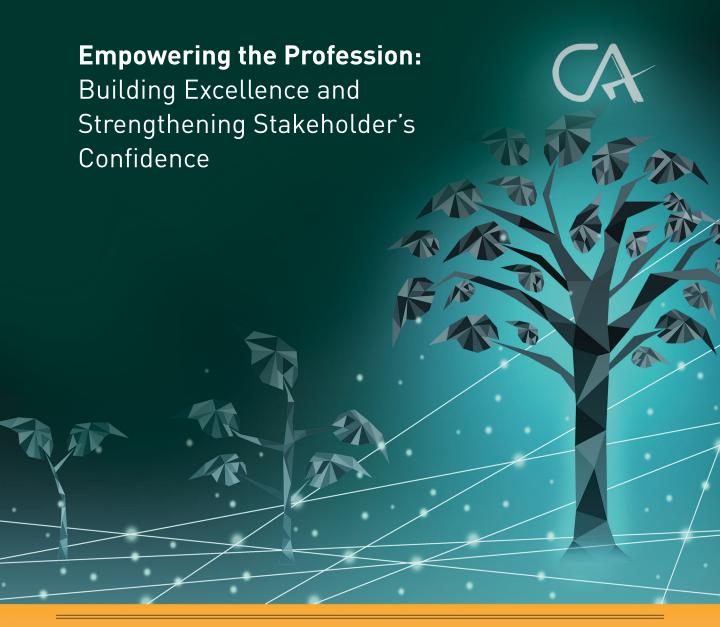
THE CHARTERD ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA





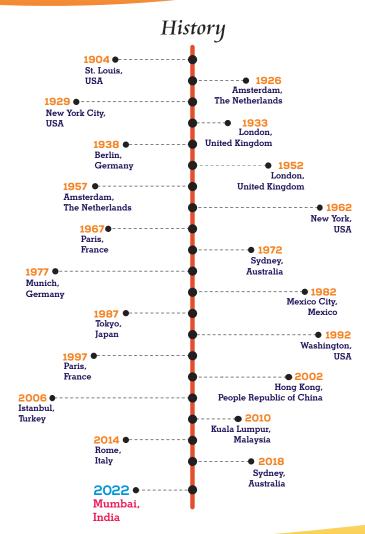


BUILDING TRUST ENABLING SUSTAINABILITY

The World Congress of Accountants was first held more than 118 years ago, at the dawn of the 20th century. In 1904, the world was changing: Henry Ford set a land speed record; the USA took control of the Panama Canal; UK and France signed the Entente Cordiale and Australia elected its first national government.

From that first event, subsequent conferences have been woven between major global events including the Great Depression and two World Wars. Today the World Congress of Accountants is a large-scale, international event which occurs, like The Olympic Games, every four years.

With the 21st Anniversary Conference due to be held in India in November 2022, we take a look back on the accounting event's history.



Date: 18th-21st November 2022 | Venue: Jio World Convention Centre, BKC, Mumbai, India

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₹ World Congress Of Accountants 2022





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Empowering the Profession: Building Excellence and Strengthening Stakeholder's Confidence

▼ oday the role of the accountancy profession has evolved as a strategic and functional advisor to meet the growing expectations of public and the Government as well as a catalyst to value creation. The accountancy profession has over the years adapted and transformed itself as not only the trustee of public interest but a trusted advisor to various stakeholders, being consistently augmenting the quality of audit. The accountancy profession has built its reputation by progressively bringing reforms and innovation in reporting and oversight through introduction of best accounting and assurance standards and practices, suo moto setting up Peer Review Board, Financial Reporting Review Board and Ethical Standards Board in addition to the robust disciplinary mechanism, to continue to enjoy the trust of all stakeholders. Further the ICAI firmly believes in your present actions determines your future. The ICAI has recently come out with the Centre for Audit quality to enhance audit quality by nurturing new age auditors for the emerging global world. With the advent of technology there is an incremental shift towards enhanced transparency, good governance, ethical conduct and sustainable development, inspiring the accountancy profession to take on a bigger role to address these new requirements.

With its time-tested legacy of protecting the public interest and inspiring stakeholders' confidence by example, the Institute will continue to be a trusted and an influential agent of accounting, auditing, ethical and educational standard-setting paving the way to high quality standards to be adopted and implemented and be a force that addresses the disruptive economic and technological changes in public interest. Through its technical Committees, the Institute will ensure that its professionals are driven and future ready with a right mix of innovative skills, new-age competencies and perspectives of ethics and integrity, as required to flourish in this rapidly changing business environment.

Education and training at ICAI will ensure that its newly qualified Chartered Accountant professionals

have the critical rudimentary sense equipped with a sceptical approach, while its professional fraternity will continue to be capable of suitably responding to the economic and socio-political drifts of their times, which impact the environment where they and their stakeholders exist together with an unquestionable professional ease. Whereas the accountancy profession globally stands at the crossroads of public scrutiny and trust, the Indian counterpart continues to intricately respond to the demands of the Government and its various organs strengthening its credibility and riding on the wheels of professionalism, ethics and integrity.

The accounting profession is at a very dynamic juncture where along with our core areas of technical expertise such as financial reporting, management accounting, taxation, assurance and finance, as well as core concepts in strategy and governance in business and accounting demands the incorporation of technology, virtual workspaces, we need to ensure that our community, especially the newly qualified Chartered Accountants are market ready. Apart from generating the right environment for the new generation and facilitating new growth a more significant focus should be on upskilling those professionals who are already advanced in their careers as this will ensure that we keep continuous professional development, hone technical skills and thus continue to lead collaboration with the industry requirements in the nation and worldwide.

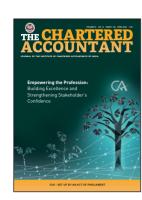
The digital nature of our lives today requires business models which are fit for the future purpose and accountants need to incorporate operational resilience, financial resilience, professional values, ethics, and integrity to adapt seamlessly.

To stay relevant in today's dynamic landscape, we need to play our role diligently as ethical leaders and ensure that newly qualified professionals are ready to enter the industry and upskilling of already existing professionals to be the leader in facilitating new growth to thrive in the digital era.

-Editorial Board ICAI: Partner in Nation Building

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My Dear Professional Colleagues,

The accountancy profession is undergoing Considering change globally. importance of sustainability, the three 'Ps' i.e. People, Planet and Profits are rightly in focus today. The Accountancy profession by virtue of its skills and competencies reinforced by ethics, trust, integrity and recognition of its public interest

responsibility is augmenting confidence of all stakeholders by being in the forefront of protecting public interest and sustainable economy even in the emerging complexity. Keeping in mind the emerging role of accountancy profession and multifaceted activities being performed by the accountants in national economies, I am pleased to inform you that the theme of the forthcoming World Congress of Accountants (WCOA) 2022 being held in Mumbai this year is 'Building Trust, Enabling Sustainability'.

Over the years accountancy profession has earned the trust of all stakeholders by establishing a consistent financial reporting framework that improves governance while also enhancing the capacity and competence of diverse economic constituents. With the changing market conditions, the Accountancy profession has evolved to not only mitigate the risk of failure but also to support the growth of the industry.

The Profession has worked and continues to work with the Government and its constituents to deliver futuristic policy solutions like sustainability and digital technology. The strength of our profession to put the interest of our nation first, enables us to adopt, evolve and transform in order to create value for As said by Hon'ble stakeholders. Union Minister Shri Nitin Gadkari recently "Chartered accountants

are pillars of economic growth". And I am absolutely in agreement with what the Hon'ble Union Minister stated.

The introduction of artificial intelligence, data analytics and machine learning being imbibed in governance is a testimony how governance standards are improving. At this juncture, it is crucial to understand the importance of smart audit using technology to add value beyond the traditional domain and at the Institute it would be our endeavour to bring tools and technologies and introduce ways to empower the profession in harnessing technology.

Let's have a look at some recent Institute's activities:

Meeting Stakeholders

I had a meeting with Shri Amarjeet Singh, Executive Director, SEBI, accompanied by CA. Aniket Sunil Talati, Vice President, ICAI, CA.

(Dr.) Sanjeev Kumar Singhal, Chairman, AASB and SRSB, CA. Priti Savla, Vice Chairperson, SRSB and CA. Vishal Doshi, Vice Chairman, AASB. The discussions were focused on the role of ICAI in strengthening sustainability reporting ecosystem, establishing framework and standards for Social Auditors who would audit entities that may be listed on Social Stock Exchange (SSE), assurance of Business Responsibility and Sustainability Reporting (BRSR), ESG rating, green bonds, ESG data repositories, etc.

A meeting with Shri M K Jain, Deputy Governor, RBI was held alongwith CA. Kemisha Soni Chairperson, PDC in Mumbai wherein issues like Coverage of branches w.r.t. Statutory Audit of Public Sector Banks, Qualitative Aspects of Concurrent Audit, Revision in fees for Statutory Audit of Banks among other issues, were discussed.

Meetings with Shri G C Murmu, Hon'ble Comptroller and Auditor General of India and Shri R G Vishwanathan, Dy. Controller and Auditor General of India alongwith CA. Aniket Sunil Talati, Vice President, ICAI were held on 9th March, 2022 to discuss the matters related to CAG Audit including increase in audit fees for the auditors of Public Sector Undertakings and organizing training programme for the officers of C&AG in the area of Ind AS.

I, the Vice President & CCM CA. Umesh Sharma also had the privilege to meet Dr. Bhagwat Kishanrao Karad, Hon'ble Union Minister of State for Finance on 8th March, 2022 to discuss matters affecting the profession and role ICAI and profession could play in development of economy and support the Government in implementing and popularising the initiatives undertaken for financial inclusion in the country.

We had a meeting with the then Acting Chairperson of Insurance Regulatory & Development Authority of India in the month of March at Hyderabad and discussed the application of IND AS to Insurance Companies & also Audit of Insurance Companies.

We also met Shri Jayant Sinha, MP and Chairman of Parliamentary Standing Committee on Finance and briefed him about the Institute's activities.

All of these meetings, while on one hand provide an apt opportunity to understand the expectations of the stakeholders i.e. government and regulators from the profession, at the same time also provide a forum for us to express our concerns, make suggestions and apprise various initiatives undertaken by the Institute in public and societal interest like financial and tax literacy, sustainability, budget suggestions etc.

Visit of the Maldives Delegation

ICAI continues to nurture accountancy profession globally by supporting developing countries in improving and nurturing the accounting ecosystem. A delegation led by Mr. Hussain Niyazy, the Auditor General of Maldives and President of CA Maldives visited ICAI on 8th March. 2022. A very fruitful discussion was held with the delegation wherein we have apprised them about various initiatives of the ICAI primarily in the areas of adopting technology like Digital Learning Hub, UDIN and DCMM, Sustainability. Forensic accounting, and Valuation Standards. CA Maldives had sought assistance of ICAI in the areas of Examination, Course structuring, Disciplinary Mechanism, Peer Review, Members and students services, Professional development etc.

You will be pleased to know that as part of the ICAI's continuous endeavour to support and develop accountancy profession in developing countries, the ICAI would be supporting CA Maldives also for the development of the accountancy profession in that part of the world by establishing mutual co-operation between the two Institutes for advancement of accounting knowledge and professional and intellectual development of the professionals in Maldives.

Union Cabinet approval of Renewal of MoU between ICAI & CBFS. Oman

The Union Cabinet, chaired by the Hon'ble Prime Minister Shri Narendra Modi has approved the renewal of MoU between ICAI and College of Banking & Financial Studies (CBFS), Oman. Under the aegis of the MoU, the objective is to work together for strengthening the accounting, financial and audit knowledge base within Oman. Over the last 11 years, the MoU between ICAI and CBFS has played a very important role in spreading the global footprints of Indian Chartered Accountants in Oman and Gulf region.

Meeting with officials of the ICAEW

The leadership of ICAI met officials of the Institute of Chartered Accountants of England and Wales (ICAEW) namely CA. Vandana Saxena Poria, India Advisor, ICAEW, Mr. Doug Withington Senior Global Business Development Manager, ICAEW and Mr. Daniel Westley, Senior International Development Business Manager, ICAEW. The meeting focused on the renewal of the MoU between ICAI and ICAEW and promoting the WCOA in their jurisdiction. Discussions were also held on the possibility of undertaking Joint Research/Studies and Joint Events/Webinars on topics such as Sustainability & Valuation.

Chartered Accountants Worldwide (CAW) Meeting

I addressed the Board of CAW to provide an update on the WCOA 2022. The Chartered Accountants Worldwide is an initiative by the leading Chartered Accountants institutes to support, develop and promote the vital role that chartered accountants play globally.

World Congress of Accountants - 2022

As I mentioned earlier, the World Congress, this time, would dwell upon the theme "Building Trust, Enabling Sustainability" keeping in mind the important role accountancy profession is playing as protector of public interest and instrumental role expected from the profession to enable sustainable economies for the future. The Olympics of the Accountancy Profession is scheduled to be held from 18th – 21st November, 2022 at Jio World Centre, Mumbai, India, in hybrid mode.

I would advise you not to miss this opportunity to get priceless insights from thought leaders. For registrations and regular updates, please visit www.wcoa2022mumbai.org.

Campus Placements

It gives me immense pleasure to inform you that 55th edition of the Campus placement programme is underway for which a total of 9,968 newly qualified Chartered Accountants have registered. A record number of 143 companies with 11,516 vacancies have registered for the programme. The highest annual package offered hitherto in the current drive is approx Rs. 30 lakh. The entire programme is system driven and is being held virtually from 10th March to 26th March 2022 at 9 major centres and from 13th April to 26th April 2022 at 12 smaller centres. So far more than 5,800 job offers have already been made by the companies.

MoUs for Capacity Building and Developing Co-operation

To enhance capacity building measures and to develop co-operation and collaboration in research, the ICAI and the National Institute of Rural Development and Panchayati Raj (NIRD&PR) signed a Memorandum Understanding on 24th March, 2022, with an aim to develop and execute projects that improve Accountability & Transparency and effectiveness in implementation of Rural Development Schemes/Programmes. In a ceremony conducted virtually, the MoU was signed by CA. (Dr.) Jai Kumar Batra, Secretary ICAI and Shri Shashi Bhushan, ICAS, Deputy Director General, NIRD&PR. The event was also attended by Shri

Nagendra Nath Sinha, Secretary, Ministry of Rural Development & other senior officials.

The Institute also signed a MoU with IIM Lucknow Enterprise Incubation for Capacity Building of Startups. The said arrangement aims to promote startups and support the government of India's vision for entrepreneurship development and innovation culture for the Startup Ecosystem.

Report of the Parliamentary Standing Committee of Finance Relating to The Chartered Accountants, the Cost and **Works Accountants and the Company** Secretaries (Amendment) Bill, 2021

On 23rd of March, 2022, the aforesaid Report was presented before Both Houses of the Parliament. Some of the suggestions of the Institute have not been accepted by the Committee. Many of you have expressed concern about the contents of the Report. The Institute is carrying out an Impact Analysis & shall decide on the future course of action after due deliberations. A meeting of the Past Presidents of the Institute is scheduled to be held on 6th April to discuss the matter.

Progressing towards revised New Curriculum

I am delighted to apprise you that the revised scheme of education and training developed in conformity with the best practices adopted international accountancy implementation of National Education Policy 2020 and taking note of revolution in information technology, has been approved by the Council of the ICAI and has been submitted to Ministry of Corporate affairs for their in-principle approval. On receipt of the approval from the Ministry, the new scheme will be available for comments of all stakeholders.

The Chartered Accountants' **Benevolent Fund (CABF)**

Since 1962, the Chartered Accountants' Benevolent Fund (CABF) is providing financial assistance to needy members of our Institute, and their families. During the Covid Pandemic since September 2020, about Rs. 14.75 crores have been released as Financial Assistance relating to Covid & Ex-gratia/Monthly/Medical financial assistance to Members or their dependents.

There is a need to financially consolidate CABF, so that better financial support could be provided to our needy members or to their dependents. I hereby appeal to members to kindly enrol themselves as Life Members of the Fund by making one-time payment of Rs. 10,000 and those who are already life Members can further contribute voluntarily any amount for the noble cause, since each Rupee counts. The Contribution is eligible for tax exemption under Section 80G of the Income Tax Act.

In Conclusion

In the emerging economic environment, it's important that the Accounting and Auditing profession is vibrant, innovative & competes on quality. We are a profession that is revered for its critical and analytical insights, professional scepticism, and a willingness to think outside the box. Let us together ensure that the flag of the profession as well as that of the Nation is kept flying very high.

I wish you all a Happy Mahavir Jayanti & Blessed Good Friday.

Debashis Kita

CA. (Dr.) Debashis Mitra President, ICAI New Delhi, 28th March, 2022

Photographs



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati meeting with Dr. Bhagwat Kishanrao Karad, Hon'ble Minister of State for Finance. Also seen in the picture is CA. Umesh Sharma, Central Council Member ICAI



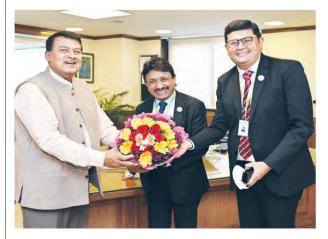
ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati meeting with Hon'ble Comptroller and Auditor General of India Shri Girish Chandra Murmu in Delhi



ICAI President CA. (Dr.) Debashis Mitra and Central Council Member CA. Kemisha Soni during meeting with RBI Deputy Governor Shri M. K. Jain at Mumbai



ICAI President CA. (Dr.) Debashis Mitra and Vice President CA. Aniket Sunil Talati meeting with Shri Jayant Sinha, Hon'ble Member of Parliament.



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati meeting with Deputy Comptroller and Auditor General of India (Commercial) Shri R G Viswanathan at Delhi



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati felicitating Chief Guest Shri Bhupendrabhai Patel, Hon'ble Chief Minister of Gujarat at Ahmedabad Members meet. Also seen in the picture are Central Council members CA. Purushottam Khandelwal and CA. Vishal Doshi



ICAI President CA. (Dr.) Debashis Mitra being felicitated at the Ahmedabad Members meet in the presence of Hon'ble Chief Minister of Gujarat Shri Bhupendrabhai Patel, ICAI Vice President, CA. Aniket Sunil Talati and CA. Purushottam Khandelwal, Central Council Member



ICAI Vice President CA. Aniket Sunil Talati along with Central Council Members CA. Dayaniwas Sharma & CA. Vishal Doshi meeting with Shri Manoj Pandey, Joint Secretary, MCA.



ICAI President CA. (Dr.) Debashis Mitra and Chief Guest Dr. Anil Agrawal, Hon'ble Member of Parliament at the inaugural ceremony of ICAI Bhawan, Ghaziabad in the presence of CA. Aniket Sunil Talati, Vice President ICAI. Also seen in the picture are Central Council Members CA. Anuj Goyal, CA. Gyan Chandra Misra, CA. Abhay Chhajed, CA. (Dr.) Sanjeev Kumar Singhal, CA. Cotha Srinivas S and CA. Nilesh Gupta, the then Chairman CIRC

ICAI President CA. (Dr.) Debashis Mitra alongwith CA. Ranjeet Kumar Agarwal, Central Council Member and CA. Ravi Kumar Patwa Chairman, EIRC of ICAI at a program organized by Rourkela Branch of EIRC of ICAI





ICAI President CA. (Dr.) Debashis Mitra inaugurating Vivekananda Hall at Sambalpur Branch of EIRC of ICAI alongwith CA. Ranjeet Kumar Agarwal, Central Council Member. Also seen in the picture is CA. Ravi Kumar Patwa Chairman, EIRC of ICAI



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati meeting with Smt. T L Alamelu, Member, IRDAI. Also seen in the picture are ICAI Central Council Members CA. Dayaniwas Sharma and CA.(Dr.) Raj Chawla



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati with Mrs. Vandana Saxena Poria, ICAEW Advisor, during meeting with ICAEW officials.

ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati addressing the VCM on occasion of International Women's Day. Also seen in the picture are Central Council Members CA. K Sripriya, CA. Priti Savla, CA. Prasanna Kumar D, CA. Rajendra Kumar P, CA. Durgesh Kumar Kabra and CA. Umesh Sharma





ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati extending a warm welcome to Auditor General & President CA Maldives Mr. Hussain Niyazy & Vice President CA Maldives Mr. Hassan Mohamed at ICAI, New Delhi

ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati along with other Central Council Members in a group photograph with CA Maldives delegation at ICAI, New Delhi





ICAI President CA. (Dr.) Debashis Mitra attending a program organized by the Bhubaneshwar Branch of EIRC of ICAI. Also seen in the picture are CA. Sushil Kumar Goyal Central Council member and CA. Ravi Kumar Patwa, Chairman, EIRC of ICAI and Managing Committee members of branch.

ICAI President CA. (Dr.) Debashis Mitra attending a program organized by the Cuttack Branch of EIRC of ICAI. Also seen in the picture are CA. Sushil Kumar Goyal Central Council member, CA. Ravi Kumar Patwa, Chairman, EIRC of ICAI and Managing Committee members of branch.



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ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President, CA. Aniket Sunil Talati at the orientation program for the Disciplinary Committee members. Also seen in the picture are Past President ICAI CA. Amarjit Chopra, Central Council Members CA. Rajendra Kumar P, CA. Prasanna Kumar D, Dr. P C Jain and Secretary ICAI CA. (Dr.) Jai Kumar Batra



ICAI Vice President CA. Aniket Sunil Talati seen along with Central Council members CA. Abhay Chhajed and CA. Gyan Chandra Misra at the National Conference organized at Agra.



ICAI Vice President CA. Aniket Sunil Talati addressing the Conference at Udaipur, organized by Committee for Members in Practice



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati along with Central Council Member CA. Muppala Sridhar and Secretary, ICAI CA. (Dr.) Jai Kumar Batra during Virtual Signing of MoU Between National Institute of Rural Development & Panchayat Raj and ICAI



ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati along with other Central Council Members & Northern Regional Council Members attending seminar organised by NIRC.

ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati along with Central Council Members & Officials of IIM, Lucknow during Signing of MoU between Indian Institute of Management, Lucknow and ICAI



Know Your Ethics



- O. Whether a Firm of Chartered Accountants can accept Audit of a branch of a bank, while one of the partners of the said firm has taken loan from a different branch of the Bank?
- A. No, the Firm of Chartered Accountants cannot accept branch Audit of the Bank if one of the partners has taken the loan from any branch of that bank. The members should not place themselves in position which would either compromise or jeopardize their independence.
- Q. Whether a member can accept appointment as Statutory Auditor of certain branch(es) of a Bank, while he is the Revenue Auditor of different branch(es) of the same Bank?
- **A.** No, a member is not permitted to accept the appointment as Statutory Auditor of certain branch(es) of a Bank while he is the Revenue Auditor of different branch(es) of the same Bank.
- Q. Whether a member being a Concurrent auditor of a Bank can undertake (quarterly) limited review of the same Bank?
- A. Concurrent Audit and the assignment of (quarterly) limited review of the same Bank cannot be undertaken simultaneously as the concurrent audit being a kind of internal audit and the quarterly limited review being a kind of statutory audit undertaken simultaneously

are prohibited under the provisions of Code of Ethics.

It may however be noted that the Concurrent Auditor of a Branch of a Bank may be required to submit a specific Review Report to the Management on quarterly basis. Such assignment of specific review may be undertaken by the Concurrent auditor of the Bank.

- Q. Whether it is permissible to accept Concurrent Audit of a Bank branch by the Statutory Auditor of different Branches of the same Bank?
- **A.** In line with the principle of strict independence, it is not permissible to accept Concurrent Audit of one of the branches of a bank by the Statutory auditor of different branches of the same bank.
- Q. Whether the Internal Auditor of a Bank can undertake Consultancy work of the same Bank?
- **A.** There is no restriction for the consultancy work if it is undertaken by a member along with the assignment of Internal Audit.
- Q. Whether the Statutory Auditor of a Bank can undertake Concurrent audit of its Sponsor Bank?
- **A.** No, the Statutory Auditor of a Bank cannot be the Concurrent Auditor of its Sponsor Bank,

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Know Your Ethics

since the relationship between them may be likened to Holding and subsidiary companies under Companies Act, 2013.

- Q. Whether the Statutory Auditor of a Bank can accept Stock audit or Inspection Audit of the same branch or different branch of the same Bank?
- A. The Stock Audit or Inspection Audit and Statutory Audit are not permissible to be done simultaneously since Stock Audit or Inspection Audit are kind of management function, which undertaken simultaneously cannot be alongwith the Statutory Audit (whether pertaining to the same branch or different branch).
- O. Whether the Concurrent Auditor of a Bank can accept Tax audit of the same Bank?
- A. No, the Concurrent Auditor of a Bank cannot accept the Tax audit assignment of the same Bank, as it would affect independence in terms of the provisions of Code of Ethics that Statutory Audit and Internal Audit cannot be done together, as also in terms of the provisions of Section 288 of the Income Tax Act, 1961 which prohibits undertaking Concurrent Audit and Tax Audit simultaneously.
- O. Whether the Concurrent Auditor of a Bank can accept Revenue Audit of the Same Bank?
- A. Yes, the Concurrent Auditor of a Bank can accept Revenue Audit of the same Bank since both the Audits are of the nature of management function.
- Q. Whether a member can simultaneously be the Information System Auditor and Credit Appraiser of the same Bank?
- A. A member can simultaneously be the Information system Auditor and Credit Appraiser of the same Bank except in case where appointment as Information system Auditor has been made under a statutory or regulatory requirement. However, he should ensure at his end that there is no conflict of interest involved.

- Q. Whether the Auditor of a Bank can hold Credit card of the same Bank?
- **A.** There is no prohibition in holding credit card of bank, where a CA Firm is Auditor of the Bank. Indebtedness will apply if there is outstanding balance of Rs. 1,00,000*/- beyond prescribed credit period given to holder of credit card.
 - * As per the limit of indebtedness existing as on date.
- O. Whether the Concurrent Auditor of a Bank can accept the assignment of its Statutory Audit, after relinquishing the assignment of the Concurrent Audit of the Bank?
- A. Yes, the Concurrent Auditor of a Bank can choose to relinquish the Concurrent Audit and accept the assignment of Statutory Audit. He can, of course, also choose to continue with the Concurrent Audit assignment, without accepting the Statutory Audit.
 - Provided, where the Concurrent Audit Assignment for the relevant year has already been commenced at the time of acceptance of Statutory Audit, the Statutory Audit for the said year should not be accepted.
- O. Whether the Concurrent Auditor of a Branch of a Bank can undertake the assignment of LFAR of the same Branch?
- A. The concurrent Auditor of a Branch can undertake the assignment of LFAR only with respect to Branches which are not subject to Statutory Audit. With respect to Branches which are subject to Statutory Audit, the LFAR assignment shall be undertaken by the Statutory Auditor.
- Q. Whether a member in practice can accept statutory audit of a bank in case if he has taken loan from the bank against Fixed Deposit?
- A. No, "Indebtedness" would include loan taken by a member against Fixed Deposit or any other security. It is the Indebtedness beyond the existing limit of Rs.1,00,000/- in question

Know Your Ethics

and not the type of security against such Indebtedness. Thus, a member is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank beyond the existing indebtedness limit.

- O. Whether a current assets auditor for borrower accounts of a bank can also be the statutory auditor of a branch of the same bank?
- A. There is no conflict of interest where the current asset auditor of borrower accounts of a branch of a bank, is the statutory auditor of another branch of the bank.
- O. Whether the issue of independence of Auditor is linked with the Performance Certificate of Branch Auditors required from Branch Managers of a Bank?
- A. The "Performance Certificate" appears to be something of internal use of Banks also apparent that the said report is confidential. There is nothing to be done by auditor or ICAI is in this regard. Since it is something in domain of client only, no independence issue is involved.
- Q. Whether the Incoming Auditor of an entity can communicate with the retiring auditor vide email?
- A. Yes, the Incoming Auditor of an entity can communicate with the retiring auditor vide email. However, the positive proof of delivery of email to the previous auditor will be reckoned on the receipt of acknowledgement of the communication from retiring auditor's by email address registered with the Institute or his last known official email address.
- Q. Whether communication with previous auditor is necessary in case of appointment as statutory auditor by nationalized and other Banks?
- A. Yes, communication with previous auditor is applicable in case of appointment made by nationalized and other Banks.

- Q. Whether communication by the Incoming auditor is mandatory with the previous auditor in respect of various audit assignments, like the concurrent audit, revenue audit, stock audit and special audits etc.?
- A. Yes, the requirement for communicating with the previous auditor would apply to all types of audits viz., statutory audit, tax audit, concurrent audit, Stock Audit or any other kind of audit.
- O. Whether Auditor of a bank can commence audit immediate after communication with previous Auditor and without waiting for reasonable time?
- A. In the case of audit of government Companies/ banks or their branches, the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

Q. Whether a member in practice can be a **Director in Cooperative Bank?**

A. Yes, a member in practice may be a Director-Simplicitor in a Co-operative Bank not in charge of the executive functions. He, or Chartered Accountancy Firm wherein he is a partner, or any of the partner of the said firm are not involved in the Bank as an auditor.

Accounting treatment of borrowing costs incurred by parent company in respect of borrowings made for acquisition of investments in subsidiary company

Facts of the Case

- 1. A company (hereinafter referred to as 'the Company'), is a wholly owned subsidiary of a listed government company and is in the business of exploration and production (E&P) of oil and gas and other hydrocarbon related activities outside The Company has adopted Indian Accounting Standards (Ind ASs) w.e.f. 1st April 2016 (Transition Date: 1st April 2015). The functional currency of the Company is assessed as US Dollar (USD) in accordance with the provisions of Ind AS. The Company presents its financial statements in presentation currency which is Indian Rupee (INR).
- 2. The Company operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. Globally, E&P business is carried out by way of joint arrangements or investments in form of subsidiaries/associates.
- 3. The querist has informed that during the financial year (F.Y.) 2013-14, the Company acquired 60% shares in an overseas company (subsidiary company X) which was having 10% participating interest (PI) in an overseas discovered oil and gas project under development (Project-A). Total purchase consideration for the acquisition of 60% shares was USD 1502.82 million. At the time of acquisition, net assets of the subsidiary company X, proportionate to the Company's holdings, were USD 195.68 million and accordingly a goodwill of USD 1307.14 million (USD 1502.82 million – USD 195.68 million) was recognised in the consolidated financial statements of the Company. The purchase consideration for the acquisition was financed partly by market borrowings and partly by internal accruals. As noted above, at the time of acquisition of the shares in subsidiary company X, the subsidiary company was holding 10% PI in an oil and gas asset under development with assets under construction in the form of Capital Work in Progress (CWIP) of USD 69.37 million and

Exploratory Wells in Progress (EWIP) of USD 173.80 million. The said in-progress oil and gas assets were under development as at 31.03.2021.

