Public Trust** can get 80G approval. It should also be noted that there is no law in India at the Central level that governs or regulates Public Trusts. The Indian Trust Act 1882 regulates Private Trusts.

   Public Trusts on the other hand are governed by State Laws, Acts. Only few states have a governing body for Trusts like Devasthan Vibhag in Rajasthan, Charity Commissioner in Maharashtra, Gujarat and Madhya Pradesh.

Opinion

In order to avoid unnecessary litigation from the Department, the Institutions functioning in the above mentioned states, should register themselves with the ***respective regulating body*** of the state, to categorize themselves as a Public Charitable Trust.

Issue 7: What if no activities are carried on by the provisionally registered Institution for 3 years when it has to apply for regular approval?

Opinion:

Clarifications are required from the Income-tax Department, as nothing is prescribed in the law in this regard.

Issue 8: Whether certificate to be issued to all donors? In case,

- Donation is in kind.
- Cash Donations exceed Rs. 2,000.

Opinion

Nothing specific has been prescribed in the law in this regard. Since, this return is to be first filed for the time by 31.05.2022. We certainly hope that some clarification will develop in this regard. However, the Institution has to ensure maintenance of all prescribed details, for each type of donation, as discussed in point 5 (Supra).

7. Frequently Asked Questions (FAQs)

A. Revision of Form 10BD?	B. How can details be aggregated in Form 10BD ?	C. Will non-delivery of each 10BE result in Fine/Penalty?
D. How to disclose donations in case of Joint Donors ?	E. DSC vs EVC	F.Pending applications as on 31.03.2021?
G. Exsiting Approval Number to be mentioned?	H. Specific Grant v/s Corpus Donation	I. Anonymous Donations?

a. **Can Return filed through Form 10BD be revised?**

   Answer: Yes. However, the procedure to submit correction statement for rectification of any mistake or to add, delete or update the information, is yet to be laid down.

b. **How should donation details required in Form 10BD be aggregated?**

   Answer: Details of all the donations from different donors can be submitted in the single form. However, donations received from a single donor of the same **nature, type and deductibility** can be aggregated together to form a one line-item while filing Form 10BD.

c. **Will non delivery of each certificate in Form 10BE to donors result in separate fine and penalty?**

   Answer: There is no clarity on the above scenario. It is therefore suggested that all components of the Form 10BE so generated on the portal should be downloaded, and delivery should be ensured to maximum donors by way of post, e-mail etc. Any reasons of non-delivery/ failure of delivery is to be kept in records.

d. **How to disclose the donations in case of joint donors?**

   Answer: Report as per the proportion declared by the joint donors. In case no such declaration is received, donation should be disclosed in equal proportions.

e. **Signing issue Digital Signature (DSC) VS Electronic Verification Code (EVC)?**

Answer: Application has to be signed by DSC, if ITR of last year filed by DSC, otherwise it has to be signed by EVC. DSC or EVC is to be used of that person, through which last ITR was filed.

f. **What about pending application as on 31st March, 2021?**

Answer: As per section 80G(5E), all pending application as on 31st March, 2021 shall be deemed to be considered as an application filed for **provisional** approval under clause (iv) of the first proviso to sub-section (5) on that date. Due to this, all pending application as on 31st March, 2021 will deemed to be have been filed on 1st April, 2021 and therefore in this situation (as discussed at Point 1) the order granting the provisional approval should have been passed till 31st May, 2021 i.e., one month from the end of the month i.e. 30th April, 2021.

> Quarterly Return of donations and certificates are not proposed in the Rules. Thereby, the donors may be denied 80G benefit against the donation given to Institutions from 1st April 2021 to 30th June 2021, if they lose their 12AB registration.

g. **Which approval number is to be mentioned while filing Form 10A for re-approval of 80G?**

Answer: Approval Number mentioned on 1st order granting approval should be mentioned and not of renewal order.

h. **What is the difference between Specific Grant and Corpus Donations under the 'type of donation' requirement of the Form?**

Answer: In case of project/ specific grants, the Donor stipulates certain conditions to be satisfied for the utilisation of the Grant, instructions must emanate from the Donor regarding the purpose for which funds have to be utilized.

These instructions or conditions are imminent for the purpose utilisation and for monitoring purposes, though it may not be intended to hold the funds as a Corpus. There may be conditions that, if the funds are not utilised, then the unutilised funds have to be refunded to the donor. **In such circumstances, it cannot be construed as corpus donation.**

i. **Can Anonymous Donations be received by the Institution?**

Answer: If religious Institutions receive anonymous donations, then there will be no issue, as such.

> If religious Institutions receive anonymous donations, then there will be no issue, as such. In case of other Institutions whether holding 80G approval or not, complete details of each donation should be maintained to avoid taxation on the said donation u/s 115BBC.

In case of other Institutions whether holding 80G approval or not, complete details of each donation should be maintained to avoid taxation on the said donation u/s 115BBC.

Beginning of a new era of Charitable Institutions Post 01.04.2021

This new process will catalyse the proceedings for the Income-tax Department. Apart from this, it shall promote charitable activities, because now, there is the concept of provisional approval and because of the concept of renewal every 5 years, there will be no roving inquiry in the affairs of the Institutions on day-to-day basis. Due to this, they will be in a better position to run their activities in a smoother manner. Due to these welcome amendments in the law, the ultimate purpose of giving income-tax exemption benefits will be achieved at the best and charity will be done in its true and best sense. ■■■

Section 115BAC of Income Tax Act, 1961: A step towards the New-Normal

The Indian Income Tax Law witnesses every year a gamut of amendments presented in the Union Budget, in tune with the ever-changing, socio-economic scenario. The implication of such changes pervades almost every stratum of society and class across the nation. Finance Act, 2020, inserted a new section 115BAC to the Income Tax Act, 1961, commonly known as 'New Tax Scheme', applicable from Assessment Year 2021-22. The new section meant for Individual and Hindu Undivided Family (HUF) will bring about a paradigm shift in the way Income Tax is computed and perceived. Let us dive deeper and dissect all the possible angles of this new provision. Read on …

CA. Saurav Somani

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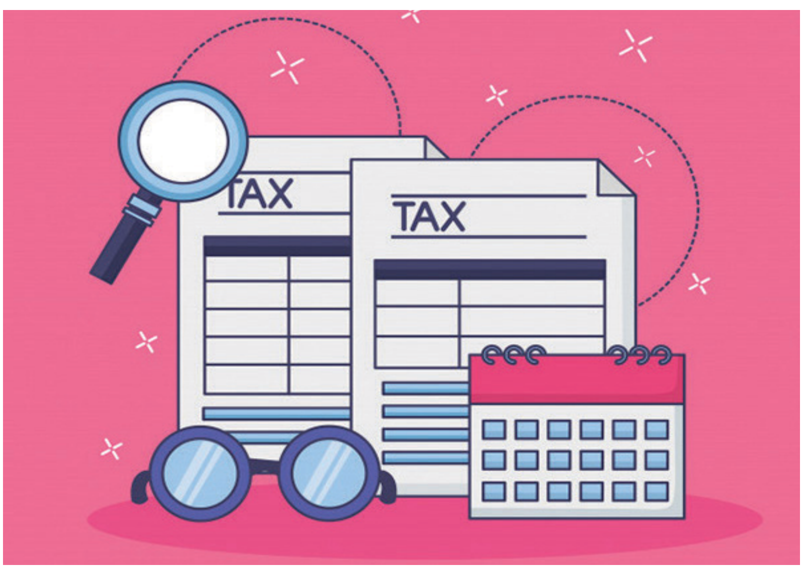
Background

The Income Tax Act, 1961, provides a wide range of deductions from and exemptions of income while computing Total Income and Tax Liability of the taxpayer. Majority of these deductions are enumerated under Chapter VIA of Income Tax Act (Sections 80C to 80U) which is based on various investments/ payments. Some deductions/ allowances are specific to the Head of Income, for example, statutory deduction & allowances under the head 'Salary Income', investment-linked deductions under the head 'Profits and Gains from Business & Profession'. Also, there are numerous provisions for Inter/Intra head setting-off and carrying forward of losses. Overall, the intent behind such deductions/exemptions/ allowances is to lower one's taxable income and reduce the final tax liability.

The new section 115BAC has a kind 'forgoing' effect as it dispenses with many of such deductions, allowances and exemptions.



Analysis of Section 115BAC

Applicability: The new section is applicable only for 'Individual' and 'Hindu Undivided Family (HUF)' from Assessment Year 2021-2022. If one opts for this New Tax Scheme, the new income tax-rates will be applicable. Following table shows a comparison between the tax-rates under normal provisions and the tax rates under the New Tax Scheme:

a. The standard deduction of Rs 50,000, professional tax and entertainment allowance [section 16].

b. Leave Travel Concession Allowance (LTA) [Section 10(15)]

c. House Rent Allowance (HRA) [section 10 (13A)]

d. Minor child income allowance [section 10(32)]

- However, following allowances under section 10(14) can be claimed:

a. Transport allowances in case of a differently abled person (Divyang Employee).

b. Conveyance allowance received to meet the conveyance expenditure incurred as part of the employment.

Sl. No.	Total Income	Rate of Tax under New Tax Scheme (%)	Rate of Tax under Normal Provisions (%)
1.	Up to ₹ 2,50,000	Nil Rate	Nil Rate
2.	From ₹ 2,50,001 to ₹ 5,00,000	5 %	5 %
3.	From ₹ 5,00,001 to ₹ 7,50,000	10 %	20 %
4.	From ₹ 7,50,001 to ₹ 10,00,000	15 %	20 %
5.	From ₹ 10,00,001 to ₹ 12,50,000	20 %	30 %
6.	From ₹ 12,50,001 to ₹ 15,00,000	25 %	30 %
7.	Above ₹ 15,00,000	30 %	30 %

- Rebate under section 87A up to ₹ 12500 will be allowed to resident individuals if the Total Income is less than ₹ 5,00,000.
- The 'Individual' may be a resident or non-resident, senior citizen or a very senior citizen.

Forgoing of Deductions, Exemptions and Allowances

Under the New Tax Scheme, sub-section 2 of section 115BAC of the Income Tax Act states that total-income will be calculated without taking into effect certain deductions, exemptions, allowances, and brought forward losses. These have been explained as follows:

1. Following deductions/ allowances under the head 'salary' will not be allowed under the new tax scheme:

e. Allowances to MPs/ MLA [section 10(17)]

f. Children education allowance

g. Some special allowances under section 10(14): children education allowance, hostel expenditure allowance, allowance on transfer from one city to another.

h. Exemption or deduction for any other perquisites or allowances.

> Under the New Tax Scheme, sub-section 2 of section 115BAC of the Income Tax Act states that total-income will be calculated without taking into effect certain deductions, exemptions, allowances, and brought forward losses.

c. Any compensation received to meet the cost of travel on tour or transfer.

d. Daily allowance received to meet the ordinary daily charges or expenditure which employees incur on account of absence from his/her regular place of duty.

2. Under the head 'Other Sources', deduction from family pension income [section 57(iia)] will not be allowed under the new tax scheme.

3. Certain exemptions like interest income on Public Provident Fund (PPF) and interest income on 'Sukanaya Samriddhi' Scheme will be available under the New Tax Scheme. Under the head 'Business or Profession', following will be not allowed under the new ax scheme:

   a. Additional depreciation under section 32(1)(iia) for new plant and machinery. It is to be mentioned that 'normal' depreciation will be allowed.

   b. Investment allowance under section 32AD.

   c. Sector-specific business deductions under section 33AB (Tea, Coffee and Rubber producers) and 33ABA (extraction or production of, petroleum or natural gas or both).

   d. Expenditure on scientific research under section 35.

   e. Capital expenditure under section 35AD.

   f. Deduction u/s 35CCC for expenditure on agricultural extension project.

   g. Exemption under section 10AA for Special Economic Zones (SEZ) units.

4. Under Chapter VI-A: Deductions under sections 80C to 80U will not be allowed. However, deductions under Section 80CCD(2) [contribution by employer under notified pension scheme on behalf of an employee] and under section 80JJAA [in respect of additional employment cost of new employees] will be allowed. Also 'units' covered under 'International Financial Services Centre' under section 80LA (1A) will be eligible for deduction under 80LA even if they opt for the new tax Scheme.

5. Set off of losses:

   - Brought forward losses and unabsorbed depreciation of earlier years to the extent they relate to the deductions/ exemptions withdrawn cannot be set off or carried forward in the new tax scheme. Also, such unabsorbed depreciation (relating to additional depreciation) will be adjusted from the opening written down value (WDV) of the block of assets.

     A relevant question might arise: Whether such Brought forward losses or unabsorbed depreciation pertaining to A.Y. 2020-21 or before will be considered or will they be considered up to the year when such option under New Tax Scheme is exercised? The concerned authorities are expected to provide more clarity on this matter.

   - Losses under the head 'House Property':

     For Self-Occupied or Vacant House Property: Interest on housing loan on such property (Section 24) will not be allowed under the new tax scheme.

     For Let out House Property: Standard deduction of 30% and deduction of municipal taxes will be allowed under the new tax scheme. Interest on housing loan will be allowed only to the extent of income under this head. In other words, loss from any let-out property can be allowed to be set off against income from other house property and not from any other head of income. Moreover, such loss from let out property will not be allowed to carry forward in subsequent years.

Following is an example when an Individual or HUF opts for the new tax scheme:

Particulars	House 1	House 2
Rental Income	₹ 2,40,000	₹ 90,000
Less: Standard Deduction @ 30%:	₹ 72,000	₹ 27,000
	₹ 1,68,000	**₹ 63,000**
Less: Interest on loan against House 1	₹ 175,000.00	₹ 0
Income/(Loss) under House Property	₹ (7000)	₹ 63000

This loss of Rs 7000 can be set off against income of House 2, Rs. 63,000. If no such income is there, such loss cannot be set off from any other head of income and will also not allowed to be carried forward to any subsequent year.

On the contrary, if the new tax scheme is not opted, then such loss from house property is allowed to be set off from any other head of income (up to Rs 2 lakh) and is also allowed to be carried forward under the normal provisions.

Author's observation: the restrictions on setting off or carrying forward of losses under section 115BAC are quite stringent which may prevent the taxpayer from exercising the option despite the concessional tax rates. Some relaxations need to be provided in order to encourage taxpayers to opt for the new tax scheme.

> Standard deduction of 30% and deduction of municipal taxes will be allowed under the new tax scheme. Interest on housing loan will be allowed only to the extent of income under this head.

When and how the option under New Tax Scheme is to be exercised?

This new tax scheme is not mandatory but optional subject to some conditions. The option is to be exercised by filing Form 10-IE online before the due date of Income Tax Return under section 139(1) of the Income Tax Act.

Author's observation: Reading the bare provisions, section 115BAC states that the option can be exercised only before filing Income Tax return under Section 139(1) of the Act. Other sections for belated return u/s 139(4) and revised return u/s 139(5) are not mentioned. Accordingly, it seems that benefit for opting the new tax scheme is restricted only to income tax returns filed under 139(1), and does not extend to belated returns. However, in case of revised return, if the original return was filed under section 139(1) after opting the new tax scheme, then logically new tax scheme will be available for such revised return. Clarification is awaited from the Income Tax authorities on this matter.

Following explains the conditions for the option to be exercised:

1. *If the taxpayer is having income from Business and Profession*: The taxpayer can opt for taxation under this new scheme either in A.Y.2021-22 or in any subsequent year. If the option is exercised, the new scheme will be applicable for subsequent years also. After the option is exercised, the taxpayer can withdraw from this scheme only once in a subsequent year, i.e., the taxpayer cannot choose to opt in again once he/she opts out of the scheme. The table below is for more clarity:

Sl No.	Nature of Income	Assessment Year	Status
1	Business or Profession	2021-2022	Option under 115BAC not exercised. Normal provisions applicable.
2	Business or Profession	2022-2023	Option under 115BAC exercised for the first time. 'New Tax Scheme' applicable.
3	Business or Profession	2023-2024	New Tax Scheme Applicable
4	Business or Profession	2024-2025	New Tax Scheme Applicable
5	Business or Profession	2025-2026	Taxpayer withdraws from this option (can only opt out once). So Normal provisions will be applicable for this A.Y. and subsequent years.

From Assessment year 2026-2027 onwards, the taxpayer cannot opt again for New Tax Scheme. However, if the tax payer ceases to have income from Business and Profession, the taxpayer can again opt under the New Tax Scheme.

2. *If the taxpayer does not have income from Business or Profession*: In this case, the taxpayer can decide to opt in or opt out every year, without any restriction.

Clarification from CBDT:

Since the option under section 115BAC is required to be exercised at the time of filing of the return, the Deductor of TDS, being an employer, would not know if employee opts for the new tax scheme. Hence, there was a lack of clarity regarding whether the provisions of section 115BAC are to be considered at the time of deducting tax.

CBDT has issued clarification via circular no. C1/2020 dated 13.04.2020 which is explained as follows:

- *Employees having no Business or Professional Income*: The employee taxpayer has to inform/intimate the employer whether or not the option of new tax regime will be exercised. If the employee doesn't inform, the employer will deduct TDS on employee's income computed under the normal provisions of Income Tax Act. The intimation to the employer about the exercise of the new option is not equivalent to the exercise of the option under the new tax scheme. In other words, irrespective of the intimation, the employee taxpayer can exercise the option at the time of filing of return which will be considered final.

"The employee taxpayer has to inform/intimate the employer whether or not the option of new tax regime will be exercised. If the employee doesn't inform, the employer will deduct TDS on employee's income computed under the normal provisions of Income Tax Act.

- *Employees having Business or Professional Income:*

  In this case, the employees need not inform/intimate the employer regarding the exercise of option at the time of deduction of TDS. The reason: since Assessment Year 2021-22 is the first year of section 115BAC, the employee taxpayer having business or professional income will need time to decide carefully about the option to be exercised. The employer will deduct TDS under normal provisions of Income Tax Act.

  Once such employee has exercised the option under 115BAC at the time of filing of Income Tax Return, the employee will have to intimate/inform the employer about the same. The employer, accordingly, will deduct TDS under the new tax scheme for the subsequent assessment years.

Other points for consideration

- *Reduced Tax Rates versus forgoing of several benefits*: As the new tax slab is comparatively beneficial compared to the old tax slab in terms of reduced tax rates, the new tax scheme, prima facie, seems to be better. However, since many significant deductions/ exemptions will have to be forgone, hence the tax payer has to compute total income and tax liability under both Old and New methods and choose accordingly.
- *Impact on Specified Business*: Specified Businesses covered under section 35AD, viz, Cold Storage, Warehousing facility for agriculture produce, specified hotels, specified hospitals, etc, are eligible to get 100% deduction towards capital expenditure under the normal provisions of the Income Tax Act. Also, the businesses involved in scientific research are eligible to get deduction towards scientific research expenditure under normal provisions. Since these deductions are done away under the new tax scheme of section 115BAC, it is unlikely that these specified businesses will opt for the new tax scheme.

  In near future, it is possible that the new tax scheme might be made compulsory. In such a case, the government must come up with certain relaxations and relief for the benefit of such specified businesses.

Conclusion

The new tax scheme under section 115BAC is a significant step in the Indian Income Tax Law. The concessional tax rates under the scheme will encourage the taxpayers to offer income with more transparency. However, since there is a crucial departure from many important deductions and exemptions, taxpayers might initially face dilemma while transitioning to the new tax scheme. Also, possible misinterpretations of these new provisions might crop up and lead to litigations. Both income taxpayers and practitioners will have to tread carefully while filing Income Tax Return in the coming years. ■■■

People Risk Management at Banking and Financial Institutions

Risks are everywhere and present in everything we do. Risks are part of life. So what is the need to talk about it? When we view risk from the perspective of a business or organisation, more so from a banking or financial institution perspective, it seems to answer this question profoundly. Risks in financial organisations have the potential to cause adversity, damage or losses in multiple ways affecting people, organisations, economies and nations at large scale. One of the most critical risks is People Risk. People Risk is a potential of loss due to inadequate or inappropriate human behaviour, action or decisions. Through this article, I attempt to explain why and how such risks take place? What can organisations do to identify, assess, mitigate and manage them? Read on...

Kirit Jain

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Risk management in banking and financial organisations of all shapes and sizes have been traditionally an integral part of their functioning. A large part of it is driven by banking regulatory requirement given the nature of business such organisations are in, i.e., money management. Hence, safe guarding a bank from unwanted incidents/accidents that can risk people's money (and in turn economy at large in eventuality) takes as important a place as generating business and profits for financial institutions. No other industry is as vulnerable as the banking and financial industry when it comes to varied risks, having a potential to collapse even an excellent run organisation – big or small. Such is the strength of risk. When not managed well, it can cause havoc of any magnitude that can crash not only the organisation and the financial industry, but it can also lead to devastating effects to crumble a nation's or the world's economy in no time.

So, the question is, why do such risks play out in spite of robust risk management practices to manage critical risks such as Credit Risk, Market Risk,

Liquidity Risks and Operational Risk in organisations. Today, world class statistical models, highly evolved control and governance mechanism, skilled expertise and superbly engaged Central Banks monitor the financial industry, enabling it to proactively manage these critical risks. Still, risks play out every now and then affecting the organisations' reputation and finances. So coming back to why these risks still take place? The answer lies in People Risk. Employees at all levels in an organisation carry out a variety of actions amidst facing a variety of choices, circumstances and impulses in their work every day, and their conduct can either help build the organization or lead it to risks.

What is People Risk or Human-factor Risk - People Risk, alternatively called human-factor risk or human resource risk is a risk of loss to the organisation due to inadequate or inappropriate human behaviour, action or decisions. Human-factor risk in any financial organisation is the root cause of failure for other risks. People risk precedes all other risks and is caused by people internally within the organisation or from outside. When people risk is inadequately understood and ineffectively managed, it causes other critical risks to snowball and avalanche. Some world class financial organisations have recognised the importance of managing people risk while others across the world are still at an emerging stage to determine how to incorporate people risk management in an overall framework of risk management within their organisation.

> "Many historical financial crises such as rogue trading, credit defaults including the 2008 Lehman Brothers led financial meltdown are still alive in our minds and hearts. Most of these crises were the results of human-factor risks manifested in operational failure or through misaligned judgement.

How does People Risk occur - People Risk manifests through behaviour of people within or outside organisation i.e., action of employees and third-party partners, if error-clad or malicious, can lead to control and governance failure built around processes, systems and activities. In turn, a failed process or a system exposes the associated risks to take place leading an organisation to incur a loss of either financial, reputational, or regulatory nature or all of them. It is people who propel an organisation into the heights of success, but it is also people who can render it to fall like a towering pack of cards. *A closest example is the Rogue Trading by a derivative trader whose actions led the Barings Bank, UK's oldest merchant bank, to bankruptcy due to his fraudulent, unauthorized and speculative trades. The case of PNB Bank and jewellery company Gitanjali Gems in India is another example that led to losses for the bank as internal procedures and systems were by passed.*

Why do people in organisations cause risk? – **Human errors, malicious actions or fraudulent intentions** by people lead to loss or harm. While a lot of human errors can be caught, managed or prevented through organisation's control, monitoring and governance mechanism, most malicious intentions and actions are often hard to identify, monitor or prove. *The Enron Bankruptcy in 2001 is one such example of people's misconduct in terms of fraudulent accounting practices. Not to forget a recent alleged banking irregularity case involving officials of a reputed Indian bank and a prestigious airline in India conspiring to sanction and disburse loans of* hundreds of crores to the airline in non-compliance to the bank's credit policy. There are numerous other examples across banks worldwide, where losses were caused on part of human errors with no malefic intentions. *A* lot of such people's activities can be attributed to lack of skills, training, sound procedures, poorly defined roles, work overload and so on. More often, personal self-serving interest, inaccurate or flawed judgement or decisions, unhappy or disengaged employees, internal organisation culture, greed and lack of integrity in conducting one's responsibilities are bigger behavioural misdemeanours that cause the greatest damages.

How can organisations manage People Risks - Clearly, organisations need to adopt a two-pronged approach to prevent and manage people risks – on one hand, they must deploy procedures and systems that can prevent (or correct) human errors from occurring; on the other hand, they need a robust cultural response and vigilance mechanism to deter people from engaging in wrong deeds. A consistent high level of professional culture requires building of deep behaviours of integrity, transparency and responsibility among people. Any organisation's long-term guard against people risks is hidden within these fortifying behaviours. The practise of these measures on a day-to-day basis by its people, safeguards the organisation from any risks. So, the measures such as instituting a **People Risk Index** in the organisation which can showcase real-time increasing/decreasing risk trend based on people parameters such as knowledge and skills gap, control failure trend, fraudulent cases, employee happiness level, employee development and growth opportunities, attrition trend, employee performance trend, incentive-evoked wrong doings, pay gaps among employees, manager-employee relationship and other such factors that indicate areas contributing to people risks. This can then be complemented by risk-mitigating measures designed and applied consistently addressing each parameter in the People Risk Index. Composition of people parameters and their relative significance over each other can vary for each organisation

> People Risk Index can be designed to showcase indicators of increase/ decrease in people risk as close in real-time as possible.

to ensure it is dynamic and conducive to the progressing nature of an organisation and its people.

Information Technology can help prevent much of People Risk - a robust **People Risk Index** which can deliver valuable information on people risk will require organisations to leverage or deploy IT-based capabilities. Appropriate IT intervention should be designed to bring together and analyze multitudes of people data from various internal systems, reports, applications as well as external environment. Technologies such as AI and machine learning can further make this complex data analysis more accurate, real-time, dynamic and relevant. These data will deliver people risk insights to senior management, people managers and HR through People Risk Index in real-time—enabling them to make informed, timely and impactful decisions in response to emerging or potential people risks and issues. Technology backed People Risk Index can enable organisations institute a culture of preventive measures to eliminate or mitigate high-impact people risks well in time.

Who should own People Risk in an organisation and the role of HR Function - The Board or Senior Management must consider People Risk as an accountable variable. However, HR function in an organisation plays the vital role to drive management of People Risk given their influence and reach across the organisation. As People Risk is significantly associated with people behaviour, HR is best placed to take lead in this area and manage this by mobilizing resources, skills and systems with support from businesses and functions. HR can develop a People Risk Index organisation-wide to assess, monitor and report People risks. Training and awareness should be created among people managers on how to leverage People Risk Index to proactively manage risk issues in their areas of responsibilities and in their respective functions. Compensation and performance incentives for employees should be regularly aligned with findings of People Risk Index to ensure monetary rewards do not evoke risk inducing behaviours among employees. A culture of ethics and good conduct should be promoted and individuals should be rewarded for consistently living these values in their daily roles and responsibilities. To conclude, HR, from their position of strength in the organisation can regulate right behaviours, policies, procedures and systems by collaborating across all levels in the organisation in cohesive and synchronized manner - in support of making People Risk Management an inseparable cultural reality.

> People Risk Management must be made an inseparable cultural reality within an organisation that can manifest in every action and decision made by its people

Someone once said *"People are Master Creators who can also act as ultimate destroyers".* Organisations must work continuously to nurture the Master Creator trait in their people. ■■■

Practical Compliance Guideline on Intangibles by Australia – Lessons for India

Intangible assets are growing in importance due to developments in the areas of information, communication, and technology. All these are resulting in paradigm changes in the way business is being conducted. It is neither possible, nor advisable for each business organisation to develop all intangibles required for the conduct of its business. Consequently, transfer of intangibles is becoming more and more common. Another dimension to this development is transfer of intangible assets among enterprises of Multinational Enterprises groups. This entails valuation and transfer pricing issues. Read on…



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In the absence of proper guidelines controversies keep on arising between taxpayers and tax authorities. When seen from this perspective, Practical Compliance Guidelines (PCG) issued by the Australian Taxation Office (ATO) on 19 May 2021 clarifying tax-compliance approach and associated risks for intangible arrangements is a welcome step. In this article the growing importance of intangibles, salient features of the PCG and lessons for India are discussed.

Growing importance of Intangible Assets

In 1912, among the world's 10 largest companies were the likes of US Steel, Jersey Standard, Pullman and American Tobacco. Their success rested with their physical assets: oil fields, railroads and factories. A century on, oil companies still dominate the top 10, but there have been new entrants: IBM, Microsoft and Apple, with Apple vying the top spot. Unlike the old industrial giants, these three tech companies

rely not on physical assets for their prosperity, but on ideas and innovation – in short, their intellectual properties.[1]

Studies do support and suggest that intangible assets are the fundamental source of competitive advantages for firms in most industries. Technology in the firm, brand of the firm, etc. are some of the intangibles whose value often get unlocked during mergers and acquisitions, which has itself have increased in recent times. Intangible assets could cover a wide array of human accomplishments, covering inventions, works of authorship, software, data, expertise, know-how, experimental designs, technical information, trade secrets, publicity rights, domain names and documentation; anything for which one can anticipate future value. Legal title to intellectual property separates intangible assets into intellectual property and non-intellectual intangible. Identifiable or unidentifiable intangible assets possess and create a huge value and often outperform the value of tangible assets.

As a result, in recent times, investment in intangible assets is surpassing investment in tangible assets. In some business intangible assets have become the key driver of value, innovation, and growth. In 2018 intangible assets made 84% of all enterprise value on the S&P 500 companies, a massive increase from just 17% in 1975[2]. Surprisingly, the current set of accounting standards do not capture the value of intangible assets unless purchased. As a result, a substantial portion of enterprise value may not be evident on the face of a balance sheet.

Companies are now spending millions of dollars in developing, enhancement, maintenance, protection, and exploitation (DEMPE) of intangible assets. Given the recent importance of intangibles for businesses, there have been considerable work by the OECD & G20 on determining arm's length price of such transfers or uses. It is also that often payment for these assets is considered tax base eroding. BEPS Action Plan 8-10 has given detailed guidance on how to tackle these erosions of taxable base.

In a MNE set-up where companies distribute among companies in different jurisdictions responsibilities for developing and maintaining intangibles in one jurisdiction, exploitation in other, protection and ownership in other, DEMPE is designed to ensure that allocation of costs for functions like development, enhancement, maintenance and protection and enjoyment of returns from exploitation does not erode the tax base of the jurisdiction.

Not only OECD, tax authorities around the globe are cognisant of DEMPE with respect to intangibles and are taking steps to protect their respective tax bases.

"Legal title to intellectual property separates intangible assets into intellectual property and non-intellectual intangible. Identifiable or unidentifiable intangible assets possess and create a huge value and often outperform the value of tangible assets.

Initiative by ATO – Practical Compliance Guideline 2021/D4

In order to provide a road map to taxpayers and Tax authorities for dealing with various issues connected to intangibles the ATO on May 19, 2021 released a draft Practical Compliance Guideline (PCG) 2021/D4 for public comment—thereby continuing the trend by ATO to provide a framework to assist taxpayers in assessing the level of risk in their transactions of intangible assets with international related parties.

ATO issues practical compliance guidelines on tax issues. Seen from Indian perspective these are a mix of Circular and Instructions. They also address some relevant questions. These provide broad

1. *The increasing importance of intangible assets https://www.smartcompany.com.au/ [as accessed in May 2021]*
2. *https://www.visualcapitalist.com/intangible-assets-driver-company-value (accessed in June 2021)*

law administration guidance, addressing the practical implications of tax laws and outlining ATO's administrative approach. For example, they might set out:

- How ATO assesses tax compliance risk across a range of activities or arrangements in relation to a certain area of the law –an activity or arrangement is considered low risk (unlikely to require scrutiny) and where an activity or arrangement is considered high risk (likely to attract scrutiny)
- Such guidelines, also provide practical compliance solution where tax laws are creating a heavy administrative or compliance burden, or where the tax law might be uncertain in its application.

The purpose of the guidelines is to provide taxpayers with additional certainty and compliance savings, thereby reducing compliance costs. These are also helpful to tax authorities in directing their compliance resources to higher risk areas of the law.

> Companies are now spending millions of dollars in developing, enhancement, maintenance, protection, and exploitation of intangible assets.

Draft PCG 2021/D4 outlines the approach which ATO is going to take with respect to compliance and risk factors connected with Intangible Arrangements including DEMPE of intangible assets or where intangible assets are migrated offshore. In particular, the ATO is concerned with whether the functions performed by Australian entities (in connection with the DEMPE of intangible assets) are properly recognized and remunerated in accordance with the arm's-length principle embodied in Australia's transfer pricing rules. For these guidelines the definition of intangible assets and the DEMPE framework are sourced from the OECD Transfer Pricing Guidelines.

Draft PCG focuses on identifying Intangible Arrangements that mischaracterise Australian activities connected with DEMPE of intangible assets. Such arrangements may be non-arm's length or structured to avoid tax obligations, resulting in inappropriate outcomes for Australian tax purposes. As such it covers a wide breadth of arrangements from licensing intangibles, research and development (R&D) activities, cost contribution arrangements, and intangibles migrations.

Draft PCG is designed to focus on 'tax risks' associated with the potential application of Australia's provisions regarding transfer pricing, withholding tax, Capital Gains tax, capital allowances, the general anti-

> The purpose of the guidelines is to provide taxpayers with additional certainty and compliance savings, thereby reducing compliance costs. These are also helpful to tax authorities in directing their compliance resources to higher risk areas of the law.

avoidance rule (GAAR), and the Diverted Profits tax (DPT).

These guidelines have been divided by ATO into two parts, viz,

- Part One - Compliance Approach - provides an outline of ATO's compliance approach for Intangible Arrangements.
- Part Two - Risk Assessment Framework - provides an outline of ATO's risk assessment framework, which explains how ATO assess the compliance risks of Intangible Arrangements.