4. In the standalone financials statements of the Company, the acquisition of 60% shares in subsidiary company X was accounted as investment in the subsidiary company X. The Company also recognised liabilities in respect of the borrowings made from the market to finance the acquisition. The associated borrowing costs are charged off as expenditure in the standalone statement of profit and loss for the respective financial years.

In the consolidated financial statements of the Company, the subsidiary company X is consolidated following the provisions of Ind AS 110, 'Consolidated Financial Statements', inter alia combining like items of assets, liabilities, equity, income, expenses and cash flows of the Company with those of its subsidiary company X. Hence, in the consolidated financial statements, the assets under construction (CWIP and EWIP) of the subsidiary company X are combined with like items as per line by line consolidation method. Similarly, the borrowings costs charged off as expense in the standalone financial statements are also combined with like items of expenditure and, therefore, are treated as expense in the consolidated financial statements as well.

5. The querist has further informed that, during the course of supplementary audit of F.Y. 2020-21, Comptroller and Auditor and General (C&AG auditors) referred to Question 22 of Educational Material on Ind AS 110, Consolidated Financial Statements, issued by the erstwhile Ind AS Implementation Group of the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) which is reproduced below:

"Question 22

AB Limited obtains a term loan from POR Bank. The loan has been raised by AB Limited specifically for the purpose of making a further equity investment in BC Limited, its wholly-owned subsidiary, which is in need of funds for construction of an asset. The said asset meets the definition of a qualifying asset under Ind AS 23, Borrowing Costs and is not excluded from the scope of Ind AS 23. Since, equity investment made by AB Limited using the proceeds of the borrowing does not qualify as a qualifying asset from its perspective; it expenses the associated borrowing costs in its stand-alone financial statements. On the other hand, since the proceeds of borrowing made by AB Limited have been provided by AB Limited to BC Limited as an equity investment and not as a loan, BC Limited does not have any associated borrowing costs from the perspective of its stand-alone financial statements.

How should AB Limited deal with the borrowing costs associated with the term loan in its consolidated financial statements?"

The response of the above question as provided in the Educational Material, after analysing the various provisions of Ind AS 23, 'Borrowing Costs', states that the interest payment on loan taken by the holding company for equity investment in its wholly owned subsidiary company and the funds obtained by the subsidiary company are utilised for construction of qualifying assets in subsidiary company. Therefore, holding company must capitalise the borrowing cost incurred in relation to the construction of the qualifying asset in its consolidated financial statements.

6. As per the querist, drawing an analogy from the above case study given in the Educational Material, C&AG auditors observed as follows:

> "As per Education Material on Ind AS 110, it was clarified that interest payment on loan taken by the holding company for equity investment in its

wholly owned subsidiary company and loan was for construction of an asset in subsidiary company. The said asset meets the definition of a qualifying asset under Ind AS 23 and therefore, from the perspective of the consolidated financial statements, the reporting entity (i.e. the group) has raised a loan from an external party and has used the proceeds of the loan to finance the construction of a qualifying asset. Hence, to the extent the borrowing costs associated with the loan are directly attributable to the construction of the qualifying asset, same should be included in the cost of the asset in the consolidated financial statements holding company."

On the basis of above observations, audit was of the opinion that though the Company is correct in charging off the borrowing costs relating to the borrowings made for acquisition of the shares in the subsidiary company X as expenditure in the standalone financial statements, however, in the consolidated financial statements, the Company should have capitalised such borrowing costs with the cost of related assets under construction of the subsidiary company.

7. The querist has stated that paragraph 8 of Ind AS 23, 'Borrowing Costs' states that an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them. Paragraph 10 further states that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. In case of difficulty in identifying direct relationship between particular borrowings and a qualifying asset, paragraph 11 of Ind AS 23 states inter alia that such a difficulty occurs, for example, when the financing activity of an entity is coordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required. (Emphasis supplied by the querist.)

- 8. In the opinion of the Company, the facts as mentioned in the Question No. 22 of Educational Material on Ind AS 110 as reproduced in paragraph 5 above are very much different from the Company's case. Therefore, the accounting treatment as suggested in the response of said question of Educational Material cannot be made straightaway applicable on the Company's case. Therefore, exercise of judgement, as required in paragraph 8 of Ind AS 23, is required for identifying direct relationship between particular borrowings and a qualifying asset.
- 9. In the question given in Educational Material, the subsidiary company is in need of funds for construction of a qualifying asset and the holding company borrows the funds from market and provides these funds to the subsidiary company through equity investment. Therefore, subsidiary company actually obtains the funds borrowed by the holding company and utilises the same for creation of qualifying assets. However, in the Company's case, the Company acquired the shares of the subsidiary company X in a secondary transaction, i.e., the Company acquired the shares from the previous holder of shares by paying the purchase consideration to the said holder for which the borrowings were made from the market and, therefore, the subsidiary company did not receive any funds from the Company as a result of this acquisition. Moreover, the subsidiary company was already having assets under construction in its financial statements as at the date of acquisition and therefore, in the Company's case there is no direct association of the funds borrowed by the Company for financing the purchase consideration (paid to the previous investor from which the shares in subsidiary company were acquired) and the assets held by the subsidiary company as at the time of acquisition.
- 10. The querist has also highlighted that the main objective of the Company, in respect of the acquisition of subsidiary company X, was to obtain the mineral rights in the form of participating rights in view of the hydrocarbon reserves of the underlying project. It is demonstrated in the Company acquiring the investment in the subsidiary company X by paying a significant proportion (around 86%) of purchase consideration towards

the goodwill. Thus, the purchase consideration paid by the Company for the acquisition of investment in subsidiary X and hence the borrowings made for such acquisition were aimed at the futuristic potential of the underlying project in terms of its hydrocarbon reserves. Therefore, the assets under construction (CWIP and EWIP) are acquired by the Company, not as a primary purpose of acquisition but as an incidental takeaway of the acquisition of the participatory mineral rights in the underlying project. Accordingly, the borrowings made for such acquisition and the associated borrowing costs are not directly associated with the in-progress qualifying assets held by the subsidiary company X at the time of acquisition. Association of the borrowing costs with these assets, if any, is only indirect, remote and secondary.

11. Without prejudice to the above, the querist has also stressed that paragraph B86 of Ind AS 110, 'Consolidated Financial Statements', in respect of accounting requirements of consolidation procedures provides as follows:

"B86 Consolidated financial statements:

- combine like items of assets, liabilities. equity, income. expenses and cash flows of the parent with those of its subsidiaries.
- offset (eliminate) the carrying parent's amount of the investment in each subsidiary and the parent's portion of equity of each subsidiary (Ind AS 103 explains how to account for any related goodwill).
- eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). ..."

(Emphasis supplied by the querist.)

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Since the Company (being a parent company) recognises the borrowing costs in respect of the borrowings made for acquisition of subsidiary company X as expenses in its separate statement of profit and loss, the same, not being an intragroup transaction, is required to be consolidated on line by line basis as per paragraph B86 of Ind AS 110 as mentioned above. If the said borrowing costs are not combined as expenditure in consolidated financials on line by line basis and is instead capitalised therein, it may not be in alignment with the requirements of paragraph B86 of Ind AS 110. Similar will be the case with in-progress assets which will have a different carrying value in the separate financial statements of the Company from carrying value in consolidated financial statements as a result of the capitalisation of borrowing costs while consolidation. Therefore, the suggested accounting treatment that the borrowing costs should be treated as expenditure in separate financial statements, but in consolidated financial statements, the same should be capitalised, is not in accordance with the consolidation accounting procedure as given in Ind AS 110.

12. Moreover, it may also be highlighted that the opinion of the Expert Advisory Committee (EAC) was also obtained by the Company in respect of the same arrangement earlier in February, 2015 (which was published as Query No. 42 of Volume 34 of Compendium of Opinions). In paragraph 8 of the EAC opinion, the query asked by the Company is that whether the following suggested accounting treatment (as provided in paragraph 7 of the EAC opinion) is appropriate or not in the light of Accounting Standard (AS) 16, 'Borrowing Costs':

"In the standalone books, the borrowing cost related to acquisition of PI through the subsidiary company would be charged off to the statement of profit and loss. However, in the consolidated financial statement of the company, the borrowing cost incurred by the company relating to acquisition of PI through the subsidiary company will be capitalised to the respective eligible assets by necessary adjustment to the statement of profit and loss."

While responding to the above query after duly analyzing the applicable provisions, EAC responded in the opinion that:

"No, the suggested accounting treatment of capitalising the borrowing cost related to acquiring PI in the oil and gas project through the overseas subsidiary company to the respective eligible assets held by the subsidiary company in the underlying oil and gas project in the consolidated financial statements as per paragraph 7 of the EAC opinion is not appropriate." (Emphasis supplied by the querist.)

The querist has also pointed out that the provisions of Ind AS 23 and AS 16 are similar in respect of the capitalisation of borrowing costs directly associated with the qualifying assets. Therefore, in the opinion of the Company, EAC opinion as obtained previously on the issue should still hold good.

13. In the light of foregoing, the Company is of the view that considering the specific facts of the extant case, the Company has correctly not capitalised the borrowing costs associated with the acquisition of investment in subsidiary company X in the consolidated financial statements.

B. Query

14. In view of the above, the querist has sought the opinion of the Expert Advisory Committee as to whether in the light of provisions of Ind AS 23 and Ind AS 110, the facts of the Company's case, Educational Material on Ind AS 110 and the previous EAC opinion on the same issue, the Company is correct in not capitalising the borrowing costs associated with the borrowings made for acquisition of shares in subsidiary X with the costs of in-progress assets held by the subsidiary company and charging off the same as expenditure in the separate as well as consolidated financial statements.

C. Points considered by the Committee

15. The Committee notes that the basic issue raised in the query relates to accounting treatment of borrowing costs incurred by the Company in

respect of borrowings made for acquisition of investments in subsidiary company in a secondary transaction in its separate and consolidated financial statements. The Committee has, therefore, considered only this issue and has not examined any other issue(s) that may arise from the Facts of the Case, such as, accounting for acquisition of investment in subsidiary company, accounting treatment in the separate financial statements of subsidiary company, determination of functional currency of the Company, etc. 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.

At the outset, with regard to the earlier opinion issued to the querist on similar subject (as referred by the querist), the Committee wishes to point out that the earlier opinion was issued in the context of Accounting Standards, notified under the Companies (Accounting Standards) Rules, 20061 whereas the current opinion has been sought from the perspective of Indian Accounting Standards. Since frameworks governing the two sets of Standards are different, the Committee's opinion under Accounting Standards framework may not necessarily apply under Indian Accounting Standards framework. Therefore, the earlier opinion has not been examined by the Committee.

16. With regard to the issue raised, the Committee notes the following paragraphs of Ind AS 23 'Borrowing Costs';

"A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale."

"8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them."

"Borrowing costs eligible for capitalisation

- 10 The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.
- 11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required."
- "17 An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:
 - (a) it incurs expenditures for the asset;
 - (b) it incurs borrowing costs; and
 - (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale."

From the above, the Committee notes that an entity shall capitalise borrowing costs that are directly

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¹ Companies (Accounting Standards) Rules, 2021 supersedes the Companies (Accounting Standards) Rules, 2006 with effect from accounting periods commencing on or after 1.4.2021.

attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Further, paragraph 11 of Ind AS 23 also acknowledges the fact that there should be a direct relationship between particular borrowings and a qualifying asset. In other words, the borrowings should have been directly used/utilised for acquisition/construction/ production of a qualifying asset.

17. The Committee notes from the Facts of the Case that the Company acquired 60% shares in an overseas company (subsidiary company X) which was having 10% participating interest (PI) in an overseas oil and gas project under development (Project-A). Total purchase consideration for the acquisition of 60% shares was financed partly by market borrowings and partly by internal accruals. Further, these shares were acquired from a third party.

From the perspective of separate financial statements of the Company, the Committee notes that funds paid by the Company were not directly used for acquisition of oil and gas project under development; rather these were used for acquisition of shares which cannot be considered as a qualifying asset (as these do not take a substantial period of time to get ready for their intended use or sale). Accordingly, borrowing costs incurred on acquisition of shares in subsidiary X cannot be capitalised in the separate financial statements of the company. Further, since from the perspective of separate financial statements, the asset capitalised is investment in shares of subsidiary and not the oil and gas project, the question of capitalisation of borrowing costs with the oil and gas project/asset under development does not arise in the separate financial statements of the Company.

With regard to the consolidated financial statements, the Committee notes that at the time of acquisition of shares in subsidiary company, subsidiary company was already holding 10 percent PI in an oil and gas asset under development with asset under construction (Project A). Since in the extant case, the Company has acquired the shares of the subsidiary company X in a secondary transaction, the subsidiary company did not receive any funds from the Company as a result of this

acquisition. Thus, even from the Group perspective, the funds paid by the Company for acquisition of shares in subsidiary X were not directly used to acquire participating interest in oil and gas project (Project A) under development or for development activities on the project A. Therefore, the Committee is of the view that in the extant case, the borrowed funds cannot be considered to have been utilised for the acquisition/construction/ development of a qualifying asset and there is no direct relationship between the borrowings made by the reporting entity (viz., the Group) and the expenditure incurred on acquisition/construction/ development of the qualifying asset. Accordingly, the borrowing costs incurred on borrowings taken for acquiring investment in subsidiary company cannot be capitalised even in the consolidated financial statements.

D. Opinion

18. On the basis of the above, the Committee is of the opinion that the borrowing costs incurred on acquisition of shares of subsidiary company in a secondary transaction cannot be capitalised either in the separate financial statements or in the consolidated financial statements of the Company, as discussed in paragraph 17 above.

- 1. The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
- 2. The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on December 23, 2021. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
- 3. The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty volumes. This is available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
- 4. Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
- 5. Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.

The Future of Accounting: Emerging need to build the next generation accounting firms

The Digital Revolution sweeping across the globe has transformed the accounting sector and we have seen disruptions in the way accounting information is captured, stored and retrieved online by using emerging technologies. The accounting profession has moved beyond mere book-keeping and payroll and is currently playing an important role in helping organisations to take strategic business decisions by moving to Cloud technologies, Process Automation and Advanced Analytics. Read on...

The New Generation Accounting Firm

The traditional accounting firms in India have been focussing on providing Audit and Assurance services, consultation on Direct and Indirect Taxes, Compliance related services and other



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Business Consulting services to clients since many decades. Our profession is moving into an era of specialisation and there is a need for the modern day accountants to up skill constantly by embracing technology and explore new opportunities opening up for the profession.

Traditional accounting firms have to re-invent and build the next generation accounting firms and move forward. The new generation CA firms can offer services in new areas such as Forensic Accounting and Fraud Detection, Valuation, Insolvency and Bankruptcy, Cyber Risk Management, Mergers and Acquisitions,

Investment Advisory, Startup support services and provide a host of Business Advisory Services to clients. The new generation CA firms should leverage on emerging technologies and provide world class services by building new delivery systems to clients across the globe.

Implementation Strategy to build the next-gen CA firm

Embrace Technology

Chartered Accountants need to analyse the size and nature of their organizations to decide the level of investment in technology. For instance, smaller firms having smaller teams require basic VPN and



Theme



The new generation CA firms should leverage on emerging technologies and provide world class services by building new delivery systems to clients across the globe.

firewall facilities to enable remote working. Applications like Google Meet, Microsoft Teams, WebEx, etc. can be used for holding virtual meetings. However, larger organizations require a larger amount of investment in technology. The firms need to invest in Technology and develop goto-market strategy to enhance clients' execution of relevant business technology. The firms should also invest in Drone technology for Stocktaking.

Engage with IT Companies and Professionals

Once the firms tech appetite has been decided, we need to engage IT companies or professionals who can provide their expertise after carefully evaluating the needs of our profession. Professionals need to work closely with Business Process Consultants to create a detailed blue-print and build a suitable digital infrastructure. The firm should develop Data Warehouse Architecture competencies to support clients Business Intelligence. The firms should also continuously work

with technology companies to develop AI tools.

Up-skilling of partners and

The CA's of today need to equip themselves with such skills and training that would enable them to up-skill themselves to deal with the complexities in today's business dynamics.

Once the digital infrastructure is implemented, the next most important step is to train and up skill the staff with the emerging technologies and this can be achieved by conducting continuous training programs.

The most visible impact of the pandemic was the shift from "Work from Office" to "Work from Home". Remote working and virtual meetings are here to stay, although less intensely. Offices have started working with less than 100% workforce while continuing to practice working remotely. Chartered Accountants need to adopt a hybrid system of working so as to significantly reduce the cost of workspaces.

Inducting new partners and hiring new staff

Once the CA firm decides to offer services in new areas it has to decide on building the new service verticals by inducting young partners who have specialized Knowledge in emerging areas of the profession and hire competent staff who can work with new technologies.

Building broader client base:

During the pandemic, there has been a dramatic shift by consumers towards online channels and businesses have succeeded in responding digitally. Businesses have refocused their attention to existing business processes and industries have witnessed a dramatic change in their operations. Professionals need to look at this shift as an opportunity and seek to broaden their client base beyond geographical boundaries.

Ex: The Start-up ecosystem provides an excellent opportunity for our profession to broaden our client base and work with the Next Generation businesses.

Pricing of Services

The new generation CA firms need to consider pricing their services keeping in view their increased infrastructure and HR costs. If the firms are still using an hourly rate model, they need to consider shifting to valuebased pricing. Also, as the firms expand their business they have



The firms need to invest in Technology and develop go-to-market strategy to enhance clients' execution of relevant business technology.



The firm should network with other CA firms around the world and have networking relationships as per ICAI guidelines and this would facilitate the firms to grow fast.

to evaluate their professional indemnity coverage since they have a greater potential liability depending on the services they offer.

Networking with other CA firms

The firm should network with other CA firms around the world and have networking relationships as per ICAI guidelines and this would facilitate the firms to grow fast.

The firms can also have informal networking arrangements with other firms and work with them on a collaborative mode in emerging areas.

Automating the office by using an Office Automation software

The new generation firms should automate their office by using a good Office Automation Software to ensure that there is seamless flow of work in the office. The Software should assist in allocation of work to staff, review of work by partners, mapping time spend on each assignment, billing and also Client Relationship Management.

New Services Offerings for the Next-gen CA firms

Business Consulting Services

Business Consulting Services includes providing end to end services to clients in various areas such as Mergers and Acquisition, Demergers, Analysis of Financial Statements, Evaluation and testing of Corporate Strategy, **Evaluating investment** decisions in R&D, Capital Investments, Preparation of Project Reports & Project **Expenditure Monitoring** Control and Evaluation, Cash Flow Analysis & Working Capital Management, Deal Structuring and Financing including Valuations for the purpose of bidding Business Set-up Services, Domestic and International Tax Advisory, Transaction Support, Compensation Structuring, Corporate Finance, Investment Planning, Ind AS/ IFRS Advisory, Private Equity and IPO Support services, Financial Modeling and Due-diligence reviews.

Valuation Services

The demand for Valuation Experts is increasing due to the need for Valuation by enterprises who are keen on raising capital from Foreign Institutional Investors, Venture Capitalists and other investors. These enterprises need to engage Valuation Experts to arrive at the value of the enterprise. Business Valuation requires specialize skills and

competence and Chartered Accountants with specialized knowledge of Valuation can provide Valuation services.

Under the IFRS regime, enterprises have to recognize their Assets and Liabilities at their fair market values. CA's with expertise in valuation can assist enterprises in arriving at the fair market values properly.

Forensic Audit and Fraud Detection

Forensic Accounting is a triage of accounting, auditing and investigative skills. As a forensic accountant, you are a bloodhound and not a passive watchdog; you work with the thought that there is a fraud lurking around the corner. No domain is spared from misconduct, fraudulence and injustice. The complicated nature of modern fraud has driven the growth of forensic accounting. Further, auditors and their firm would be jointly liable for frauds in the books of accounts and many auditors



Increasing complexity of business operations and globalization of capital markets make it mandatory to have a single set of high quality reporting standards. IFRS is a single set of high quality, understandable and enforceable global accounting standards.

Theme

are likely to become forensic accountants in the days to come to avoid being caught on the wrong foot.

With the increase in the complexities in the business dynamics there are a lot of loopholes that are being exploited by organizations to their advantage and also other kinds of frauds that are deterrent to the economical growth of the country.

There is a huge demand for Chartered Accountants having specialized knowledge in Forensic audit and Fraud Detection.

Information Systems Audit

IS Audit is the future of the accounting profession, in the emerging economic scenario; it has risen from a business enabler to business driver as internal controls today are implemented through Information systems. For the IS Auditor, the canvas is broad. It involves assessing risks including, reputational risks, and understanding the impact of data loss (theft, leak). The IS Auditor assists in investigating fraud. He works with the



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Cloud Computing is gaining acceptance around the world. Mid to large size companies are embracing Cloud based technologies to leverage on lower costs.

security team and with certified fraud examiners to establish the root cause of these frauds.

Insolvency and Bankruptcy

Chartered Accountants form a large part of the Insolvency Professionals fraternity. The Code provides for a specialized forum to oversee all insolvency and liquidation proceedings for individuals, SMEs and corporate. Introduction of the Code has led to improvement in recoveries by banks. Balance sheets of banks are being cleansed through higher write -offs, contributing to low GNPA ratios.

Cyber Risk Services

Chartered Accountants possess professional strengths and qualifications that make them ideal for Cyber Risk Management. Chartered Accountants, as Technology Consultants, can help businessmen in re-aligning their business to the dynamic economic conditions. Chartered Accountants are well-placed to step into the role of proactively guarding the interests of their clients and organizations in an era when rapid technological change is creating ever greater risk.

Cyber Risk Services which include Cyber Strategy Management, Cyber Intelligence and Cyber Analytics are gaining ground due to advent of mobile technology, Cloud Computing and Social Media. Chartered Accountants as Technology



RPA imitates human execution of applications. It focuses on automation of repetitive tasks and plays a significant role in bringing in process efficiencies. RPA drives improvements in quality, scalability, and resiliency in a cost effective way.

Consultants are in demand as they can help businessmen in re-aligning their business to the dynamic economic

IFRS Implementation

Increasing complexity of business operations and globalization of capital markets make it mandatory to have a single set of high quality reporting standards. IFRS is a single set of high quality, understandable and enforceable global accounting standards. Chartered Accountants with the knowledge of IFRS can offer their services in implementing IFRS in various organizations. IFRS specialists are in great demand around the world.

Emerging Technologies to be embraced by the next-gen CA

Block Chain Technology

Block Chain is a distributed ledger system that allows each participant (or node) to see clearly where information has

come from and gone to - in essence, Block Chain is an innovation in record keeping, a cryptographic chain of proofs.

To alter the Block chain without being obvious, anyone wanting to create a false record would supposedly have to modify every subsequent block, which generally requires everyone using the block chain to agree to the fraudulent transaction. Therefore, in a Block chain environment it is extremely difficult to alter data or insert false information.

Block Chain alters the conventional techniques for invoicing, reconciliation, documentation, contract preparation and mechanizes the physically performed. Block Chain can streamline financial reporting and audit processes. Chartered Accountants can also assist organizations in help implementing Block chain solutions effectively.

With the kind of confidential and important sensitive information that Chartered Accountancy firm deals with it is important that it remains safe and confidential, Block Chain will enable sensitive information from being leaked and causing a serious threat to organizations and save them from financial and reputational embarrassment that they might have to face had the information been leaked.

Accounting professionals who understand and can use (and

teach others about!) distributed ledger technologies will be in high demand for process development, auditing and records management and more.

Cloud Accounting

Storing accounting data on remote servers will make geography unimportant. Cloud Computing enables you to work seamlessly from multiple locations without huge investments your office, your home, at the airport.

It provides flexible, on demand, and dynamically scalable computing infrastructure.

Cloud Computing is gaining acceptance around the world. Mid to large size companies are embracing Cloud based technologies to leverage on lower costs.

Big Data and Analytics

Traditional data processing applications are inadequate for Large or Complex Data sets. Challenges like analysis, capture, search, sharing, storage, transfer, visualization, and information privacy could be resolved by use of Big Data Analytics.

It provides new opportunities for growth from research and development to sales and marketing. Companies have started using Analytics to reduce costs. Accounting professionals can analyze financial information for effective decision making.

Robotic Process Automation

RPA imitates human execution of applications. It focuses on automation of repetitive tasks and plays a significant role in bringing in process efficiencies. RPA drives improvements in quality, scalability, and resiliency in a cost effective way. There is a huge opportunity for existing finance and accounting functions to optimize their processes through RPA

Artificial Intelligence

Accountants, for example, can put their uniquely human skills to work transforming the insights extracted from high-quality data into more effective financial planning and reporting. In an integrated environment, they can collaborate with peers from other business units to leverage financial data to drive innovation, build more resilient and agile supply chains and develop business management plans that promote growth while ensuring continuity.

Conclusion

Tomorrow's Accountant: More, Strategic and Creative than Ever

With diverse skill sets and greater technical acumen, accountants can bring their own expertise to teams in other business units, providing crucial financial intelligence, refining budgets or ensuring compliance. As a function, accounting may become less

Theme

about refining one's skill set through certifications and more about core competencies that grow over time, with a focus on lifelong education and skill development required to take on a complex, ever-changing business environment.

The current generation of CA's need to adapt to changes happening around the globe and explore new opportunities that looks attractive and exciting. We are in a period of rapid change and in the next few years, the role of many Chartered Accountants will be to keep pace with the gradual digitization of clients and help them navigate technologies, systems and data digitisation.

The CA curriculum must offer students an insight into digitisation trends, technological developments and new business models, and value chains as well as new types of risk, transformation processes, etc. affecting accountancy activities. They must learn how to apply new business models (including models based on information technology, business procedures, analytics, risk, strategy, value chain analytics, processors and product development, the blurring of sectoral boundaries,

Tomorrow's Chartered Accountant will spend a greater portion of his or her time giving advice to clients about data

infrastructure and analytical setup and accordingly will need new competencies within computer science, computer engineering, etc. Moreover, he will need communicative competencies to be able to translate big data volumes to output like pie charts, heat maps and geo charts that are easily comprehensible for enterprise management.

Lifelong learning is critical to future-proofing the profession - incorporating both technology itself as well as its effective application and implementation. This learning will showcase to the world that we the CA profession is a future ready profession. The way forward for the profession looks exciting.

ANNOUNCEMENT FOR MEMBERS AND STUDENTS

Survey for seeking preference for learning foreign language through virtual mode from ICAI **Members and Students**

LAST DATE: 15th April, 2022

Committee for Development of International Trade, Services & WTO (CDITSWTO) of ICAI is taking forward the Action Plan for Champion Sector in which promoting foreign language amongst members and students is one of the mandates by Government of India. With an aim to overcome language barrier and thereby to have enhanced professional opportunities overseas, ICAI, under the aegis of the Committee had initiated online batches of German, French, Spanish, Japanese and Business English Languages for its members and students through German, French, Spanish, Japanese Embassies and British Council and is working to initiate batches for Chinese, Arabic and Dutch languages in next few months based on the demand for said foreign languages.

Interested members/students are requested to kindly express their interest for the preferred foreign language which would facilitate ICAI to open up future batches of foreign languages. The expression of interest can be provided by visiting https://www.icai.org/post/survey-learning-foreign-languagethrough-virtual-mode latest by 15th April 2022.

Chairman

Committee for Development of International Trade, Services & WTO

Email: cditswto@icai.in

Empowering the Profession: Building Excellence and Strengthening Stakeholder's Confidence

The speed at which the changes are occurring all across the society is ever accelerating. Unless one adopts the changes at the same pace, the redundancy is bound to increase. This applies equally to the professionals also. For an individual professional, continuous learning of technical matters and the updating the technological skills is inevitable. At the same time, delivering the professional services at competitive pricing is essential in the commercial world. The Institute of Chartered Accountants of India (ICAI) has been playing a pro-active role in empowering the profession and at the same time strengthening the stakeholders' confidence. Read on...



CA. Manoj Fadnis

The author is Past President, ICAI and Past President, Confederation of Asian and Pacific Accountants. He can be reached at eboard@icai.in

Advertisement

Considering the age-old basic differences between business and profession, the Code of Ethics has always been more rigidly applied to the professionals. The quote of Marcus Aurelius "A man must stand erect, and not be kept erect by others" is well known. Advertisements and solicitations have always been looked down upon for a professional. However, the changing dynamics of the social environment and the increasing complexities of trade and commerce required re-thinking on the subject.

The Chartered Accountants (Amendment) Act, 2006 which

came into force w.e.f. 17th November 2006 has made an important change in this regard. A proviso is inserted to clause (7) of the Part 1 of the First Schedule which deals with the professional misconduct with respect to advertisement. As per the said proviso a member in practice may advertise through a write up setting out the services provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council of the ICAI.

This is a landmark milestone in the empowerment of the profession. The lawmakers have delegated the powers to frame the guidelines to the Council



Theme

of the ICAI. The importance of advertisement needs to be seen in the larger interest of the society. As 'Service sector' contributes a significant share of the nation's GDP, the competitiveness of the sector required to be strengthened. So while the law permitted limited advertisement, simultaneously the provisions of undercutting were deleted.

The first set of advertisement guidelines were issued in 2008 which have now been revised in 2020. The present guidelines recognise the effect and the impact of the social media. Accordingly, many relaxations have been permitted to the practicing professionals. It needs to be borne in mind that this is a continuous journey. A practice prohibited today may become essential tomorrow. Therefore, the Council needs to look at the evolving practices and customs on a continuous basis. Where any practice found to be mis-leading or not in the interest of the profession, will have to be sternly discarded.

Multi-disciplinary Firms

The importance of multidisciplinary firms is well



The present guidelines recognise the effect and the impact of the social media. Accordingly, many relaxations have been permitted to the practicing professionals.

recognised. This concept evolved as part of the Capacity Building Measures adopted by the Council of the ICAI in 2004. But the detailed guidelines have been issued only in 2021, after several legislative and regulatory amendments.