Part One - Compliance Approach

Maintenance of adequate documentation and self-assessing the risk is at first the responsibility of the taxpayers. Part One outlines documentation and evidence which ATO would generally expect when assessing the level of compliance risk posed by the Intangible Arrangements according to the ATO's risk assessment framework set out in Part Two. ATO has provided a preliminary list of information which ATO will examine whether taxpayers have relevant international related party dealings, are a significant global entity (SGE) and/or have disclosed a relevant Category C reportable tax position. The preliminary list contains following documents:

- Australian income tax returns
- General purpose financial statements
- International Dealings Schedules
- Country-by-Country reporting data exchanged automatically or by exchange of information request, including any available Masterfile, Local File Parts A and B and/or Country-by-Country Report
- Information obtained from foreign jurisdictions through exchange of information processes, and
- Other information obtained previously by the ATO in connection with any engagement or review, and other relevant information from third party / public sources or other government agencies.

> Maintenance of adequate documentation and self-assessing the risk is at first the responsibility of the taxpayers.

The Documentation and Evidence Expectations outlined are categorised as:

- understanding and evidencing the commercial considerations and taxpayer's decision making
- understanding the legal form of Intangible Arrangements
- identifying and evidencing the intangible assets and connected DEMPE activities, and
- analysing the tax and profit outcomes of Intangible Arrangements.

It is clarified in the guidelines that the documents' list outlined is intended to serve as a general guide and should not be treated as an exhaustive list of the kind of documents, evidence and matters which ATO may take into account in the event they wish to review Intangible Arrangements. Depending upon the business complexities or complexities of Intangible Arrangements, governance processes and systems, the documentation and evidence requirements might vary.

Part Two - Risk Assessment Framework

This part is designed to explain how ATO assesses the compliance risks of Intangible Arrangements. This will act as a guide for the taxpayers to assess the Risk Factors as they relate to their Intangible Arrangements.

The risk assessment framework includes an assessment of the risk of Intangible Arrangements based on:

- Risk Factors (as set out in Appendix 1 of these Guideline) which outline features and Examples of Arrangements that ATO will use to inform assessment of the compliance risks in Intangible Arrangements, and
- Documentation and Evidence Expectations, including the level of evidence that ATO will have regard to when assessing Intangible Arrangements against the Risk Factors to assess the level of risk posed.

The Risk Factors (refer Annexure to this article) include High, Medium and Low Risk Factors and focus on following five parameters:

1. understanding and evidencing the **commercial considerations** and decision making, in particular where taxpayer has restructured or had a change associated with Intangible Arrangements,
2. understanding the **form** of Intangible Arrangements,
3. identifying and evidencing the intangible assets and connected **DEMPE**

activities of Intangible Arrangements.

4. analysing the **tax and profit outcomes** of Intangible Arrangements, and

5. understanding the **type of example arrangements,** ATO consider to be High, Medium or Low risk, which have been described in Appendix 2 of these Guideline.

If the taxpayer is not able to provide sufficient evidences or substantiate its claim for the parameters mentioned above, then the risk is categorised as High. If the evidences are available, but incomplete, then the risk category is Medium, otherwise Low. A quick summary of Risk Factors as laid down by ATO in these guidelines is the Annexure and placed at the end of this article.

Having regard to these Risk Factors ATO will finalise the assessment of the compliance risks of Intangible Arrangements. It is clarified that these Risk Factors will serve as general guidance only and do not form an exhaustive list of features or examples of arrangements which ATO may consider when assessing the level of risk posed by Intangible Arrangements.

If the Intangible Arrangements exhibit one or more High Risk Factors, then the taxpayer can expect deeper level of scrutiny from ATO.

Leanings for India

The draft PCG 2021/D4, in a very elaborate manner, lays down the way tax authorities in Australia will perceive and peruse the Intangible Arrangements of the taxpayers. It is a commendable step towards establishing taxpayer friendly environment. For the tax authorities as well, it will bring disciple and focus in their approach towards Intangible Arrangements. It will be very helpful for the taxpayers as they will know in advance as to how their Intangible Arrangements will be looked at by the authorities. This will help taxpayers in planning in a better way. The downside is that the guidelines will put very heavy compliance burden on taxpayers towards documentation and audit, especially since there is no minimum threshold proposed in the guidelines for audit and documentation.

In India, there are plethora of litigation in India on taxation of royalty on intangible assets. Latest is the ruling of the Supreme Court[1] pronounced in February 2021 on the difference between use of the copyright and the acquisition or use of the copyrighted article. The apex court ruled that any sum paid by resident end users, as consideration for the resale/use of computer software, cannot be typically branded as royalty under the tax treaties. It amounts to procurement of goods. Apart from this, there are controversies in many cases regarding valuation for transfer pricing purposes. The tax authorities, in many cases, have held the value of intangibles received by the Indian companies from their group companies as "NIL". In most of such cases, this approach has not found favour with courts. This results in uncertainty for taxpayers and unnecessary costs for taxpayers as well as government. To minimise both, government should come out with a detailed guidelines for taxpayers and tax auditors. For this, the draft guidelines issues by ATO would be helpful.

"If the Intangible Arrangements exhibit one or more High Risk Factors, then the taxpayer can expect deeper level of scrutiny from ATO.

3. *Engineering Analysis Centre of Excellence Private Limited vs. CIT (SC) [Civil Appeal Nos. 8733-8734 of 2018]*

Annexure

Summary of Risk Factors

Risk focus areas - Intangibles Arrangements	High Risk Factors	Medium Risk Factors	Low Risk Factors
1	2	3	4
A. Understanding and evidencing the commercial considerations and decision making, in particular where Intangibles Arrangements are restructured or changed	• Documentation and evidence does not substantiate the commercial considerations and associated decision making. • Failure to substantiate that there was due consideration and assessment of the commercial options realistically available as alternatives, disregarding any anticipated tax effects. • Failure to substantiate any clear quantifiable, non-tax financial benefits of Intangibles Arrangements.	Documentation and evidence mentioned in Column 2 are incomplete.	Documentation and evidence mentioned in Column 2 are adequate.
B. Understanding the form of Intangibles Arrangements	• The form of Intangibles Arrangements is not substantiated by the documents or evidence, such as legal agreements, correspondence of relevant persons, taxpayer's internal guidelines, manuals, policies, procedures, governance and like documents relevant to the arrangement. • Documentation and evidence does not substantiate that the form of Intangibles Arrangements is consistent with the substance.	Documentation and evidence mentioned in Column 2 are incomplete.	Documentation and evidence mentioned in Column 2 are adequate.

	• Documentation and evidence does not substantiate the characterisation of any payments made under arrangements, including recognising an amount in the nature of a royalty where relevant.		
A. Identifying and evidencing the intangible assets and connected DEMPE activities of Intangibles Arrangements	• Documentation and evidence does not specifically identify the intangible assets connected with Intangibles Arrangements. • Documentation and evidence does not substantiate the DEMPE activities connected with Intangibles Arrangements, including how such activities generate value. • Documentation and evidence does not substantiate that the entities stated to primarily manage, perform and control DEMPE activities and assume associated risks have the necessary capability, financial capacity and/or assets to do so in substance.	Documentation and evidence mentioned in Column 2 are incomplete.	Documentation and evidence mentioned in Column 2 are adequate.
B. Analysing the tax and profit outcomes of Intangibles Arrangements	• Documentation and evidence does not substantiate that the economic outcomes and benefits obtained by relevant entities in connection with intangible assets align with their contributions to DEMPE activities, having regard to functions performed, assets used and risk assumed. • Documentation and evidence does not substantiate that the tax and profit outcomes are consistent with the commercial or economic substance of Intangibles Arrangements.	Documentation and evidence mentioned in Column 2 are incomplete.	Documentation and evidence mentioned in Column 2 are adequate.

	• Documentation evidencing the determination of transfer pricing methods, valuations, projections and/or other analyses that have influenced the characterisation and quantum of transactions executed under the Intangibles Arrangements is not consistent with the anticipated tax and non-tax benefits actually considered in deciding to enter the arrangements, or relies on inadequate, non-contemporaneous and/or unreliable analysis or data.		
A. Understanding the type of example arrangements ATO consider to be high, medium or low risk, as described in Appendix 2 of these Guidelines	• Intangibles Arrangements exhibit features or characteristics of the high risk examples described in Appendix 2 of these Guidelines.	Intangibles Arrangements exhibit features or characteristics of the medium risk examples described in Appendix 2 of these Guidelines.	Intangibles Arrangements exhibit features or characteristics of the low risk examples described in Appendix 2 of these Guidelines.

Examples of High Risk, Medium Risk and Low Risk Factors as given in Appendix 2 to PCG which will be used by ATO are as follows. Over period of time ATO will keep on enriching this Appendix:

High Risk	Medium Risk	Low Risk
1. Centralisation of intangible assets (limited DEMPE functions offshore with cost-based R&D services in Australia) 2. Bifurcation of intangible assets 3. Non-recognition of Australian intangible assets and DEMPE activities 4. Migration of pre-commercialised intangible assets 5. Non-arm's length licence arrangements	6. Centralisation of intangible assets (sale of intangible asset with residual services provided in Australia) 7. Transfer of rights to intangible assets via a Licence Agreement 8. Contract research and development arrangement (cost-based R&D services with insufficient clarity of functional profile) 9. Cost contribution arrangement (pre-existing intangible asset values may be incorrect and outcomes do not align with inputs)	10. Centralisation of intangible assets (third-party purchase and immediate on-sale of intangible asset) 11. Contract research and development arrangement (cost-based R&D services performed under oversight of foreign parent) 12. Cost contribution arrangement (sharing and joint management of intangible asset and DEMPE functions)

Enticement For Pharmaceuticals Sector – "Drastic Times Call For Drastic Measures"

The pandemic has brought into limelight the Atmanirbhar Mission and the Government's new initiatives/ schemes are just the steps in right direction. To ensure revival of economy the government has announced various schemes under certain sectors including automotive, pharmaceutical, textiles etc. to establish a global supply chain and fulfil the deeply rooted moto of the Government "vocal for local and local for global". These schemes will not only lead to self-sustainance but will also enable the country to wipe out the unemployment plague in a phased manner. The discussion in the present article highlights certain features of the PLI scheme in pharmaceutical sector announced on 03 March 2021 along with its detailed operational guide issued on 01 June 2021 and corrigendum on 30 June 2021 and 22 July 2021.Read on…

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Introduction

The Indian economy was primarily an agriculture-based economy and the public sector had the task of industrializing the country. However, the economy was not able to see the sunrise due to the inefficiency of public sector. The private sector was at its initial stages and could not flourish due to non-availability of adequate capital for investment. This proved to be an obstacle in progress of the private sector. However, realizing the importance of industrialization through both the public and private sector, the then government announced industrialization policies enabling adequate investments from foreign to ensure a comprehensive and rapid growth of the Indian economy.

Although the measure of foreign investments into the Indian Territory was for industrialization and progress of the economy, it had somewhere still left a loophole in terms of huge dependency on various countries in many sectors.

As the COVID-19 pandemic hit the world economy last year, the importance of being 'Atmanirbhar'

was emphasized and the importance of being self-reliant on various fronts came into spotlight. One such key sector was the pharmaceutical sector. Although India has been a key source for certain drugs required for treatment of the virus on one side, the unavailability of raw materials (drugs) to manufacture vaccines in India has become a major hindrance too.

Presently India meets its huge demand for patented drugs through imports but exports only a lower value of generic drugs. This could be due to inadequate facilities for research and development or lack of investment to involve huge production capacities.

Keeping in mind all the important factors hindering the growth of the sector in all terms, The Ministry of Chemicals and Fertilizers issued a notification on 03 March 2021 rolling out a Production Linked Incentive scheme for pharmaceutical to incentivize certain high value pharmaceuticals to enable the sector flourish at its best and to penetrate in global markets. The detailed operational guidelines of the scheme were issued on 01 June 2021 providing an incentive of about INR 15000 crore across the sector for a period of 6 years from FY 2022-23 to FY 2028-29.

In the present article, we shall discuss certain key features of the scheme as laid down in the operational guidelines and corrigendum thereon:

Firstly, it can be noted that the PLI scheme for pharmaceuticals is third scheme issued by the Ministry of Chemicals and Fertilizers after the scheme for promotion of domestic manufacturing of critical key starting materials (KSMs)/ Drug intermediaries/ Active Pharmaceutical Ingredient (API) and scheme for medical devices.

Salient features of the scheme:

1. The ultimate outcome of the scheme to the applicants is the incentive. The incentive under the present scheme is a form of financial benefit provided based on incremental sales and eligible investments done.

2. The scheme has segregated manufacturers into three different groups basis the global manufacturing revenue (GMR). The term global manufacturing revenue means the consolidated revenue of the group (enterprise which directly or indirectly exercise 26% or more of voting right in the other or appoint more than 50% of the board of directors in other enterprise) and/ or *in vitro* diagnostic medical devices. Revenues from any other source for instance R&D services, rental incomes, etc., shall be excluded for calculating the GMR.

Group	GMR – FY 2019-20 (INR)	Remarks
A	5000 crore or more	Inclusive of 5000 crore
B	500 crore – 5000 crore	Inclusive of 500 crore
C	Less than 500 crore (incl. MSME entities)	

3. The applicant (manufacturer) can be a proprietor, partnership firm, LLP or Company registered in India. However, the applicant should not be any willful defaulter in any Indian laws, declared bankrupt or reported as fraud by the bank or financial institution or non-banking financing company.

4. The manufactured goods eligible for incentive under the scheme are also classified into three different categories.

> “The ultimate outcome of the scheme to the applicants is the incentive. The incentive under the present scheme is a form of financial benefit provided based on incremental sales and eligible investments done.

Category	Manufactured product
1	Specific high value goods such as biopharmaceuticals, complex generic drugs, patented drugs or drugs nearing patent expiry, cell based or gene therapy drugs, Orphan drugs, Special empty capsules like HPMC, Pullulan, enteric etc,, complex excipients, phyto-pharmaceuticals, other drugs as approved.
2	Active Pharmaceutical Ingredients / Key Starting materials / Drug Intermediates (Not covered under the earlier PLI scheme)
3	Repurposed drugs, Auto immune drugs, anti-cancer drugs, anti-diabetic drugs, anti- infective drugs, cardiovascular drugs, psychotropic drugs and anti- retroviral drugs, In-vitro diagnostic devices, Other drugs not manufactured in India., Other drugs as approved

It should be taken note that even though the scheme focuses on production of high value drugs, sufficient resilience is given to the API/ KSMs also to avoid any shocks to the Indian Pharmaceutical industry. It specifically also mentions that the *"other drugs"* as approved by the Department of Pharmaceutical (DoP) would also be eligible for application under the scheme. Hence, even if the drugs manufactured by an applicant do not fall under the general categories stated above, the applicant is eligible to approach the DoP depending on the criticality of drug requirement.

5. **Selection of applicant:** Only one applicant on behalf of a group is eligible under the scheme and investment and sales will be collectively considered. Weightage has been given to the below criteria for selection of applicants

Group A & B

a. The applicants under the scheme will be selected based on the gross manufacturing investment in India during the last 10 years (FY 2010-11 to 2019-20);

b. Research and development expenditure as a percentage of the GMR from pharmaceutical goods in last 3 years (FY 2017-18 to 2019-20);

c. Number of new drug applications by the applicant or by group company by the US/ UK/ Japan/ Canada EU country (member of PICS), WHO-GMP compliance certificate from State licensing authority regulatory agencies as on 01.04.2021.

Group C

a. The applicants under the scheme will be selected based on the gross manufacturing investment in India during the last 10 years (FY 2010-11 to 2019-20);

b. Number of new drug applications by the applicant or by group company by the US/ UK/ Japan/ Canada EU country (member of PICS), WHO-GMP compliance certificate from State licensing authority etc., regulatory agencies as on 01.04.2021;

c. GMR from pharmaceutical goods in FY 2019-20.

Group C for MSME

a. Number of manufacturing plants in India owned by applicant/group company and approved by US/ UK/

> Only one applicant on behalf of a group is eligible under the scheme and investment and sales will be collectively considered.

Japan/ Canada/ EU country (member of PICS), WHO-GMP compliance certificate from State licensing authority etc., regulatory agencies as on 01.04.2021;

b. GMR from pharmaceutical goods in FY 2019-20.

For in-vitro diagnostic medical devices, the selection criteria for all groups remain same except that GMR from in vitro diagnostic medical devices in FY 2019-2020 has to be considered.

6. Investments: As it is rightly said, ***No Pain No Gain.*** It is the responsibility of the manufacturer to make **investments** to receive reward in the form of incentive. The guidelines of the scheme specifies the types of expenses, which would qualify as eligible investment.

a. Most importantly, the investment should be made on or after 01st April 2020.

b. Expense incurred on new plant, machinery, equipment, associated utilities including expense on packaging, freight / transport, insurance, and erection and commissioning of the new plant, machinery, equipment including laboratory equipment, IT systems as part of quality assurance/ certification/ manufacturing etc.

c. **The manufacturer can also add the non-creditable taxes as part of the cost.** The investment made in plant & machinery can be taken under a Finance lease (as per Accounting Standard 19 – Leases or Indian Accounting Standard (Ind-AS) – 116 Leases). Further, the machinery can be used for production of products not falling under the PLI scheme. However, an appropriate declaration of usage of machinery will have to be submitted.

d. Expense in relation to construction of building where a new plant and machinery is installed is eligible. However, where the internal compound wall/ roads (associated infrastructure) are constructed, the eligible investment value for such associated infrastructure is limited to 20% of investment in new plant and machinery.

e. Expenditure incurred for Research and Development (R&D) is allowed, provided the clinical trials are conducted in India.

f. Expenditure incurred on cost of technology purchased will also be considered as eligible investment.

g. Expense incurred in relation to registration of the product in India and other countries including renewal charges is an eligible investment.

h. However, there are a few investments (as mentioned below) which will not be eligible to fulfill the investment criteria under the scheme:

i. second hand/ used/ refurbished plant, machinery, equipment, utilities or research and development equipment.

Expense in relation to construction of building where a new plant and machinery is installed is eligible. However, where the internal compound wall/ roads (associated infrastructure) are constructed, the eligible investment value for such associated infrastructure is limited to 20% of investment in new plant and machinery.

ii. Expenditure on consumables and raw material used for manufacturing

iii. Expenditure on guest house building, recreational facilities, office building, residential colonies and similar structures.

iv. The expenditure incurred on land required for the project / unit shall not be considered for determining threshold investment.

7. **Incentive:** The reward under the scheme is computed based on the incremental sales of the products every year along with the minimum cumulative investment on a timely basis.

Group	Minimum Investment	Minimum sales of eligible product
A	INR 1000 crores in 5 years (20% incremental every year)	For the first Financial year (FY 2022-23) – greater than INR 50 crores and for subsequent financial years 7% of increment in sale of eligible product
B	INR 250 crores in 5 years (20% incremental every year)	For the first Financial year (FY 2022-23) – greater than INR 10 crores and for subsequent financial year 7% of increment in sale of eligible product
C	INR 50 crores in 5 years (20% incremental every year)	For the first Financial year (FY 2022-23) – greater than INR 1 crore and for subsequent financial year 7% of increment in sale of eligible product
C (MSME)	Committed Investment over a period of 5 years (20% incremental every year)	For the first Financial year (FY 2022-23) – INR 50 lakhs and for subsequent financial year 7% of increment in sale of eligible product.

8. **Certain important relaxations in the scheme include that the applicant is eligible to change the product mix up to five times during the tenure of scheme.**

9. Where an applicant is unable to fulfill the minimum investment or incremental sales condition, the applicant will be denied the incentive for the particular year. However, it will not hinder the applicant from being eligible under the scheme in subsequent years too. Also, the applicants who exceed the prescribed minimum investments and sales will be eligible for additional incentive as per direction by DoP.

10. The incentive will be computed as below:

Net incremental Sales of Eligible Product x Rate of Incentive

The term incremental sales means sales of eligible product during a given Financial Year minus the baseline sales of the product in FY 2019-20. The rate of incentive is computed on the incremental sales over the base line.

Financial year	Incentive rate (Products falling in category 1 & 2)	Incentive rate (Products falling in category 3)
2022-23	10%	5%
2023-24	10%	5%
2024-25	10%	5%
2025-26	10%	5%
2026-27	8%	4%
2027-28	6%	3%

Let us take an instance to understand the complete scenario

X Ltd is engaged in manufacturing of cell based therapy drugs and has global manufacturing revenue of say INR 5000 crores. The Company recorded a turnover of INR 450 crore of the eligible product in India during FY 2019-20. The Company applies under the PLI scheme notified on 3 March 2021. Let us discuss the value of incentive, which would be disbursed to the Company.

Assuming that the Company has met the requirement for minimum investment as laid down in the scheme on a timely basis. The incentive eligible under the scheme will be as follows:

Financial Year	Net sale of eligible product (assumed)	Base line sales (FY 19-20)	Min. Incentive (Category A product)
2022-23	500 crores	450 crores	50 crores X 10% = 5 crores
2023-24 (more than min. 7% growth from FY 2022-23 of 500 crores)	550 crores	450 crores	100 crores X 10%= 10 crore
2024-25 (more than min. 7% growth from FY 2023-24 of 550 crores)	680 crores	450 crores	230 crores X 10% = 23 crores
2025-26 (more than min. 7% growth from FY 2024-25 of 680 crores)	750 crores	450 crores	300 crores X 10% = 30 crores
2026-27 (more than min. 7% growth from FY 2025-26 of 750 crores)	850 crores	450 crores	400 crores X 8% = 32 crores
2027-28 (more than min. 7% growth from FY 2026-27 of 850 crores)	920 crores	450 crores	470 crores X 6% = 28.20 crores

Therefore, it is very important for the manufacturer to project its business performance in terms of both investment requirements and revenue from eligible product under the scheme.

Key Points To Note

a. Where the eligible product under the scheme is used for in-house consumption of another manufactured eligible product that is sold, the Company will be able to claim the benefit only for one of the products. For eg. Z Ltd is engaged in manufacture of drug A which is also used in the manufacture of another drug B and claims benefit under the PLI scheme for both the drugs. The incentive can be claimed on the drug A or drug B when the final product (drug B) is sold.

b. Where the eligible product is used for in-house consumption and used for manufacture of any other product not eligible under the scheme, then in such a scenario the actual cost of the product will be considered as sales when the final product which consumed the eligible product is sold. Let's say M Ltd is engaged in manufacture of various products including "drug N" for which incentive under the PLI scheme is claimed. Drug N is sold in the market and also used for manufacture of another product by the Company. Hence, when drug N is used for production of another product, M Ltd is eligible to claim the incentive on drug N to the extent of cost of the manufacture when the other product is sold.

c. In a case where the applicant has availed incentive under any other scheme on a product which is used for in-house manufacture of eligible product under this scheme. The cost of the product used for manufacture will be reduced from the sales to compute incentive under the present scheme. Thereby, an applicant can claim benefit on a product only once.

Disbursement of Incentive

1. The application for scheme has to be submitted between 2 June 2021 to 15 August 2021 with the Project Management Agency (PMA) appointed by the Department of Pharmaceuticals (DoP) along with necessary declarations and bank guarantee from a scheduled commercial bank. The PMA or any other agency appointed by DoP is duly authorized to visit the offices/ manufacturing facility of the applicant. After obtaining an approval, the applicant will be required to furnish a quarterly review report within 30 days from the end of every quarter.

2. However, any changes in terms of shareholding pattern or successor-in interest has to be intimated to the PMA for approval of the DoP to consider for disbursal of incentives.

3. The applicant would be required to submit the application to claim the incentive on an annual basis along with relevant supporting within one month from the end of the financial year i.e., 30 April of succeeding FY.

4. The PMA after due verification would release 75% of the claim and the balance 25% of the claim will be released after submitting audited accounts. Thus, enabling a successful implementation of incentive scheme to an applicant.

Conclusion

As it is rightly known, "***Health is Wealth***". The health of the Indian economy can be invigorated only after successfully implementing the radical schemes of the government in wealth creating sectors in terms of both strengthening the economy and also creating multiple employment opportunities. Even though the country is witnessing its difficult times presently, it is to be remembered that every cloud has a silver lining. Our steps are in a positive direction and we will have to wait for a few years to reap the harvest. ■■■

Audit Trail in Accounting Software

The new requirement for the maintenance of audit trail by the companies will substantially affect the ways, the books of accounts are maintained on computer software especially, by small and medium size companies. The software companies will have upgrade their software to keep it compliant with the new requirements. Besides the new provision for the companies to use a software with audit trail, a new reporting requirement for the auditors of the company is also added, which will pose a challenge, especially in beginning.The drafting of the notification indicates strict application by the company. The notification was issued on 24th March 2021, and it was applicable to all companies (which uses accounting software) for each transaction, with effect from 1st April 2021. However, it is now deferred up to 1st April 2022. The reporting requirement for the auditors of the company is also applicable from the same date. Therefore, the auditors should address a situation where, they have to comment on the audit trail feature of the accounting software being used by the company, but the management of the company is not bound to maintain the audit trail. The reporting requirement is applicable from 1st April 2022 so, the auditors have to give their comments on the audit trail feature before it becomes mandatory for the companies to implement the requirement. Another situation could be, where the company has upgraded its system later, but before the closure of the account next year. Read on...

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Introduction

The Ministry of corporate affairs vide a notification No. G.S.R. 205(E) dated 24th March 2021, has amended The Companies (Accounts) Rules, 2014, and a new proviso is added to sub rule (3), which says,

"Provided that for the financial year commencing on or after the 1st day of April, 2021*, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording the audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled".

*The application of this provision is however, now postponed up to 1st April 2022.

This amendment will have a substantial impact on the way the accounting software are developed and used by companies in India.

The use of accounting software for maintaining financial records is common in these days. In fact, many commercial entities use several accounting software for their specific needs.

The amended rules says that "..... every company which **uses accounting software** for maintaining its books of

account……". It raises a question about what it means by **use of accounting software**? It also raises the question of what should be included in the books of accounts. Because the rules are applicable without exception to all companies, irrespective of size, nature, and status of the company.

Let us take an example of a One Person Company engaged in a trading business and using a readily available mobile application that gives the details of receivables and payables. The rest of the accounting records are kept in physical notebooks.

Once, it is established that the company uses an accounting software, these provisions become applicable,(considering the mobile application, and accounting software), and therefore, I do not know if in this situation, whether the company has to compulsorily switch over to an accounting software that keeps the audit trails, because rules require the company to use "…accounting software which has a feature of recording audit trail of **each and every transaction…"** or the word "each and every" will be understood to have a limited reference to those transactions which are currently kept on accounting software (the mobile application in our above example). The second approach appears to be more practical and advisable.

It may also be noted that section 128 of the Companies Act 2013 (the Act) provides for the maintenance of the books of accounts at a registered office or at some other location and it also provide that such records **may** be kept in electronic form. It does not force a company to keep the accounts in electronic form.

Nowadays, it is practically impossible to avoid use of accounting software. Almost all companies having active businesses, use accounting software. The question here is whether, that software has a feature of keeping audit trail.

To ensure that the accounting software has an audit trail feature, in compliance with the requirement of the new provision, the management may consider the following matters.

1. What would be the minimum information an accounting software should provide as an audit trail report, to render the software, a Companies Act complied accounting software?

2. The rules provide that this provision is applicable from 1st April 2022. These rules are prescribed under the provisions of section 128 of the Act. The noncompliance of the provisions of section 128 attracts a penalty, which ranges from fifty thousand to five lakh rupees.

   The management should also think on, how to deal with a situation when it is evident that the accounting software used by the company does not comply with the new provisions.

3. There is a range of accounting software available ranging from an extremely basic function to a complex one which takes business decisions with the help of AI (Artificial Intelligence). Different accounting software would record the same transaction in different ways by capturing or not capturing the other dimensions of the same transaction, and therefore it would become highly judgmental as to what would constitute and audit trail. For example, SAP, beside capturing the basic details of a transaction, also captures more information on the same transaction, the audit trail of such additional information may or may not be kept. According to the notification, an accounting software is required to capture the audit trail for all details once it is recorded.

4. The management of the company is to ensure that the accounting software should have a control to ensure that the audit trail feature was prevented from being disabled.

   Naturally, the audit trail entry cannot be manually changed by the users. The accounting software must capture the trail automatically as the operations are performed. The audit trail feature should be hard coded so that it does not give an option to enable or disable the feature. However, it may not be the case for all accounting software. Where an option is available to change the

> Nowadays, it is practically impossible to avoid use of accounting software. Almost all companies having active businesses, use accounting software. The question here is whether, that software has a feature of keeping audit trail.

applicability of the audit trail feature, the management should put in place other controls, to ensure that the audit trail feature remains operative continuously.

5. For any software, the audit trail data is a set of records like other records and therefore the audit trail records are saved in the same data base besides the other records. Any direct modification to the database will not be captured in the audit trail, secondly, the audit trail records itself can be changed once an access to the database is available.

6. Any modification in the database, not routed through user interface would not be recorded in the audit trail or audit log.

A. Applicability

Every company which uses accounting software for maintaining its books of account.

So, the provision is applicable to every company irrespective of size, nature and status except those companies which do not use accounting software. Traditional bookkeeping methods have now been enhanced by computer programs that assist the task with accuracy. Even a very small company involved in simple trading activity would be using mobile applications and other such primary accounting software which provides a basic platform to address their business needs. There could be a situation where though most of the transactions are not kept in accounting software and some to the records are kept in spreadsheet software.

The provision is also applicable to a one person company, small company, dormant company and to a section 8 company beside other companies if it maintains its books of account on accounting software.

The requirement of maintaining the books of accounts on a software which provide audit trails feature was initially applicable from the financial year starting from the 1st April 2021. However, the MCA vide notification No. 247 (E) dated 1st April 2021 has deferred the application up to 1st April 2022.

The companies must check whether their accounting software comply with this requirement or not. If not, they must upgrade or modify their accounting software to ensure it complies. As per the amended rules, this requirement of using an accounting software with audit trail feature, will be applicable from 1st April 2022, and therefore the companies and accounting software developers do have a reasonable time to upgrade their systems.

Another question it triggers is, whether the auditors should consider a situation where the accounting software adopted by the company is not compliant with Companies (Accounts)rules 2014, while drafting his audit report?

The Ministry of Corporate affairs vide a notification G.S.R. 206(E) dated 24th March 2021, has amended The Companies (Audit and Auditors) Rules, 2014 which provides that, amongst other things to be reported by the auditors under the head **"Other Matters to be Included in Auditors Report", para** (g) has been inserted which ask auditor ..

"(g) Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention".

B. What is an Audit Trail?

Audit trail is primarily used to ensure integrity of electronic data. It is a set of system records generated by an accounting software containing details of operations and modification to a transaction from beginning to end. It is also referred as to audit log. It provides details on the operations on a particular transaction in its chronological order.

Audit trail is necessary for verification of different elements of the transaction such as existence, completeness, occurrence, and accuracy.

Basically, it contains details such as

1. Details about origin of the records – date and time stamp.

> "The companies must check whether their accounting software comply with this requirement or not. If not, they must upgrade or modify their accounting software to ensure it complies.

2. Reference or copy of the basic records or documents based on which the transaction is recorded – original and new values.
3. Details of approval of the transactions – designation of approving person.
4. Details of modification in the records of transaction – with reasons of change.
5. Identification of person involved – user ID.

Some software provide special reports that help the auditors in the verification of the records. However, there is a difference between the reports for the auditors and audit trail. Such reports may or may not fall within the definition of audit trail report.

C. Verification of Software audit trail.

The verification of audit trail is neither a new area nor a new method of audit, in fact it is part of regular audit exercise. The auditor while conducting verification of different audit assertions, verifies audit trail to ensure existence, completeness, occurrence, accuracy etc. However, the format of audit trail defers when it comes to the electronic data processing environment.

D. Audit trail of each transaction

The notification has specifically clarified that the accounting software should capture audit trail for each transaction to make the software compliant of these rules.

The question of which type, and nature of transactions are to be covered under the system of audit trail generation. This question arises because different accounting software records the transaction in different ways and style. A complex accounting software would capture multiple dimensions of a transaction, whereas a basic accounting software would record the transaction with primary details only.

Similarly, the method and style of recording the audit trail and generating audit trail report would defer in each of the accounting software. Some software simply highlight the changes whereas some software show changes for the given transaction but do not have the facility to generate a report of the audit log. I think MCA or the ICAI should provide a clarification about the form and style of the audit trail feature in an accounting software.

In the absence of proper guidelines, it would be difficult to determine which transactions should be subjected to the audit log and for which transaction the records of audit trails are not necessary for the compliance of these revised rules.

E. What type of report should the accounting software provide?

The audit trail or audit log is required to pinpoint the exact person who has initiated or modified the transactions and the basic records or documents supporting the occurrence of the transactions. It should present the details in sequential order of its occurrence.

F. Reporting requirement in Auditor's report.

The auditor is asked four questions under para (g) of rule 11.

> "Audit trail is primarily used to ensure integrity of electronic data. It is a set of system records generated by an accounting software containing details of operations and modification to a transaction from beginning to end.

1. Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail?
2. Whether such feature has been operated throughout the year for all transactions recorded in the software?Whether the audit trail feature has been tampered with?
3. Whether the audit trail has been preserved by the company as per the statutory requirements for record retention?

The new reporting requirement under The Companies (Audit and Auditors) Rules, 2014 is applicable with effect from 1st April 2022, and therefore, the auditors, while issuing a report on or after 1st April 2022, must consider the new reporting requirement in the report and accordingly, comment on all four questions.

The audit plan for the verification of the audit trail should include.

1. Discussion with the IT team of the company, about the functioning of the audit trail feature and content of log report (audit trail) among others.

2. Verification of the report generated from the system and checking that the report provided by the software contains all necessary details to constitute it as a proper audit trail.

3. The auditors have to comment on whether the audit trail feature was in operation throughout the year and all the transactions recorded are subjected to the audit trail module of the software.

   If the audit trail feature is hard coded and automatic, the answer to this question involves a low audit risk. In case there is an option to enable or to disable this feature, the auditor should test the other controls, in the system to ensure that the feature was in continuous operation through the audit period.

4. To answer the third question, whether the audit trail feature has been tampered? This requires knowledge of the ISA audit and a detailed study of the operations of the audit trail function.