Section 226 of the Companies Act, 1956 contained the provisions relating to the qualifications and disqualifications regarding the appointment of the auditors. Sub-section (1) of section 226 provided that a person shall not be qualified for appointment as auditor of a company unless he is a chartered accountant within the meaning of the Chartered Accountants Act. 1949 (48 of 1949) and that a firm whereof *all the partners* practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company, in which case any partner so practising may act in the name of the firm. Thus, the Companies Act 1956 contained an explicit provision that, for a firm of chartered accountants to be appointed as an auditor, all the partners need to be chartered accountants.

The above legal provision changed with the Companies Act 2013 coming into force. Section 141 deals with eligibility, qualifications and disqualifications of auditors. Sub-section (1) of section 141 provides that a person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant and that a firm whereof *majority*

of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company. The requirement of all the partners changed to the majority of the partners. Thus, this paved the way for the multi-disciplinary firms to be appointed as auditors.

The relevant amendments in the Chartered Accountants Act. 1949 are also important to be noted. Sub-section (2) of section 2 provided that a member of the Institute shall be deemed "to be in practice", when individually or in partnership with chartered accountants carries on the practice as mentioned therein. Thus, the parent Act governing the profession did not recognise the multi-disciplinary practice. This was amended by the Chartered Accountants (Amendment) Act, 2011 which came into force w.e.f. 1st February 2012, which inserted the words "or in partnership with members of such other recognised professions as may be prescribed."

The above legislative history evidence how much importance the Parliamentarians have given to the concept of the multidisciplinary firms and have amended the laws as required. The guidelines have now been issued by the ICAI whereas similar guidelines from the other Institutes are said to be under formulation.

Far reaching development have taken place in the Corporate Laws since the turn of the century. The Competition Act, 2002, the Limited Liabilities



While the consultancy services are developing fast, the audit remains under sharp focus and rightly so. The confidence posed by the society in the audit profession needs to be continuously enhanced.

Partnership Act 2008, the Companies Act 2013 and the Insolvency and Bankruptcy Code (IBC), 2016 are the major legislations which are now in force. The concept of Registered Valuers has seen the light of the day with section 247 of the Companies Act being notified with effect from 18.10.2017. The IBC requires a team of professionals from different disciplines to handle the bankruptcy matters. The increasing non-performing assets in the banks have been a source of great concern. Diversion of funds to related parties have been alleged to be rampant. This has led to the growth of the forensic audits.

All these services require multi-disciplinary firms. The focus is shifting from audit to consultancy. It is globally being said the future accounting firms will have more of nonaccountants.

Non-Audit Services (NAS)

While the consultancy services are developing fast, the audit remains under sharp focus

and rightly so. The confidence posed by the society in the audit profession needs to be continuously enhanced. One of the conflict areas which has come under sharp scrutiny is the Non-Audit Services. The Enron debacle led to lot of measures being taken globally. The ICAI was quick to respond. In 2002. It issued a notification prohibiting the audit firms to accept non-audit fees in excess of the audit fees in case of listed and other specified entities. This was many years before the introduction of section 144 of the Companies Act, 2013 which prohibits certain services to the audit clients.

The provisions of section 144 are far more stringent than what is contained in the International Code of Ethics. The law prohibits the specified services to all audits without making distinction between a public interest entity like a listed company and a small company as defined in the Companies Act itself. Also, one of the non-audit service prohibited is 'management services', a term which has not been defined in the law. The International Code of Ethics prohibit undertaking 'management responsibility' but permits provision of services if the responsibility is with the auditee. In some of the developed economies, the view adopted is that recording a transaction without taking any independent decision about the same does not result in conflict of interest. For instance, pay roll processing will not render conflict of interest if the overall

responsibility is still with the management and not with the audit firm. Be that as may, such services will not be permissible under the Indian Companies Act. But as the ICAI has adopted the International Code of Ethics, such services can be rendered to a non-company audit client.

In February 2020 the Council has notified 'Administrative Services' under the Management Consultancy and Other Services as a service which can be rendered by a practicing chartered accountant.

It will be useful to the profession that there is clarity as to what can be rendered and what cannot be rendered. The type of service to be rendered should not depend on the legal form of the auditee. The national ethical code can be more stringent than the international code, if so required. Recognising the fact that the law formulated by the Parliament is supreme, and as the law prohibits management services to a company auditee, the Council should consider extending the same prohibition to non-company audit clients too. At the same time, a debate should also be initiated as to whether the prohibition under section 144 of the Companies Act should be applicable to small companies as defined in the Companies Act itself. Where there is no public interest involved, there seems to be no logic in banning all services, specially those which do not create a conflict with the audit services.

Theme

Rotation of Firms and **Partners**

The Companies Act 2013 has mandated rotation of auditors for the listed companies and such other companies as are prescribed. Besides this, the rotation of the auditors has been prescribed for the appointment of public sector banks, the public sector undertakings etc. In addition to this, the Code of Ethics Vol I, which is based on the International Code of Ethics. prescribes for the rotation of the partners. The principal for the rotation of a partner is explained in the Code of Ethics as under:

"A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately."

Rotation of Firms and the Partners are measures to boost the confidence in the audit profession by improving the independence of the auditors. No doubt, independence is



Rotation of Firms and the Partners are measures to boost the confidence in the audit profession by improving the independence of the auditors.

a state of mind. However, the public perception of independence improves by such measures.

At the same time, it is important to note that the International Code of Ethics does not deal with the rotation of firms but is restricted to the rotation of the partners. The Indian Code is thus, more stringent as it requires the rotation of the partners even when the firm is to rotate after not more than ten years. This is an area where some relaxation can be considered by the Council. The basic premise which justifies the rotation of the partners i.e., self-interest threat of loosing an audit client is itself not applicable in view of the rotation of the firm.

Networking of the CA Firms

Networking of the CA firms is a measure to strengthen the small and medium practitioners. It is to increase the ability of a small firm to provide services at multi-locations and in different professional areas. However, the reality in India is that the networking has not taken off the way it was conceived. This is largely due to the restrictions on conducting the internal audits/ rendering consultancy services where one of the networked firms is statutory auditor, both under the Networking Guidelines and the provisions of section 144 of the Companies Act. One way could be to give additional scoring points for the networked firms in bidding for tenders to make the concept

more attractive for the smaller firms. As more consultancy assignments open up, this may prove to be an effective step to encourage firms to come together and network with each other. The guidelines for networks with the firms outside India will have to be more pragmatic. While the laws in India have to be complied with, the best global practices will have to be adopted to help the local firms to meet the global opportunities and face the global competition.

Investing in Technology

The CA Firms will have to increase the investment in the technology. The Digital Maturity Model set up by the ICAI is a good basis to benchmark the adoption of the technology. The Audit Tools being expensive as they are, have been less used by the smaller firms. The recent initiative of the ICAI to acquire the tools and license the same to the audit firms will greatly help in improving the audit quality of the smaller firms.

Conclusion

Each one of us a member of the ICAI has to bear in mind that the image of the profession is the reflection of the sum total of the image of what each one of us does individually. Excelling in whichever area we practice or serve, is the minimum contribution which can be rendered in increasing the stakeholders' confidence in the profession.

Building Excellence and Strengthening Stakeholder's Confidence - Role of Ethical Standards Board

The Chartered Accountants, both in practice or service, have been looked upon as conscience keepers of the society from very inception of the Profession in India. Not only clients and employers look upon services of Chartered Accountants with great expectations, but stakeholders at large such as Credit Grantors. Governments, **Taxation** Authorities. Regulators, Industry have been heavily relying upon Chartered Accountant services in many aspects. Read on...

Ethics as Way of Life and **Expectation from the Chartered Accountancy Profession**

With a huge responsibility on Chartered Accountants, both in practice or service, the need for members is not only to fulfil the varied expectations from all stakeholders but to retain the trust posed over them over a long period of time. In this process they earn a position of eminence for them, which needs to be carefully nurtured so that the trust posed on them only improves. Trust is an assurance of reliability and it is elusive where ethical compliance does not exist. That's why ethics is said to be the foundation of building trust. The guaranteed way of earning public trust is to demonstrate ethics and integrity.

The following paragraph in Code of Ethics summarises the high expectations from chartered accountants: -

"Public conscience is expected to be ahead of the law. Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law require and should not place themselves in positions which would either compromise or jeopardise their independence."

ICAI and Framework of Ethics

Section 22 of the Chartered Accountants Act, 1949 defines and describes what constitutes professional misconduct. The two Schedules to the Act spell in detail the various acts and omissions entailing professional/ other misconduct, which are dealt with punishment in accordance with Chapter-V of the Act. The robust disciplinary mechanism of the Institute is thus been provided in the Act itself, since inception.



Contributed by Ethical Standards Board of the ICAI. Comments may be sent to esb@icai.in and eboard@icai.in

Theme

It has been the endeavour of ICAI to maintain the highest professional standards for the profession. ICAI has never hesitated to take the strictest possible action in cases where the member of the profession has violated the norms.

Code of Ethics – Journey since Inception

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under The Chartered Accountants Act, 1949 for the regulation of the profession of Chartered Accountants in India. The Council of ICAI is empowered to discharge the provisions of the Act, and regulate and maintain the standards of the profession.

In November, 1963, the Council of ICAI brought the first edition of the 'Code of Conduct', which included not only the provisions of the Chartered Accountants Act but also the interpretation of the Council, various High Courts and the Supreme Court. The "Code of Conduct" was essentially a set of professional ethical standards regulating the relationship of Chartered Accountants with others. The 'Code of Conduct', was called as 'Code of Ethics' for the first time in its ninth edition in 2001. Since its first edition the Code has been constantly updated from time to time to fine tune it with the changes in legislation, ethical and professional standards.

'Code of Ethics' is not only a publication of the Institute, but also the guiding force for a chartered Accountant.

The Council at its 74th Meeting held in December, 1975 established the Ethical Standards Board to function as standard setting body for the formulation

of ethical standards for members in response to changing conditions and environment.

ICAI being member body of International Federation of Accountants (IFAC): has to comply with benchmarks set by IFAC as regards Ethical Principles to observed globally. The 2009 edition, being the 11th edition of Code of Ethics, incorporated for the first time ever, the provisions of IESBA (International Ethics Standards Board for Accountants) Code of Ethics. IESBA is the Ethical Standards setting Board of IFAC. This edition was divided into Part-A and Part-B. Part-A incorporating provisions of IESBA Code, and Part-B based on the Chartered Accountants Act, 1949 and other domestic laws governing the chartered accountants in India. The present edition of the Code is the 12th edition and has been for the first time divided into three Volumes-I, II and III. The Volume-I, issued in 2019 is based on the provisions of IESBA Code of Ethics, 2018 edition. The Volume-II, based on Chartered Accountants Act, 1949 and other domestic laws was issued in 2020, and Volume-III is the Case Laws Referencer containing important disciplinary case laws for the guidance of members.

Principles

The Code of Ethics is the guiding force. It describes some of the significant issues which need to be reinforced to the members. Some of these are mentioned below:-

Fundamental principles

There are five fundamental principles of ethics for the chartered accountants:

(a) Integrity – to be straightforward

- and honest in all professional and business relationships.
- (b) Objectivity not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation;
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behaviour to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

The circumstances in which the accountants operate might create threats to compliance with the fundamental principles. The conceptual framework, described in Volume-I of Code of Ethics

assists accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances. including the various professional activities, interests and relationships that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

ii. Independence

Chartered accountants are required to be independent when performing professional assignments. Independence comprises of following: -

- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised.

The concept of Independence, being paramount in the profession, has been

comprehensively discussed in the Code of Ethics. The most important application of this principle of independence appears in the form of various stipulations comprising of conflict of interest, provision of Non-Assurance Services to the Audit clients, bar on providing Management Responsibilities to Audit clients, etc.

Further, the new Code has brought the "Independence Standards" as under :-

- Part 4A : Independence for Audit and Review Engagements
- Part 4B: Independence for Assurance Engagements other than Audit and Review

All members are expected to comply with these Independence Standards while conducting the various professional assignments.

iii. Transparency

In the contemporary world, it is imperative for a chartered Accountant to comply with the rules , as also to encourage a perception that the rightful conduct is maintained by him. The role of transparency towards creating credibility is tremendous. One of the mechanism to encourage this perception is maintaining proper documentation, which helps members in defending their actions and makes their actions "transparent".

The documentation done by the Auditor of a listed entity would be yardstick of compliance with the provisions of Responding to Non-compliance of Laws and Regulations (NOCLAR), which appear for the first time in Volume-I of Code of Ethics.

Ethical Standards Board (ESB)

Role of Ethical Standards Board

The Ethical Standards Board develops and issues ethical standards and other pronouncements for chartered accountants. It works towards evolving a dynamic and contemporary Code of Ethics and ethical behaviour for members while retaining the long cherished ideals of `excellence, independence, integrity' as also to protect the dignity and interests of the members.

Objective

The objective of Ethical Standards Board is to set up ethical standards for chartered accountants, converge with the International best practices on ethics, subject to local laws, thereby enhancing the quality and consistency of services provided by chartered accountants and strengthening the public confidence in the profession.

Views on professional issues

Ethical Standards Board also directly interacts with members. Members can directly ask their gueries to the Ethical Standards Board, which are discussed in the Board meetings and the advise is given to the members in that regard. There are numerous issues raised by members daily on points where the statute /Code of Ethics are silent. The Ethical Standards Board takes a view on such issues, and thus facilitates implementation of the principles of ethics. Some examples are as under:-

It is prohibitive to become the Statutory Auditor where a spouse of the member renders services as honorary treasurer, being violative of the provisions of the Code of Ethics.

Theme

- For the purpose of Appointment of an auditor when he is indebted to a concern, as dealt with under Chapter X of the Council General Guidelines, 2008, the term "auditor' shall not include internal auditor. concurrent auditor or an auditor giving report to the Management. In other words, the provision relating to criteria/limit of indebtedness shall apply only to statutory audits.
- A member in practice can accept position as Managing Director or whole-time Director in a Company registered under Section 8 of Companies Act, 2013 provided his position is honorary, and the Company is of charitable, educational, or non-commercial nature.
- The Chartered Accountants in Practice/Firms of chartered accountants are permitted to register on GeM Portal for rendering professional services. The information being published on the portal should be in compliance with the provisions of Code of Ethics.
- It is not permissible for a member in practice to accept the appointment of statutory



The Ethical Standards Board has been handling grievances as regards their uniustified removal as auditors as a measure of Protection of Independence. audit of the society wherein immediate family member i.e., spouse or dependent, of member hold honorary position of one of the managing committee of the institutes governed by the society.

Unjustified removal of Auditors

The Ethical Standards Board has been handling grievances as regards their unjustified removal as auditors as a measure of Protection of Independence. The mechanism is helpful for the members who have been unjustifiably removed as auditors can get justice.

It may be relevant to note that the Chapter XI of Council General Guidelines, 2008 provides that a member is required to comply with the Institute's directions (through Ethical Standards Board) given to him, being the Incoming Auditor(s), not to accept the appointment as Auditor(s) in case of Unjustified removal of Auditors.

Implementation and Adoption

It is not sufficient to only formulate ethical principles. Their implementation and adoption is equally necessary. It is one of the terms of reference of Ethical Standards Board to promote public awareness and confidence in the fundamental principles viz. integrity, objectivity, competence and professionalism for members. A special ethical awareness column 'Know your Ethics' is being published regularly in the CA Journal since September, 2009. Further, seminars, webcasts and workshops for members are conducted regularly on topics of ethics for the benefit

Ethical Standards Board has presence on Twitter wherein important topics/matter covering the revised Code of Ethics are being regularly shared for awareness of members.

of members. Every year, some new measures are taken to encourage implementation and adoption. In this endeavour, weekly E-mail flashes, distribution of compendium of ESB publications to members attending programmes, circulating CA Ethics Plus, a brochure on ethical issues, conducting Faculty Development programmes, etc. are some of the initiatives. ESB has published number of publications on specific provisions and issues of Professional Ethics and also brought out FAOs on certain critical issues.

International Perspective

Ethical Standards Board coordinates with IESBA, as also with other international organisations to ensure that ICAI is involved in the standards formulation process.

IFAC stipulates that a member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code. Accordingly, in convergence of ICAI Code of Ethics with the IFAC Code.

the variances have been made by ICAI, wherever necessary, to ensure that any provision of IFAC Code does not contradict with our domestic provisions. As such, ICAI Code of Ethics has been maintaining right balance between International obligations and domestic compulsions.

Some recent Initiatives nurturing Ethics

In its endeavour to take ethics to new heights, Ethical Standards Board takes new initiatives . Some of the recent ones are mentioned below:-

1. Videos on frequently asked questions on ethical issues

- Ethical Standards Board has prepared and uploaded various videos on Frequently Asked Ouestions on topics of Ethical issues link at digital learning platform of the institute and ESB website www.esb.icai.org.

2. Social Media Platform

Ethical Standards Board has presence on Twitter wherein important topics/matter covering the revised Code of Ethics are being regularly shared for awareness of members. The objective behind this is to achieve optimum adoption and

While Ethical Standards Board is directly involved in services pertaining to members, it also contributes towards other stakeholders.

implementation of revised Code of Ethics by members.

3. CA Connect Portal

The modes of dissemination of information available on Internet are owned by various third parties, which do not operate as per the requirements of Code of Ethics. In view of this, an indigenous search engine portal for members and Firms was developed by the Ethical Standards Board. which was operationalized on 31.07.2021. The objective of this Portal is to provide an effective platform for listing. This Portal is providing the essential bridge between clients and Chartered Accountants. The prospective clients can search the services offered by Firms / Individual practitioners based on their area of expertise under oneroof irrespective of their geographical locations.

4. E-newsletter

Ethical Standards Board has issued quarterly E-newsletter to present a brief of the recent initiatives taken by the Ethical Standards Board for the benefit of the members. It includes a range of features like amendments, recent decisions of Ethical Standards Board, details of programmes, quiz on ethical issues etc.

5. E-Book Code of Ethics

The Ethical Standards Board has issued E-Book on Volume-I of Code of Ethics

The Institute and its members have successfully contributed in the endeavour of building professional excellence and strengthening stakeholder's confidence. and thus empowering the profession.

on Digital Learning Platform, which has features such as bookmarking the content, Advanced search options, Highlighting etc.

Building Confidence of Stakeholders

While Ethical Standards Board is directly involved in services pertaining to members, it also contributes towards other stakeholders.

For example, it coordinates with other regulators, wherever required by them. Further, the Know your client (KYC) Norms of Institute for members, which help in mitigating risk of activities like Money laundering, assist the industry in this pursuit.

Conclusion

The Institute and its members have successfully contributed in the endeavour of building professional excellence and strengthening stakeholder's confidence, and thus empowering the profession. But as we all know, this is an ever continuing process. The challenge is in making a better tomorrow than today and set enviable benchmarks for us.

Theme

Role of FRRB as Improving Financial **Reporting Practices**

The Institute, in light of the changing global scenario and experience gained therefrom, has felt the need for a separate, dedicated and independent wing which could undertake the review of the general-purpose financial statements of the enterprises with the objective to examine the financial reporting non-compliances therein. The idea was to ensure the quality financial reporting. Therefore, the Council of the Institute has set up the Financial Reporting Review Board (FRRB/ Board) in July 2002 with an objective to develop and maintain an environment of sound financial reporting practices and to *improve transparency* in reporting, which is important to promote investor confidence in audited financial statements. Read on...





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FRRB comprises of the members from Central Council of the ICAI, Government nominees and representatives from Securities and Exchange Board of India (SEBI), office of Comptroller and Auditor General of India (C&AGI), Insurance Regulatory and Development Authority of India (IRDAI) and Central **Board of Direct Taxes** (CBDT) from time to time. Accordingly, the composition of the Board represents a broad spectrum of professional and regulatory experience. The Board comprises members with significant expertise in the field and they work under confidentiality covenants.

With the view to maintain the independence of the Board it neither co-opts the members nor the President. ICAI and Vice-President, ICAI are appointed as ex-officio members to the Board, unlike other committees of ICAL.

Scope of work: FRRB reviews the general-purpose financial statements of enterprises and auditor's report thereon with a view to determine, to the extent possible:

Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements.



- Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- Compliance with the reporting obligations of the auditor.

The Board restricts its reviews to the published financial statements only and does not carry out re-audit or review how audit has been conducted by auditors concerned. The review conducted by the Board is neither a judicial proceeding nor the quasi-judicial proceeding.

Selection of enterprises for review: The Board reviews the general-purpose financial statements of various enterprises and the auditor's report thereon selected on following basis:

Suo Moto i.

For suo moto reviews, the enterprises are short-listed on the basis of the criteria decided by the Board. The required number of



The Board restricts its reviews to the published financial statements only and does not carry out reaudit or review how audit has been conducted by auditors concerned.

enterprises are selected using random sampling method.

Special Cases ii.

- On the basis of reference made by regulatory bodies like, Ministry of Corporate Affairs, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Reserve Bank of India, **Election Commission of** India etc.
- Cases where serious accounting irregularities in the financial statements are reported in media.

Review Process: Three tier review mechanism is used by the Board for conducting the review process, i.e.,

Stage 1: Preliminary review by an independent Technical Reviewer empanelled with the Board.

Stage 2: Review of Preliminary Review Report of Technical Reviewer by Financial Reporting Review Group (FRRGs).

Stage 3: Finally, review of Financial Reporting Review Group's report along with Preliminary review report of a Technical Reviewer by the Financial Reporting Review Board (FRRB).

Actions taken by FRRB based **on Review:** The Board may take following actions based on the review of the financial statement with respect to:



Till date, FRRB has reviewed 986 Financial Statements of various enterprises selected on suo moto basis (757 cases) or as special cases (229 cases).

Auditors: In case of material non-compliance, which affect the true and fair view of the financial statements, such cases are referred to the Director (Discipline) of the ICAI for initiating appropriate action against the auditor.

However, in cases where FRRB observes that the noncompliances are not material and does not affect the true and fair view of financial statements, it brings such non-compliances to the attention of the concern auditor as a corrective measure. These advisories motivate the auditors to follow quality practices and highest sense of professionalism in carrying out their professional duties.

Management of the **Enterprises:**

Informs irregularity, in case of material non-compliances, to the regulatory body viz. Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Election

Theme

FRRB has been playing vital role in strengthening of best accounting and auditing practices amongst the members and other stakeholders.

Commission of India (ECI) etc. relevant to the enterprise for appropriate action.

Statistics of review of generalpurpose financial statements

Till date, FRRB has reviewed 986 Financial Statements of various enterprises selected on suo moto basis (757 cases) or as special cases (229 cases). Out of these, the Board referred 165 cases to Director (Discipline) for further action of which 158 cases are sent to concerned regulators such as MCA, SEBI, IRDA. In 618 cases, advisories have been issued to the auditor of the enterprise to exercise greater care in future while discharging professional duties.

The Impact FRRB is Making:

FRRB has been playing a vital role in strengthening of best accounting and auditing practices amongst the members and other stakeholders. The Board reviews financial statements from compliance perspective and refers its finding not only to Director (Discipline) of ICAI but also to other regulators for taking appropriate action, wherever required.

The Board also sends advisories to the members of the Institute on non-compliances observed by it in the financial statement audited by such member which help the members in performing quality services in their subsequent engagements. The Board also conducts Awareness Programmes, Seminars, Workshops on topics related to financial reporting. The Board, on a regular basis, also posts commonly observed non-compliances under 'Did You Know' series on its Twitter handle in order to update the auditors as well as the preparers of the Financial Statements. The Board also compiles the non-compliances observed by it during the course of the review and releases them in the form of publications. Till now, three volumes of 'Study on Compliance of Financial Reporting Requirements' and one volume of 'Study on Compliance of Financial Reporting Requirements (Ind AS Framework)' have been released by the Board.

In this way, FRRB is a proactive self-regulatory mechanism within the ICAI to strengthen the financial reporting practices. After functioning for more than twenty years, the FRRB is firmly established as an important and influential tool to bring transparency in financial reporting. Its presence has been acknowledged by various quarters of the society be it members of the Institute or regulatory authorities. It is envisaged that the ongoing task of undertaking reviews by the Board would definitely be helpful in further strengthening of the accounting and financial reporting practices in the country.





FRRB is a proactive selfregulatory mechanism within the ICAI to strengthen the financial reporting practices.

Accounting for Investments in Local Bodies

Investment decisions are an important part of financial management in any entity. Idle funds should be deployed in such a way that returns are increased while balancing the liquidity of the entity. Local Bodies in India also invest as per the respective applicable state statute/rules/ regulations. From the accounting and financial reporting perspective, it is crucial that the investments done by the local bodies should be accounted for correctly and properly reflected in their financial statements. In India, investments can be made by Local Bodies only in securities or other investments that are permitted by the relevant statute of the concerned State. Read on...

Since efforts are being made by most of the local bodies in the country to move to an accrual basis of accounting, ICAI has been attempting to provide a robust, updated accrual accounting guidance for them. In that direction, the Guidance Note on Accounting for **Investments in Local Bodies** has been issued to provide accounting guidance to local bodies in respect of Investments made by them and to harmonise the diverse practices that are being followed in accounting of investments. In case of inconsistency, if any, with the applicable statute, the provisions of the statute will prevail. This Guidance Note applies to all the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies and only to items which are material.

This Guidance Note deals with accounting for investments in the financial statements of Local Bodies including ascertaining classification of investments, cost of acquisition of investments, ascertaining carrying value of investments and identifying diminution in

value of investments and overall presentation and disclosure of investments. For all investments within the scope of this Guidance Note, the impairment requirements as prescribed in the Guidance Note for diminution in value of investment will apply.

This Guidance Note does not deal with investment decisions making of when, how and what. This Guidance Note also does not deal with items for which specific ASLBs are in place like Lease agreements (ASLB 13), Investment Property (ASLB 16), etc.

Investments are assets held not for operational purposes or for rendering services, i.e., assets other than fixed assets or current assets (e.g., securities, shares, debentures, immovable properties). Assets held as stockin-trade are not 'investments'.

Classification of **Investments**

The investments should be classified **based on the maturity** profile or nature into shortterm and long-term investments.



(Contributed by Committee on Public & Government Financial Management of the ICAI. Comments may be sent to cpf.aslb@icai.in)

Theme

Short-term investments are investments which are readily realisable and are intended to be held for not more than twelve months from the date of investment. Investments other than short-term investments can be classified as **long-term** investments, even though they may be readily marketable. The intention of the entity at the time of making investment is to be considered to decide whether the investment is to be classified as short-term or long-term investments.

The short-term and long-term investments can further be classified in categories like Central Government Securities, State Government Securities, Treasury Bills, Fixed Deposits with Banks, Other Investments, etc.

As per ASLB 1, 'Presentation of Financial Statements', long term investments are to be classified as 'Non-Current Assets' and shortterm investment as 'Current Assets'



This Guidance Note deals with accounting for investments in the financial statements of **Local Bodies including** ascertaining classification of investments, cost of acquisition of investments, ascertaining carrying value of investments and identifying diminution in value of investments and overall presentation and disclosure of investments.

Initial Measurement: At the time of Acquisition

Cost of acquisition to be considered in different situations is as under:

Acquisition of Investment	Cost of Acquisition
Government Securities	Purchase cost + directly attributable costs such as: Brokerage, Transfer and other Fees, and Stamp duty and other Taxes and Duties
Interest bearing investments (cum-interest / cum-dividend basis)	Purchase Cost <u>less</u> interest/ dividend received from pre-acquisition portion
Equity / Preference Shares	Purchase cost + directly attributable costs
Bonds / Debentures	Purchase cost + directly attributable costs
In exchange of securities issued	Fair Value of securities issued / issue price determined by statutory authorities
In exchange of another asset	Fair value of the asset given up or Fair value of the investment acquired, whichever is more clearly evident.

Subsequent Measurement

At each reporting date, the Local Bodies should review the entire investment portfolio, whether short-term or longterm. Valuation should be done for each category of investment individually and not as a whole. The carrying amount of investments at reporting date should be:

Disposal of Investments

Investments may be held to maturity or may be disposed off before the maturity date. On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses (such as commission, brokerage etc.), is recognised in the income and expenditure statement.

Type of Investment	Carrying Value
Short-term investment	Lower of Cost or Fair Value.
Long-term investments	At Cost.
	Diminution in value is reduced from carrying amount and charged to Income and Expenditure Statement, if there is a decline other than temporary.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When disposing off a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

Reclassification of Investments

Investments can be reclassified from long-term to short-term and short-term to long-term investments depending upon their maturity and intention of the management to hold the investment.

The carrying amount of the reclassified investments will be as follows:

- (a) Income from investment should be credited to that specific fund.
- (b) Profit on disposal of investments should be credited to that specific fund (or debited in case of loss on disposal), and
- (c) Diminution in the value of investment should be debited to that specific

Reclassification	Carrying Amount
Reclassification of long-term investment as short-term investment	Lower of cost or carrying amount at the date of reclassification
Reclassification of short- term investment as long-term investment	Lower of cost or fair value at the date of reclassification

If the investments are made from specific/earmarked funds, then



Short-term investments are investments which are readily realisable and are intended to be held for not more than twelve months from the date of investment. Investments other than short-term investments can be classified as long-term investments, even though they may be readily marketable.

Presentation and Disclosure in Financial **Statements**

Following (major) information should be disclosed in the financial statements in relation to the investments:

- a) Accounting policy for determination of carrying amount of investments:
- b) Classification of investments as short-term investments and long-term investments distinctly; further classified into Government securities. Fixed Deposits with Banks, Others, etc.
- c) Amounts included in income and expenditure statement for:
 - Interest and dividends on investments showing

- separately such income from long-term and short-term investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes paid:
- ii. profits and losses on disposal of short and long-term investments and changes in the carrying amount of such investments:
- Significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal;
- Aggregate diminution in value of investments to be disclosed separately.
- Amount resulting from appreciation in investment, if any to be disclosed separately.
- Previous reclassifications made in investment to be disclosed with necessary quantification.
- Other disclosures as h) specifically required by the relevant statute governing the entity.

This would lead to true and fair presentation of financial statements aligned with the need of all stakeholders.

For details, members may refer to the Guidance note on Accounting for Investments for local bodies released by the Committee on Public and Government Financial Management which is **applicable** w.e.f. 1st April, 2022.



You can too...