   The possibility of the audit trail feature being tampered also poses a great audit risk, especially in a highly computerized audit environment. The auditor should consider this risk while planning other audit areas.

5. Auditors require commenting on whether the audit trail records were preserved by the company for period as determined by the Companies' Act 2013.

   Since the auditors are specifically asked that "Whether the audit trail has been preserved by the company as per the statutory requirements for record retention".The auditor is required to comment on preservation of audit trail records of earlier years. Reporting on the audit trail of earlier periods would require the auditors to check the records of all earlier periods. Besides, the auditors should also consider,

   a. Any change or update of the accounting software in past.

   b. Adoption of new software in recent past.

   c. If the company is under investigation under any provision of the Companies' Act 2013, the records should be kept for that period as well.

G. At Last

The new duty cast on the management to use a software that provides a feature of audit trail and the new duty casted on auditor to report on audit trail are two separate provisions and should be linked with each other.

While preparing the audit report after 1st April 2022, the auditors have to comment on the audit trail feature of the accounting software being used by the company, even though, for the accounting period for which the report is being issued, the management of the company was not bound to maintain audit trail.

> In the absence of proper guidelines, it would be difficult to determine which transactions should be subjected to the audit log and for which transaction the records of audit trails are not necessary for the compliance of these revised rules.

So far as it relates to big business houses, which uses well-structured ERP like SAP or MS Dynamics NAV, the new requirement does not pose a big question, as these ERPs are already in compliance with the requirements. It may pose a challenge where the company uses and in-house developed ERP or and ERP where this feature of audit trail was not given an importance for one or another reason.

Some browser-based accounting solutions available in market do have a transaction tracking facility, but they do not provide a log report while other software have not given importance to the audit trail feature though it gives some useful reports for the auditors. ■■■

ACCOUNTANT'S BROWSER

"PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE"

Index of some useful articles taken from Periodicals received during June- July 2021 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

NOCLAR proposals aim to help CPAs find the right balance by Ken Tysiac. *Journal of Accountancy,* June 2021, pp.14-19.

2. Audit

Making audits more effective through data visualization by Nick Higginbotham and Luke Nash. *Journal of Accountancy,* April/ May-2021, pp.13-19.

Reaching new standards by Gianfranco Bonadies. *A Plus,* Vol.17/3, 2021, pp.24-31.

3. Economics

Effect of exchange rate uncertainty on bilateral trade performance in SAARC countries: A gravity model analysis by Banna Banik and Chandan Kumar Roy. *International Trade, Politics and Development*, Vol.5/1, 2021, pp.32-50.

Eyes on the prize by John Loring, *CPA Canada,* May/June-2021, pp.30-37.

Social capital and firms choice of financing under credit constraints: Microeconomic evidence from Pakistan from Sana Ullah and Mohammad Tariq Majeed. *Decision,* Vol.48/3, 2021, pp.3-13.

Trade competeiveness of India's textile and apparel sector by T K Rout and Gordhan K Saini. *Economic and Political Weekly,* Vol.56/22, May 29, 2021, pp.55-62.

4. Investment

SEBI and sustainability reporting in India- Embracing the future by Pradeep Ramakrishnan and Surabhi Gupta. *Chartered Secretary,* Vol.51/06, June 2021, pp.27-33.

5. Management

Contributions of entrepreneurial orientation in the use of agile methods in project management by Mesquita Blas Garcia and Cristina Dai Pra Martens. *Innovation and Management Review,* Vol.18/01, 2021, pp.17-33.

Innovation in the subsistence marketplace: An analysis considering multiple concepts and approaches by Vitor Koki da Costa Nogami and Andres Rodriguez Veloso. *Innovation and Management Review,* Vol.18/01, 2021, pp.2-16.

Moving from Human Resource Management to human asset management: A key to competitive advantage by Manish B. Raval and Ashish B. Gorvadiya. *Chartered Secretary,* Vol.51/06, June 2021, pp.100-102.

Predictors and outcome of customer satisfaction: Moderating effect of social trust by Sara Javed and Md. Salamun Rashidin. *Decision,*Vol.48/3, 2021, pp.27-48.

6. Taxation and Finance

American rescue plan act enacts many tax provisions by Alistair M. Nevius, J.D. *Journal of Accountancy,* April/May-2021, pp.20-22.

Revolutionizing the taxation experience by Doris Chik and Eugene Yeung. *A Plus,* Vol.17/3, 2021, pp.8-13.

Transfer pricing and advance pricing Agreements in India by Rajiv V Shah and Ravisankar G. *Chartered Secretary,* Vol.51/06, June 2021, pp.96-99.

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

Legal Decisions

Income Tax

LD/70/13 ITAT Chennai: I.T.A.No.1562/ Chny/2019 The Dy. Commissioner of Income Tax Vs. Kovai Media P.Ltd. 24/06/ 2021

Assessee-Company is a start-up recognised by the Department of Industrial Policy & Promotion and had issued equity shares at a premium of Rs. 124.67 per share valued as per the discounted cash flow (DCF) method; The AO held that valuation method was not in accordance with Rule 11UA and therefore sought to tax the excess premium under u/s 56(2) (viib); ITAT took note of CBDT circular dealing with exemptions for start-ups from applicability of section 56(2)(viib) and observed that exemption was available even in the cases where addition u/s 56(2)(viib) was made before the issuance of Notification dated 19/02/2019 subject to submission of prescribed declaration and fulfilment of necessary conditions, which the Assessee was found to have fulfilled in the present case; ITAT affirmed CIT(A)'s view that section 56(2)(viib) was not applicable to assessee.

LD/70/14; ITAT Mumbai: ITA No.6322/Mum/2019 Dy. Commissioner of Income Tax Vs. M/s. Nirshilp Securities Pvt. Ltd 21/06/2021

ITAT deletes disallowance of loss on account of National Spot Exchange Limited (NSEL) scam by holding it to be non-speculative in nature and being allowable as a business loss u/s 28; Assessee is engaged in business of trading in shares, Assessee had purchased and sold commodities on the electronic exchange platform by trading in the paired trader's contracts and used to be unaware of the identity of the buyer/ seller while entering into the contract; In 2013 the NSEL scam was exposed wherafter a significant shortage of stock was reported by an independent auditor in NSEL's accredited warehouses and the assessee had incurred a loss/cost of Rs.87.93 Cr; ITAT noted that assessee had actually made payment of Rs. 87.93 Cr towards cost of commodities for which no stock was received; AO erred in interpreting the meaning of "speculative transaction" u/s 43(5) and further in applying the test of actual delivery without first satisfying whether a contract for purchase and sale falls within the ambit of a contract envisaged under law; ITAT termed AO's allegations of the purchase and sale transactions being bogus and non-genuine as being baseless.

LD/70/15; ITAT Mumbai: .I.T.A. No.5594/ Mum/2018 Arysta LifeScience India Limited Vs. The Asst. Commissioner of Income Tax 17/06/2021

Assessee earned management fees of Rs.1489 Lacs from its two AEs however, the said amount was reflected as Rs.1002.13 Lacs in Form 3CEB as filed by the assessee along with the return of income; CIT(A) had enhanced assessee's income by Rs.1489 Lacs; ITAT noted that management fees of Rs.1489 lacs earned by assessee stood credited to assessee's P&L Account and were thus already been considered while computing assessee's income and thus no enhancement was warranted; ITAT explained that that the figures in Form No.3CEB have been reported on 'net basis' which at the most, could be an inadvertent/ bona-fide/ oversight error.

LD/70/16; ITAT Mumbai: ITA No.487/Mum/2021 The Sardar Partapsingh Education Society Vs. The Commissioner of Income Tax (Exemptions) 11/06/ 2021

ITAT held that merely because trust earns surplus it cannot be said to exist for profit; Provisions of section 13(1)(c) need not be looked into for claim of exemption u/s 10(23C)(vi); Assessee sought exemption u/s 10(23C)(vi) for which the provisions of section 13(1)(c) need not be looked into as it is applicable if exemption is claimed u/s 11/12; Exemption u/s 10(23C)(vi) was denied by the CIT(E) on the grounds that the Assessee had earned surplus, paid rent to Trustees for land of the school building; Mere excess of income over expenditure cannot be decisive of trust existing solely for profits.

LD/70/17; Delhi High Court: CM No. 18316/2021 Gurgaon Realtech Limited Vs. National Faceless Assessment Centre 04/06/ 2021

Assessment order passed u/s 143(3) for AY 18-19 set aside by the Delhi High Court observing that after 01.04.2021 the assessment order could have only been passed in consonance with the provisions of Section

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.

144B; Assessee had filed an appeal before the CIT(A) only to ensure that the time period to file the appeal is not crossed, before simultaneously challenging the validity of the assessment order by a writ petition; As per Revenue, the writ was not maintainable since appeal was also filed and pending; High Court held that the assessment order being without jurisdiction, was thus non-est in the eyes of law writ was thus maintainable.

LD/70/18; ITAT Mumbai: ITA No.7692/Mum/2019 IDBI Bank Limited Vs. The Asst. Commissioner of Income Tax 31/05/ 2021

For AY 2007-08, assessee filed a return of income declaring a loss of Rs.155 Cr.; The AO had dropped assessment proceedings which were initiated pursuant to issuance of notice u/s 143(2) noting that return of income was invalid; In revisionary proceedings u/s 264, CIT directed AO to treat assessee's ITR-V as valid since it was physically furnished as signed by Managing Director of assessee; AO followed the said direction however still disallowed the assessee from carrying forward the loss of Rs.155 Cr; ITAT directed to allow the benefit of carry forward of loss by holding that the AO in the order giving effect to CIT's directions travelled beyond the scope of directions by disentitling the assessee from carrying forward the loss.

LD/70/19; ITAT Ahmedabad: ITA No. 405/AHD/2020 Ashokbhai kanubhai Patel Vs.The Asst. Commissioner of Income Tax 31/05/2021

Section 54B does not require the Assessee to carry out agricultural operations himself; ITAT allows exemption u/s 54B to the assessee-non-resident; The assessee with his father and brother sold an agricultural land for Rs.16.98 Cr. out of which Assessee's share was of Rs.7.24 Cr. and he claimed exemption u/s 54B of Rs.6.64 Cr in AY 2016-17 on account of purchase of another land for agricultural operations; Onus is upon the revenue to prove that the concerned land was not used for the purpose of agricultural operations by bringing tangible material on record which can be used against the assessee and against the form 7/12 along with form 8 available on record.

LD/70/20; ITAT Mumbai: ITA No. 2668/Mum/2018The Dy. Commissioner of Income Tax Vs. M/S GBTL Limited 28/05/ 2021

Assessee-Company received Rs. 2.27 Cr. from its holding company in order to pay the director's remuneration beyond the statutory limit of Rs. 48 lacs prescribed under the Companies Act for the assessee; In its return of income, the assessee reduced the entire remuneration of Rs.2.76 Cr. paid to the director while treating the receipt as capital grant; AO treated the grant as a benefit taxable under the general provisions of Sec. 56(1); ITAT allowed Revenue's appeal noting that assessee had claimed the entire payment of Rs. 2.76 Cr. as expenditure in its return of income without taking credit of the sum received from the holding company; Separately ITAT allowed deduction of leave encashment salary noting that leave encashment is not a statutory liability but a contractual liability and hence does not attract Section 43B.

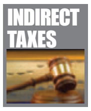
LD/70/21; Madras High Court: W.P.No.32751 of 2017 Durr India Private Limited Vs. The Asst. Commissioner of Income Tax 27/05/ 2021

High Court held that that once the case was remitted back, it was incumbent to pass a draft assessment order u/s.143 (3) r.w.s. 92CA(4) and Sec144C(1); When the law mandates a particular thing to be done in a particular manner, then it has to be done in that manner; Final order in second round (after matter was remanded back) was passed by Revenue by 'bypassing' statutory safeguards prescribed under the IT Act and hence High Court remitted the case back with a direction to pass draft assessment order within period of 3 months from date of receipt of this order.

LD/70/22; ITAT Indore: ITA No. 477/Ind/2013 Swastik Coal Corporation Pvt Ltd. Vs. The Asst. Commissioner of Income Tax 20/05/ 2021

Before ITAT, the assessee claimed that notice u/s 143(2) served upon it for AY 2008-09 was not in confirmation of the procedure laid down in Sec. 282; Revenue claimed to have served the notice through speed post and submitted the photocopy of the Speed Post envelope as proof on record; ITAT observed that Revenue was unable to prove the name/ designation/ identification of the person to whom the notice was served and there was no concrete evidence produced by the Revenue with regard to the services of notice; ITAT accepted assessee's contention that the signature of the recipient does not belong to any of the officer/director or employee of the company.

Legal Update



GST

LD/70/23 [2021-TIOL-1505-HC-MAD-GST], Greenwood Owners Association Vs UOI, 1-07-2021.

Exemption under entry No. 77 of the Exemption Notification No.12/2017-CTR, towards the contributions made to Resident Welfare Association (RWA) for sourcing of goods and services from a third person for the common use of the members of RWA applies even to the cases where the amount of contribution exceeds the monetary limit prescribed in the said notification i.e., Rs.7,500. However, the maximum exemption would be up to an amount of Rs.7,500 per month per member.

LD/70/24 [2021-TIOL-395-CESTAT-MAD] In The High Court Of Gujarat At Ahmedabad Nagri Eye Research Foundation Vs Union of India 09-07-21

The sale of medicines by a charitable trust to outdoor patients, even at discounted rates amounts to business since as per section 2(17) of the CGST Act, it is immaterial whether such a trade or commerce or such activity is for a pecuniary benefit or not.

LD/70/25 [2021-TIOL-395-CESTAT-MAD] Commissioner of Customs Vs M/S Angel Starch and Food Pvt Ltd.

Where the law contains the provisions for the amendment to the shipping bills, and where there the amendments are genuine, the department cannot deny the legal right to amend the details in the shipping bill.

LD/70/26 [2021-TIOL-398-CESTAT-BANG] M/S Automotive Marketing Pvt Ltd. Vs Commissioner of Central Tax And Central Excise, Cochin 07-07-2021

CA certificate is believed to be issued after sufficient verification of records and thus the evidentiary value of the same should not be challenged, in cases where such a certificate is issued in refund matters to the effect that incidence of tax has not been passed on to the customers.

Disciplinary Case

Conversion of unsecured loan by Auditor into capital i.e., corpus fund without obtaining confirmation. Held, Respondent is guilty of Professional misconduct under Clause (7) of Part I the Second Schedule to the Chartered Accountants Act 1949.

Held

In the instant case, the charge against the Respondent is that he manipulated the Balance Sheet of the "Society" for the year 2013-2014 to wipe out entries of unsecured loans and produced false evidence to SHO and investigation officer. Further allegation is that he does not obtain any confirmation from the Complainant to transfer the Unsecured Loans to the Corpus Fund of the Society. The Committee observed that there is mistake on the part of the Respondent for not obtaining the confirmation of converting unsecured loans into capital (Corpus Fund). There was an unsecured loan of the Complainant amounting to Rs.23.70 Lakhs in the Society wherein the Respondent was the Auditor and he did not act diligently to obtain the confirmation from the Complainant before certifying conversion of the same into Corpus Fund. The same fact was also got confirmed from the witness (President of the Society). The witness submitted that the money was never being borrowed; hence there is no question of taking concurrence from the Complainant but from the Respondent's point of view it was borrowing, recorded in books of accounts. The Committee further noted that Respondent accepted his guilt/ mistake that confirmation was not sought by him from the Complainant. In view of above noted facts, the Committee held that the Respondent was grossly negligent in performing his professional duties. He is guilty of professional and other misconduct falling within the meaning of Clause (2) of Part IV of First Schedule and Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Mrs. Namita Gupta Vs CA. Kulbhushan Garg (PPR-/341//2014-DD/362/2014/DC/527/2017)

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST 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. *Amendment in Rule 8AA, insertion of new Rule 8AB and Form No. 5C vide Income-tax (18th Amendment), Rules, 2021 - Notification No. 76/2021, dated 02-07-2021*

Vide this notification, a new sub-rule (5) has been inserted in Rule 8AA (specifying method of determination of period of holding of capital assets in certain cases). Rule 8AA(5) provides the rules for determination of capital asset as long term or short term capital assets in case the amount which is chargeable to income-tax as income of specified entity under section 45(4) under the head "Capital gains". New rule 8AB has been inserted in the Income-tax Rules, 1962 to provide rules regarding attribution of income taxable under section 45(4) to the capital assets remaining with the specified entity, under section 48. A new Form No. 5C has been introduced to be filed by a specified entity furnishing details of amount attributed to capital asset remaining with the specified entity.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_76_2021.pdf

2. *New Rule 8AC notified vide Income - tax (19th Amendment), Rules, 2021 - Notification No. 77/2021, dated 07-07-2021*

Finance Act 2021 amended section 50 by inserting a proviso to the effect that in a case where goodwill of a business or profession forms part of a block of asset for AY beginning on 01.04.2020 and depreciation thereon has been obtained by the assessee under the Act, the written down value of that block of asset and short term capital gain, if any, shall be determined in such manner as may be prescribed. Accordingly, vide this notification, a new Rule 8AC laying down manner of computation of short term capital gains and written down value u/s 50 where depreciation on goodwill has been obtained is inserted in the Income-tax Rules, 1962.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_77_2021.pdf

3. *Various assessees notified u/s 10(46) - Notification No. 78,80&81/2021, dated 09-07-2021 & 14-07-2021*

'Haryana Building and Other Construction Workers Welfare Board' (PAN AAATH6995H), 'Haryana Labour Welfare Board' (PAN AAATH2451C) & 'Himachal Pradesh Computerization of Police Society', (PAN AABAH0360G) are notified for the purposes of section 10(46) in respect of specified income subject to specified conditions for AYs 2021-22 to 2024-25 and for the periods as specified in the respective notifications.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_78_2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification_80_2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification_81_2021.pdf

4. *M/s Patanjali Research Foundation Trust approved for the purposes of section 35(1)(ii) - Notification No. 79/2021, dated 12-07-2021*

M/s Patanjali Research Foundation Trust, Haridwar (PAN:-AABTP8183E) approved for the purposes of section 35(1)(ii) r.w.r. 5C & 5D under the category "Research Association" for Scientific Research from AY 2022-23 to 2027-28.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_79_2021.pdf

(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)

II. CIRCULARS

1. *Circular regarding use of functionality under Section 206AB and 206CCA of the Income-tax Act, 1961 - Circular No. 11/2021, dated 21-06-2021*

Vide this Circular, the CBDT had briefed about the logic of the new functionality "Compliance Check for Sections 206AB & 206CCA" being made available on the reporting portal (https://report.insight.gov.in/) of the Income-tax department for tax deductors and collectors who are liable for compliance of the provisions of section 206AB and 206CCA w.e.f. 01.07.2021. Further, an Order u/s 138(1)(a)(i) has also been issued simultaneously directing DGIT(Systems) be the specified income-tax authority for furnishing information to the 'Tax Deductor/Tax Collector', having registered in the reporting portal of the Project Insight through valid TAN, to identify the 'Specified Persons' for the purposes of section 206AB and 206CCA through the aforesaid functionality. Also, the procedure to be followed for sharing of information with tax deductors/collectors for the same is laid down vide issue of Notification in this regard.

The detailed Circular and Order can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/circular/circular_11_2021.pdf

https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/453/order_206AB_and_206CCA_complaince_check_MiscComm_21_6_21.pdf

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/941/Press-Release-Clarification-for-the-use-of-functionality-under-section-206AB-206CCA-dated-23-06-2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification01_2021-compliance-check-functionality.pdf

2. *Guidelines under section 194Q of the Income-tax Act, 1961 - Circular No. 13/2021, dated 30-06-2021*

Section 194Q(3) empowers the CBDT to issue guidelines for the purpose of removing difficulties. Vide this Circular, in exercise of power contained u/s 194Q(3), the CBDT, with the approval of the Central Government, has issued the guidelines specified in this Circular. These guidelines at some places have also tried to remove difficulties in implementing the provisions of section 194-O and section 206C(1H) using power contained in section 194-O(4) and section 206C(1-I) of the Act. Guidelines have been issued in respect of the following:

(a) Applicability on transactions carried through various Exchanges

(b) Calculation of threshold for the financial year 2021-22

(c) Adjustment for GST, purchase returns

(d) Whether non-resident can be buyer under section 194Q of the Act

(e) Whether tax is to be deducted when the seller is a person whose income is exempt

(f) Whether tax is to be deducted on advance payment

(g) Whether provisions of section 194Q of the Act shall apply to buyer in the year of Incorporation

(h) Whether provisions of section 194Q of the Act shall apply to buyer if the turnover from business is 10 crore or less

(i) Cross application of section 194-0, sub-section (lH) of section 206C and section 194Q of the Act

The detailed Circular can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/circular/circular_13_2021.pdf

3. *Guidelines under section 9B and sub-section (4) of section 45 of the Income-tax Act, 1961 - Circular No. 14/2021, dated 02-07-2021*

Section 9B(4) provides that if any difficulty arises in giving effect to the provisions of this section and section 45(4), the CBDT may, with the approval of the Central Government, issue guidelines for the purposes of removing the difficulty. The CBDT, has issued the guidelines in this regard as specified in this Circular. Guidelines have, *inter alia,* clarified that rule 8AB also applies to capital assets forming part of block of assets. Wherever the terms capital asset is appearing in the rule 8AB, it refers to capital asset whose capital gains is computed under section 48 as well as capital asset forming part of block of assets. Further, wherever reference is made for the purposes of section 48, such reference may be deemed to include reference for the purposes of section 43(6)(c) and section 50.

The detailed Circular can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/circular/circular_14_2021.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. Income Tax Department conducts searches in Raipur - Press Release, dated 24-06-2021

Specific actionable intelligence was received by the Income Tax Department that a set of people were to carry out an outside-the-books cash transaction of a substantial amount at Raipur, Chhattisgarh. Upon further investigations, the input was found to be credible and the hawala dealer was identified.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/944/PressRelease_ITD_conducts_searches_in_Raipur_24_6_21.pdf

2. Government grants further extension in timelines of compliances & also announces tax exemption for expenditure on COVID-19 treatment and ex-gratia received on death due to COVID-19 - Press Release, dated 25-06-2021

Government has decided to provide income-tax exemption to the amount received by a taxpayer for medical treatment from employer or from any person for treatment of COVID-19 during FY 2019-20 and subsequent years. Further, in order to ease compliances to be made by taxpayers, reliefs are being provided through Notifications nos. 74/2021 & 75/2021 dated 25.06.2021 & Circular no. 12/2021 dated 25.06.2021 by extending the timelines for making such compliances.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/945/PressRelease_Government_grants_further_extension_in_timelines_compliances_25_6_21.pdf

https://www.incometaxindia.gov.in/communications/circular/circular_no_12_2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification_74_2021.pdf

https://www.incometaxindia.gov.in/communications/notification/notification_75_2021.pdf

3. Order designating web portal www.incometax.gov.in as the "designated portal" for the purpose of Faceless Assessment Scheme & Faceless Penalty Scheme - F. No. CIT (NaFAC)-1/2021-22/203&204, dated 29-06-2021

CBDT has issued Order for designating the web portal www.incometax.gov.in as the "designated portal" for the purpose of Faceless Assessment in terms of Explanation (i) to section144B(1). Simultaneously, CBDT has issued another Order designating the web portal www.incometax.gov.in as the "designated portal" for the purpose of Faceless Penalty in terms of sub-para(xi) of Para 2 of National Faceless Penalty Scheme,2021 (Notification No. 2/2021 dated 12.01.2021).

The complete text of the above Order(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/456/Web_Portal_Faceless_Assessment_29_6_21.pdf

https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/457/Web_Portal_Faceless_Penalty_Scheme_29_6_21.pdf

4. CBDT grants further relaxation in electronic filing of Income Tax Forms 15CA/15CB – Press Release, dated 05-07-2021

The CBDT has decided that the taxpayers can submit Forms 15CA/15CB in manual format to the authorized dealer till 15.07.2021. Authorized dealers are advised to accept such Forms till 15.07.2021 for the purpose of foreign remittances. A facility will be provided on the new e-filing portal to upload these forms at a later date for the purpose of generation of the Document Identification Number.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/946/PressRelease_CBDT_grants_further_relaxation_in_electronic_filing_of_ITForms_15CA_15CB_5_7_21.pdf

5. Processing of returns with refund claims under section 143(1) of the Income-tax Act, 1961 beyond the prescribed time limits in non-scrutiny cases – Order u/s 119, dated 05-07-2021

To mitigate genuine hardship being faced by the taxpayers, the CBDT, by virtue of its powers u/s 119, has relaxed the time-frame prescribed in second proviso to section 143(1) and directed that all validly filed returns up to AY 2017-18 with refund claims, which could not be processed under u/s 143(1) and which have become time-barred, subject to the exceptions mentioned in this Order, can be processed now with prior administrative approval of Pr.CCIT/CCIT concerned. The intimation of such processing u/s 143(1) can be sent to the assessee concerned by 30.09.2021.

The complete text of the above Order can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/461/Processing_of_returns_with_refund_claims_MiscComm_5_7_21.pdf

6. *Income Tax Department conducts searches in Hyderabad – Press Release, dated 09-07-2021*

Income Tax Department carried out a search and seizure operation on 06.07.2021on a group based in Hyderabad. The group is engaged in real estate, construction, waste management and infrastructure.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/947/PressRelease_ITD_conducts_searches_in_Hyderabad_9_7_21.pdf

7. *Income Tax Department conducts surveys in Bengaluru – Press Release, dated 13-07-2021*

ITD carried out a survey operation on 08.07.2021 on two business premises in Bengaluru on one of India's leading manpower services provider. The assessee has been claiming huge deduction u/s 80JJAA which incentivises new employment generation, subject to fulfillment of certain conditions such as emoluments paid to the employee (which should be less than Rs. 25,000 per month) and number of days of employment etc.

The complete text of the above Press Release can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/948/Press-Release-IT-Department-conducts-surveys-in-Bengalur-dated-14-07-2021.pdf

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Significant Notifications and Circulars issued in GST and Customs from 16th June, 2021 to 15th July, 2021

GST

NOTIFICATIONS

1. *Penalty for non-compliance with the provisions of Dynamic QR Code to be waived off till 30th September*

The CBIC *vide Notification No. 28/2021 CT dated 30th June, 2021* has waived 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,* till 30th September, 2021.

CIRCULAR

2. *Clarification regarding applicability of GST on supply of food in Anganwadis and Schools*

The CBIC *vide Circular No. 149/05/2021 dated 17th June, 2021* has clarified that services provided to an educational institution by way of serving of food (catering including mid- day meals) is exempt from levy of GST irrespective of its funding from Government grants or corporate donations [under *Entry 66(b)(ii) of Notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017*].

As per said entry 66, any catering service provided to an educational institution is exempt from GST. The entry further mentions that such exempt service includes mid-day meal service as specified in the entry. The scope of this entry is thus wide enough to cover any serving of any food to a school, including pre-school.

Further, an Anganwadi *inter alia* provides pre-school non-formal education. Hence, aganwadi is covered by the definition of educational institution (as pre-school). Hence, serving of food to anganwadi shall also be covered by said exemption, whether sponsored by Government or through donation from corporates.

3. *Clarification regarding applicability of GST on the activity of construction of road where considerations are received in deferred payment (annuity)*

The CBIC *vide Circular No. 150/06/2021 dated 17th June, 2021* has clarified that *Entry 23A of Notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017* does not exempt GST on the annuity (deferred payments) paid for construction of roads.

Service falling under heading 9967 (service code), by way of access to a road or a bridge on payment of annuity is exempt *vide* said *Entry 23A*. Heading 9967 covers "supporting services in transport" under which, code 996742 covers "operation services of National Highways, State Highways, Expressways, Roads & streets; bridges and tunnel operation services". Entry 23 of said notification exempts "service by way of access to a road or a bridge on payment of toll". Together the Entries 23 and 23A exempt access to road or bridge, whether the consideration is in the form of toll or annuity [heading 9967].

Services by way of construction of road fall under heading 9954. This heading *inter alia* covers general construction services of highways, streets, roads railways, airfield runways, bridges and tunnels. Consideration for construction of road service may be paid partially upfront and partially in deferred annual payments (and may be called annuities).

It has been clarified that plain reading of Entry 23A makes it clear that it does not cover construction of road services (falling under heading 9954), even if deferred payment is made by way of instalments (annuities).

4. *Clarification regarding GST on supply of various services by Central and State Boards (such as National Board of Examination)*

The CBIC *vide Circular No. 151/07/2021 dated 17th June, 2021* has been clarified that:

i) GST is exempt on services provided by Central or State Boards (including the boards such as National Board of Examination) by way of conduct of examination for the students, including conduct of entrance examination for admission to educational institution [under *Entry No. 66 (aa) of Notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017*].

ii) GST is also exempt on input services relating to admission to, or conduct of examination, such as online testing service, result publication, printing of notification for examination, admit card and questions papers etc., when provided to such Boards [under *Entry No. 66(b)(iv) of Notification No. 12/2017-Central Tax (Rate) dated 28th June, 2017*].

iii) GST at the rate of 18% applies to other services provided by such Boards, namely of providing accreditation to an institution or to a professional (accreditation fee or registration fee) so as to authorise them to provide their respective services.

5. *Clarification regarding rate of tax applicable on construction services provided to a Government Entity, in relation to construction such as of a ropeway on turnkey basis*

The CBIC *vide Circular No. 152/08/2021 dated 17th June, 2021* has clarified that works contract service provided by way of construction such as of rope way fall under *Entry no. 3(xii) of Notification No. 11/2017-Central Tax (Rate) dated 28th June, 2017* and attract GST at the rate of 18%.

6. *Clarification regarding GST on milling of wheat into flour or paddy into rice for distribution by State Governments under PDS*

Issue: Whether composite supply of service by way of milling of wheat into wheat flour, along with fortification, by any person to a State Government for distribution of such wheat flour under Public Distribution System is eligible for exemption under entry No. 3A of Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017? If not, then what would be the applicable rate of GST on such milling?

Entry No. 3A exempts "composite supply of goods and services in which the value of supply of goods constitutes not more than 25 per cent of the value of the said composite supply provided to the Central Government, State Government or Union territory or local authority or a Governmental authority or a Government Entity by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution or in relation to any function entrusted to a Municipality under article 243W of the Constitution"

The Clarification: The CBIC vide Circular No. 153/09/2021 dated 17th June, 2021 has clarified that-

i) Public Distribution specifically figures at entry 28 of the 11th Schedule to the Constitution, which lists the activities that may be entrusted to a Panchayat under Article 243G of the Constitution. Hence, said entry No. 3A would apply to composite supply of milling of wheat and fortification thereof by miller, or of paddy into rice, provided that value of goods supplied in such composite supply (goods used for fortification, packing material etc.) does not exceed 25% of the value of composite supply. It is a matter of fact as to whether the value of goods in such composite supply is up to 25% and requires ascertainment on case-to-case basis.

ii) In case the supply of service by way of milling of wheat into flour or of paddy into rice, is not eligible for exemption under Sl. No. 3A for the reason that value of goods supply in such a composite supply exceeds 25%, then the applicable GST rate would *be 5% if such composite supply is provided to a registered person, being a job work service (entry No. 26 of Notification No. 11/2017- Central Tax (Rate) dated 28.06.2017).*

Combined reading of the definition of job-work [section 2(68), 2(94), 22, 24, 25 and section 51] makes it clear that a person registered only for the purpose of deduction of tax under section 51 of the CGST Act is also a registered person for the purposes of the said entry No. 26, and thus said supply to such person is also entitled for 5% rate.

7. *Clarification regarding GST on service supplied by State Government to their undertakings or PSUs by way of guaranteeing loans taken by them*

The CBIC vide *Circular No. 154/10/2021 dated 17th June, 2021* has re-iterated that guaranteeing of loans by Central or State Government for their undertaking or PSU is specifically exempt under *entry No. 34A of Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017*

8. *Clarification regarding GST rate on laterals/ parts of Sprinklers or Drip Irrigation System*

The CBIC vide *Circular No. 155/11/2021 dated 17th June, 2021* has clarified that laterals/parts to be used solely or principally with sprinklers or drip irrigation system, which are classifiable under *heading 8424*, would attract a GST of 12%, even if supplied separately. However, any part of general use, which gets classified in a heading other than 8424, in terms of Section Note and Chapter Notes to HSN, shall attract GST as applicable to the respective heading.

9. *Clarification in respect of applicability of Dynamic Quick Response (QR) Code on B2C invoices and compliance of Notification No. 14/2020- CT dated 21.03.2020*

The CBIC *vide Circular No. 156/12/2021-GST* has clarified various issues relating to applicability of Dynamic Quick Response (QR) Code on B2C (Registered person to Customer) invoices and compliance of *Notification No. 14/2020-Central Tax, dated 21st March, 2020*. Accordingly, the *Circular No. 146/2/2021-GST, dated 23.02.2021* issued earlier in this regard stands modified to this extent.

Detailed circular can be accessed at: *https://www.cbic.gov.in/resources/htdocs-cbec/gst/156-12-2021%20GST%20Circular.pdf*

CUSTOMS

CIRCULAR

10. *Implementation of RMS for processing of Duty Drawback claims*

Risk Management System (RMS) in export was introduced with effect from 15.7.2013 to be implemented in two phases. In the first phase, RMS processed the data and provided output to ICES up to goods examination stage. The CBIC *vide Circular No. 15 /2021-Customs dated 15th July, 2021* has issued the implementation of the second phase, wherein RMS will process the shipping bill data after the Export General Manifest (EGM) is filed electronically and will provide required output to ICES for selection of shipping bills for risk-based processing of duty drawback claims.