ICAI STRENGTHENING SUSTAINABILITY ECOSYSTEM TO ATTAIN SUSTAINABLE DEVELOPMENT GOALS 2030

ICAI takes various initiatives to strengthen Reporting ecosystem for community(s), businesses, economy as well as entities

- ▶ Sustainability Literacy Drive: Spreading awareness on importance and adoption of Sustainability Reporting
- ▶ Carbon Footprint Challenge: Creating a suggestion bank on ways to reduce carbon emissions
- Certificate Course on Business Responsibility and Sustainability Reporting: For capacity building and nurturing skills
- ▶ ICAI International Sustainability Reporting Awards and ICAI Sustainability Reporting Awards: To recognise global best practices in Sustainability Reporting
- ► Framework for Disclosures on Climate Related Risks: Developing guidelines in consultation with Industry Associations/Stakeholders and Regulators
- Propagating Sustainability Reporting Requirements and Assurance Standards: Contributing to international bodies for Reporting specific requirement
- ▶ Mega Tree Plantation Drive: Planting & nurturing 10 lakh trees nationwide
- ▶ Green Buildings: Developing environment-friendly buildings to preserve precious natural resources

Sustainability — Everyone's Responsibility



he Institute of Chartered Accountants of India 🔼



(Set up by an Act of Parliament)



Potentiality of Blockchain Technology in Accounting, Auditing and Corporate Governance

Blockchain is potential technology that can reform the practices of accounting, auditing and corporate governance across industries in India. Artificial intelligence, advanced robotics, big data and blockchain technology are the different dimensions of the Fourth Industrial Revolution, popularly referred as 'Industry 4.0'. Blockchain technology could be a solution to successful digital business processes that would be based on reliability, uniformity and authenticity of financial data recording. Industries must be ready to embrace the opportunities and challenges being hurled by prevalent technology. Read on....



Introduction

The COVID-19 pandemic has upended the manual system of business process and people have commenced working digitally. When it comes to digitalization, blockchain technology cannot be ignored. This technology is storming in cryptocurrencies; there is no doubt that it may be adopted by many sectors. Especially, the finance sector may undergo transformation with this technology drastically.

Blockchain technology may shape accounting from double entry to triple entry system. It

is a foundational change in how records of financial transactions are maintained and updated. Rather than having one person access, blockchain records are accessible to every participant and stakeholder. A distributed ledger is a decentralised system that spreads the ownership of a ledger across multiple parties, instead of being held centrally, each with its own copy. This paper will explore some new areas where accounting records are tamper-proof, audit is reliable and consequently good corporate governance is established with blockchain technology.



Review of Literature

Kaushal & Tyle (2016) examines that blockchain technology is not confined to Bitcoin, it may ignite to the content of blockchain to the height that it is in use today. Blockchain, as a technology on its own, is a more remarkable and wise innovation than that of Bitcoin.

Piscini (2017) in his study propounded that there could be two main types of the blockchain accounting across the globe including public blockchains where every person has the access to the network and no permission is required to participate in the blockchain transactions: and private blockchains that are non-public and a complex form of accounting in which the permission must be permitted to an external person in order to access the network. Private Blockchains may be formed by the organisations working in a particular industry and authentication may be required.

Orcutt (2018) stated that blockchain was introduced to the world in 2008, and

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Blockchain technology may shape accounting from double entry to triple entry system. It is a foundational change in how records of financial transactions are maintained and updated. over the subsequent years it begun to fetch popularity in use due to its high level of security. The sophisticated math and innovative software technologies do not allow information to be altered in a blockchain.

Al-Jaroodi & Mohamed (2019) concluded that blockchain is decentralised ledger and has no central control, it has great potential benefits for many industries in terms of accounting, auditing and corporate governance.

Perera, Nanayakkara, Rodrigo, Senaratne, and Weinand (2020) suggested that private blockchain networks could provide reliable business software solutions to the construction industry as construction industry works with sensitive data.

Sebahattin Demirkan, Irem
Demirkan & Andrew McKee
(2021) attempted his study on
"Blockchain technology in the
future of business cyber security
and accounting" and concluded
that blockchain technology has
appealing uses not only for a
security system in the future
with challenging threats to
cyber security, but also as part
of an accounting system based
on its ability to be secure and
transparent, and providing trust
in a financial world.

Recently, Finance Minister has also realised the safety of blockchain technology and committed to introduce 'The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021. This may extend the use of blockchain technology to many business processes.

Objectives of the study

- To understand the blockchain technology and its mechanism.
- 2. To analyse the potentiality of blockchain in accounting, auditing and corporate governance.
- 3. To examine the current issues and challenges of blockchain technology in respect to recent developments.

What is blockchain?

Blockchain is a chain of blocks and distributed database which runs on many devices simultaneously through internet. Every record of transactions is accessible to all participants and one cannot alter any data without the consensus of 51% of users (Nodes). Transactions are cryptographically recorded in the blocks. Blocks are in chronological order and connected like a chain, the resulting ledger is accessed by all servers of participants. Blockchain is a 'Chronological Distributed Immutable Ledger' and not centralized which means it does not have a single owner. Any information added to a blockchain is stored into block form and connected together to form a chain. It securely transfers the data from one block to another block while recording any transaction without any need to rely on

another intermediary. Let's understand the blockchain coding information of transactions:

Fig. 1: Blockchain is a chain of blocks that contains information

Step -1: A transaction is requested through internet.

Step -2: Transaction is broadcasted to a peer-to-peer (P2P) network that consists of computers (otherwise known as nodes).



The first block is always known as genesis block where the previous hash would be 'Nil'. There are three things to be stored in each block. First in the form of information regarding supplier, receiver, amount, date, time etc., second is a hash, it is a unique number of blocks (similar to biometric number that one can have on Aadhar Card) and third is the hash of the previous block that links two blocks with each other. Bitcoin with blockchain is secure because every user has a copy of the database, and no one can tamper the data of any block. Similarly, accounting transactions of business concerns can also be recorded with the help of blockchain technology. Adding and verifying new transactions is done by a group of computers known as 'Miners'. Digital contracts that execute the predefined terms and conditions are known as 'Smart Contracts'.

Mechanism of Blockchain Technology

The following steps are derived from crypto currency mechanism to complete a transactionStep -3: The network of nodes uses known algorithms to validate the transaction and user's status.

Step – 4: A verified transaction can involve crypto currency, contracts, and records of other information.

Step -5: The transaction is combined with other transactions, once verified, to create a new block of data for the ledger.

Step – 6: The new block is added to the existing blockchain (which is permanent and immutable).

Step -7: The transaction is now finished.

Types of Blockchain

There could be three types of blockchain applications recording different types of information. It assists to record accounting transaction, money, and store agreements between people called smart contracts.

Public Blockchain Network (Permissionless): No permit is required to join Public Blockchain Network and

public has direct access to this application such as cryptocurrencies like Bitcoin, Ethereum etc. It cannot use consensus algorithms as anyone can take part by verifying and adding data.

Private Blockchain Network (Permissioned): Only permitted users hold a copy of a given ledger to ensure the integrity and efficiency of network like RippleNet, NASDAQ LINQ. It can use consensus algorithms as only authorised entities can participate and control network.

Hybrid Blockchain Network (*Balanced*): It is mixture of both public and private blockchain. Participants in public or private network are granted to communicate with each other like Health- Care. Cross border payments for trade/financing.

Advantages of Blockchain Technology

Experts of blockchain are endorsing blockchain technology as it has the following advantages over the prevailing system of business process:

Security: Security is the crux of blockchain. Since transactions are carried out using hash and previous hash of block of information on a decentralised network, it is considered tamper proof and highly secure.

Immutable and Accuracy: All the transactions are recorded in real time through blockchain systematically with accuracy and reliability. It cannot



All the transactions are recorded in real time through blockchain systematically with accuracy and reliability. It cannot be altered easily once the transaction is completed.

be altered easily once the transaction is completed.

Cost: Data recording takes place in real time and no intermediaries are involved, therefore cost is less as compared to cost involved in traditional systems.

Transparency: Recording of all transactions into blocks is transparent to all participants involved in a system. The transaction originates with one user but propagates to a network of identical ledger, instead of being held centrally controlled.

Recent Development of Blockchain

There are some recent developments that could drive blockchain's long term impact in key areas.

Multi-Organisational

ERP: Linking ERP systems could create an over aching 'super ERP' for resource planning across organisations. Integration with ERP will bring in transparency of the origin, movement, and possession of goods.

Financial Transformation:

Banks and other financial institutions can move assets with more efficiency and offer new investment alternatives/ products. At the initial stage, blockchain is being used by the banking sector for tracing credit information (CIBIL) of loan applicants.

Tokenisation: It is a process of converting tangible and intangible assets into blockchain tokens. Digitally representing anything has recently acquired a lot of traction. It can be effective in conventional industries like real estate, artwork etc. Governments are piloting blockchain to record asset registries such as corporate shares and land.

Blockchain-Fuelled Artificial Intelligence: Unleashing machine learning algorithms on a flood of new, far-reaching data will drive more effective pattern matching and predictive analytics. It may assist in projection of any investment in the best possible manner.

Decentralised Identity

Management: Tokenizing a person's identity can give them more convenience and control over how they share credentials. Healthcare and life science are discovering the use of blockchain to secure the integrity of electronic medical records, claims, medical billing, etc.

Supply Chain Transparency: Improved interoperability and data integrity could give suppliers and consumers visibility into a product's entire lifecycle starting with raw material.

Blockchain and Accounting

After understanding blockchain, applying it to accounting is not difficult. Blockchain as a system of universal entry bookkeeping that can increase the efficiency of the process of accounting for assets, liabilities, capital, revenue and expenses. This would empower the accounting profession to explore its scope to record more types of business events than before and to drill down closer to the economic reality of transactions recorded on real time that may help in attaining the objective of 'Substance over legal form'.

Three dimensional views of account under blockchain technology may be bifurcated into-

- 1. Nature of Accounts
- 2. Assets
- 3. Equity and liabilities

In order to provide a better presentation, also mapped in figure 2, the possible three-dimensional graphic according to these three aforesaid perspectives: *vertical axis* – above - economic



Banks and other financial institutions can move assets with more efficiency and offer new investment alternatives/products. At the initial stage, blockchain is being used by the banking sector for tracing credit information (CIBIL) of loan applicants.

accounts, below - financial accounts; concentric circles external circle - long term; inner circle - short term; horizontal axis –accounting equation / left side - Assets, right side - Equity and Liabilities are illustrated as follows.

The three-dimensional view is an extension of the doubleentry system. The distributed registry and other features of the blockchain may benefit accounting wherein reduction in human error, low risk of fraud (as penetration and manipulation under blockchain is not possible), automation of system, increase in reliability in financial reports etc. could be possible. Many experts believe that fully automated accounting and audit can become a reality.

Fig. 3 explains that Company A & Company B will record the transaction in their books in usual manner but the same will be recorded in the block of blockchain. This will be verified by the miner as per the smart contract, wherein all the details of transaction are shared between both the companies. The shared ledger in the blockchain is like a receipt as per which recording is done in the books of both the parties. Hence, there is no chance of error of commission in accounting.

Accounting profession deals with recording, measurement, communication of financial transactions and interpreting the result thereof. Blockchain from accounting prospective, it has the potential to increase

the efficiency of the accounting profession by bringing down the cost of maintaining, updating and reconciling ledgers. It may assist accountants to find out with clarity about the available resources and liabilities of their organizations. It may facilitate the operative business transactions in following manner-

- Secure to pay regarding purchase orders. Every purchase order can be recorded digitally on real time with acceptance of suppliers' terms and conditions. Payment can be activated mechanically based on availability of funds and due date, once material is received as per the order parameter.
- Similarly, every sales order can be recorded into block and payment from customers can be activated automatically after receipt of goods or rendering of services by customers.
- It can make possible to close books of account of business process on time. Transactions are digitally recorded and updated on a daily basis automatically under blockchain technology. Accountants need not work overtime for closure of books of account.
- Accurate records of supply under GST, whether received or supplied can be maintained, thereby smooth flow of Input

Fig. 2: The possible three-dimensional outlook of account under blockchain environment

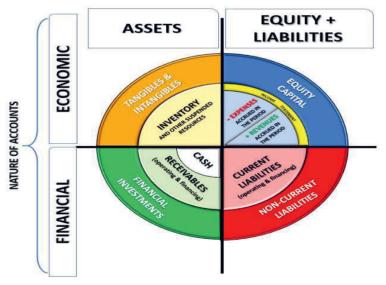
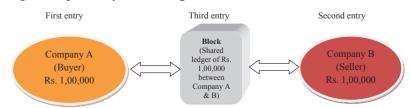


Fig. 3: Triple entry accounting under blockchain



Tax Credit (ITC) would be feasible. Moreover, automated recording of transaction into blocks, scam on ITC could be eradicated.

- Effective financial planning, MIS, financial reporting etc. could be carried out instantaneously and in efficient manner as compared to prevalent accounting system.
- Recognition of revenue for financial transactions can be booked in a perfect manner as it would be automatically triggered through smart contracts.
- Direct tax return filing and GST return filing would be done through automation and technology to control and monitor all these processes accurately. Hence, tax collection, the burden of Central Board of Direct Tax (CBDT) and Central Board of Indirect Tax and Custom (CBIC) would be eliminated. Direct access of public ledger by Government can be envisioned.
- The best part of blockchain is that all users can have a copy of the ledger, but data will remain immutable. It cannot be altered after completion of transaction and ensures reliability and authenticity of data at any point of time in the future.

Blockchain and Auditing

Stakeholders believe in the auditor appointed by management to reach out to opinion for them. An inevitable question raised by this arrangement: Do auditors perform their duty for the management who pays them or for the stakeholders who rely on their opinion to make investment decisions? Such types of circumstances can be eliminated under blockchain environment.

Having understood the structure of blockchain technology, the biggest advantage in accounting, is elimination of fraud and error while recording the financial transactions. Accounting procedures are secured, trustworthy and reliable in a blockchain environment and hence it is possible to eliminate many audit procedures while auditing books of account by auditors. Audit procedures like getting confirmation of balance from debtors and creditors, reconciliation of bank statement, intercompany transaction etc. will be removed from audit.

Auditors will be forming opinions on system controls and security of database of the organisation. There would be a possibility that audit work might be carried out by auditors as well as software engineers. 'True and Fair' view will be ensured for financial

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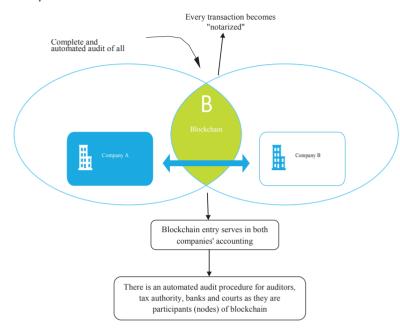
Blockchain technology will facilitate the organisation with traceability, easy retrieval and archives of all transactions entered through blocks at a lower cost.

statements as well as types of blockchain technology adopted by organisation.

Blockchain technology will facilitate the organisation with traceability, easy retrieval and archives of all transactions entered through blocks at a lower cost. It also records the exact date and time of transactions when data was recorded. Recording back dated transactions will never be possible in such an environment. There will be always conclusive evidence for any financial transaction under the blockchain environment. It enables conclusive verification without confirmation from third party.

Triple Entry Accounting under blockchain being a source of trust can replace today's accounting structures. It can be consolidated gradually with classic accounting processes: commencing from securing the reliability of records, to entirely transparent audit trails. Eventually, completely automated audits may be the factual and expected truth.

Fig 4: Blockchain technology enables automated audits that can satisfy all the users



Blockchain and Corporate Governance

Corporate governance across industries plays a very crucial role in inculcating integrity of business concerns, especially in listed companies on stock exchanges in India. Ministry of Corporate Affairs (MCA)/ Securities and Exchange Board of India (SEBI) has taken many initiatives and measures to implant better corporate governance in companies. In spite of that, regulators faces hurdles ensuring implementation

Payment of direct and indirect taxes can be self-operated and selfregulated. There will not be any scope of fraud and error in filing tax returns by business concerns.

of the governance procedures. There is a need of transparency in disclosure and reporting of all financial transactions with compliance of laws. The comprehensive solution for desired governance in corporate bodies could be blockchain technology.

Transparency is one of the most important features in this technology. There will be transparency between stakeholders and the management of company under blockchain environment. Each required compliance can be updated timely in the system and automatically mechanised, which can also be transparent between regulatory body and the management. Annual General Meeting (AGM) and other flaws in disclosure and presentation of transactions in financial statements can be automated and mechanised. It may reduce shareholders' voting cost and increase voter verification mechanism.

Payment of direct and indirect taxes can be self-operated and self-regulated. There will not be any scope of fraud and error in filing tax returns by business concerns. Any kind of ITC fraud or delay in tiresome rituals of finalising books of accounts can be avoided under blockchain scenario. Government may contemplate it for pellucid public records to escape from corruption or any other allegation. Smart Contracts of blockchain technology cannot let terms and condition of contractual agreement be diverted or amended or manipulated once entry is finalised. This can also increase the decision-making capacity of management and involving parties in that particular business in a speedy manner.

Blockchain experts consider this technology to be most suitable for recording ownership of real estate, stocks, bonds, debentures or any other assets belonging to a company. The entire history is traceable regarding any belonging of a company. Any type of collusion, window dressing, discrepancy in agreement about corporate governance is not possible by one person. Eliminating or modifying records of transaction cannot take place in governance without 51% of node consensus. Feasibility of source of financial transactions and ownership can facilitate the organisation to reduce or eliminate frauds. Additionally, all stakeholders can see to all transactions whereby authenticity and transparency can be incorporated in corporate governance under blockchain environment.

Current Issues and Challenges of Blockchain Technology

Inappropriate Audit Evidence-Recording a transaction in a

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Blockchain technology is prominent in cryptocurrency. This technology could be implemented in accounting, auditing and corporate governance successfully in future after addressing challenges and threats.

blockchain may be lacking with appropriate audit evidence related to the nature of the transaction. It does not ensure that a transaction recorded in blockchain is not unauthorised, fraudulent or illegal. It could be executed between related parties or linked to a side agreement that is "offchain". After considering the complex nature of IND AS, it may incorrectly be classified in the financial statements. Blockchain technology is still not a complete solution, but technology can be transformed according to the need of accounting and auditing.

No Regulatory Body- Absence of monitoring and controlling body under blockchain technology is a perturbing matter. Regulation is a serious issue under blockchain technology. When it is related to accounting, auditing and corporate governance statutory compliances are required to authenticate the financial transactions but there is no statutory regulation for this unique technology. There must be some regulations for 'Node' and 'Miners' to regulate this system.

Environmental Degradation-Very high-power consumption

very high-power consumption under this technology may have adverse effects on environment. Excessive usage of technology may lead to depletion of natural resources. 'Proof of Work' automated system is used to attest a transaction and it also requires huge, tremendous computational energy. Hence, sustainability development will be questionable under blockchain environment.

Technology Risk- It is related to technology integration, associated IP protection, data privacy and speed and performance. A huge calculation takes on an average 10 minutes to complete the recording of transaction. It may be a delaying factor if the volume of transaction is high per day in business concern. Consensus protocol risk may also be a tough challenge in blockchain. No doubt consensus protocol seals the transaction ledger, though there is chance of private key robbery and ultimatum to assets associated with public.

Reporting and Controlling Risk- As this technology is not controlled by one person, it may be a threat to the chain of funding, controlling of financial transaction in place and financial reporting risks. It may be an open ended path for illicit activities.

Risk of Liquidity- Excessive use of blockchain technology may lead to liquidity risk. Bank for International Settlement has also warned that excessive usage of blockchain may boost the risk of liquidity. Maintaining cash balance in business concerns is very important to meet day to day business expenses.

Of course, advantages and disadvantages are two faces of any technology. Technology is desirable to be used when there is excess of benefit over cost. Aforesaid challenges are to be addressed before using blockchain technology in accounting, auditing and corporate governance.

Conclusion

Presently, blockchain technology is prominent in cryptocurrency. This technology could be implemented in accounting, auditing and corporate governance successfully in future after addressing challenges and threats. Automation of system with smart contracts may lead to flawless and ideal confirmation of debt between organisations as well as account receivable/ payable and balance check. Moreover, customised blockchain enables restricting access to data to different parties as per their role. Accounting and auditing standards can be automatically programmed to set uniformity in triple-entry accounting system of blockchain. Tax return filing can also be automated through continuous updates as per CBDT and CBIC announcements.

Furthermore, prompt examination of expected fraud and errors in accounting entries and timely transaction verification under automated system of blockchain may result into highly satisfactory audit opinion and the finest corporate governance.

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Use of Affidavit in Tax Proceedings

Affidavit is a crucial legal tool which is very useful in discharging the burden of proof. Hence, understanding the facts about the affidavit is an essential information. When personal knowledge or information of a witness with respect to a particular fact has a significant bearing on the case, in such a situation the witness can share his information or personal knowledge with the authorities. For sharing such personal knowledge or information there is a method is prescribed under the law. When the witness complies with all the conditions prescribed and gives a statement, it is called an affidavit. Read on...



An affidavit does not change the facts, but it is a legal procedure of narrating facts, which makes this narrating or testimony a legally validated evidence. On several occasions, the affidavit becomes clinching evidence. It is such an important form of evidence that on several occasions, the cases are decided merely on the basis of the affidavit.

An affidavit is not a novel or unique concept, since Roman times, affidavit has been used in judicial proceedings. In Latin, affidavit literally means to "pledge one's faith". But for the Indian judiciary system, it can be said that it is a gift of British Rule. This concept was introduced by the British in the Indian judicial system.

Affidavit as evidence

In today's era of faceless assessment, the assessee is not permitted to meet the assessing officer personally and explain his evidence and submissions. Only the written submission of the assessee will speak for his case, hence the written submission of the assessee must be persuasive, legally wellfounded and able to discharge the burden of proof in the best possible manner.

Evidence is always been fulcrum of the judicial proceedings including tax proceedings, because the outcome of the proceeding depends on the type and nature of evidence produced by the parties. In Income tax proceedings, most



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of the time, the burden of proof is cast on the assessee. Then the question arises what is the most appropriate or best evidence, which will prove the case or disprove the allegation or discharge the burden of proof or at least will shift the burden of proof on the department. Law is not mathematics, and in legal proceedings, everything is subjective and varies from case to case and fact to fact. Hence what could be the best or appropriate evidence is varies from case to case, and there is no straitiacket formula to distinguish between good and bad evidence.

The type and nature of evidence being led in a case has a significant bearing on the outcome of the proceeding. Sometimes affidavit itself works as evidence, and when evidence is submitted on affidavit, it improves the quality of the evidence. And some time it shifts the burden of proof on the other party. Further the oral submission/evidence in tax proceedings has no evidentiary value, so an affidavit can be used as an alternative to this. Hence affidavit is considered as a very useful tool in tax proceedings.

In India, affidavit is defined in General Clauses Act Section 3(3) "Affidavit" shall include affirmation and declaration in the case of person by law allowed to affirm or declare instead of swearing.

Black's Law Dictionary defines affidavit as "a voluntary declaration of facts written down and sworn to by the declarant before an officer authorised to administer oaths, such as a notary public".

Characteristics of the valid affidavit

- Only individuals can make an affidavit. Artificial juridical persons or incorporated entities are not allowed to make any affidavit.
- The affiant (the person who makes the affidavit is called affiant) must be legally competent to make such declaration.
- It should be a sworn statement taken before the authority who is competent to administer the oath. A legal Maxim in this regard worth noting is "judicio non creditor nisi juratis" (in judicial proceedings, a testimony is not believed unless given on oath).
- It should be on valid stamp paper.
- The affiant should state his full identity i.e., his full name, the name of his father, his profession or trade, and the place of his residence
- Affidavit shall be divided into paragraphs and each paragraph needs to be numbered.
- The administrator of oath should identify affiant and also put his seal and signature.
- Affidavit needs to be verified. If an affidavit not

properly verified, it cannot be admitted in evidence (A. K. K. Nambiar v. Union of India, ITR 1970 SC 652, 654) Unverified affidavit is no affidavit in the eyes of Law (State of Rajasthan v. Sindhi Film Exchange AIR 1974 Raj 31, 33). If an affidavit lacks verification, it is of no use (Sundar Industries v. General Engineering Works, AIR 1982 Del. 220, 223).

The importance of verification is to test the genuineness and authenticity of statements and also to make the deponent responsible for such statements (Narendra Kumar Saklecha v. Jagjivan Ram AlR 174 SC 1957).

In an affidavit, the affiant can give his testimony only about two things-

1. Things which are within in his own knowledge, and when an affiant is giving the testimony about his knowledge, it cannot be given on behalf of someone else. For instance, the Manager of a company is not permitted to give an affidavit on behalf of the



Sometimes affidavit itself works as evidence, and when evidence is submitted on affidavit, it improves the quality of the evidence. And some time it shifts the burden of proof on the other party.

accountant of the company.

The information which he believes to be true. This belief may not be purely based on his knowledge, but the belief is based on some information. In such situations, the source of information must be stated in the affidavit and affiant is obliged to clarify this fact by using words like 'I am informed'.—

The assessee is under obligation to disclose all primary facts fully and truly and not to give interpretation of the facts. In various cases, courts drew a distinction between primary facts and inferential facts and held that the duty of the assessee extended only to disclosing primary facts fully and trulv.

Calcutta Discount Co. Ltd. vs. ITO (1961) 41 ITR 191 (SC): TC51R.779. The obligation, therefore, of the assessee primarily was to disclose fully and truly all material and relevant facts; that the obligation was only of disclosing the basic facts but no obligation to disclose what inference had to be drawn from such facts.

It is mandatory to comply all the above requirements of valid affidavit. The above requirement of valid affidavit are also mandated in the Criminal procedure code section 139, order XIX.

Kolkata High Court in Padmabati Dasi vs Rasik Lal Dhar (1910) ILR 37 Cal 259 held that.

"the provisions of Order XIX, Rule 3, must be strictly observed, and every affidavit should clearly express how much is a statement of the deponent's knowledge and how much is a statement of his belief and the grounds of belief must be stated with sufficient particulars to enable the Court to judge whether it would be safe to act on the deponent's belief"

It might appear that the above characteristics of the affidavit and its contents are hypertechnical but it is always justified with the argument that, these requirements exist to protect the integrity of the truth-seeking process and to guard the rights of the parties from abuse.

Difference between Hearsay, Statement and **Affidavit**

It is argued that if the knowledge of the witness can be given by simple statement then why there is insistence on in adherence to the stringent process of affidavit? Another question raised about giving statement of own knowledge is, if the knowledge of the deponent is based on hearsay and if it is stated by way of affidavit, will it become evidence.

For getting answers to these questions, it is imperative to find out the difference between hearsay, statement and affidavit.

Hearsay

Hearsay can lead to suspicion. And suspicion can be the

basis of initiating the inquiry or investigation, but it is not admissible as evidence.

The Hon'ble Supreme Court in the case of Umacharan Shah & Bros. Vs. CIT 37 ITR 271 held that suspicion however strong, cannot take the place of evidence.

Statement

Statement can be valid evidence only if it is given before the officer who has power to administer the oath. Otherwise, it is treated just as information, and gives the right of estoppel against the declarant. Statements can be withdrawn on the ground that it was given under duress or coercion.

Affidavit

Affidavit is given voluntarily and under oath before the competent authority so the affiant cannot take the stand that it was given under duress or coercion. If it is proved that the affiant had knowingly given a false affidavit, then he can be charged with perjury. The oral submission/evidence/testimony in tax proceedings has no evidentiary value, so an affidavit can be used as an alternative to this.

Illustrations of the situations when affidavit can be used

To prove the innocence: In the process of business or while writing accounts or doing any act, the wrong act on the part of assessee that has happened. The

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Statement can be valid evidence only if it is given before the officer who has power to administer the oath. Otherwise, it is treated just as information, and gives the right of estoppel against the declarant.

other party does not wish to defend the mistake but he wants to prove innocence. The issue in question is mind of the person. In such a situation, the affidavit of the person that had done wrong or committed the mistake his affidavit can help him. Only his affidavit can speak about his intention and will serve as evidence. Like while writing accounts, an unintentional mistake was committed by an accountant. Only an affidavit can speak of the intention of an accountant, and serve as evidence.

- Books are misplaced by the staff. Now how to prove that the books are not intentionally hidden and genuinely misplaced. Only affidavit of the office staff who had misplaced the books can prove the bonafide or malafide conduct.
- There is raid at the place of assessee and during the raid, jewellery is found which belongs to the guest

of the assessee. The AO is alleging that the said jewellery belongs to the assessee. Whereas factually, these ornaments belong to the guest of the assessee. In such a situation to prove that these ornaments belong to the guest, the affidavit of the guest can serve as valid evidence.

- A statement given during the search which was either a misstatement or given under coercion or duress.
 Subsequently, the assessee wants to withdraw such statement. Such withdrawal can be done only through an affidavit.
- Assessee wants to prove that the parties with whom he has transacted are his blood relatives and the AO does not believe it. For instance, the assessee received a gift from his maternal uncle or aunt. In such a situation, an affidavit can be used to prove the relationship.
- Affidavit can be used for admission about deficiency in service. In a case where a professional wishes to admit that he could not file the appeal in time, despite receiving the papers.
- Affidavits can be used by professionals who wish to clarify that his advice was based on the wrong premise. Such facts can be substantiated in the form of affidavit only.

The significance of affidavit when personal knowledge is a point of argument can be understood from following decided case—

In Swift Knit Pvt.Ltd. ITA No.533/Ahd/2014 Ahmedabad ITAT, the question before the tribunal was, the accountant had not written back the gratuity amount of adhoc employees. The assessee claimed in its submission that it was bonafide mistake of the accountant. However, this argument of the assessee was rejected by the ITAT stating that "This is a very general and sweeping statement. It should be demonstrated with circumstantial evidence as to how this error has happened; what is operating force in the mind of person who has prepared the return, and how he failed to comprehend a particular item. **Even the** affidavit of that person has not **been filed.** Therefore, we are of the view that this statement is just being made for giving an explanation".

Challenges in using Affidavit

On several occasions, the tax authorities tend to ignore



Affidavit is given voluntarily and under oath before the competent authority so the affiant cannot take the stand that it was given under duress or coercion.

affidavits submitted on record stating that:

- 1. Indian evidence act is not applicable to the Income tax proceedings.
- 2. Affidavit is not evidence since the term "affidavit" is not defined under the Indian Evidence Act. To substantiate this argument, tax authorities often rely on the judgment of Smt. Sudha Devi v. MP. Narayanan AIR 1988 SC 1381, 1383, wherein it was held that affidavits are not included in the definition of evidence in Section 3 of the Indian Evidence Act, 1872. Hence affidavits can be used as evidence only if the court permits it to be used for sufficient reasons.