Detailed Circular can be accessed at: *Circular-No-15-2021.f;jsessionid=B01368EC244C06A6D59640CA0E3212C0 (cbic.gov.in)*

11. *Clarification for improvements in Faceless Assessment*

The CBIC has comprehensively reviewed the implementation of Faceless Assessment and has taken various measures required for expediting the pace of assessment and Customs clearance of imported goods in respect. *Circular No.14 /2021-Customs dated 14th July,2021*

Detailed Circular can be accessed at :

Circular-No-14-2021. essionid= C4E1B7BA14CF94E72A24B515D7BE5D57 (cbic.gov.in)

A.P. (DIR Series) Circular No. 07 dated June 17, 2021

Liberalized Remittance Scheme for Resident Individuals – Reporting:

AD bank were required to upload the data in respect of number of applications received and total amount remitted under LRS on Online Return Filing Scheme (ORFS).

It has now been decided to collect this information in XBRL system instead of the ORFS. AD Bank shall upload the requisite information on XBRL system on or before 5th of succeeding month from Jul 01, 2021 onwards.

Notification, 22nd June, 2021

No. 1-CA(7)/196/2021 —Whereas certain draft regulations further to amend the Chartered Accountants Regulations, 1988, were published as required by sub-section (3) of section 30 of the Chartered Accountants Act, 1949 (38 of 1949), in the Gazette of India, Extraordinary, Part III, Section 4, dated the 23rd September, 2020, inviting objections and suggestions from persons likely to be affected thereby, before the expiry of forty-five days from the date on which the said Gazette containing the said notification is made available to the public;

And Whereas the said Gazette was made available to the public on the 23rd September, 2020;

And Whereas the objections and suggestions received from the public on the said draft regulations have been considered by the Council of the Institute;

Now, Therefore, in exercise of the powers conferred by sub-section (1) of section 30 of the said Act, the Council, with the approval of the Central Government, hereby makes the following regulations further to amend the Chartered Accountants Regulations, 1988, namely:-

1. Short title and Commencement, -

   (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2021.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Chartered Accountants Regulations, 1988, -

(i). for regulation 51, the following regulation shall be substituted, namely:-

"51. (1) An articled assistant who has passed the Intermediate (Professional Competence) Examination or Professional Education (Examination-II) or Intermediate examination and has completed a minimum of eighteen months of practical training according to these regulations shall be eligible for industrial training.

(2) (a) An articled assistant may, serve as an industrial trainee for a period specified in sub-regulation (4) in the offices of the Central or State Governments, Central statutory and judicial authorities, regulatory bodies, banking companies and such other departments of Central or State Governments, Institution or Organisation as may be decided by the Council from time to time; or

(b) in any of the financial, commercial, industrial undertakings with minimum fixed assets or minimum total turnover or minimum paid-up share capital as may be approved by the Council from time to time.

(3) An articled assistant shall inform to his principal about such industrial training at least three months before the date on which such training is to commence.

(4) The period of industrial training may be between nine months to eighteen months.

(5) The 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 shall be entitled to train one industrial trainee at a time and a fellow shall be entitled to train two industrial trainees at a time, whether such trainees be articled assistants or audit assistants.

Provided that in the case of the Central or State Governments, Central statutory and judicial authorities, regulatory bodies, banking companies and other departments of Central or State Governments, Institution or Organisation, the industrial training shall be imparted by an officer who is also a member of the Institute of that Government, Authority, Body, Bank, Department of Central or State Government, Institution or Organisation, as may be recognised by the Council from time to time.

Provided further that the entitlement of such officer who is also a member of the Institute to train the industrial trainee shall be determined by the Council from time to time keeping in view the number of years of service and the nature of services being rendered by the department concerned.

(6) An agreement of training shall be entered into in the form approved by the Council.

(7) On completion of the industrial training, the member shall issue a certificate in the form approved by the Council to the trainee and forward a copy of the same to the Secretary.

(8) The period of industrial training referred under this regulation, shall be treated as service under articles for all purposes of these Regulations, provided the certificate referred to in sub-regulation (7) is produced.

(9) Subject to the provisions of sub-regulation (1), an articled assistant may also serve as an industrial trainee for a period from six to eighteen months in any foreign Country under a member of the accountancy body in that country recognized by the International Federation of Accountants in such manner as may be determined by the Council from time to time.

(10) A member may depute a trainee for industrial training upto a period of three months in any foreign Country, in such manner as may be determined by the Council.

(11) The industrial trainee shall be paid such monthly stipend as may be agreed mutually between the industrial trainee and the member imparting the industrial training.";

(ii). in regulation 54, in sub-regulation (5), for the words "one year", the words "eighteen months" shall be substituted.

(iii). in regulation 58:

(a) in sub-regulation (2), -

(A) for the words "If the period of the excess leave taken is sought to be served", the words "The period of excess leave taken shall be served" shall be substituted;

(B) for the words "last served his articles," the words "last served his articles and" shall be substituted;

(b) sub-regulation (4) shall be omitted.

[CA. (Dr.) JAI KUMAR BATRA, Acting Secy]
[ADVT.-III/4/Exty./120/2021-22]

Notification, 8th July, 2021

No. 1-CA(7)/197/2021 —Whereas certain draft regulations further to amend the Chartered Accountants Regulations, 1988, were published as required by sub-section (3) of section 30 of the Chartered Accountants Act, 1949 (38 of 1949), in the Gazette of India, Extraordinary, Part III, Section 4, dated the 11th December, 2020, vide notification No.1-CA(7)/197/2020, dated the 10th December, 2020, inviting objections and suggestions from persons likely to be affected thereby, before the expiry of fortyfive days from the date on which the copies of the said Gazette containing the said notification was made available to the public;

And whereas the said Gazette was made available to the public on the 11th December, 2020;

And whereas the objections and suggestions received from the public on the said draft regulations have been considered by the Council of the Institute;

Now, therefore, in exercise of the powers conferred by sub-section (1) of section 30 of the aforesaid Act, the Council, with the approval of the Central Government, hereby makes the following regulations further to amend the Chartered Accountants Regulations, 1988, namely:-

1. (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2021.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Chartered Accountants Regulations, 1988, in Schedule "A", for Form 18, the following Form shall be substituted, namely:-

FORM '18'

(See section 2(2) of the Chartered Accountants Act, 1949, regulation 53B and regulation 190 of the Chartered Accountants Regulations, 1988)

PARTICULARS OF OFFICES AND FIRMS

1. Name of firm/trade name of Chartered Accountant in practice
2. PAN number and GST Registration number of firm[1]
3. Name(s) of the proprietor/partners of firm with his/ their membership number(s) Details of Partners Holding Certificate of Practice (Chartered Accountant/Company Secretary/Cost Accountant)

[1] *In case PAN number and GST Registration number of firm is not available at the time of making application, it should be submitted within three months from the time of making application.*

S.N.	Name of Partner	Professional Qualifications*	Membership No.:	Whether membership isactive (Yes/ No)	Date from which Certificate of Practice held:

Details of Partners Holding Professional Qualifications Other than Chartered Accountant/Company Secretary/Cost Accountant, permitted as per regulation 53B

S.N.	Name of Partner	Professional Qualifications*	Membership No. :	Degree No.	Name of University/ Institution which issued the Degree

4. (a) Date of formation of proprietary/partnership firm

   (b) Date on which the present partnership was entered into

   (c) Whether the partnership is supported by a Deed?

   (d) Whether all the partners are sharing the profits of the firm?

5. Ref. No; Date and particulars of approval of trade/firm name obtained from the Council (applicable to cases where the firm was started on or after 1.1.1983)
6. Address of the Head Office of the firm/Chartered Accountant in practice.
7. (a) Address(es) of the branch office(s) of the firm/Chartered Accountant in practice, if any

   (b) Date on which each branch office was opened

8. Name of the member, with membership number who is incharge of each of the offices, i.e., head office and branch offices.

Head Office	Name of the member in-charge	Membership Number

Branch Office(s)	Name(s) of the member(s) in-charge	Membership Number(s)

9. Whether the proprietor/any partner stated in serial number 3 above is/are partner or proprietor or paid assistant with any other firm(s) of chartered accountants in practice anywhere in India and whether any of them are engaged in a full time or a part-time occupation elsewhere ?

   YES NO

10. If yes, give details in each case

Name of the Partner/ proprietor/paid assistant	Name(s) of the firm (s) of chartered accountants with which connected	Capacity in which connected	Particulars of full time or part-time occupation elsewhere if any

11. In case of a firm, whether any partner is also practicing in his individual name?

    YES NO

12. If yes, give name(s) and membership number(s) of the member(s)
13. Name(s) of the member(s) of the Institute with membership number(s) holding full time employment in the firm/under the chartered accountant in practice and date of joining of each such member.

** Professional Qualifications of partners who are non-chartered accountants should be duly attested by an Independent Practicing Chartered Accountant who is not a partner of the said firm/ relative of the said person.*

14. Whether any paid assistant stated at serial number 13 above is partner or proprietor or paid assistant with any other firm(s) or chartered accountant in practice anywhere in India ?

    YES NO

15. If yes, give details:-

Name of the paid assistant	Name(s) and place(s) of firm(s) in which engaged as partner/ Proprietor/paid Assistant	Capacity in which connected with the firm, i.e. as partner/ Proprietor/paid Assistant

16. Whether any paid assistant stated at serial number 13 above is practicing?

17. If yes, give name(s) and membership number(s) of the paid assistant(s)

Declaration

I/ We hereby confirm that the information given in this Form is true and correct.

Place:

Date:

Signature(s) of the proprietor/all partner(s) of the firm with their membership number(s)."

JAI KUMAR BATRA, Acting Secy.
[ADVT.-III/4/Exty./146/2021-22]

Note: The principal regulations were published in the Gazette of India, Extraordinary, vide number 1-CA(7)/134/88 dated 1st June, 1988 and subsequently amended by the following numbers:-

(i) Notification No.1-CA(7)/1/89 published in the Gazette of India, dated 7th October, 1989

(ii) Notification No.1-CA(7)/10/90 published in the Gazette of India, dated 19th January, 1991

(iii) Notification No.1-CA(7)/11/90 published in the Gazette of India, dated 19th January, 1991

(iv) Notification No.1-CA(7)/12/91 published in the Gazette of India, dated 23rd February, 1991

(v) Notification No.1-CA(7)/13/90 published in the Gazette of India, dated 2nd February, 1991

(vi) Notification No.1-CA(7)/19/92 published in the Gazette of India, dated 7th March, 1992.

(vii) Notification No.1-CA(7)/28/95 published in the Gazette of India dated 1st September, 1995

(viii) Notification No.1-CA(7)/30/95 published in the Gazette of India, Extraordinary dated 13th March, 1996

(ix) Notification No. 1-CA(7)/31/97 published in the Gazette of India, dated 16th August, 1997

(x) Notification No. 1-CA(7)/44/99 published in the Gazette of India dated 26th February, 2000

(xi) Notification No.1-CA(7)/45/99 published in the Gazette of India, dated 26th February, 2000

(xii) Notification No.1-CA(7)/51/2000 published in the Gazette of India, Extraordinary, dated 17th August, 2001

(xiii) Notification No.1-CA(7)/59/2001 published in the Gazette of India, Extraordinary dated 28th September, 2001

(xiv) Notification No.1-CA(7)/64/2002 published in the Gazette of India, Extraordinary dated 31st March, 2003

(xv) Notification No.1-CA(7)/64A/2003 published in the Gazette of India, Extraordinary dated 4th December, 2003

(xvi) Notification No.1-CA(7)/83/2005 published in the Gazette of India, Extraordinary dated 28th July, 2005

(xvii) Notification No.1-CA(7)/84/2005 published in the Gazette of India, dated 17th June, 2006

(xviii) Notification No. 1-CA(7)/92/2006 published in the Gazette of India, dated 13th September, 2006

(xix) Notification No. 1-CA(7)/102/2007(E) published in the Gazette of India, dated 17th August, 2007

(xx) Notification No.1-CA(7)/116/2008 published in the Gazette of India, dated 25th September, 2008

(xxi) Notification No.1-CA(7)/123/2008 published in the Gazette of India, dated 3rd December, 2008

(xxii) Notification No. 1-CA(7)/145/2012 published in the Gazette of India, Extraordinary dated 1st August, 2012

(xxiii) Notification No. 1-CA(7)/154/2014 published in the Gazette of India, Extraordinary dated 22nd July, 2014

(xxiv) Notification No. 1-CA(7)/167/2014 published in the Gazette of India, Extraordinary dated 23rd January, 2015.

(xxv) Notification No.1-CA(7)/178/2016 published in the Gazette of India, Extraordinary dated 25th May, 2017.

(xxvi) Notification No.1-CA(7)/193/2020 published in the Gazette of India, Extraordinary dated 19th October, 2020.

(xxvii) Notification No.1-CA(7)/196/2021, published in the Gazette of India, Extraordinary dated the 23 rd June, 2021.

New Publications - Sustainability Reporting Standards Board, ICAI (2021-22)

The Sustainable Development Goals (SDGs) define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. Accountancy profession has a crucial role to play in advancing and achieving the 2030 agenda for sustainable development. The Institute of Chartered Accountants of India (ICAI), as a partner in nation building, has been continuously undertaking several initiatives to support the achievement of SDGs by public and private organisations. In its endeavor to disseminate knowledge, awareness and adoption of UN – SDGs 2030 Agenda, Sustainability Reporting Standards Board of the Institute of Chartered Accountants of India had developed a publication on "Sustainable Development Goals – Accountants Creating Sustainable World – Part 1" covering overview and related aspects of SDG 1 to SDG 5 with an objective to encourage all stakeholders to contribute towards the attainment of Sustainable Development Goals. The publication also highlights important role accountants can play in integrating the goals into governance, management and reporting as well as in facilitating greater connectivity between social and environmental benefit and economic benefit. The publication is available on ICAI website at https://icai.org/post/sustainability-reporting-standards-board.

In furtherance to this initiative, the Board has released the following publications:

Sustainable Development Goals – Accountants Creating Sustainable World – Part 2

The publication "Sustainable Development Goals - Accountants Creating Sustainable World Part 2" contains an overview and related aspects of six SDGs (SDG 6 to SDG 11). The publication would assist members and other stakeholders in finding and developing innovative solutions, incorporating the concepts of sustainable development to mitigate the impending economic and environmental uncertainties and also guide businesses through the transition from theory to action. The publication is available on ICAI website at https://icai.org/post/sustainability-reporting-standards-board.

Sustainable Development Goals – Accountants Creating Sustainable World – Part 3

The publication "Sustainable Development Goals - Accountants Creating Sustainable World – Part 3" contains an overview and related aspects six SDGs (SDG 12 to SDG 17). The publication aims to assist members and other stakeholders in helping organizations identify and act on the full range of priority SDG targets that intersect with their operations and value chains. The publication is available on ICAI website at https://icai.org/post/sustainability-reporting-standards-board.

Announcement, Election 2021

Option for Polling Booths

in Ahmedabad, Bengaluru, Chennai, Delhi/New Delhi, Kolkata, Mumbai, Pune and Thane Cities

New Delhi, 12th July, 2021

The next elections to the Council and the Regional Councils of the Institute are scheduled to be held on 3rd and 4th December, 2021 in cities having more than 2500 members and on 4th December, 2021 at all other places in terms of the provisions of Rule 21 of the Chartered Accountants (Election to the Council) Rules, 2006. According to the provisions of clause (3) of Schedule 2 to Rule 6 of the aforesaid Rules, a notice is required to be published giving the voters in cities, having more than one polling booth located at different addresses, an opportunity to exercise their option to vote at a particular polling booth within that city. In accordance with the said provisions, this Notice is being published for information of such voters.

It may be clarified for general information of members that the list of voters as on 1st April, 2021 will be drawn, on the basis of professional addresses given by the members, and such address is taken into consideration for the purpose of allotment of voters to different polling booths in a city.

It has been our endeavour to allot the polling booth near to the professional addresses as given by the voters. It is possible that a voter might prefer to exercise his franchise at a polling booth within the same city but located near his residence/office which is not as per the Institute's record his professional address. This announcement helps such voters to indicate their option for a polling booth located at a place which is not near to their professional address. For instance, based on the professional address of a voter, he would be, in the normal course, allotted a polling booth situated at 'A' place. Suppose, he prefers to exercise his franchise at `B' place which is near his residence or office (but not his professional address), as the case may be, he is required to indicate his option for the polling booth at 'B' place in response to this announcement. Otherwise, he would be required to vote at the polling booth situated at 'A' place only.

For the forthcoming elections to the Council and Regional Councils, it is proposed to set up polling booths at different locations in Ahmedabad, Bengaluru, Chennai, Delhi/New Delhi, Kolkata, Mumbai, Pune and Thane. The locations of the proposed polling booths in these cities, where last elections were held and which are now included but subject to availability, are published below.

It is notified for the general information of members that any member in such a place, wishing to vote at a particular proposed polling booth, may send his written request to the Acting Secretary, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to reach him latest by **16th August, 2021**. Request received after **16th August, 2021,** will not be entertained.

The general allocation of polling booth to voters would be done either on the basis of pin-code numbers or proximity of professional addresses of the voters. For details of proposed locations please visit Institute's website at **https://resource.cdn.icai.org/65574election2021-52903.pdf**.