However, the first argument of non-applicability of the Indian Evidence Act to the tax proceedings can be countered, as it has been held in several iudicial pronouncements that, even if the Indian evidence act is not applicable to the tax proceedings, the principles of Indian evidence act can be applied.

About the second argument that affidavit is not defined under Indian Evidence Act does not holds the water because various judicial and tax authorities have framed specific rules governing of the affidavit:

(i) Supreme Court of India Rules specify the contents and procedure of filing of affidavit.

- (ii) Income tax appellate tribunal Rule 10 and Rule
- (iii) Rule 10 of Authority for advance ruling procedure rules,1996, makes it mandatory filing of the affidavit of the person who is filing the petition stating the reason for filing the petition.

The framing of the above rules clearly shows that the affidavit though not defined under Indian Evidence Act. still has legal sanctity in the tax proceedings.

Whether affidavit is conclusive evidence?

It is imperative to understand that the affidavits are not sacrosanct, but the claims made in the affidavit need to be proved otherwise by the AO. An affidavit is a piece of evidence, which along with other material on record, have to be taken into consideration by the AO before arriving at a finding. After filling the affidavit, the party had a right to cross examine or verify the veracity of the affidavit. For which affiant can be called for affirmation of it. But in case the other party does not avail the opportunity of cross examination or checking of veracity or truth then it is conveniently presumed that what is submitted on oath is accepted evidence.

Submission of affidavit before Assessing officer (AO)

To prove or disprove any fact on record, if the assessee feels that the sworn affidavit will be

useful, then he can on his own volition file such affidavit as evidence. On furnishing of an affidavit, the Assessing Officer is entitled to cross-examine the deponent and the assessee can be required to produce the deponent in person for crossexamination. If the assessee fails to produce the witness for cross examination, then the AO has the option to ignore the affidavit. Further, the AO on the basis of the information gathered by him from his own sources or for any reason which gives him reasons to believe that the contents of affidavit is not true, then he can pass an order accordingly. But if the AO failed to consider the affidavit on record, then his action will amount to "order passed without giving due consideration to the evidence submitted. Assessee can take this plea before higher forums. Commissioner Of Income Tax Vs. T.I. & M. Sales Ltd. (1987) 61 CTR 0273, (1987) 166 ITR 0093. In this case the assessee had submitted the affidavit during the assessment, the facts stated in the affidavit had a direct bearing on the point in issue, the affidavit had not been rejected by the tribunal but had only been brushed aside by saying it was not relevant, before the high Court, counsel of the revenue also used the affidavit. hence while commenting on the contents of the affidavit the SC held, "the Revenue appears to have waived its right to dispute the facts asserted in the affidavit, on the one hand by not challenging its admissibility and on the other, by not disputing the contents thereof".

Cross examination of the deponent

If an affidavit is filed by an assessee and he is neither crossexamined on that point nor, is he called upon by the department

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to produce any documentary evidence, the assessee may assume that the Income tax authorities are satisfied with the affidavit as sufficient proof on that point in question. (*L. Sohan Lal Gupta v. CIT (1958) 33 lTR 786 at I 791(All)*).

"—It is generally unsatisfactory to record a finding involving grave consequences with respect to a person, on the basis of affidavits and documents alone, without asking that person to submit to cross-examination". Needle Industries (India) Ltd. & Ors. v. N.I.N.I.H. Ltd. & Ors., AIR 1981 SC 1298

Cross examination and rejection of the affidavit

Rejection is not possible without cross examination: Rejection of an affidavit filed by an assessee is not justified unless the deponent has either been discredited in cross-examination or has failed to produce other supporting evidence when called upon to do so. [Mehta Parikh & Co. v. CIT (1956) 30 ITR 181 at 187 (SC), Sri Krishna v. CIT (1983) 142 ITR 618 (All), Dilip Kumar Roy v. CIT (1974) 94 ITR 1 {Bom.}.

Whereas Madhya Pradesh High Court in the case of Smt. Gunwati Bai Rati Lal vs. CIT(MP) 146 ITR 140 held that the affidavit can be rejected without cross examination, if there is enough material on record to doubt the veracity of the affidavit.

In the same case, the High Court had explained the decision of Supreme Court and held that the decision of *Mehta Parikh & Co. v. CIT (1956) 30 ITR 18* cannot be considered to have laid down the proposition that unless the

deponents of the affidavits are cross-examined, the affidavits cannot be rejected. It was explained that the decision of the Supreme Court lays down "that if there is no material whatsoever on record for doubting the veracity of the statements made in the affidavits and if the deponents have also not been subjected to cross-examination for bringing out the validity of their statements, then the Tribunal would not be justified in doubting the correctness of the statement made by the deponents in the affidavits". Thus, the affidavits need not be accepted as reliable when there is enough material on record to doubt the veracity of the transaction. In such a case, it cannot be said that the affidavits can be rejected only after cross examination.

Further in the case of *State of Karnataka vs. K. Yarappa Reddy AIR 2000 SC 185*, the apex court held that "When the deponent is required to be produced for cross-examination, it is desirable that the deponent is permitted to go through the contents of the affidavit and refresh his memory."

Submission before CIT (A) as evidence

As a matter of procedure and considering the principle of natural justice, it is advisable to adduce all evidence or material primarily led before the Assessing Officer only. However, if the assessee has been prevented by good or sufficient cause, or evidence is collected later, or it goes to the root of the issue and there is no negligence or inaction on the part of an assessee, then such evidence can be submitted before appellate authorities. The

subsequent submitted evidence is termed as additional evidence (refer rule Rule 46A of Incometax Act).

As per the rule 46A(2) (c) and (d), the assessee can submit an affidavit before the CIT(A) and request him to admit. However even after admitting the affidavit as additional evidence, the CIT (A), has to give the chance to the AO, to give his comments on the additional evidence including rebuttal of the affidavit. However, in case if the AO had failed to comment or failed to rebut the affidavit, then the affidavit becomes valid evidence on record.

The Supreme Court in the case of Keshav Mills Co. Ltd. vs. CIT (1965) 56 ITR 365 (SC) at pages 380 observed as follows: "at the appellate stage additional evidence may be taken and further enquiry may be made in the discretion of the AAC". Although the decision is for the 1922 Act, but similar provisions exist in the amended Act of 1961.

Submission before ITAT

As the scheme of income tax suggest all submissions, explanations and evidence should be filed before assessing officer only. However, if the assessee

As a matter of procedure and considering the principle of natural justice, it is advisable to adduce all evidence or material primarily led before the Assessing Officer only. has a convincing reason then he can file an Affidavit before the CIT(A) or Tribunal by complying prescribed rules. It is worthwhile to note that, under the provisions of the Income Tax Act, the Tribunal has the necessary jurisdiction to allow any new question to be raised for the first time in an appeal before it (refer Income tax appellate tribunal rule No10 and 29).

Affidavit being admissible evidence and might have impact on the proving or disproving facts which are relevant to the case, can be filed at ITAT stage by following prescribed procedure.

A finding given by the appellate Tribunal without considering the affidavit concerning material evidence may NOT be sustainable in law even though the Tribunal had considered other material on record. This is so because an affidavit is a valid piece of evidence (Hanutram Ram Prasad v. CIT (1978) 114 ITR 19,26 (Gauh).

J.S. PARKAR vs. V.B. PALEKAR & ORS. (1973) 41 CCH 0195 Mum HC. In this case it has been held that in an appropriate case it would be the duty of the Tribunal

Amendment or withdrawal in the affidavit is possible in special circumstances like new facts came to the light, or the affidavit is based on some erroneous facts to add some facts which were missed during existing affidavit.

in order to do complete justice to the assessee to remand the matter back to the ITO to gather necessary material so that the benefit of any provision may be given to the assessee.

Request to consider affidavit is must:

Mere submission of affidavit is not enough. It is expected that the assessee must also request the AO to consider it. In the case of Dinesh B. Parikh Vs. Commissioner Of Income Tax (2011) 79 CCH 0601 KolHC, (2012) 347 ITR 0420 the Calcutta high court had commented about the need for request to consider the affidavit on record that "The assessee did not even pray before the Tribunal for allowing the acceptance of the affidavit of the broker and even before us, no application has been filed for acceptance of such affidavit as additional evidence." And there is no duty cast upon tribunal to look into such affidavits.

Withdrawal or amendment in the affidavit

There are incidences which may arise when affidavit filed on record needs to be withdrawn or amended. Amendment or withdrawal in the affidavit is possible in special circumstances like new facts came to the light, or the affidavit is based on some erroneous facts to add some facts which were missed during existing affidavit.

Right of Estoppel

Here an important issue that needs attention is, under general law once affidavit is filed then the other party gets right of estoppel



Affidavit is a very important and useful tool available to the assessee. particularly in the era of the faceless assessment. where effective submission is his only saviour.

against the filer of the affidavit. However, under taxation law, there is no "right of estoppel" in the case of CIT Vs. Bharath General Reinsurance Co. Ltd. [reported in (1971) 81 ITR 303]. Delhi HC, it is incumbent on the income-tax department to find out whether a particular income was assessable in the particular year or not. Merely because the assessed wrongly included the income in its return for a particular year, it cannot confer jurisdiction on the department to tax that income in that year even though legally such income did not pertain to that year.

C.I.T. v. Bhanwarlal 225 ITR 870 (Raj addition made merely on the basis of admission of the assessee cannot be sustained. Therefore, an assessment cannot be made merely on the basis of statement u/s.132 (4), particularly by brushing aside certain uncontroverted facts.

To conclude, affidavit is a very important and useful tool available to the assessee, particularly in the era of the faceless assessment, where effective submission is his only saviour.

Transfer Pricing of Related Party Transactions -Only a Tax Concern?

Transfer Pricing is often considered as an international tax issue in isolation and regulations for pricing are oriented primarily towards addressing tax motivations. The methods of pricing related party transactions have been compartmentalized based on the rules and regulations set out under various tax and non-tax regulations having an impact on the transaction. The article aims to provide a perspective regarding how transfer pricing impacts various stakeholders. It also brings together the prescribed methods and the various factors impacting transfer pricing by analysing judgements on transfer pricing dispute. Read on...



Introduction

Related Party Transactions are subject to intensive scrutiny by tax authorities and consequently subject to additional recognition, valuation and disclosure requirements. This emerges out of the conviction that transfer pricing of related party transactions do not reflect pricing as determined by the market forces. From the point of view of the tax regulator, the relationship between the entities provides an opportunity to the taxpayer to determine the transfer price in a manner that could result in tax savings in the aggregate on account

of differential tax regimes for the entities. Accordingly, regulations regarding valuation and pricing of the transactions have been prescribed to control such practices.

However, from the point of view of the management, the pricing of a transaction needs to comply with various regulations and at the same time also satisfy the apprehensions of stakeholders other than the tax regulator.

Stake holders and the diverse risks perceived by

Tax regulators are concerned by pricing of the related



party transactions since any deviation from the arm's length price would have the impact of reducing the tax applicable on the transaction or consequent profits arising out of the transaction. There could be contradictory views from direct and indirect tax authorities also based on the impact on the respective class of revenue. For example, in an import transaction, the customs authority would be on the watch for under reporting of the value for avoidance of duty whereas the income tax authority would be on the watch for overstatement of the purchase value for avoidance of income tax.

Diversion of borrowed funds from banks and financial institutions by making overpriced purchases of goods and services from related parties or investments in related parties at exorbitant valuations is a concern for the banker or lender. If any funds are being diverted or being channelled out of the entity, it would create scarcity of liquidity within the entity to repay the loan or interest. Any lender would want to monitor proper end-use of

Any lender would want to monitor proper end-use of borrowed funds and ensure that the borrower always gives preference to repayment of the loan and regular payment of interest. borrowed funds and ensure that the borrower always gives preference to repayment of the loan and regular payment of interest. Lender is thus on the watch as related party transactions can be used by the entity to transfer out funds. consequently impacting the interest of the lender.

Majority shareholders in companies having controlling interest could drive the decisions of purchasing goods and services at higher prices from related parties or supplying at lower prices to related parties which are exclusively owned by them. This would drain the profits out of the companies and build up the profits of the related parties. Such practices deprive the minority shareholders of their share of profits and reserves in the companies and hence is a matter of concern to them.

Employees are impacted if the funds or liquidity of the Company is diverted to related parties and there are insufficient funds available for payment of their remuneration, bonus and retirement benefits. Further, any deviation from the arm's length price in related party transactions, results in companies within the same group not reporting profits of individual entities correctly. This makes evaluation of the Company's results and performance of the managers distorted on account of incorrect valuation of related party transactions.

In Public-private partnership (PPP) which is a funding model

for a public infrastructure project, the public partner representing the Government has apprehensions about pricing of related party transactions which would adversely impact the public infrastructure project and result in the funds being channelled out to the private sector partner.

It is thus a herculean ordeal for the corporate, to balance the concerns of the different stakeholders, while complying with all the applicable tax and non-tax regulations.

Regulations governing related party transaction

Considering that the interest of the stakeholders is to be protected, the Government brought in several regulations to monitor the related party transactions entered into by companies. This includes both tax related regulatory measures as well as non-tax related regulatory measures.

Tax related regulatory **measures:** From the perspective of tax related regulatory measures, transfer pricing regulations were introduced in the Income-tax Act, wherein every entity is required to maintain extensive documentation and file report from a Chartered Accountant stating the nature and value of international transactions entered into with the related parties and the method of transfer pricing adopted. The scope of transfer pricing regulations is also extended to domestic transactions to

safeguard the interest of the revenue, in case of transactions between companies existing in jurisdictions having tax differences. Apart from that, the transactions between related parties are regulated by Clause 2(a) of Section 40A of the Income-tax Act, 1961, wherein if expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities for which the payment is made, or the legitimate needs of the business or profession of the assessee or the benefit derived by, or accruing there from, so much of the expenditure as is so considered to be

excessive or unreasonable shall not be allowed as a deduction. Similarly, indirect tax regulations specify separate valuation rules for related party transactions, such as in the Customs regulations and the Goods and Services Tax valuation rules.

The methods prescribed under these regulations can be grouped under two categories. The first is where the market price of the transaction is compared with the transfer price of the related party transactions. The second is where the transfer price is justified by deriving the price



The scope of transfer pricing regulations is also extended to domestic transactions to safeguard the interest of the revenue. in case of transactions between companies existing in jurisdictions having tax differences.

from the cost, selling price or by justifying the margins by comparing a profit level indicator. The methods prescribed are tabulated as follows:

Sr. No.	Particulars	Market price-based transfer pricing methods	Other transfer pricing methods
A)	Income Tax regulations in case of International Transactions or Specified Domestic Transactions	comparable uncontrolled price method (CUP)	 resale price method (RPM); cost plus method (CPM); profit split method (PSM); transactional net margin method (TNMM); such other method as may be prescribed by the Board.
B)	Income Tax regulations in case of other payments to related parties	fair market value	Not applicable
C)	Goods and Service Tax	 Open Market Value. Value of supply of like kind and quality. Amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer 	 Value of supply based on cost i.e., cost of supply plus 10% mark-up. Value of supply determined by using reasonable means consistent with principles and general provisions of GST law. (Best Judgement method)
D)	Customs Laws	the transaction value of identical goods, or of similar goods, in sales to unrelated buyers in India;	 the deductive value for identical goods or similar goods; the computed value for identical goods or similar goods; residual method

Non-tax regulatory measures:

From the perspective of non-tax regulatory measures, firstly the Accounting Standards require that all related parties, nature of relationship and the value of transactions are disclosed in the financial statements. Further, the Companies Act 2013 requires that all related party transactions are approved by the Board of Directors as well as the Audit Committee and also requires the auditor to report whether these related party transactions have been correctly disclosed and have been done at a fair value. If the transactions have not been carried out at arm's length price, the auditor is required to qualify the audit report to bring it to the attention of the various stakeholders such as shareholders, lenders, creditors, employees, regulatory authorities and other users of the financial statements. Till date, no method for determining the arm's length price has been specifically prescribed either by the Accounting Standards or the Companies Act, 2013. Further, there is no requirement to disclose the method of transfer pricing adopted by the management for these transactions.

Other considerations: Various studies have shown that the transfer pricing of related party transactions is influenced by factors beyond the tax related regulations and non-tax regulations. These comprise of legal factors such as technical or quality norms for products

and services, intervention of Government in terms of restrictions on price or volumes, trade policies. Apart from legal factors, the management has to consider the economic factors such as exchange rate, inflation, competition, market penetration, financing modes and investor expectations.

Examples from case studies:

The fact that transfer pricing of related party transactions is not merely tax motivated can be observed from the following two case laws relating to transfer pricing disputes from the automobile industry. The method of transfer pricing adopted by companies is not available in the public domain. However, orders on transfer pricing disputes issued by the Income Tax Appellate Tribunal (ITAT) could be analysed.¹

Case 1-Mercedes-Benz India Pvt. Ltd. VS Assistant Commissioner of Income Tax [TS-9028-ITAT-2018(Pune)-O, (2018) 196 TTJ 464 (Pune)]

The company is a manufacturer of automobiles, specifically luxury passenger cars for sale in the Indian market. The company also undertook resale in the Indian market of certain models of Mercedes-Benz cars by importing them from its associated enterprise outside India in the form of Completely Built Units (CBU). Apart from this, the company also entered into transactions for payment of royalty and import of raw materials and spare parts with

its associated enterprise. The transfer price was justified using the Transaction Net Margin Method (TNMM) by the company using net profit as the Profit Level Indicator (PLI) for all transactions by taking the view that the transactions were closely inter-related and interlinked to the main activity of the company. On the other hand, the Assessing Officer considered resale of CBUs and spare parts as similar activities as having no value addition and having common source of products and intermediary, and hence applied Resale Price Method (RPM) by applying similar margins for both activities. In case of royalty, the Assessing Officer applied Comparable Uncontrolled Price (CUP) Method by considering the rate of royalty paid by a comparable company.

In respect of import of CBUs, the Tribunal observed that the intention behind the import was to make available the entire global range of products to Indian customers, which ensures customer satisfaction and helps to target and identify the market conditions for a particular range of cars and also to bring new products which would take time to manufacture in India. In respect of spare parts, the Tribunal observed that the company under terms of warranty had an obligation to provide replacement and dealers were obliged to purchase the same from the company only, which ensures genuineness of parts, and to maintain and

The ITAT is the final fact-finding authority for income tax disputes and higher courts take up the matter only if it is a substantial matter of law. These ITAT cases provide an insight into all relevant facts involved in the transfer pricing case.

enhance the performance of vehicles. Further, as the passenger cars had to be sold at competitive prices, the company could compensate from premium pricing of spare parts. Further, the Tribunal observed that royalty was intrinsically linked with production and sales activity.

Case 2-Deputy Commissioner of Income Tax VS Man Trucks India Pvt Ltd [TS-6887-ITAT-2018(Pune)-O]

The company manufactured cargo line shell trucks which is a special line of trucks specifically for Indian market and other developing countries' markets. The trucks were manufactured as per emission norms which were acceptable in India and other developing countries, but not acceptable in Germany. Due to excess manufacturing capacity available, the company manufactured trucks for export sale to Germany, for ultimate sale in developing countries like South Africa, Ethiopia and Indonesia. Due to stricter emission norms in Europe, these trucks were directly dispatched to the developing countries. The sales were invoiced to Germany at Cost plus 25% less EUR 500 for warranty commitments which would not been borne by the company but would be passed on to the Associated Enterprises. However, the Assessing Officer aggregated the transactions and applied TNMM after rejecting CUP and CPM method adopted by the company.

Analysis of the case law considering the factors affecting transfer price and the objectives

The appeals in question are on account of dispute regarding the taxation arising from the pricing of the transactions wherein the Assessing Officer has demanded higher tax. Hence, the objective of the Company to reduce the overall tax is indicated and that of the Assessing Officer to regulate such practices is apparent. Further, other factors affecting transfer pricing can be identified from the case based on the various aspects that have been considered by the ITAT in the course of arriving at the conclusion regarding the method of pricing to be adopted.

The transactions in both cases are subject matter of transfer pricing assessment under Income-tax Act and hence were justified by the Companies by applying TNMM, which indicates that tax regulations impact the transfer pricing method.

The Tribunal has drawn reference to Accounting Standards apart from Incometax Rules while assessing the aggregation of transaction for application of TNMM in the first case and in the second case has drawn reference to segmental reporting to be certified by auditor while assessing the aggregation of transaction for application of TNMM. This confirms that non-tax regulations also impact the transfer pricing method.

Both Companies were bound by terms of Warranty Contract with the customers. In the first case, this was a stand taken by the Company to justify aggregation and use of TNMM whereas in the second case the consideration of whether the Company or the Associated Enterprise will provide after sales service and warranty in pursuance of commitments to customers is a pointer to the role of contractual arrangements in determining the transfer pricing method.

In the first case, the stand of the Company that the royalty rate was approved by various regulatory authorities like RBI, DIPP indicates that Government policies influence the method in question. The Assessing Officer has stated that the comparable Companies which were Chinese Companies received subsidies from the Government and rejected the comparables for use of TNMM. This indicates that overseas Government policies also play a part in deciding the transfer pricing method. Similarly, in the second case, the discussion of higher emission norms being applicable in Germany and hence the inability of sending trucks there, leading to them being dispatched directly to the developing nations, indicates that conformance to overseas Government policies and nontax regulations is a necessity in determining the transfer pricing method.

In the first case, there was disagreement with the Assessing Officer over the comparable

used by the company in applying TNMM. In the second case, there was disagreement with the Assessing Officer over the comparable used in CUP method and the company took a stand that where comparison was available at hand, an endeavour should be made to use the internal comparables available. This indicates that availability of comparables matters while deciding the appropriate method.

Apart from the above, in the first case the Company was paying royalty to the Holding Company for technical know-how. This shows that the ownership of intangible assets and ensuring compensation for use of such assets has to be considered in this context. In the second case, the Company is a Joint Venture which indicates that contractual arrangements impact the transfer pricing method. The consideration of geographical differences arising out of exports to developed vis- a- vis developing countries indicates that the level of development of nations is important in context of this case. The fact that the trucks were exported to developing countries but the orders were routed through the German Company indicates that ownership and control can play a major role in this decision making.

Thus, the cases cited above highlight the multifarious factors and complexities that need to be considered in the decision to price the transactions between related parties.

Further, various objectives behind transfer pricing can be identified from the cases based on the various aspects that have been considered by the ITAT in the course of arriving at the conclusion regarding the method of pricing to be adopted.

In the first case, the justification for bringing CBU units to India indicates the motives of the Company to provide the entire range of products and models available globally, thus indicating that the transaction was entered into to provide customer satisfaction and to build reputation in the market to widen the customer base and penetrate the market. The import of spares and restricting the dealers to only use spares imported indicated the motive to honour warranty commitment, to maintain efficiency of the cars and to keep the standard of its products. The close interlinking and aggregation of transactions indicates the motive to simplify application. The use of TNMM to cover all transactions and compare it on an overall basis with other companies is another cue of the intention to simplify application. The assessee company itself has provided separate benchmarking and detailed information regarding the Royalty payment to ensure acceptability and justifiability. The payment of royalty by the company to the group for technical know-how indicates the intention of the group to maintain control over the intangible assets and

Management of the company has to reconcile various regulatory and non-regulatory factors and objectives at the time of pricing of the related party transactions which are beyond tax saving motivations or compliance with tax regulations.

ensure compensation for use. The payment of royalty also indicates the need to ensure repatriation of funds and performance evaluation.

In the second case, the decision to manufacture and export trucks due to low sales and availability of capacity indicates the objective of the company to enhance competitiveness. The routing of the trucks to the developing countries directly without entering Europe satisfies the goal to ensure regulatory compliance and to avoid penalties. The application of internal TNMM for exports by the company asserts the aim to simplify application. The exports could have been made directly to the developing countries and the question of transfer pricing would not have arisen as these sales would be directly to dealers who are unrelated. However, the sales were controlled by the German company which indicates a prime purpose to control the assets. The German company was selling third party material



The management has to be sensitive to the market. competition and economic environment in order to retain its market share and to sustain operations.

to the Indian Company and applying surcharge for handling. This also affirms the intention to control the assets and enable performance evaluation. The change in stand of the company before the DRP and providing certificate of negative contribution of the transactions by the German company indicates the objective to ensure acceptability / justifiability.

The companies have thus balanced multiple objectives, by efficiently managing the corporate concerns of fixing product quality and customer service, while ensuring compliance with the transfer pricing tax law.

Findings: It is clear that the management of the company has to reconcile various regulatory and non-regulatory factors and objectives at the time of pricing of the related party transactions which are beyond tax saving motivations or compliance with tax regulations. Further, the management is also bound by commitments, whether contractual or not. to other stakeholders. The management has to be sensitive to the market, competition and economic environment

in order to retain its market share and to sustain operations. Objectives of compliance with regulations and prudent decision-making practices to manage the business need to be brought together to adopt a single method of pricing for a transaction.

The method so adopted needs to play a dual role of satisfying the business requirements and also be acceptable to the tax regulators. In the first case, the assessee adopted TNMM whereas the tax authority chose CUP method and RPM. In the second case, the tax authority adopted TNMM whereas the assessee had chosen CPM. In both cases, the management adopted the transfer pricing method after due consideration of various factors and objectives affecting the transaction. The tax authorities on the other hand chose a different method to arrive at the transfer price with the primary objective of protecting the interest of the revenue.

Conclusion

Transfer pricing of related party transactions needs to be perceived in a comprehensive



A broad-based approach from the perspective of all stakeholders needs to be adopted wherein factors beyond tax regulatory requirements need to be considered while evaluating the transfer pricing method adopted.



A more comprehensive approach is the need of the hour wherein uniformity is introduced in the methods and reporting of related party transactions under the various tax and non-tax regulations.

manner and not just as a tax motivated act which needs to be regulated by the authorities. A broad-based approach from the perspective of all stakeholders needs to be adopted wherein factors beyond tax regulatory requirements need to be considered while evaluating the transfer pricing method adopted.

There cannot be separate pricing for tax compliance and for accounting since both are oriented towards reporting transactions at their fair values. Hence, a more comprehensive approach is the need of the hour wherein uniformity is introduced in the methods and reporting of related party transactions under the various tax and non-tax regulations. Further, mutual recognition of the methods by the regulators should be brought in. A uniform reporting system with mutual recognition would benefit all stakeholders facilitating the evaluation of the impact of the same. This would bring in relief to the management, reduce compliance costs and would be a major step towards achieving ease of business.

LFAR Reporting and its Requirements

The Reserve Bank of India has revised the Long Form Audit Report for the banks including for statutory audit of Bank from the year 2020-21 and vide circular Number RBI/2020-21/33 DOS.CO.PPG. / SEC.01/11.01.005/ 2020-21 dated 5th Sept 2020. The new form has widened the scope for verification and reporting on various sensitive areas of the bank branch functioning. The LFAR is structured for the Central Statutory Auditors, Statutory **Branch Auditors** and the Specialised branches like Foreign Exchange Branch, Asset Recovery Branch, and administrative offices of the bank. The new format is more comprehensive, requiring the auditor to go deep and discrete to the verification and report many intricate aspects of the bank's functioning. Read on...



The Reserve Bank of India has widely covered the scope of LFAR to converge the broad areas of credit risk, market risk, Assurance and operational risk, Capital Adequacy, Liquidity risk and going concern in the newly designed LFAR.

This article aims at giving a brief write up on the clauseto-clause points included in the LFAR for the Bank Branch Audit. This format is only an indicative one and the RBI has given leverage to the Central Statutory Auditors to add any further points requiring

specific reporting from the Branch Auditors apart from the general points in the indicative format. Thus, it alludes that there is all possibility of a bank specific LFAR with additional clauses as per the reporting requirement envisaged by the Central Statutory Auditors. The members are expected to bestow utmost care and caution in the reporting as the new format is more subjective and is oriented towards discrete reporting from auditors which will turn out to be fixing specific accountability on the members.





Indicative Format / Coverage in the Long Form Audit Report (LFAR) by the Statutory Branch **Auditors (SCB)**

Name of Bank	
Name of Branch	
Branch Code	
Zone / Circle Code	
Financial Year	

1.	Cash	
(a)	Does the system ensure that cash maintained is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	Give details of custodians of cash. Verify the key register at random.
(b)	Have the cash balances at the branch/ <i>ATMs</i> been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?	The ONLINE ATM cash has to be checked with the cash scroll taken on the closing hours of 31st. In case of OFFLINE ATMs the cash is controlled by the central Hub. Cash with ATM replenisher should be reconciled
(c)	(i) Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?	with disbursement account maintained at branch. Verify the cash retention limit. See average cash balance, proper utilization of float. Desirable to verify physical cash on the date of audit.
		Physical cash at chest / need not be verified. But the reporting to RBI of cash balance may be verified. Obtain a letter mentioning retention limit for auditor's records.
	(ii) Does the figure of the balance in the branch books in respect of cash with its ATM(s) tally with the amounts of balances with the respective ATMs, based on the year end scrolls generated by the ATMs? If there is any difference, same should be reported.	The timing of taking scroll and the closing of balance sheet is vital for the reconciliation. In case of OFFLINE ATMs controlled by ATM Hub, branch auditor has limited role.
(d)	Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?	The blanket insurance is usually taken by head office. Ensure that the copy of policy is at branch or get a representation to the effect.
2.	Balances with Reserve Bank of India, State Bank of India and other banks (For branches with Treasury Operations)	This refers to balance with clearing house and with other banks.
(a)	Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.	The confirmation of balance needs to be obtained and copy kept for auditor's record. Report difference if any with details. Reconciliation entries: if any to be verified with specific reference to long outstanding items, unusual items, revenue items requiring adjustments, etc. The account copy for the year needs to be verified to see huge cash withdrawals, its authority and requirement. Verify any credits for other claims as pension disbursement routed through the account.



(b)	Observations on the reconciliation statements	The long outstanding entries, cash transactions
	may be reported in the following manner:	and high value entries should be CRITICALLY examined and reported.
(i)	Cash transactions remaining un-responded (give details)	Get details of such un-responded entries if any and enquire into reasons and furnish date of squaring off, if done before completion of audit.
(ii)	Revenue items requiring adjustments / write-off (give details)	Usually clearing house charges may appear which should be taken as revenue expenses. MOC to be passed, if the amount is material.
(iii)	Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days:	Old outstanding balances remaining unexplained/unadjusted. Give details for entries outstanding for more than 15 days.
(iv)	Where the branch maintains an account with RBI, the following additional matter may be reported Entries originated prior to	This is applicable to branches operating Chest of RBI and direct link branches designated to maintain RBI account.
	but communicated/recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency	The pipeline entries between chest and branch as on 31st Mar should be properly addressed by MOC.
	chest attached to such branches (Give details)	Any long outstanding entries other than year- end entries are to be verified CRITICALLY and reported
(c)	In case, any matter deserves special attention of the management, the same may be reported.	The reconciliation of cash balance with ATM replenisher with the base branch, un-responded entries of chest branches, holding huge cash balance without sufficient security etc. are to be reported.
3.	Money at Call and Short Notice	
(a)	Has the branch kept money-at-call and short notice during the year?	Usually this is applicable only at treasury branches. Specify if not applicable.
(b)	Has the year-end balance been duly confirmed and reconciled?	This is normally applicable at HO level.
(c)	Has interest accrued up to the year-end been properly recorded?	This is normally applicable at HO level.
(d)	Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	
4	Investments (for branches outside India)	
(a)	In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/guidelines in this behalf issued by the controlling authorities of the bank?	Not applicable for branches in India
(b)	Have the investments held by the branch whether on its own account or on behalf of the Head Office/other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidence with regard to their physical verification have been produced?	Not applicable for branches in India



(c)	Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branchis located whichever are more stringent?	Not applicable for branches in India
(d)	Whether there are any matured or overdue investments which have not been encashed and / or has not been serviced? If so, give details?	Not applicable for branches in India
5.	Advances	
	(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances.	Obtain a list of advances above 10 crores or 10% of branch aggregate advances including fund based and non-fund based for thorough verification.
	In respect of large advances, all cases of major adverse features, deficiencies, etc., Should be	Classify the borrower's constitution wise for allocation of work among auditors.
	reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For this purpose, large advances are those in respect of which the outstanding amount is in excess of prescribed limits to be identified.	Also classify it as consortium advances, syndicated loans, multiple banking arrangement, group accounts, etc. For bringing more focus to such accounts.
	General Instructions	
	(i) The answers to the following questions may be based on the auditor's examination of all large advances.For this purpose, large advances are those in respect of which the outstanding amount is in	The limit of specific advance accounts to be verified by Branch Auditors have been refixed. The specific methodology of Transaction Audit and Process Audit included. Transaction Audit includes the verification and
	excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less.	reporting of the overall conduct of the account with respect to: Overall operations
	Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the	Quantum of each operations Cash Vs Account Transactions Business Vs Personal transactions Cheque Returns
	threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse	Operated at the brim of limits. Frequent over- drawings Transfer to another bank frequently.
	features, which might need the attention of	Round Stripping.
	the management / Statutory Central Auditors, should be appended to the LFAR.	Process verification includes the overall control framework and procedure followed at the branch vis a vis the policy of the bank which mainly include
		Documentation
		Request letters for OD
		Flagging stop payments/instructions Monitoring and followers
		Monitoring and follow up Manning of the credit department. Concentration of credits.
		The Covid relief packages introduced by the Reserve Bank of India and the additional financial support in the form of Emergency Credit Line Guarantee scheme should be verified and commented in addition to the above, if it requires an emphasis to be brought to the attention of SCA in particular and is significant form the Branch Auditors perspective.



	(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs as given in LFAR given below.	
(a)	List of accounts examined for audit	NEWLY ADDED TO BE FILLED AS PER TABLE.
(b)	Credit Appraisal	
(i)	In your opinion, has the branch generally complied with the procedures/ instructions of the controlling authorities of the bank regarding loan applications, preparation of proposals for grant/ renewal of advances,	Any comments on advance processing, preparation of proposals, analysis of financial credentials / statements, rating need to be reported. The appraisal report of the branch manager and
	enhancement of limits, etc., including adequate appraisal documentation in respect	The appraisal report of the branch manager and his comments and recommendation to the higher authorities should be verified.
	thereof. What, in your opinion, are the major shortcomings in credit appraisal, etc.?	If it is branch sanction, the sanction order and comments of the credit manager and senior manager/branch head to be verified.
(ii)	Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction?	Quick mortality is referred to accounts becoming irregular/sticky and stagnant from the day one of its availing or becoming NPA within one year of sanction.
	Details of such accounts may be provided in following manner:	The sanction procedure, appraisal, group accounts, accounts opened anew as fresh
	• Account No.	customer, loans taken over should be given more
	• Account Name	emphasis.
	Balance as at year end	
(iii)	Whether in borrowal accounts the applicable interest rate is correctly fed into the system?	Verification points include:
		Feeding of rate to account master
		Linking of rates to MCLR
		Periodicity of interest application.
		Change management from CORE
		Simple Interest/compound interest Moratorium period interest. (compounding factor during COVID period to be excluded)
(iv)	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR/EBLR (External Benchmark Lending Rate)?	The influence of CORE in the application of interest should be analysed. The sanction condition as floating/fixed should be fed to master properly.
(v)	Have you come across cases of frequent renewal/rollover of short-term loans? If yes, give the details of such accounts.	The process of renewal/review should be verified. Roll over of renewal dates and making short/adhoc/limited review should be verified.
		RBI Circular:
		RBI2020-21/Dos_CO
		-PPG_BC_1/11.01.002/2020-21-August-2020
		Bank policy for renewal/review to be obtained and strict adherence to be verified and deviations reported.



(vi)	Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	The time lag between the last rating to the balance sheet date should be commented, it is more than 2 years. The deterioration in latest rating is to be considered for further monitoring. The interest rate setting attuned to the rating granted to be verified. Accounts becoming NPA even after high rating should be commented separately.
(c)	Sanctioning / Disbursement	
(i)	In the cases examined by you, have you come across instances of:	Obtain the latest extant guidelines of the bank regarding delegated powers and keep it as auditor's records.
	beyond the delegated authority or limit fixed	The TOD/TOL powers, casual business powers, loan sanction powers need to be examined.
	Are such cases promptly reported to higher authorities?	The reporting of each such instances need to be made to controlling authority. Verify the records / register maintained for the same.
		Obtain the regular/exception report of TOD/TAL as on 31.3.2021 and compare it with same report as on 28.2.2021 and 20.3.2021.
(ii)	Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.	The selected advances (as in column 1 of Para.5 above) accounts should be verified with special reference to sanction terms, usual slippages are
		1) Failure to conduct pre sanction and post sanction inspection.
		2) Legal audit of documents executed and obtained
		3) Creation of charge
		4) Conditions attached to and between
		consortium members.
		5) Failure in obtaining personal guarantees
		of owners and family members,
		satisfaction letter, NOC etc. as per sanction
(iii)	Did the bank provide loans to companies for buy-back of shares/securities?	Find out for any increase in the promoter's pattern of shareholding between last year and this year.
		If so, enquire the source of buying such shares and if it is buy back, then analyse for any funding made by bank just before the buy back.
(d)	Documentation	
	In the cases examined by you, have you come across instances of:	
(i)	Credit facilities released by the branch without execution of all the necessary	The legal audit report needs to be verified for inadequacy of documentation.
	documents. If so, give details of such cases.	Obtain a letter of representation in this regard from the branch manager.

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(ii)	Deficiencies in documentation including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.	Verify creation of charge with special reference to the nature, extend and details of assets charged, location of the assets charged. The nature of charge as first charge, second charge, Parri-Passu charge, etc. need to be verified. Obtain latest search report if there is any change in advances by our bank or any other bank/financial institution. Even modification of conditions of loan needs to be verified with charge created and modified. Obtain a letter of representation in this regard from the branch manager.
(iii)	Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and <i>the related accounts</i> in accordance with the guidelines of the controlling authorities of the bank.	Compare the list of advances against TDR with the lien marked report generated from system. Specific verification regarding continuation is necessary for TDR modified as to term, date, rate of interest etc. Obtain a letter of representation in this regard from the branch manager. The deposit lien should have been extended to related loans/accounts of the borrower to ensure enforcement of general lien on deposits before it is given back to customer.
(e)	Review/Monitoring/Supervision	
(i)	Is the procedure laid down by the controlling authorities of the bank, for periodic review of advances, including periodic balance confirmation / acknowledgement of debts, followed by the branch? Provide analysis of the accounts overdue for review/renewal. What, in your opinion, are major short comings in monitoring, etc.?	Obtain a list of due dates or report of review dates of advances and inspection. See that no review is overdue for more than six months. Any such cases need to be classified as NPA as per prudential norms. Ensure that comprehensive review is done. The short review, extension of time of review etc. Need to be commented on merits. Obtain confirmation from higher authorities if the review is pending at their end during audit period and report. Due date diary/report generated from system for accounts pending renewal should be obtained to focus on such accounts pending for renewal.
	a) between 3 to 6 months, and	Earlier it was 6 months to one year.
	b) over 6 months	Earlier it was over one year.

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(ii)	Are the stock/book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinised? Is suitable action taken on the basis of such scrutiny in appropriate cases? a) Is the DP properly computed? b) Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?	Verify stock statement register, the date stamping of receipt of stock statements, calculation of drawing power. Elimination of slow moving, obsolete stocks and creditors from calculation of drawing power. Ensure submission of separate stock details of goods for which separate packing credit loan is availed. Elimination of debtors beyond stipulated period as per sanction and disputed debtors while calculating drawing power. Ensure that the drawing power is fed to system
		periodically for proper control and appropriate charging of interest. Share of Drawing power in case of Multiple
		Banking/consortium arrangement should be obtained and verified.
		If it is not communicated by lead bank, the pendency should be reported.
		Audited statements should be verified with UDIN and membership number of CAs.
(iii)	a) Whether there exists a system of obtaining reports on stock audits periodically?	Stock audits are to be conducted yearly for all advances above benchmark for working capital limits sanctioned against stock and or debtors as decided by the bank.
	 b) If so, whether the branch has complied with such system? c) Details of: cases where stock audit was required but was not conducted. 	Obtain list of accounts requiring stock audit from branch manager.
		Verify stock audit reports and consider adverse comments if any.
	where stock audit was conducted but no action was taken on adverse features.	The stock audit initiated and report pending from auditors should be reported with special reference to delinquent accounts.
	uurerse jeuum est	The comments of the stock audit report and the regularization of such comments by the branch should be reported.
(iv)	Indicate the cases of advances to non-corporate entities with limits beyond that is set by the bank where the branch has not obtained	Obtain a list of such advances. Verify the financial statements and ensure auditors sign with seal and membership number.
	the duly audited accounts of borrowers.	The limit set by the bank should be obtained as a letter from the branch manager.
		The limit for obtaining audited statements is now as per the bank policy. Earlier it was Rs. 10 lakhs and above.



(v)	Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record. (In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)	Report on Information exchange between member Banks Sharing of information on DP Sharing of status of account Due diligence report as specified by RBI to be part of documents/file Obtain list of accounts with Multiple/Consortium arrangement. Report if the due diligence report is not kept on record.
(vi)	Has the inspection or physical verification of securities charged to the bank been carried out by the branch as per the procedure laid down by the controlling authorities of the bank?	The branch should record the periodical inspection report of unit which will include verification report of securities. The inspection report should be documented and kept on record. Any large variation needs to be reported. Long pending inspection on COVID effected borrowers and its RISK of mortality to be reported.
	Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?	Verify with reference to Clause No. 4.2.9 of Master Circular regarding erosion in the value of security. Erosion in value of security below 50% would make it Doubtful straight away and below 10% to LOSS asset.
(vii)	In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	A comprehensive analysis of loans to group concerns with overlapping charge on same security need to be verified. The asset coverage of all group loans vis a vis all outstanding loans need be comprehensively analysed and any deficiency reported. Verify insurance register and comment on adequacy and coverage of insurance. Confirm all policies are with bank clause. Obtain a letter of representation in this regard from the branch manager.
(viii)	Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flagged Accounts?	The policy and process of red flagging should be obtained from the branch. The SMA categorization and red flagging should be in sync with the norms prescribed. The EXIT marked accounts, watch category accounts, accounts with early warning signals, otherwise delinquent accounts should also be seen for red flagging. If it is not done and requires to be flagged as per branch auditor, it should be reported.



(ix)	Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	TOP 5 accounts should be selected in terms of overall exposure and CRITICALITY. Need not necessarily to restrict to 5 accounts, it can be more, but 5 numbers are a requirement. The post-COVID conduct of accounts and industry wise knowledge of the auditor should be blended while reporting.
(x)	In respect of leasing finance activities, has the branch complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc.? Has the branch complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?	Lease financing for assets where depreciation claim can be made by bank on such assets. Verify extended guidelines of accounting and report for any inconsistencies with accounting principles / standards.
(f)	Asset Classification, provisioning of Advances and Resolution of Stressed Assets	
(i)	a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?	The reliability of system generated classification need to be ensured for program error, data entry and data up-dation / modification etc.
	b) Is this identification and classification in line with the norms prescribed by the Reserve Bank of India	Manual intervention with respect to feeding periodical Drawing power, Change in sanction condition, increase in limits, ECLG Scheme Loans etc. to be commented.
	c) Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch	be generated for comparison of upgrad downgraded loans.
	classification of advances into standard (<i>Including SMA-0, SMA-1, SMA-2</i>) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.	The year-end circular of the bank needs to be verified with master circular of RBI. Any inconsistencies need to be brought to the notice of statutory central auditors.
	d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.	The SMA categorization and its reporting should be verified. A copy of the report on SMA accounts should be kept on record.
	List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as	The data of such accounts with its justification of the branch for such down/upgradation with the auditors' comments should be given here.
	Non-Performing Asset or Standard Asset during the year and the reason thereof.	Obtain list of accounts above 10 crores upgraded/ Downgraded and report.
	f) Whether RBI guidelines on income recognition and provisioning have been followed.	The restructuring and re-phasing of stressed assets should be reported separately.



(ii)	 a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank? b) Whether the RBI Guidelines for restructuring on all such cases have been followed. Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes 	Refer Circular No.: RBI/2018-19/203DBR No. BP.BC.45/21.04.048/2018-19 June 07, 2019. The restructuring and its provisioning should be verified with the regulatory package 1 to V should be verified.
(iii)	among others? a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.	Upgradation only after satisfactory performance for one year for all restructured assets. Upgradation based on CRITICAL factors as below to be verified and reported. Fresh Valuation of assets/security Infusion of capital by Borrowers Transfer of funds from other branches.
(iv)	Have you come across cases where the relevant Controlling Authority of the bank has authorised legal action for? Recovery of advances or recalling of advances, but no such action was taken by the branch? If so, give details of such cases.	Take a list of core NPAs and verify the stage of legal proceedings for recovery if no action is taken / reported verify the file to see the instruction from controlling authorities. Obtain a letter of representation in this regard from the branch manager.
(v)	Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch? Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?	The list of such accounts should be obtained from the branch manager for further verification and comments.
(vi)	- · · -	Banks would have opted out of DICGC. If so, verify the recovery during the year in accounts where DICGC claims have been received. The ECGC claims pending and rejected should be verified for reporting. Ensure the share of recovery has to be forwarded to DICGC. The data furnished in DICGC certificate should synchronise with data furnished here. Any rejection of claim should be commented with the country risk attached to the overseas buyer. Proper provisioning of ECGC rejected accounts should be ensured at branch level or should be reported to CSA as per the table appended to LFAR.



(vii)	In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	This forms part of verification of documents. The valuation of properties needs to be not more than 3 years. If the auditor feels that the value post-COVID is far too less than the value considered, insist for a fresh valuation report. This would be more appropriate in cases of real estate valuation. The RBI has insisted for valuation by two valuers
		for properties above prescribed limit.
		Obtain a letter of representation in this regard from the branch manager.
(viii)	In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving	The list of OTS, write off or settlement accounts beyond 50 lakhs need to be obtained. The sanction, authority and accounting of such transactions need to be verified and commented up on for any deviation from extend guidelines or accepted accounting principles / practices.
	write-offs/waivers in excess of Rs. 50.00 lakhs may be given.	The compliance of settlement conditions of all cases needs to be verified and reported.
		The settlement or OTS does not make any impact on prudential norms for any account which will continue as it was till finally settled or written off.
(ix)	Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.	The decree obtained from courts/DRT pending execution should be obtained and reported.
		The branch may be insisted to obtain the list and details from the legal department for auditors to report here.
(x)	Whether in the cases concluded the recoveries have been properly appropriated against the principal /interest as per the policy of the bank?	The policy of bank regarding apportionment to be verified. The general policy of adjusting first interest and then to principal should be followed consistently. The policy of the bank should be obtained.
		Special mention regarding the different policies adopted by merged banks with parent bank should be made and reported for any inconsistency.
(xi)	In cases where documents are held at centralised processing centres / office,	Physical custody of documents, if centralised and not able to be verified should be reported.
	whether the auditor has received the	The overall control and coordination of documents and upkeep of the same need to be commented.
	relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any	The list of documents sought for verification and not provided should be reported separately.
(xii)	List the major deficiencies in credit review, monitoring and supervision.	The follow up of watch category accounts, SMA 0 to 2 accounts under standard assets and recovery initiative of other accounts need to be reported here.



(g)	Non-Fund Based facilities	
(i)	List of borrowers with details of LCs devolved or guarantees invoked <i>during the year</i> . (Earlier it was at the end of the year.)	Any guarantees invoked should be transferred to protested bills account or appropriate years as per HO guidelines.
		See the list of guarantees closed during the year with special reference to the guarantees invoked during 2020-21.
		Comment on LC pending to be honoured near about the balance sheet date in respect of a delinquent borrower.
		Obtain details and a letter of representation in this regard from the branch manager.
(ii)	List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.	The LCS issued in favour of borrowers whose account is classified as NPA where the LCS are overdue and due in near about dates need to be verified and reported.
	(New Format given.)	The auditor may insist on provision if it is a confirmed and potential loss to bank. It may even be brought to the notice of central statutory auditors for appropriate action.
		Obtain details and a letter of representation in this regard from the branch manager.
(iii)	List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.	Take the list of LC devolved and DEBITED to the existing CC/OD account in the pretext of interchangeability of facilities sanctioned by the bank.
		The exercise of such an option which may effect the NPA classification should be commented and reported to the CSA.
		The extension/enhancement of limits due to interchangeability should be verified with the security cover and borrower capacity.
6.	Other Assets	
(a)	Suspense Accounts/Sundry Assets	
(i)	Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of outstanding	Obtain a jotting of sundry deposits and suspense accounts as on 31st March for auditor's records. Verify the long pending, unusual and items of
	entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does	high value lying in suspense account and report. The long pending debits old than 90 days requires special reporting.
	your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write-off? If so, give details.	Any DEBITS which are irrecoverable need to be provided for as per prudential norms.
(ii)	Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved. <i>Are there</i>	Obtain details and a letter of representation in this regard from the branch manager and report such figures if material.
	any intangible items under this head e.g., losses not provided/pending investigation?	Any loss DEBITED to suspense account need to be reported separately.



II.	. LIABILITIES	
1.	Deposits	
(a)	Does the bank have a system of identification of dormant/ inoperative accounts and internal controls with regard to operations in such accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.	Study the system of internal control of identification, classification, and activation of operation on such accounts. Obtain a list of inoperative accounts having a balance of more than a benchmark. Verify the operation involving high value put through inoperative accounts, immediately on
(b)	After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or	Obtain the general ledger extract of last reported Friday and verify for any unusual movement with the figures as on 31st March.
	decrease) in the aggregate deposits held at the year-end? If so, obtain the clarifications from the branch and give your comments thereon.	Also verify it with the post balance sheet figures for the same effects if any.
		Obtain the written clarification from branch manager for any deviations noticed.
		Report any material deviation.
(c)	Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	This is a matter of pure monitoring within the branch functioning. The internal guidelines/instructions of ensuring the residential status of depositor while on autorenewal of FCNR deposits should be obtained.
		Proper compliance of such instructions should be reported. If no guideline/instruction is there, it should be reported.
(d)	Is the branch complying with the regulations on minimum balance requirement and levy of charges onnon-maintenance of minimum balance in individual savings accounts?	The charges are taken only proportionate to the shortfall of minimum balance to be ensured.
		Take a report of accounts just below the minimum balance prescribed and verify at random about the compliance.
2.	Other Liabilities - Bills Payable, Sundry Deposits, etc.	
(a)	The number of items and the aggregate amount of old outstanding items pending for one year or more be obtained from the branch	Obtain a jotting of sundry deposits and bills payable, pay orders payable or banker's cheque payable as on 31st March for auditor's records.
	and reported under appropriate heads. Give details thereof.	Verify the long pending, unusual and items of high value lying in this account and report as per the table.
(b)	Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.	Obtain the ledger copy of the sundry deposits account and verify the debits and its sanctity. Report on any matters requiring attention of management.
		The ledger copy should be kept for auditors' records.
		Obtain a letter of representation in this regard from the branch manager.



3.	Contingent Liabilities	
	List of major items of the contingent liabilities (other than constituent's liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the branch?	Obtain details and a letter of representation in this regard from the branch manager and report. The common items may be rent escalation demanded by landlord pending sanction, litigations on branch own premises, ATM related complaints and claims etc.
III.	PROFIT AN	ID LOSS ACCOUNT
(a)	Has the test checking of interest/discount/commission/ fees etc. revealed excess/short credit of a material amount? If so, give details thereof.	If the system is by attaching patches to the software, the date of receipt, its updation at branch and the records maintained and log generated from system to be verified.
(b)	Has the branch complied with the Income Recognition norms prescribed by R.B.I.? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding	Study the system and policy of accounting for interest on NPA accounts. See that the accounting does not result in recognition of income in such cases.
	charging of interest on non-performing assets).	Accounting treatment and apportionment of recovery in NPA accounts to be in line with accounting policy of bank and should be followed consistently.
		This should be read with Para 5(f)(x) of question on advances.
(c)	Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.	System of updations of interest changes need to be studied.
		If the system is by attaching patches to the software, the date of receipt, its updation at branch and the records maintained and log generated from system to be verified.
(d)	Does the bank have a system of estimating and providing interest accrued on overdue/matured/unpaid/unclaimed term <i>deposits</i> including in respect of deceased depositors?	Study the system and report for any inconsistency with laid down accounting policies/ principles and standards.
	including in respect of acceused acpositors.	The intimation regarding death of depositor, the procedure for handling cases of deposits of deceased without nominees, transmission of deposits to legal heirs of deceased, management of court directions etc. should be reported.
(e)	Are there any divergent trends in major items of income and expenditure, in comparison with corresponding Previous year, which are not satisfactorily explained by the branch? If so, the same may be reported.	Obtain the profit and loss analysis statement sent to controlling office and verify for any divergent trends.
		Make an analytical study of trend of deposits and advances with the interest and other charges.
		The ratio of interest paid to deposits and interest received to advances should be compared with previous year and this year. Major divergence to be analysed and reported with specific reference to CASA.



IV.	G	ENERAL
1.	GOLD/BULLION/SECURITY ITEMS	
(a)	Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	Gold and Bullion business is restricted only to very few branches handling metal desk. The custody and physical handling of the gold/bullion should be examined and reported in case of such branches.
(b)	Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?	The gold/bullion may be mostly imported and issued to customers/exporters as per the extant guidelines of the RBI and the bank. Any stock held out of suspended previous gold business held at branch should be reported with specific details of quantity, value carried in branch GLB, Custody, reason for holding it etc.
(c)	Does the system of the Bank ensure adequate internal control over issue and custody of security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch? Have you come across cases of missing/lost items?	The movement passbook maintained between vault and counters should be verified. More focus should be given on security stationery like Fixed Deposit receipts, Draft/Pay Order books, Travellers Cheques etc. This should be more emphasised in case of merged banks like Corporation Bank, Allahabad Bank, Dena Bank, Vijaya Bank, Syndicate Bank etc. Any security stationery held at branches with the later merged banks name should be reported as it is VERY CRITICAL from CONTROL perspective.
2.	Books and Records	
(a)	Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.	The software used other than MS Office and regular operating system for correspondence should be verified. The export transaction platform, locker, cheque book issue software, Separate MIS Software if any, Software for EM Creation and its registers, and its integration with CBS. The influence of such transactions fed to the CBS should be verified and reported.
(b)	i) In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.	The financial aspects of IS audit other than technical aspects as per report of IS Audit should be CRITICALLY examined. If the IS Audit does not cover the financial implications of the system errors and hardware, it should be reported as a weakness in IS Audit. The pendency of IS Audit as per Bank Instructions should be reported.
	ii) Whether branch is generating, and verifying exception reports at the periodicity	The procedure/regularity in generation and verification/authentication of exception reports should be verified and reported.
	as prescribed by the bank	should be vermed and reported.



	iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end. iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.	The exception reports are to be CRITICALLY examined with specific focus on TOD/TAL reports, Online TOD Reports DEBIT in Income and CREDIT in Expense account report Routing Account Transactions report Loan Overdue Reports Disbursement against Clearing/without effects credited to account. Cash Transactions above specified limits without ID proof DEBIT Balance in SB accounts Incomplete KYC report etc. The procedure of generating and authentication of changing parameters in masters, Interest rates, Limit Masters, EMI and Initial Holiday etc. should be verified
	v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is <i>used for MIS at HO</i> / CO level.	and reported. The overall data accuracy and timelines like up-dation of drawing power, security value, insurance details, short review dates in system would in a long way impact the data integrity of MIS. This should be examined and reported.
3.	Inter-Branch Accounts	
	Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions? As at the year-end are there any un-responded/un-complied queries or communications <i>beyond 7 days</i> ? If so, give details?	The balance jotting and year wise break up of outstanding entries need be obtained. The entries pertaining to core to core, core to non-core branches; if any, need to be reported separately. The Breakup of entries in inter branch should be obtained from Branch to report on pending items beyond 7 days.



4.	Frauds	
	Furnish particulars of: (i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.	Obtain details of fraud, if any and a letter of representation in this regard from the branch manager. Recommend 100% provision for any amount lying in fraud account. The vulnerability of internal control also may be reported.
	(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.	The indication of any fraud or likely fraud on the basis of professional scepticism of auditor should be reported.
	(iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts/false representation by the borrower; misappropriation of funds especially through related party/ shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates and avail credit; Use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained, to divert funds; List of Debtors/ Creditors were being fabricated and receivables were not followed up/write off of debt of related parties; Fake export/shipping bill, etc.; Over statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations -including the cases where vendors, related/associate parties, manufacturing units etc. aren't available on the registered addresses; Round Tripping of funds, etc.)	
	(iv) Whether the system of Early Warning Framework is working effectively and as required, the early warning signals form the basis for classifying an account as RFA.	The reports generated and the overall management of early warning signals of accounts, SMA Classification and reporting framework should be reported.
5.	Implementation of KYCAML guidelines	
	Whether the branch has adequate systems and processes, as required, to ensure adherence to <i>KYC/AML</i> guidelines towards prevention of money laundering and terrorist financing	AML guidelines should be focussed on transactions of Foreign Inward remittances, Foreign Cheques, Fund transfer from sensitive countries. The movement of foreign exchange transactions can be verified with the R Returns submitted to RBI.

	Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors			
6.	Management Information System			
(a)	Whether the branch has the proper Systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data integrity was compromised?	The overall data accuracy and timelines like up-dation of drawing power, security value, insurance details, short review dates in system would in a long way impact the data integrity of MIS. This should be examined and reported.		
7.	Miscellaneous			
(a)	In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest reports such as:	The date of audit as per various reports, its next due date, pendency for conduct after the due date, reply given by branch against the observations,		
	i) Previous year's Branch Audit Report / LFAR;	closure of such reports by controlling authority, passing of entries as per MOC of previous year end audit etc. Should be reported in a Tabular		
	ii) Internal audit/ Snap Audit/ concurrent audit report(s);	form.		
	iii) Credit Audit Report;			
	iv) Stock audit Report;			
	v) RBI Inspection Report, if such inspection took place;			
	vi) Income and Expenditure (Revenue) Audit;			
	vii) IS/IT/Computer/Systems Audit; and			
	viii) Anyspecial inspection/ investigation report?			
(b)	ix) Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors?	Any matter where the branch auditor notices inconsistencies of practices followed at branch with RBI guidelines, as, or any statues need to be brought to the notice of central statutory auditors.		
		The figures which are reported to be dealt at head office where branch have little control may be disclaimed for the attention of the central statutory auditors.		
		Any local matters which have an impact on the branch business, profit and loss or assets or liabilities, may be reported.		

Recent changes proposed under GST and Customs

India is progressively reviving itself from the pandemic and marking its "Azadi ka Amrit Mahotsav" this year. As it is rightly said, "A journey of a thousand leagues begins with a single step." The Budget 2022 seeks to lay the foundation and give a blueprint to steer the economy over the Amrit Kaal of next 25 years and focussing on the vision India@100. With the key vision, India@100, the Budget 2022 is set on 4 pillars-PM Gati Shakti. Inclusive Development, **Productivity** Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action, and Financing of Investment. On the Indirect tax front, the Finance Bill 2022 proposes radical changes around various aspects such as ease of doing business, rationalisation of duties and taxes, review of existing exemptions, stronger compliance and trade facilitation measures. Read on...



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The present article highlights important changes proposed in the Finance Bill 2022 relating to Customs and GST:

Part I: Important changes proposed in Customs vide Finance Bill 2022

The proposed amendments in the Customs laws are based on key intent of domestic capacity creation, providing a level playing field to MSMEs, easing out raw material supply constraint and enhancing ease of doing business. Also, a measure has been taken to protect the import and export data submitted to Customs by importers or exporters in their declarations by making publishing of such information unless provided by the law, as an offence under Customs Act.

Specific conditions to be imposed to curb issue of undervaluation of imports

In lines with the intent of laying the budget, the section 14 of the Customs Act, 1962 which deals with valuation of goods is proposed to be amended to specify certain obligations on the importer of certain goods as may be notified to ensure imports are not undervalued. This will ensure additional revenue to the government exchequer and also a level playing field for domestic players. Further, as valuation has always been a point of litigation in various laws including



Customs, we can foresee diverse views basis the criteria being put forth in the notification.

Additional responsibility entrusted on the adjudicating officials

An interesting amendment to the Customs Act is insertion of Section 110AA. As per the said section, an officer conducting an audit, inquiry, search or investigation on a subject matter and has reasons to believe that duty is short paid or erroneously refunded or drawback has been erroneously allowed, such officer would after inquiry, investigation or audit, transfer the documents along with a written report to the adjudicating officer or the officer to whom the adjudicating officer reports. This amendment will bring in further stricter compliance verification and ensure a high level of diligence at the adjudication level.