How to Exercise Option:

There is no prescribed format/application for exercising option for a particular polling booth. A member wishing to exercise his option for a particular polling booth may send his request in writing giving his name, membership number and the address of the polling booth in which he would like to be attached. Such an application should reach the Acting Secretary at Institute's Headquarters at ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 latest by **16th August, 2021** either through **e-mail at optionpb2021@icai.in;** or by any other mode**.**

CA. (Dr.) Jai Kumar Batra
Acting Secretary and Returning Officer

Note: The Institute has proposed certain amendments in the Chartered Accountants (Election to the Council) Rules, 2006 to the Central Government. The above announcement is as per the existing provisions of these Rules.

Recognizing and Honouring Excellence in Sustainable Initiatives and Innovations

Sustainability Reporting Standards Board

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Presents

ICAI INTERNATIONAL SUSTAINABILITY REPORTING Awards 2020-21

For outstanding contribution towards Gender Equality and Climate Change

Last Date of Receipt of Entries

November 15th, 2021

OBJECTIVES

- To Recognize initiatives and innovative practices of entities towards identification and disclosure of Climate Change related risks and opportunities.
- To Recognize initiatives and innovative practices undertaken by the entities towards Gender Equality.
- To Honour entities taking transformational initiatives in the areas of climate neutrality, innovative climate finance and climate leadership.
- To Encourage entities globally to act as a role model, sponsor or ally in championing gender equality.

PROCESS FOR DECIDING AWARDEES

Selection of awardees in specified categories will be through a robust three tier process:

1. Review by Technical Reviewers on defined parameters.
2. Review of short-listed Sustainability Reports by Shield Panel.
3. Selection by External Jury consisting of representatives across the globe from regulatory bodies, industrialists, philanthropists, professionals, academicians etc.

PROCEDURE FOR PARTICIPATION

1. There is no Participation Fees. Entries are invited from corporates, non-corporates, professional firms, for profit as well as not for profit organizations.
2. Sustainability Report/Annual Report for at least 12 months relating to the period between January 1, 2020 to June 30, 2021 is eligible for participation.
3. Decision of the Panel of Judges in all the matters relating to the Awards will be final.
4. To participate, fill in the Entry Form available at https://forms.gle/Rk6eP2xKhD8Lcuyw6 and submit the requisite enclosure(s) as per the entry form at **sustainability@icai.in on or before November 15th, 2021.**

AWARDS

One Gold Shield Award in each category.

CATEGORIES OF THE COMPETITION

Category 1: ICAI International Award on Gender Equality

Category 2: ICAI International Award on Climate Change

For further information please write us at srsb@icai.in; sustainability@icai.in or visit our website www.icai.org or Call 011-30110474/456

Secretary, Sustainability Reporting Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi-110002

Sustainability Reporting Standards Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

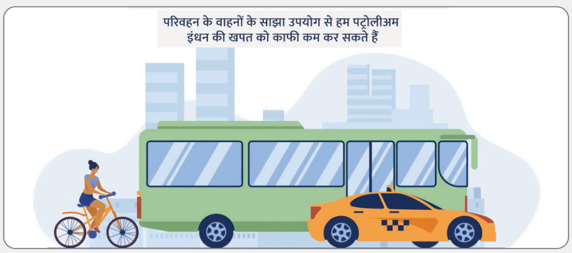
SUSTAINABLE DEVELOPMENT GOALS

"LEADING THE TRANSFORMATION TO A HEALTHIER, HAPPIER, AND SAFER PLANET"

HINDI VERSION OF CORPORATE FILM

The Institute of Chartered Accountants of India (ICAI), as part of its ongoing commitment for being partner in nation building, truly upholds the power of our students and members to come together and contribute in making our planet healthier, happier and safer. In its endeavour to create awareness on environmental issues among the members and other stakeholders, Sustainability Reporting Standards Board had developed the Corporate Film on "Leading the transformation to a Healthier, Happier, and Safer Planet". In order to reach the masses to point maximum, the Hindi Version of the Corporate Film has also been released by the Board and the same is available at http://icaitv.com/video/1478/sustainability-reporting-standards-board-icai-releases-hindi-version-corporate-film.

एक अधिक स्वस्थ,खुशहाल और सुरक्षित ग्रह में रूपांतरण का नेतृत्व



ABOUT SUSTAINABILITY REPORTING STANDARDS BOARD

Sustainability Reporting Standards Board (SRSB) has been constituted by ICAI in February 2020, with the mission to formulate comprehensive, globally comparable, and understandable standards for measuring and disclosing non-financial information about an entity's progress towards United Nations Sustainable Development Goals (SDG) 2030.

The Board has worked relentlessly via various initiatives to identify and develop opportunities for chartered accountants, develop audit guidance as well as enhance knowledge of members and other stakeholders. Activities and initiatives undertaken by the SRSB are available at https://icai.org/post/sustainability-reporting-standards-board. For any further details, please mail at sustainability@icai.in.

ICAI in Media : Glimpses of June - July, 2021

PRESS TRUST OF INDIA
India's Premier News Agency

ICAI launches drive for financial, tax literacy

July 01, 2021

New Delhi, Jul 1 (PTI) Institute of Chartered Accountants of India (ICAI) on Thursday launched a financial and tax literacy drive to educate people about financial planning and tax-related matters.

'The chartered accountants' body launched a multilingual portal for all the digital e-learning resources and a tool to help firms self-identify their audit quality maturity level, as per a press release. The announcements were made on 73rd Chartered Accountants" Day. ICAI has also launched a mobile application on quality learning services for CA students.

ICAI President Nihar N Jambusaria said the body has waived the fees of all CA students who have lost both parents/ single parents due to COVID-19.

"The scheme will be effective for the next 2 years. This is an endeavour of ICAI to provide relief to the students and let them continue their studies without any difficulty,"he said.

Jambusaria further said the guidelines that have been approved by the Ministry of Corporate Affairs will pave the way for CA firms to partner with members of other professions and offer varied services under one roof.

Debashis Mitra, vice-president, ICAI, said the institute "bears testimony to the fact that strong foundations go a long way in creating a unique and historic Institution".

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6 | LEGALLY SPEAKING

THE DAILY GUARDIAN
FRIDAY | 02 JULY 2021
NEW DELHI

WWW.THEDAILYGUARDIAN.COM

PIYUSH GOYAL CALLS UPON THE CHARTERED ACCOUNTANTS OF THE COUNTRY TO THINK BIG AND SCALE UP

ANALYSIS

TARUN NANGIA

Minister of Railways, Commerce & Industry, Consumer Affairs and Food & Public Distribution Piyush Goyal today called upon the Chartered accountants of the country to think big and scale up to the global levels. Speaking at 73rd Chartered Accountants' Day Programme organised by the Institute of Chartered Accountants of India, he said that we need a complete mindset change, a reset of ambitions in our profession. The companies should look at mergers, acquisitions, partnerships and larger ventures, and become world class, he added. Goyal said "When the ICAI turns 75, can we look at having our first set of global world class chartered accountancy firms serving clients worldwide." The Minister said that the institute must look at the world class ethics, technical know-off and stringent standards as it grows. He said that if we have to earn the goodwill, respect & trust of the world, we will need 100% credibility ingrained in every single one of us. He urged each & every CA & CA student, as part of their collective responsibility to maintain the flag of the institute high. "We will do it, we can do it & we certainly are committed to doing it. For us to be a partner in the nation's progress, we will all have to start seeing how we can be engaged in the startup ecosystem." Lauding the profession of CAs, Goyal said that it is great to see a profession which is recognised & respected. There is a yearning for people to be Chartered Accountants. It has taken it upon itself to continue to serve the economy, carry out our professional duties & continue to educate our students. He said that the Institute has 72 years of accomplishments, achievements and trust. They have been in the service of the nation, service of business and contributing to the nation's economy. He said "To me, the I.C.A.I should reflect Integrity, Commitment, Accountability, and Intellect. We are amongst the top accounting bodies in the world. The world has seen in our institute high standards of ethics, technical know-how & very stringent examination standards." Goyal called upon the institute to be an active participant in the nation's vaccination campaign, and play a role in helping people overcome vaccine hesitancy by generating awareness and even adopting a few villages or certain areas for providing the vaccination. He said that the vaccination drive is proceeding rapidly across the country.

THE HINDU BusinessLine

CA INSTITUTE's 15-YEAR REQUEST COMES TO FRUITION

MCA greenlights multidisciplinary partnerships

CA firms can rope in cost accountants, company secretaries, actuaries to offer various services

KR SRIVATS

New Delhi, July 9

Legal decks have been cleared for audit firms to transform themselves into multidisciplinary partnerships (MDPs), with the CA Institute making changes to regulations to usher in this new concept in the accounting and auditing ecosystem.

Nearly 15 years after the CA Institute moved the Central government for allowing MDPs, the Corporate Affairs Ministry has now given its assent, following which the world's second largest accounting body has specified a new form for this new structure.

With this move, a CA firm can rope in cost accountants, company secretaries, actuaries and even lawyers (the Bar Council has to approve this) as partners, become multi-disciplinary firm and offer a variety of services – financial auditing, secretarial audit and cost audit.

MBAs won't be allowed

However, MBAs will not be allowed as partners as the CA Act specifically prohibits it.

Commenting on the development, Debashis Mitra, Vice-President of the Institute of Chartered Accountants of India (ICAI), told *BusinessLine* that he sees no difficulties in the long run in implementation of this concept.

"The ICAI has been pushing for this MDP concept for several years now. This will help small/medium-size practitioners to grow.

"It is not about only big firms getting bigger, it is even about small and medium ones getting bigger," Mitra said.

Networking guidelines

The MDP framework will not enable Indian audit firms go global, immediately. For that, "we need to revisit our networking guidelines and work is on, on that front. We want the audit profession to first get used to MDP idea, said Mitra.

Mitra said the need of the hour is to for CA firms to build capacity as stakeholders also prefer all services under one roof.

Former ICAI president G Ramaswamy said this will enhance the capability of CA firms by including company secretaries and cost accountants. "It's a capacity building measure for accounting firms", he said.

SN Ananthasubramanian, former President of the Institute of Company Secretaries of India, said this tectonic shift will throw up untold opportunities as well as unseen challenges for both professionals and the institutions that govern them. Nonetheless, this will create demand for professionals of repute, he added.

ICAI in Media

BOTTOM LINE

AS GOVT PERMITS MDPs

CA Firms Can Now Tie Up with CS, Actuaries

A New Work Environment

BIGGER AUDIT FIRMS

Government permits multidisciplinary partnerships for audit firms

CA firms can tie up with company secretaries, actuaries, cost accountants

ICAI released MDP framework, includes engineers, architects, lawyers

Enables audit firms to scale up and offer multiple services

ICAI hails move as MDPs can help boost accounting & auditing ecosystem

Our Bureau

New Delhi: Chartered accountant firms can now tie-up with company secretaries, actuaries and cost accountants to offer a whole menu of services.

The government has permitted audit firms to transform themselves into multidisciplinary partnerships (MDPs), with the regulations from the Institute of Chartered Accountants of India (ICAI) notified late Friday.

The chartered accountants body has been pushing the government to allow MDPs, which are expected to boost the accounting and auditing ecosystem, for the past 15 years.

Move likely to benefit small and medium firms to scale up and offer a variety of services under one roof

CA firms will also be able to bring on engineers, architects and lawyers as partners, subject to the approval of the Bar Council.

According to experts, apart from allowing the big firms to grow further, the move is likely to benefit small and medium firms to scale up and offer a variety of services under one roof while building capacity in the industry.

Corporates, especially large banks, prefer audit firms that are capable of providing multiple services. Audit firms would have to build domestic capacity first before looking beyond borders as the current MDP framework does not enable Indian firms to go global.

THE HINDU BusinessLine

Small corporates: CA Institute aims to introduce accounting standard for share-based payments

It will be part of 'Accounting Standards' and not Ind AS

KR SRIVATS

New Delhi, July 11

Small corporates with an annual turnover of less than ₹250 crore will soon get an accounting standard on 'share-based payments' to comply with if the CA Institute has its way.

The CA Institute has also embarked on an exercise of framing an accounting standard for non-corporate entities in the country that are increasingly resorting to share-based payments. In India, there are two types of accounting standards – Accounting Standards and Indian Accounting Standards (Ind AS).

The proposed accounting standard on 'share-based payments' (AS 102) will be part of the set of 'Accounting Standards' and not that of Ind AS, which is applicable for large listed entities.

Till date, the ICAI had only a guidance note on 'share-based payments' for entities required to adopt accounting standards. Now, the ICAI has decided to move from a guidance note level to a full fledged accounting standard and has introduced an exposure draft of this new Accounting Standard (AS 102) for this purpose, sources said. "The new accounting standard will largely be similar to the guidance note," they added.

Revamping and upgrading

The CA Institute is in the process of revamping and upgrading all its 30-odd Accounting Standards through a separate project. This new AS 102 will also get notified when all the 30-odd Accounting Standards get notified in one go after the completion of the project, sources said.

Interestingly, this new AS-102 provides guidance regarding employee share-based payment plan administered through a Trust. Ind AS 102 – which is applicable for large listed companies – does not deal with the same.

Stakeholders and public have been given time till August 7 for sending their comments on the proposed accounting standard.

Share-based payments have taken wings in a big way in the Indian corporate landscape. SEBI recently proposed in a consultation paper that companies be allowed to offer stock options to non-permanent employees and non-executive directors.

The regulator may eventually see merit in allowing stock options to part-time workers or gig-workers not employed by the company (delivery services, transport services provided to a web-based platform).

Education TIMES

ICAI launches new app for CA students

Institute of Chartered Accountants of India (ICAI) has launched a mobile app for students of Foundation, Intermediate and Final course. The app was launched on the occasion of CA Day on July 1. CA Day is observed to mark the foundation day of the ICAI, a statutory body set up in 1949 under an act of Parliament. Students can download the app 'ICAI-BOS' from google play. The mobile app will be expanded with other students' services and portals at a regular interval. "The widespread adoption and use of mobile technologies have the potential to provide next generation interactive learning and innovative ways to improve quality services to the students and to establish a strong connect with them as well. It will also establish a connect with student fraternity as well. With this objective, the Board of Studies (Academic) is launching its Mobile App," states ICAI.

राष्ट्रीय सहारा

चार्टर्ड एकाउंटेंट्स देश के लिए बड़ा सोचें : पीयूष

नई दिल्ली (एसएनबी)।

केन्द्रीय रेल, वाणिज्य एवं उद्योग, उपभोक्ता मामले और खाद्य एवं सार्वजनिक वितरण मंत्री पीयूष गोयल ने देश के चार्टर्ड एकाउंटेंट्स से आह्वान किया है कि वह बड़ा सोचने के साथ साथ वैश्विक स्तर तक पहुंच बनाएं। उन्होंने कहा कि दुनिया की सद्भावना, सम्मान और विश्वास अर्जित के लिये हम में से प्रत्येक में 100% विश्वसनीयता की आवश्यकता होगी।

इंस्टीट्यूट ऑफ चार्टर्ड एकाउंटेंट्स ऑफ इंडिया द्वारा आयोजित 73वें चार्टर्ड एकाउंटेंट्स डे प्रोग्राम में केन्द्रीय रेल, वाणिज्य एवं उद्योग, उपभोक्ता मामले और खाद्य एवं सार्वजनिक वितरण मंत्री पीयूष गोयल ने कहा कि हमें अपने पेशे में एक पूर्ण मानसिकता परिवर्तन, महत्वाकांक्षाओं के रीसेट की आवश्यकता है। उन्होंने कहा कि कंपनियों को विलय, अधिग्रहण, साझेदारी और बड़े उपक्रमों पर ध्यान देना चाहिए और विश्व स्तरीय बनना चाहिए।

Classifieds

Sustainability Reporting Standards Board

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Join the Carbon Footprint Challenge

Carbon Footprint Challenge

An Initiative to Promote Climate-Friendly Choices

The Carbon Footprint Challenge is Sustainability Reporting Standards Board of ICAI's initiative aimed to contribute in developing carbon reduction strategies and motivating chartered accountants fraternity to take concrete steps.

We invite our Members to **join the Carbon Footprint Challenge** and work together with us for greener and sustainable planet.

Send us innovative, practical and elaborated ideas/ suggestions for making offices of chartered accountants carbon neutral. It should be backed up with present and future plan of action, preferably along with supporting reasons/ calculations.

Mail us at sustainability@icai.in

on or before August 15th, 2021.

SRSB will evaluate the entries and ten Best entries will be awarded Certificate of Appreciation.

About Sustainability Reporting Standards Board of ICAI

Sustainability Reporting Standards Board (SRSB) of ICAI has the mission to formulate comprehensive, globally comparable, and understandable standards for measuring and disclosing non-financial information about an entity's progress towards United Nations Sustainable Development Goals (SDG) 2030. The Board is working relentlessly to facilitate adoption of a model of engaging multiple stakeholders to develop action plans for promoting Sustainable Development Agenda 2030 across various sectors in India.

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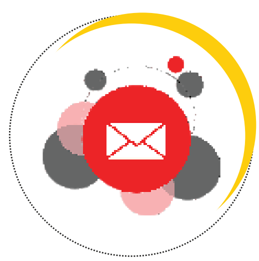

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