Putting an end to the DRI story

A crucial amendment brought in by the Finance Bill 2022 is inclusion of the Directorate of Revenue Intelligence (DRI), officers of Customs (Preventive) and audit officers as "Proper officer" in terms of Section 2(34) of the Customs Act. The Hon'ble Supreme Court decision in the case of Canon India Private Ltd was the talk of the town since March 2021. As per said decision, the DRI officers were not empowered to issue any show cause

- notices and pass any adjudication orders to the taxpayer. This decision was in lines with the term used in Section 28, "the" proper officer. Basis the same DRI was not empowered as proper officer in terms of Section 2(34) and Section 5 of the Customs Act, 1962.
- Keeping an eye on the revenue loss to the government exchequer, the Finance Bill 2022 has brought in a provision with a retrospective effect. It is a well-accepted principle that the legislatures possess unlimited power to introduce retroactive provisions in the tax laws. As per the said retroactive amendment, the DRI and Preventive officers are empowered as "proper officer" under Section 2(34) and entrusted powers and functions in terms of Section 5 and 6 of the Customs Act, 1962. Further, the explanation as provided under the clause 96 of the Finance Bill 2022 specifies that – any case pending for disposal as on date of commencement of the amended act, will be disposed in accordance with recent amendment. Although, there may be various views mentioning that the aforesaid retroactive amendment is against the principle of natural justice, so far tax payers were able to take shelter under the rulings pronounced in the case of



The proposed amendments in the Customs laws are based on key intent of domestic capacity creation, providing a level playing field to MSMEs, easing out raw material supply constraint and enhancing ease of doing business.

- M/s. Canon India Private Limited and other similar rulings. However, with the amended provision the government has ensured the revenue leakage is plugged due to administrative loop hole in the powers entrusted to officials.
- Co-relating to the aforementioned amendment with the introduced section 110AA. it is pertinent to note that DRI officers who conduct inquiry, investigation etc. will be required to transfer the documents to adjudicating officer as the powers of adjudication lies with jurisdictional officer. Hence, ideally where on one end the actions taken by DRI till date will be considered valid, on the other hand the powers to issue notices and adjudicate are taken away.

Rationalisation of duties

With increased focus on 'Make in India', the Finance Bill proposes to thrust

upon easy access to raw materials and exports of Indian goods. Several exemption entries have been removed to bring in line with the domestic players. Sunset date is being stipulated as per section 25(4A) of the Customs Act, 1962 in respect of conditional exemption entries in respective notifications. This section. as brought in last year, prescribes validity period of conditional exemptions. Certain exemptions, like international commitments such as FTA, ITA, concessions emanating from Foreign Trade Policy like Advance Authorisation, and concessions under Phased **Manufacturing Programmes** (PMP) have been excluded from the purview of automatic expiry.

Exemption from Health Cess, Agriculture Infrastructure and Development Cess (AIDC) and Road and Infrastructure Cess (RIC) has been provided for import of certain goods from neighbouring countries such as Bhutan, Nepal, Bangladesh. This will move towards reduction of dependency on imports from countries like China. Also, few exemptions have been provided in relation to the Anti-dumping duty levied for goods originating from Germany, Vietnam, China PR considering the

- necessity and requirements in domestic market.
- Further, to make the Indian industry more efficient and competitive and to facilitate domestic manufacturing for the ambitious goal of 280 GW of installed solar capacity by 2030, an additional allocation of INR 19.500 crore for Production Linked Incentive for manufacture of high efficiency modules has been made in the Finance Bill 2022. Thereby, ensuring a step further towards successfully implementing the "Atmanirbhar Bharat Abhiyaan".
- In concurrence with the National Policy for Rare Diseases, 2021, a new exemption is introduced for drugs or medicines, which are used for the treatment of rare diseases. when imported by Centre of Excellence (CoE) listed specifically or any other person/institution as recommended.
- With increased focus on generating more employment opportunities and digitisation in the country, the Telecom Sector is expected to roll out 5G mobile services within FY 2022-23 through private telecom providers.
- The focus amongst the electronics sector is to promote the component producers and for the same, the customs duty

has been rationalised by introduction of phased wise manufacturing programme for the hearing, wearables and smart meters.

Time-limit for validity of advance rulings changed

Where a taxpayer resorted to availing the benefit of advance ruling to save itself for future litigation and comply appropriately with the Customs law, the advance rulings were earlier valid up to the time there are any changes in law or facts on the basis of which the advance ruling has been pronounced. The proposed Finance Bill 2022 has introduced a validity time line of 3 years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced, whichever is earlier. For taxpayers operating based on the judgement announced in the advance rulings earlier, such rulings will be valid up to 3 years from the date the bill receives its assent. Hence, going forward, the taxpayer will have to wisely choose between the options of advance rulings or assessments depending on the criticality and longevity of the case.

Import of Goods at Concessional Rate Rules, 2017

The important aspect in the duty concessions announced is the reliance placed on the Import of Goods at Concessional Rate Rules, 2017. The IGCR Rules, 2017 have been introduced for bonafide

exporters subject to fulfilling the requirement of exporting value added products manufactured using inputs imported under exemptions, within a period of six months. The amended rules bring in stronger compliance mechanism through ICEGATE and promote a digital compliance arena. The amendment brings in reduction in the time limit for periodic review from a quarterly basis to monthly basis.

Although, the amendment to the rules have brought in greater flexibility in terms of digital compliances, there are certain specific requirements to be fulfilled by an importer. One such new requirement is submission of IIN (Import of goods at concessional rate Identification Number) and continuity bond number details while filing the bill of entry. This bond will be a running account wherein duty is debited once goods are cleared for home consumption. Further, last year the IGCR were amended to allow clearance of imported capital goods used for the specified purpose on payment of differential duty, along with interest, on depreciated value. The recent amended rules have prescribed the rates of depreciation on capital goods. While these amendments have provided clarification for importers,

few confusions have also arisen. For example,

- introduction of the continuity bond for all importers including EOU who import duty free under B 17 bond as per Notification 52/2003 Customs N.T. are presently unclear if the requirement for taking an additional continuity bond is required.
- b) The depreciation norms prescribed under the amended rules are different from the rate of depreciation prescribed under Notification 52/2003 Customs N.T. These practical challenges have to be represented to bring out a suitable circular clarifying the requirements for tax payers to carry on IGCR compliances.

Therefore, the Custom reforms have at one end initiated stricter vigilance requirements and at the other end aim at establishing a global supply chain to fulfil the deeply rooted motto of the Government "vocal for local and local for global".

Part II - Important changes proposed in GST vide Finance Bill 2022

Amendment in Input tax credit eligibility

The GST is now almost 5 years old, has its own highs and lows in terms of practicality. GST has been

- introduced with the intent of seamless flow of input tax credit. However, such seamless flow of credit was expected through timely return mechanism between supplier and recipient i.e., the details of invoice reported by supplier in GSTR 1 would reflect in GSTR 2 of the recipient basis which the credit can be accepted/ rejected and availed through monthly return GSTR 3. However, the system was not supportive due to lack of adequate infrastructure. Considering the same, provisions of matching of credits under Section 42 and 43 were not in force. Hence. during the inception period of GST, the credit was availed if the same is used in course or furtherance of business, taxpayer is in possession of valid tax invoice and has received the goods or services or both.
- In order to curb the practice of fake invoicing, Rule 36(4) of CGST Rules, 2017 was inserted effective from 9th October 2019 which provided for 20% provisional credit over and above the credit reflecting in GSTR 2A. To enforce stricter compliance the provisional credit was reduced to 10% from January 2020 and 5% from January 2021. However, the condition that the recipient is in position of valid tax invoice was no longer an appropriate argument as the amendment

vide Finance Act 2021 required that credit is availed if supplier declares the same in GST returns for outward supplies and remits tax liability. Such provision to ensure the supplier remits the liability was time and again challenged in various court of law considering it as against the principles of natural justice, taking shelter of doctrine of impossibility and beyond limitation.

- With lots of confusions and litigation on the credit availability, the situation has now been streamlined to some extent by removing the matching concept through Section 42 and 43 of the CGST Act, 2017.
- The proposed amendment to Section 16(2) (ba) mandates that credit can be availed basis an auto generated statement appearing in the GST portal at a specified period basis the details uploaded by the supplier in GSTR 1 returns. The auto generated statement will capture the details of eligibility and ineligibility of credits.
- The credit will be availed on a self-assessment basis only and not on provisional basis. It is pertinent to note that outward supplies as reported in GSTR 3B should not be lesser than reported in GSTR 1 of the same month. Hence, the proposed amendment will now overcome the previous issues in terms of payment

of tax by the supplier, which will be monitored through payment during GSTR 3B of the supplier. Further, recipient's ITC has also been subjected to the condition of supplier availing ITC correctly in accordance with the ITC in his auto generated statement, on which recipient has no control and if availed in excess, the same will have to be reversed. Also, to curb fake invoicing the credit can be availed only if the same is paid by the supplier.

- This will plug in the loopholes and progress towards a stabilised return filing mechanism and avoiding any further litigation on this front. However, the proposed amendments seem to severely impede and restrict the conduct of business as it will result into a credit blockage at the recipient's end if the supplier does not upload the details appropriately on time.
- Although, the government has tried its hand on plugging in the loop holes, it also requires the tax payer to be more diligent and vigilant in terms of vendors screening, timely vendor communication, validating the credit available in auto generated statement as eligible or ineligible under the GST laws.
- As the proposed amendment has done away



The time limit for availing any credit pertaining to a financial year has been changed from 30th September of next financial vear to 30th November of the next financial year.

> with the matching concept under Section 42 and 43 of CGST Act, 2017, the provisions of Section 50(3) have been proposed to be amended retrospectively. As per Section 50(3), interest will be payable only when the credit has been **wrongly** availed and utilised

- The time limit for availing any credit pertaining to a financial year has been changed from 30th September of next financial year to 30th November of the next financial year. This would provide suitably increased time to tax payers to reconcile their yearly balance with vendors and follow-up communications wherever required, to ensure credit is availed on eligible inward supplies.
- Similarly, the time limit to raise credit note or debit note for a financial year has been changed from 30th September of next financial year to 30th November of next financial year. The additional time granted will

be beneficial to tax payers to ensure timely reconciliation entries passed in financials can be given effect in GST returns as well.

Transfer of balance in cash ledger

Earlier, the possibility of transfer of balance available in inter head was possible by filing form GST PMT-09. The present budget proposes amendment to transfer the balance of cash available in cash ledger for tax. interest, penalty, fee or any other amount available in the electronic cash ledger to the integrated tax and central tax of different registrations of the same PAN. It is pertinent to note that such transfer is viable only when there is no pending liability under the electronic liability register and considered as refund of cash available in electronic cash ledger. This will ensure fungibility to tax payers where cash has been paid in excess inadvertently and be transferred to other registration under same PAN.

Registration cancellation

We have observed the officials

The proposed Finance Bill 2022 intends to bring in a new legislation by 30th September 2022 focussing on optimally utilising the available infrastructure and to enhance exports from India.

cancelling the GST registration on a suo moto basis where notice u/s 46 have been issued to defaulters who have not filed returns for consecutive period of 6 months. With the proposed amendment cancellation of GST registration will be automated where a tax payer does not file returns beyond 3 months from due date of filing returns in a financial year. This will ensure robust compliance mechanism amongst tax payers and feasibility of eligible credit for genuine tax payers.

Special Economic Zone

SEZ is considered to be the backbone of the economy focussing on the government's vision of promoting exports from India. In lines with the intention, several exemptions were available to such units operating as SEZ. The proposed Finance Bill 2022 intends to bring in a new legislation by 30th September 2022 focussing on optimally utilising the available infrastructure and to enhance exports from India. Also, the operational portal for SEZ compliances will be monitored through the Customs portal for easing out compliances. Another amendment proposed with respect to SEZ under the GST laws, the relevant date for filing refunds has been prescribed as 2 years from the due date for furnishing of return under section 39 in respect of such supplies.



Ensuring facilitation measures such as more time for input credit availment. fungibility to taxpayers for using GST balances at central level across states. retrospective amendment for levy of interest on input tax credit wrongly availed and utilised would re-affirm the government's endeavour to further simplify the GST regime.

Conclusion

All in all, the Finance Bill 2022 focused on strengthening programmes to help India during its Amrit Kaal to achieve vision India@100. Ensuring facilitation measures such as more time for input credit availment, fungibility to taxpayers for using GST balances at central level across states, retrospective amendment for levy of interest on input tax credit wrongly availed and utilised would re-affirm the government's endeavour to further simplify the GST regime. These measures coupled with further rationalisation of Customs Duty rates, digitisation of IGCR compliances and revamping of SEZ laws would go long way in India's pursuit of ease of doing business and reducing litigations. Our steps are in positive direction and we will have to wait for a few years to reap the harvest.

The Coming of Age of Risk Analytics

Data is now the new oil. The application of knowledge and insights gained from data has provided significant competitive advantage to companies. Audit and risk professionals are also in the swing when it comes to using the power of data and analytics to unearth risks and issues of interest. This article seeks to clarify how risk analytics can add value to organizations at large and professionals in particular. It is an exciting field of play, with advances happening at a rapid pace. Read on...



Widespread digitization of processes across the globe and the unprecedented growth of technology has made vast amounts data accessible to organizations. These data points are vast, varied and fast.

- Vast, in the sense that they encompass many events and capture several attributes of such events. The nature of information that gets captured has also changed over a time. If we consider a simple fixed asset register, historically, this will capture a few attributes of the assets like values, useful lives, cost of purchase, WDV, etc. In today's age, additional data like geo-codes of locations, images and sensors attached to such assets are also recorded.
- Varied, in the sense that these data points are not just limited to events or transactions within organizations, but also include the wider ecosystem of customers, vendors, partners etc.
- Fast in the sense that these data points accumulate rapidly. In 2020, every person generated about 1.7MB of data every second! Imagine every movement, morphing and transfer of products, humans or money being recorded and stored, and the quantum of data that it creates.

It is in this environment, that the ability to handle and parse through reams of data becomes a competitive advantage. The



area of risk, governance and compliance is not one to be left behind. External auditors, internal auditors, compliance professionals, risk management teams and controllers have been using data to provide meaningful insights to detect, remediate and even predict risks that could derail an organization from their stated goals and objectives. Having a structured approach to deriving meaning from data, broadly captured under the term of risk analytics is gaining traction. Risk analytics therefore, is the means and mechanisms adopted by organizations to unearth or identify risks in processes, controls, systems or overall business of organizations. Data science is the means through which this can be implemented.

Data science is not a new concept. It has always been prevalent in some form, although it has emerged as a distinct discipline of late. It is a body of knowledge that combines scientific method. software engineering principles and structured data analysis methods using mathematics and statistics. There are multiple examples of how organizations have used the power of data science enabled risk analytics to protect itself from risks. For example:

- A leading banking company that uses behavioural pattern analysis of its customer transactions to identify potentially fraudulent transactions
- A controllership team that gets alerted about triggers

- of duplicate payments made or high-risk transactions posted to the general ledger
- An internal audit team at a consumer products major that reach an audit location with a pre-identified set of anomalies, outliers or exceptions that they noted during their planning phase using analytics, well before even reaching the field
- A global ethics and compliance leader that gets a weekly dashboard on open compliance issues across the globe and the status of compliance assessments
- An HR Manager predicting the risk of attrition of its employee based on his/her tenure, performance scores, attendance records etc.

As readers can surmise, the usage and application of risk analytics can be varied. This article seeks to provide a peek into the power of data science and the differentiated outlook on risks that it can lead to.

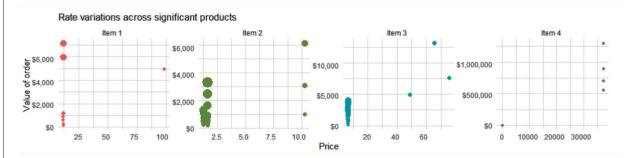
Approaches to deploy risk analytics

While there are no established frameworks, we can broadly think of risk analytics being applied in the following three forms: (1) Discovering events that may have manifested in the past; (2) Being informed of risk events as they are manifesting themselves or (3) Foreseeing events that could potentially manifest in the future. Each of these three avenues provide different approaches to how

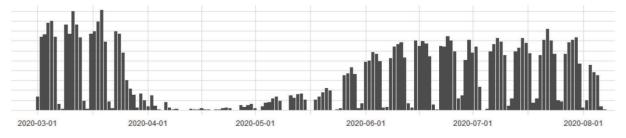
risk professionals can assess, monitor or predict risk events.

- **1. Discovery:** This involves analysis of historical data identifying trends, patterns, issues, exceptions, outliers or anomalies. Normally this can take two forms:
 - Scenario-driven analysis: Identify situations that can help identify risky transactions or events. The risk analyst starts with various situations of "what-can-go-wrong" which can be analysed and looks for data that can help prove or disprove a hypothesis. It is not always necessary that these are "exact proofs", they could also be indicative. For example,
 - One hypothesis could be "a FMCG company is not present in significantly populous districts in India resulting in the company losing opportunities to gain market *share*." The analytics logic could then to be acquire external data, such as census data at a district level. and compare the relationship between a company's sales reach to the census and identify outliers where a company is not present. The

- company can then have a targeted strategy to increase penetration into those specific markets to increase market share.
- Another hypothesis could be that "there were significant excess discounts that were passed to customers due to a system bug which resulted in substantial revenue leakage." The analytics logic would then be built to analyse past data to identify if there were discounts that were excess against a business policy.
- Data-first analysis: This involves hunting for truths within data. Let the data tell you things rather than starting with a pre-determined hypothesis. Usually risk professionals hunt for what is called as "outliers" or "anomalies". A data-first approach like this tends to take a lot more time and effort in analysis, but the advantage gained is that it does not cloud the analysis with limitations of our minds to come up with scenarios. A typical way this gets executed is:
 - i. **Get the data:**Get your hands
 around all potential
 information around
 the topic at hand.
- **Explore the data:** Parse through each field or combinations of relevant fields to understand their behaviour or how they relate to each other. For example, if you are looking at order prices, you could look at how prices of significant products have moved over time or look across different vendors. The following chart was made by plotting the spend value per order for top 4 products on one axis and the product price on the other axis. The analysis shows outlier points very clearly.



iii. **Model the data**: Data can be understood a lot better by looking for patterns in the data. For example, when one of the fields being analysed is a date, a time-series like analysis of data can highlight potential areas of interest which risk managers or auditors can focus on like in the chart below



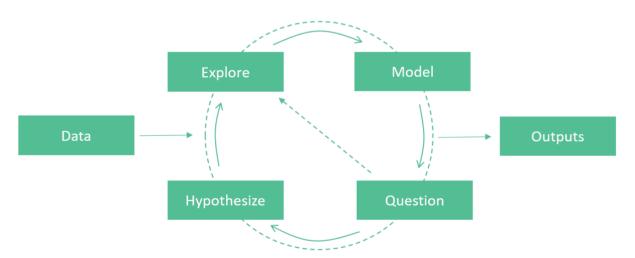
iv. **Get to the background story**: Armed with these results, ask questions on to derive the background story. Very often, these will point to a certain risk scenario manifesting itself. Many of

these leads could end up nowhere. But few of these leads will reveal insights about risk that a scenariobased approach may not be able to get to.

Recognizing that there are limitations to both these approaches, usually, an iteration between the two approaches provides a substantial benefit. This combined approach which is reflected in the chart below provides the most compelling outputs. Going through the data exploration, modelling, scenario building and questioning analysis can lead us into more deeper understanding of risks.

- are implemented through a surveillance mode. This means performing analytics as close to the events to enable a quicker means to respond to risk-events. Standard terminology that is used to describe this is "realtime" or "near-real-time" analytics. Usually, this takes the form of alerts or triggers that are sent to designated individuals to respond or act on these risks. Some of the more common situations where risk-analytics is used in organizations are as under:
- Banks call you in the event a suspicious transaction has taken place on your credit card. This is usually the result of powerful fraud-analytics at play. In the backend, a

- examples of this could be that your card may have been swiped at a different city than what it usually gets swiped in or that the transaction value is suddenly out of bounds from normal expected transaction values.
- b. E-commerce firms depend on the availability and accessibility of their websites or apps for their survival. As an important risk mitigation technique, they deploy certain alerts if their websites do not get accessed for a certain duration by anyone, say five minutes. This enables their technology team



2. Surveillance: The discovery methods are discrete and backward-looking. They evaluate data points of events that have transpired. But an organization can extract better value if these

system has modelled your transaction behaviour and has identified that the transaction in question has not followed a regular pattern. Some

to immediately act on risk trigger.

It is not always necessary that this surveillance mode is immediate i.e., real-time. Surveillance can also be made less frequent, specially where



E-commerce firms depend on the availability and accessibility of their websites or apps for their survival. As an important risk mitigation technique, they deploy certain alerts if their websites do not get accessed for a certain duration by anyone, say five minutes.

time-to-response is less critical. A useful model to think through when deciding how frequent analytics-based surveillance modes should be established can be on a scale as shown in the chart below:

proactively identifying threats which may not be fully measurable today.

The workings of a good model can be explained using a simple example:

Say a B2B organization wants to predict the risk of invoices not being paid on time by its customers. Information like this could provide the sales or collection teams with actionable intelligence and help engage with these "potentially" defaulting customers to protect capital. A way in which such a predictive risk model could be applied is as under:

 Define the prediction problem statement:
 A good prediction problem statement
 would be "Whether

	Overa	all impact of event	
		Low	High
Impact of not responding	Low	Surveillance not needed	Relaxed frequency, intermittent surveillance
	High	High Frequency, passive surveillance	High Frequency, active Surveillance

- 3. Forecast: There could be certain risk events that an organization may want to be prepared for in advance. Recent advances in analytics technology, through the deployment of machine learning techniques can help in creating risk models which can help predict the future unfolding of events. Use-cases in forecasting risks are growing day by day and are applied towards
- an invoice will get collected after 60 days beyond of its due date". Defining the right quantifiable prediction problem is essential for establishing the contours of a good model.
- Narrow down on potential indicators (predictors): The question of choosing a

predictor is the most important step and a complex one. In our example, we need to determine the payment behaviour of a customer using available data points, for instance:

- The value of an invoice. It could be possible that high value invoices go through more checks and scrutiny at the customer's organization and therefore may get paid late.
- The timing of when the invoice is submitted. Invoice submitted towards month end could get paid late or some customers may have a fortnightly payment cycle.
- Historical payment cycle times. Some customers may usually be good at paying before due dates. Some customers may be serial defaulters.

It is not always necessary that this surveillance mode is immediate i.e., real-time. Surveillance can also be made less frequent, specially where time-to-response is less critical.



There could be certain risk events that an organization may want to be prepared for in advance. Recent advances in analytics technology. through the deployment of machine learning techniques can help in creating risk models which can help predict the future unfolding of events.

- Other indicators could be credit ratings, location of customer, nature of products, currency, shipment time etc.
- Get sizeable historical data: There is a need to get a good amount of historical data points to have reasonable predictive accuracy for the model. The model can draw up more significant relationships on a larger dataset with the added advantage that the larger datasets also allow for more permutations of events. The model becomes richer as more datapoints that get added to it. This is precisely why platforms such as amazon.com have been able to develop powerful recommendation engines based on the vast amount of data on which the models are built and run.

- Identify the most relevant predictors: There are various methods through which predictors can be narrowed down to most relevant ones. In simplistic terms, this means using indicators
 - that have the most significant influence on the predicted variable. Good models have few but strong predictors. In technical terms, this can be accomplished through various methods such as 'variable importance' based selections or 'principal component analysis' etc.
 - Develop a machine learning model: The next step is to establish a machine learning model. This is the step where the machine establishes the relationship of the variable to be predicted with the predictors and stores this relationship in the form of a model. There are many ways through which such models can be developed usually termed as "machine learning algorithms". Common examples of these are linear regression, logistic regression. decision trees, support vector machines, nearest neighbour etc. Different models can provide different outputs and usually the jobs of data scientists involve identifying the best possible models to be used for a given circumstance.
- Apply the model: This is where the real

prediction happens. A new dataset gets passed through a model. In our example, this could be a set of invoices which were raised in the last one week and applying the model can provide the predicted value for whether an invoice will get overdue beyond 60 days. This is the predicted risk model for a particular invoice which an organization can use to determine actions for its recovery.

While this article is not meant to be a technical explanation of various ways of deploying machine learning techniques to identify the unfolding of risk events, one must be cognizant that there are several nuances to be wary of for selection and deployment of such models.

Other situations of where such predictive risk models could be applied include:

> Predicting whether a machine can breakdown under a predefined set of circumstances so that maintenance schedules can be appropriately designed.



The power of analytics technology is there for everyone to see, utilize and take advantage of. However, there can be various challenges that one needs to be cognizant about while looking at implementing these analytics.

- Determining whether there will be an unusual spike in demand of products in specific markets or specific time periods to enable appropriate stocking of products and avoid the risk of stock-outs.
- Determining the risk level of a transaction based on behavioural patterns of employees performing those transactions for example posting transactions at odd hours, users accessing records which are not usually accessed by them, high value transactions posted etc.

Pitfalls

The power of analytics technology is there for everyone to see, utilize and take advantage of. However, there can be various challenges that one needs to be cognizant about while looking at implementing these analytics. Some of the key ones are:

 Data quality: The classical adage "garbagein, garbage out"



The entire programme requires a broad array of skills which range from risk experts to software engineers. It is important to have people with a broad range of skills which are available in profiles which are increasingly being termed as datascientists.

- philosophy also applies here. If the data quality is poor, risk analytics will provide sub-par outputs.
- Dealing with false positives: Risk analytics can throw off the risk analysts if it results in many irrelevant exceptions or outputs resulting in wasted efforts. It is important that logics are curated very carefully to throw targeted outcomes.
- Domain knowledge:
 Good risk detection or
 prediction algorithms
 need domain experts
 who understand the use
 cases of analytics. Real
 benefits of risk analytics
 are derived from teams
 that operate at the
 intersection of domain
 and analytics technology.
- Feedback loops: It is hard to get all programs "first-time right". It requires the business teams and analytics teams to keep updating at every deployment to continuously provide feedback and fine tune algorithms.
- Analytics skill sets:
 The entire programme requires a broad array of skills which range from risk experts to software engineers. It is important to have people with a broad range of skills which are available in profiles which are increasingly being termed as data-scientists.
- Infrastructure: There are a lot of opensource tools that are sophisticated and require

very little development expertise. However, large programmes do require investments in technology infrastructure set-ups to make it futureproof and scalable.

Role of business leaders in establishing data driven decision making

Business leaders play the role of being custodians of risk and in the process, constantly evaluate and respond to risks in their decision-making process. Risk analytics can enable this decision making with insights that may have been historically missed out. This understanding is being acknowledged more and more with such business leaders driving change from the top. By demanding more visibility to data, questioning the quality of data, and just asking more questions on the data being presented to them, they are in a way driving a culture of data-driven decision making. The simplification of data acquisition, analysis and presentation is moving organizations forward to them not relying on mere ideas but using insights from their analytics platforms in critical business decisions.

This field of risk analytics is ever evolving and extremely exciting. This gives us professionals a very differentiated skill set, one which we can acquire if we put in some efforts in understanding technology. It's also an area that is adjacent to services that we provide around assurance, risk management or internal audit. I personally look forward to many of my professional colleagues embracing this to serve the needs of businesses and the profession.



Trade Agreements can be a game changer, if **Negotiated Fairly!**

Economists aim to build policies by building on past policies and forecasting the future. The art of forecasting sometimes does not vield results as anticipated forcing them to apprehend what went wrong and what new model has to be constructed. Trade Agreements signed by India illustrate that those trade negotiations have not unlocked India's true potential as "The World's Factory". This necessitates for India to review whether trade agreements are the best way forward to claim the top position in the world's trade. Read on...

International trade plays a notable role in the development of an economy. It is a major source of improving competitiveness, efficiency innovation. With the rising focus on One World, One Market, each nation is endeavouring to become part of the global supply chain. India too has developed measures to improve its share in the global merchandise exports. The unwritten rule followed by all the nations is making trade agreements a key part of the Foreign Trade Policy. Trade agreements provide access to new markets by offering reduction in tariffs on imported products and addressing issues affecting the free flow of goods and services. The agreement opens up the potential for investments between the negotiating countries and also outlines areas for mutual growth.

Until now, the Indian Government was not opening up India's economy to the world impulsively. This was evident with India signing 11 Preferential/Free Trade Agreements (FTAs) between 2004 to 2011, but hardly thereafter. However, the Government



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was in dilemma whether to choose liberalism or first protect its domestic industries as the existing FTAs did not result in much economic gain. India intended to import duty free raw materials or at concessional rate from FTA partners and export value added finished goods, but the negotiations and trade number exhibits faulty administrative approach.

The country is emerging from this stance and has signed the Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE) on 18th February 2022 which is a landmark move for India's Foreign Trade. CEPA has holistic coverage area focussing on services, investment, IPR, government procurement, disputes etc. With the special focus on labour intensive sectors, the agreement provides zero duty market access. The historic agreement which was concluded in a record time of 88 years is expected to usher trade volumes from \$60 billion to \$100 billion within the next 5 years. The agreement is expected to commence from May 2022 and CBIC will issue tariff concessions with the conditions for classifying the origin of goods under Section 25 of the Customs Act,1962 and Section 5 of the Customs Tariff Act,1975 respectively.



This is a significant step for India as it signifies to the world that the nation is ready to negotiate on equal and fair terms.

The FTAs are believed to develop regional comprehensive framework and are expected to invite foreign Investment creating new market opportunities. Yet some pertinent questions are:

Are FTAs the best solution in addressing trade issues? Have the FTAs resulted in much economic gain for *India? Is India ready to face global competition by* opening its economy without any barriers?

Let us understand the current trade position of India and how FTAs have impacted our International Trade.

India's current Foreign Trade

India being a consumption-based economy encashes its 130 billion population. Private plus Government consumption contributing 71.1% share in Nominal GDP (FY 22)1 showcases that it is the major engine for India's growth. The next big share in Nominal GDP is of Gross Fixed Capital Formation i.e., Investments. Government's thrust in the Union Budget 2022 is towards capital expenditure and infrastructure spending with an allotment of Rs. 7.5 Lakh crores.

Table 4: Share of Sectors in Nominal GDP (per cent)

2019-20 (1st RE)	2020-21 (PE)	2021-22 (1st AE)
71.7	71.1	69.7
11.2	12.5	12.2
60.5	58.6	57.5
28.8	27.1	29.6
-2.5	-0.5	-3.0
18.4	18.7	20.1
21.0	19.2	23.1
100.0	100.0	100.0
	71.7 11.2 60.5 28.8 -2.5 18.4 21.0	(1st RE) (PE) 71.7 71.1 11.2 12.5 60.5 58.6 28.8 27.1 -2.5 -0.5 18.4 18.7 21.0 19.2

Note: RE: Revised Estimates, PE: Provisional Estimates, AE: Advance Estimates

Furthermore, the country's prime focal point is exports as India aims to become Current account surplus thereby improving the foreign exchange reserves of the country. The current Forex Reserves at \$630.19 as on 11th February 20222 displays that India can easily meet its external debt liabilities and offer a buffer in the event of any crises.

To continue the streak, the Department of Commerce is proactively taking steps to extend India's export to \$2 Trillion by 2027. India's Foreign Trade in FY 22 has shown a good rebound after the Covid hit economy by growing at 11.1% over 2019-20. It is surprising to note that petroleum products continue to be the top exported item followed by pearls, precious and semiprecious stones, iron and steel respectively. United States of America (USA) remained the top export destination for India accounting for approximately 18% of the total Exports followed by United Arab Emirates (UAE) and China.

Government's path breaking policies in the form of Remission of Duties and Taxes on Exported Products (RoDTEP) Scheme, focusing on districts as export hubs, Manufacture and Other Operations in Customs Warehouse Regulations (MOOWR), Market Access Initiatives etc. will continue to make India's products efficient and competitive.

As the contribution to GDP is Net Exports i.e., Exports – Imports, concentrating on substituting imports is important. The Government has initiated various efforts by pushing for non-tariff barriers like Quality Control for toys imports, approval from concerned ministry for tyres, TVs, High Speed camera imports etc. India has one of the highest average tariffs of 15% in the Asia-Pacific region according to the WTO Tariff Profile 2021.Despite several efforts and tighter curbs, the dependence on imports specially with China is still surging and is worrisome for the government. Petroleum, oil and lubricants account for roughly 27% of the total imports owing to the rising crude oil prise which has already surpassed \$ 100 per barrel. Gold and Silver which accounts for 9.1% in total imports exhibits India's love for the glittery metal.

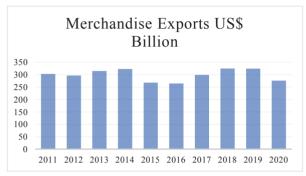
These numbers indicate our rising dependency on imported products making our overall trade balance for April-January 2022 in deficit (\$ -71.19 Billion)3.

Moreover, the merchandise exports from India hovered around +- \$300 Billion since the last 10 years as depicted in the graph. This demonstrates

¹Economic Survey 2021-22

³ Ministry of Commerce and industry

that the current policies are not paying off much for India. Given the mammoth changes in the global supply chain and for India to claim a pole position in the global trade, Free Trade/Preferential Trade is the only way forward.



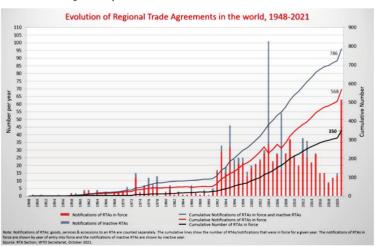
Extracted from World Bank Data

Free Trade Agreements and India's experience

World Trade Organisation is a global multilateral agreement operationalised in 1995 to ensure that international trade flows between the countries are in harmony, fairly and freely. The agreement was signed to provide a framework to resolve disputes arising because of unfair practices and providing structure to negotiate on the trade agreements.

After the WTO, Regional Trade Agreements have been prevailing in the trade policies of each country as the world is shifting towards one market.

As of 15th October 2021, 350 RTAs were in force globally⁴. These correspond to 568 notifications from WTO members, counting goods, services and accessions separately.



For India, the first trade agreement dates back to 1950 with Nepal, when post-independence, the Government of India realised that trade with the bordering nations should be a stepping-stone for strengthening ties and perpetuating trust globally. 10 Article agreements focussed on reciprocal benefit for the 2 nations, not just for trade and commerce but also peace and harmony.

At present, India has signed 18 Free/Preferential Trade Agreements and one unilateral DFTP (Duty Free Tariff Preference) Scheme latest being signed on 18th February 2022 with UAE. Trade agreements aim to solve a wide range of issues apart from trade, some of these include human rights, environment safety, Visa, Intellectual Property Rights (IPR), education and gender justice.

List of Trade Agreement signed:

Bilateral Trade Agreement

- India Nepal Trade treaty (1950)
- India Sri Lanka FTA (2000)India Thailand EHS (2004)
- India Singapore CECA (2005)
- India Chile PTA (2007)
- India Korea CEPA (2010)
- India Japan CEPA (2011)India Malaysia CECA (2011)
- India Afghanistan (2013)
- India Bhutan Agreement (2016)
- India Mauritius CECPA (2021)
- India UAE CEPA (2022)

Regional Trade Agreements

- India Pacific Trade Agreements (APTA) (1975)
- Global System of Trade
- Preference (1989)

 AARC Preferential Trading
- Arrangement (SAPTA) (1995)
- Agreement of South Asian Free Trade Area (SAFTA) (2006)
- India-MERCOSUR (2009)
- India-ASEAN (2010)

The Indian Government was resistant in negotiating an agreement as the major challenge was to give level playing field to MSMEs for enhancing their competitiveness. Therefore, the Government negotiated majorly with the neighbouring countries rather than advanced countries.

The chart depicts exports and imports of YoY growth % overall v/s FTA partners. It is evident from the chart

"

World Trade Organisation is a global multilateral agreement operationalised in 1995 to ensure that international trade flows between the countries are in harmony, fairly and freely.

⁴ World Trade Organisation: Regional Trade Agreements



After the WTO, Regional Trade Agreements have been prevailing in the trade policies of each country as the world is shifting towards one market

that trade agreements hardly influence the growth of international trade.

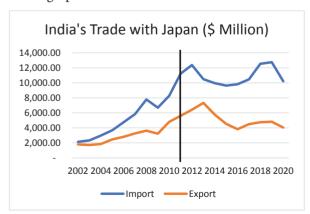


Extracted from World Bank Data

Analysing the Free Trade Agreements (India's perspective)

India signed CEPA with Japan in 2011 which aimed to eliminate the tariffs on 90% of Japanese exports to India and 97% of exports from India to Japan.

Merchandise Trade with Japan is depicted in the below graph:



Data extracted from Comtrade, UN

The Graph above depicts that the exports from India has marginally increased from \$5.5 Billion to \$7.32 Billion but decreased thereafter. The trade deficit also grew from \$3 Billion in FY 10 to \$6 Billion in FY 20.

India's CEPA with the Republic of Korea was signed and effective from 2010 spurred Investment and Trade between the two nations. However, India failed to reap the benefits as the deficit has widened since 2010 from \$4.5 billion in 2009 to \$11.5 billion in 2018.



Data extracted from Comtrade, UN

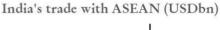
Also, on 28th January 2021, Directorate General of Trade Remedies (DGTR) issued a notification to levy safeguard duty on Polybutadiene Rubber excluding titanium and lithium grades as the Authority found that import has increased because of reduction or elimination of custom duty under CEPA causing serious injury to the domestic industries.

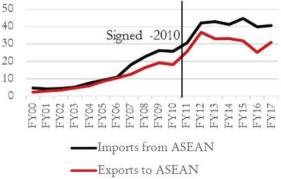
ASEAN-India FTA was signed and entered into force in 2010 between 10 members of ASEAN and India wherein the respective countries eliminated tariffs on 76% of the goods. The region which comprises 30% of the world population planted seeds for the exponential growth of trade within the region but it resulted in



Trade agreements aim to solve a wide range of issues apart from trade, some of these include human rights, environment safety. Visa, Intellectual Property Rights (IPR), education and gender justice.

an upsurge in imports into India while India's exports were hindered by non-tariff barriers, restrictions and taxes. On the contrary, India enjoyed favourable trade balance with most of the ASEAN countries before the FTA but now has resulted in huge deficit.





Source: A note on Free Trade Agreement and their cost by **NitiAyog**

These trade figures depict that India stands to lose from these trade agreements and the negotiations have made the country more dependent on the imports. The only exception of SAFTA agreement wherein there is a significant rise in the trade surplus from US\$ 4 billion to US\$ 21 billion. With this experience, it was inevitable that India had to opt out from the world's largest trade deal, Regional Comprehensive Economic Partnership (RCEP). Now, the non-reciprocity has also forced India to re-negotiate these trade agreements as equal market access was not offered.

It was also discovered that the FTAs were heavily misused by the importers by manipulating the country of origin. Goods originating from other country were routed through FTA partners like Stainless Steel was routed through Indonesia and



India signed CEPA with Japan in 2011 which aimed to eliminate the tariffs on 90% of Japanese exports to India and 97% of exports from India to Japan.



Each trade agreements specifies the "Rule of Origin" which is determined by the domestic value addition and substantial transformation of the goods during the manufacturing.

copper items through Sri Lanka. Therefore, to clamp down this abuse, the Government introduced CAROTAR Rules in Budget 2020.

CAROTAR Rules

To guard against the misuse of tariff concession announced under the Free/Preferential Trade Agreement, the government rolled out Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR, 2020) under Section 28DA of the Customs Act in the Budget 2020. The Rules aim to ensure that the Government can monitor all the duty benefits availed by importers and no undue claims are made without fulfilling the requisite Rule of Origin Criteria.

Section 28DA mentions procedure regarding claim of preferential rate of duty which specifies that the **Importer** needs to declare that goods qualify as originating goods and shall possess sufficient information as regards the manner in which country of origin criteria, including the regional value content and product specific **criteria**, specified in the rules of origin in the trade agreement, are satisfied.

The CAROTAR Rules has put the onus upon the importer to possess Origin related information i.e., the manner in which the country of origin criteria is satisfied and exercise reasonable care to ensure the accuracy and truthfulness of the information. The importer is also required keep all supporting documents for at least five years from date of filing of bill of entry.

Rule of Origin Criteria

In accordance with Section 5(1) of the Customs Tariff Act, each Trade Agreement signed by the

Government should mention rules for determining if any article is the produce or manufacture of such foreign country or territory. Therefore, each trade agreements specifies the "Rule of Origin" which is determined by the domestic value addition and substantial transformation of the goods during the manufacturing. Domestic Value addition requires that a certain minimum percentage of the good's value originates in a country for the good to be considered as originating while substantial transformation of the goods is verified as Change in Tariff Classification or Process Rule.

Domestic Value Content (DVC) varies from agreement to agreement but in majority is calculated using the following formula:

Majority of the trade agreements have a single rule for all goods but in some trade agreements, some or all tariff headings have Product Specific Rules.

Originating Criteria for some of the Trade Agreements are here under:

*CTH: Change in Tariff Heading (4-digit level)

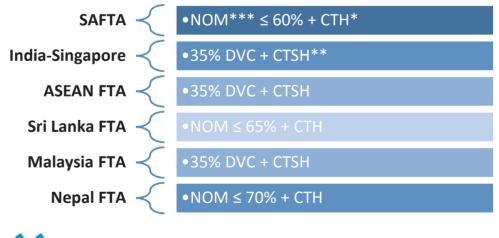
**CTSH: Change in Tariff Sub-Heading (6-digit level);

***NOM: Non-Originating Material

The industry feels that after the implementation of these rules, availing the concession of tariff under FTA has become cumbersome and complicated as the seller is resistant in providing information relating to operations and costing which are typically confidential and sensitive for any businesses. Moreover, some of the trade partners contested to review and repeal the CAROTAR Rules as it is provoking non-Tariff barriers in the international trade. Therefore CBIC issued instructions to authorities to raise queries only when there are 'sufficient grounds' of noncompliance of Rule of origin.

India has learnt hard lessons from past experiences and was no longer signing FTAs to merely be a part of the group. Signing FTAs with consumption based and developed economies i.e., the US, the UK and EU may be the way forward which could provide India greater access to these markets and tap into their economic perquisites. India should

> also work with countries where it can access lowcost raw material enable our manufacturers to produce goods for exports cost competitively. Since China is our strategic competitor and their agility adapt to new technologies



Majority of the trade agreements have a single rule for all goods but in some trade agreements, some or all tariff headings have Product Specific Rules.

and build a resilient trading system can create an economic influence within Asia, India has to take the charge and look for reciprocity of benefits and access to avail fair play in the international trade market to reach the ambitious target of \$ 1 Trillion of merchandise exports and \$1 Trillion of Service Exports by 2030.

E-Commerce Strategies for New Businesses

E-commerce in India has grown exponentially during the pandemic, even though the economy, on the whole, was suffering extensive losses. The pace of technology adoption was unprecedented as even those who were slowadopters had no choice but to adopt the online world due to lockdown and the social distancing for two long years. With the increase in venture funding in e-commerce, new businesses are trying to make their way into the mainstream. This exponential growth would require the **Chartered Accountants** to be privy of all the development in the field to aid the businesses. This paper follows the deep delving into the trends with the help of newspapers, research articles, and twitteranalysis (NVIVO 12)to consolidate and share the strategies focus for new businesses. Read on...



reached at eboard@icai.in and Kaashvi.piplani@gmail.com

Introduction and Review of Literature

E-commerce in India is one sector that triumphed over Covid-19, unlike the rest. While the world was struggling to look for ways to survive amidst the pandemic, e-commerce companies, old and new, were making efforts to reach their customers. The apps were catering to necessities (in the initial pandemic, e.g., Milkbasket), online pharmacies (when people were worried about the medicine deliveries amidst the lockdown, e.g., Tata1mg), etc. The pandemic also hastened the adoption of technology and online commerce among the less tech-savvy and first-time users (Coutinho, 2022).

According to the Hurun research, India now has 54 unicorns, 33 more than in 2020, while the United Kingdom has 39 unicorns, 15 more than a year ago. According to Hurun Research's analysis, India led the way for emigrant unicorn creators, followed by China, Israel, and Russia. Of these 54 unicorns, 15 are in the e-commerce space, third only to US and China (PBNS, 2021).

E-commerce garnered \$8.8 billion in 143 deals in 2021, accounting for 31% of all venture capital investments and 6.3 times the \$1.4 billion received in 2020 (Coutinho, 2022).

There is no debate around E-commerce space being a hot



space to be in business. New categories of products/ services keep emerging. E.g., Airbnb is an idea that re-shaped the travel sector (Gallagher, 2017), which suffered the most during the pandemic but is bouncing back again. There is no shortage of ideas, technology, and funding in today's time.

E-Commerce and E-Business are the terms being used interchangeably in all the literature on e-commerce or the internet transactions. But the two terms differ (Fig A).

The difference between the terms e-commerce and e-business is also significant. E- commerce is defined as buying and selling over the digital media. Whereas E-Business is a wider term, it is any process of business conducted electronically or over a computer network, in addition to e-commerce. E.g. when using computer network for company's internal purpose, production, marketing, etc, its e-business and not e-commerce (Arora, 2019).

Customer Care

Business
Partners

E-Commerce
(Buying and Selling)

ERP

Employee
Communication

Fig A E-Commerce is a subset of E-Business

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This paper seeks to highlight the potential of Indians in creating viable and strong e-commerce platforms. It also aims to highlight the trends and strategies that the new entrants can consider while deciding to venture into the online business in India. The huge surge in e-commerce activities makes a case for the Chartered Accountants to understand the everchanging and evolving form the businesses are taking. The global scenario of e-commerce makes it imperative for the CAs to be aware of the taxation policies of various nations. The new changes in the e-commerce policy are of interest to the CAs who are in turn responsible for guiding the new and the existing businesses for new business registration, obtaining tax registration, knowledge of Intellectual property rights, maintaining bookkeeping, etc.

Research Methodology

Extensive research has been done into the trends shaping up e-commerce so that the new

entrants in the field or those looking to expand and extend their online presence. The research papers and newspaper articles on the topic were studied in-depth, and the findings are shared in section III(a).

To further enhance the

scope of the study, qualitative analysis using the technique of text mining from twitter, with the help of the software NVIVO 12. Social media is where the buzz is created and for any conclusions to be drawn, it becomes imperative that the results from one of the most used social media network, Twitter, be analysed. The result of the text mining using Nvivo are discussed in section III(b) with the help of word cloud and the tree map.

Findings

Section III (a). The in-depth review of the newspaper article, blogs by experts, and some research papers have been done, and the following findings are enlisted to be considered by the new entrants.

The pandemic has affected the economy and life negatively but for the e-commerce sector, which has thrived well all across the globe, especially in India.



The huge surge in e-commerce activities makes a case for the Chartered Accountants to understand the everchanging and evolving form the businesses are taking. The global scenario of e-commerce makes it imperative for the CAs to be aware of the taxation policies of various nations.

Following China and the United States, India has the thirdlargest online shopping base in 2020, with 140 million people.

The discussion is focussed around the categories are thriving; those that may make their debut in 2022 and the strategies to be followed by new E-Commerce business (learnings from the successful businesses)

Digital Literacy in India is on the rise, and the world is looking at India to make investments in e-commerce. The giants like Amazon, Microsoft, Google entered India and have been changing the fabric of E-Commerce in India. The new entrants or those existing businesses which wish to expand have to ponder and work around the following pointers.

A. Investments in **E-Commerce drivers:**

India has been a ground for Foreign Direct Investments (FDI) where giants like Facebook (Now Meta) (Chaturvedi, 2021), google and Microsoft, all have pledged huge funds towards the Digital India Initiative . Google on Feb 1, 2022, invested \$700 million in Bharti Airtel, to support the growth in the smartphones and connectivity (Phadnis, 2022).

The investment to make better smartphones and increase connectivity is an indicator of the healthy time to be online in India. The reason is that Internet penetration is only 62% in India in 2021 (up from 21% in 2017). Covid pandemic drove

around 43 million people to use the internet to survive during the difficult times (Khanna, 2021). With the support from the giants like Google, who have pledged another \$1 billion to support infrastructure pushing the penetration to increase further.

The strategic partnership between Google and Airtel promises to bring future ready technology infrastructure, last mile connectivity, and bringing down the hinderances in making smartphone accessible to all Indians (S. Team, 2022).

B. Government Policy

The policies adopted by the government of a country goes a long way in encouraging its people to venture out and be a part of the bandwagon, and the Indian governemt has taken various intitiaves to promote it.

B.i) Digital India Initiative: In the August of 2014, Digital India initiative was launched with a commitment of Rs 1 lakh crores by the government to promote digitization of India. This initiative aanounced to the world and Indian youth that India was ready to go the digital way. Soon after followed the Demonetization, and online payments became a reality.

B.ii) E-commerce (Draft) Policy

India is witnessing the time when the government is trying to strike a balance between supporting the e-commerce companies but not at the expense of the offline traders, who have been demanding a comprehensive policy putting

Digital Literacy in India is on the rise, and the world is looking at India to make investments in e-commerce.

restrictions on deep-discounted sales, evasion of FDI rules, etc (Abrar, 2022).

Price advantage: Both e-commerce companies and the traders have been asking for a policy that is unambiguous and helps the growth of both. End to deep discounts for all the categories of e-commerce might seem to be harsh to the price sensitive customers but the new entrants would not have to work on the wafer thin margins to compete with the deep pocketed companies like amazon, Walmart, etc.

B. iii) Foreign Direct Investment- 100% FDI being allowed in B2B and in the market place model is a boost to the start-ups seeking investments from the overseas investors (IBEF, 2021).

B. iv)Open Network for Digital Commerce (ONDC)- This move by the Centre of creating a w-commerce that is backed by the government will go a long way in promoting the small retailers who wish to use technology and create an online presence. The new e-commerce policy is aimed at providing technological boost to the small retailers, with online retail sales surging (it was estimated(Nandy, 2022),

US\$ 32.70 billion in 2018 (IBEF, 2021)

B. v) Take artisans with you in your success: If it's a new business idea, it is a good idea to include the downtrodden in your progress. The pandemic has been specifically hard on the aritsans who lost their livelihood. The government has taken various initiatives to promote the artisans viz..

- Collaboration between small businesses and e-commerce a reality now as various advantages have been provided. The GST Act exempts dealers of specific handmade goods manufactured by craftsmen from having to register.
- One District One Product (ODOP) initiative is especially meant to provide visibility and hence employment in the rural sector as it facilitates the onboarding of sellers of selected products onto e-Commerce platforms.
- Khadi and Village Industries Commission (KVIC) portal https://www.kviconline. gov.in) has been developed and adopted for selling Khadi products added by designated authority of the government. (IED, 2022).

C. New/Unique products

E-Commerce has always been receptive to unique ideas, inspite of the "resistance to change" being an inherent part of human nature. These unique ideas like Oyo rooms (economy rooms), Paytm/Oxigen wallets,

etc have made their way into our lives. The arenas open for the new entrepreneurs are things that have emerged as a result of the changed world we live in.

- Health products-Mental
 health online, physical
 health online, online
 pharmacy, all are making
 huge impact and many
 new ventures have been
 launched in these times
 and many more to come.
 Mindvalley University
 is a blend of education,
 mental health and astral
 possibilities app which talks
 of overall health and has
 built a community around
- Environment friendly- The commitment by the world leaders to reduce the carbon print and the conscientious consumers have lead to the increase in consumption of products which are recycled, or environment friendly. The success of Mamaearth is an example where organic cosmetics which are environment friendly have had a huge valuation. which started small but made big (FB, 2021).

The delivery of products across the businesses has become a big business venture on its own, in this category the collaborations with the Electric Vehicles to make the delivery has made a huge impact and hence a direction for the new online businesses. Delhi Government has already announced that the

- deliveries and ride-hailing companies have to opt for electric vehicles (Auto, 2022).
- Online Pharmacies are another segment which is making noise. Pharmaceuticals have had fair share of success during the pandemic and online pharmacies like Tata1mg have become a household name. In 2020, the Indian e-Pharmacy market had 50 e-pharmacies and amounted for 14% of the total income generated by e-pharmacies in the Asia Pacific Region.

In comparison to global e-Pharmacy markets, which are predicted to grow at a CAGR of about 15-20 percent, India's e-pharmacy industry is expected to grow at a CAGR of approximately 40-45 percent (Chawla, 2021).

Deliveries on drones are waiting to be the mainstay in the field that is the backbone of e-commerce especially the online pharmacies (Dedhia, 2022)

 Help companies Build brand through Story Telling: Social



E-Commerce has always been receptive to unique ideas, inspite of the "resistance to change" being an inherent part of human nature.

E-Commerce

media has helped millions of companies (home cooks during pandemic). The focus on story telling as a brand building exercise whether on Instagram or Linkedin has been there for quite sometime. To help people share their stories to gain traction is a budding e-commerce industry which has attracted new entrepreneurs and more to be added in this bandwagon. "Content is the king" and "Build a story and tell the story, so that people listen and stay engaged".

D. Online Travel: Online Travel has been the torch bearer of e-commerce since the start of online business and as per the reports, it is again going to rule to roost once the pandemic becomes endemic and we learn to live with it or conquer it.

E. Trends of E-Commerce

The new entrants in e-commerce space can either develop their own unique idea or else refer to what is making

Online Travel has been the torch bearer of e-commerce since the start of online business and as per the reports, it is again going to rule to roost once the pandemic becomes endemic and we learn to live with it or conquer it.

news and forecasted to trend in the coming time:

- Fast deliveries: Lead by Blinkit(erstwhile Grofers), Rapzo, the 10-15 minutes delivery seems to be working very well for the customers as well as the businesses.
- **Groceries/Necessities:** Milkbasket, Bigbasket, Blinkit (Grofers) all these apps made way to the smartphones, since the start of the pandemic when people were panicking for the basic necessities needed. All these have since become a part of the life of the people in India and coupled with the fastest deliveries, they are giving a run for money to the local kirana stores. The local mom and pop stores need to collaborate or else make ways to compete with them.
- Beauty Products: Nykaa is a story everyone is interested in after its grand IPO opening(Jain, 2021) and online beauty product industry pushed by Mamaearth (a brand promoted on Facebook (now Meta)), Sugar Cosmetics, are the trends to watch out for and with a unique offering, the scope of catering to the unsatiable need of the customer for specific beauty products is broad.
- Online education courses: Education sector has added another wonderful dimension to it and that is

Unheard of a few years back, slowly podcasts have become the interactions with the experts, celebrities and common man accessible and widely accepted.

> the capacity to teach and study online. Though only online mode of teaching was a result of the cruel bolt of pandemic and has little benefit for the student learning and growing process but the up-side is the blend that has been accepted now. Looking ahead, it is imperative that in addition to the regular physical classes, the additional courses or skill enhancement would be a trend to be watchful for. Udemy, Coursera, are two big contributors in this area as of now.

In addition, the private tuitions, which are prevalent in India can now be without the restrictions of the geographical boundaries and without much investment in the infrastructure, can help good tutors from all across the world access the students and vice versa.

Content Creation: The content creation is the new thing in, in all respects, whether it is social media giants Instagram, Youtube, podcasts, etc

E-Commerce

- o Podcasts: Unheard of a few years back, slowly podcasts have become the interactions with the experts, celebrities and common man accessible and widely accepted.
- **Social Media Influencers:** Social media influencers include celebrities and also common people who are the content creators, with simple stories to tell and because they are good at it, people like to listen to those stories. Content may be on youtube (**Food**, Travel, Lifestyle), Instagram or blogs but if it has potential, it will gain traction with the audience (O. credit Team, 2021).
- o Mental health experts

Section III(b): Text mining using Nvivo-12

The following word map and the word tree, created using NVIVO-12 software. Twitter mining was done to share the insights on the online business discussions on one of the most used social media platform. This was done with the key words "online business", only tweets that were posted in English have been considered during the first week of February, 2022.

The word map and the tree map reveal that online(n=431), business (n=442) and digital (n=201) are the most frequently used words in the 418 tweets



Figure 1: Word Map using NVIVO -Online Business

business	digitals	books	future	inten	net	succeed	ling su	ıccessful
			start c	contribu	forum	global	leader	makers
		build	industry n	melting	control	learning	incom	e targets
online	skills				emotion	prepalse	cretso	urcetechne
	Julio I	creator	projects P	Jolicy	ovoloro			
			academic	oractitio		unexpet	hink fo	oundmove
		economy	challenge ^r	enresei		people t	Ľ	ecorgirlfrie
					multiple	marketi	amazb	uilt giving

Figure 2: Tree Map using NVIVO-12

captured. This indicated that our query was executed well and the peripheral words used are related to online business. The tweets emphasize the value of "skills" (n=196) to be developed and enhanced to be successful in the field of online business. The new online businesses need to be "creators" (n=53) as stale and already accepted businesses are tough to be competed with. The "economy" (n=53) is being built (n=53), propelled and stabilized by digital businesses. E-commerce giants like Amazon and Flipkart started their business with "books" (n=108) which still remain prevalent and hot item to be bought or

sold online. The challenges for start-ups are aplenty but the future holds a solid promise for the e-commerce businesses to be built and expanded. The academics (n=27) should be aligned and the distance between the new businesses and the students should be bridged with internships, incubation centres, etc.

Conclusion

As discussed in the paper, e-commerce not only survived during the pandemic but thrived. This is verified by the increase in the investment in the e-commerce sector by the venture capitalists (Coutinho,

E-Commerce

2022); and increase in the number of unicorns in the country contributing to the growth of e-commerce sector. The pandemic fastened the pace of the technology adoption by all-academicians had to learn to operate the googleclassrooms, Microsoft teams or zoom to enable the students to keep learning; the habitual buyers from the mom and pop kirana stores moved to Grofers, Milkbasket, Bigbasket, Countrydelight, etc as their favorite stores were shut during the lockdown and the content consumption from the social networks increased as people were locked inside their homes. All these adoptions lead to the opportunities for the new entrants in the business. The trends in terms of increase in investment by the technology giants, environmental friendly products, beauty and wellness, faster/quick deliveries, etc are the trends to be watched and give your idea an impetus. E-commerce policy when fully drafted and adopted, would steer e-commerce in a new direction and the new as well



The trends in terms of increase in investment by the technology giants, environmental friendly products, beauty and wellness, faster/quick deliveries, etc are the trends to be watched and give your idea an impetus.

as existing businesses should be watchful of it. The word map and the tree map suggest that the digital skills need to be upgraded and the academics should contribute to it. E-commerce is bound to push the economy further.

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APPEAL FOR CONTRIBUTION TO THE C.A. BENEVOLENT FUND (CABF)



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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).

During Covid pandemic, hundreds of our members have lost their battle and many others are struggling hard to pass through this difficult time. The impact is deep and has certainly shattered their dreams. The Institute through the CABF has tried to help our members in distress.

Since September 2020, about Rs. 14.75 Crores have been released as Financial Assistance for Treatment of CORONA Disease and also through one-time Ex-gratia/Monthly/Medical financial assistance to Members or their dependents.

With a view to provide better financial support to our needy members or to their dependents, our humble appeal to members to kindly enroll themselves as Life Members of the Fund by making one-time payment of Rs. 10,000/- and those who are already life Members can further contribute voluntarily any amount for the noble cause. The Contribution is eligible for tax exemption under Section 80G of the Income Tax Act.

Links for Contribution

Life Member:

https://cabf.icai.org/lifeMember

Voluntary Contribution:

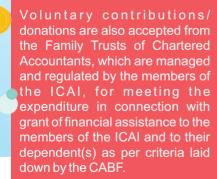
https://cabf.icai.org/voluntaryMember



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ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during February – March 2022 for the reference of Faculty/Students & Members of the Institute.

1. **Accountancy**

Blockchain – Its Impact on Accountancy by Meenu Gupta. Chartered Secretary, February 2022, pp. 91-96.

Your best chance of exam success: This article examines how AIA Achieve can help you to make the most of your study time by Association of International Accountant. International Accountant, November/December 2021, pp. 8-9.

2. **Economics**

Role of Risk Management Professionals in Emerging Economics by Parivesh Khandelwal. Insurance Times, January 2022, pp. 36-41.

Scope and Opportunities of Payment Banks in India by Amit Kumar Bhadani. Banking Finance, January 2022, pp. 40-43.

Territorial Jurisdictional Constraints of Cheque Bounce Cases by Baglekar Akash Kumar. Practical Lawyer, February 2022, pp. 95-98.

Investment

Influence of Technological Advancement on the Financial Market in India by Dr. Krishna Chouglae and Hemant Salokhe. Chartered Secretary, February 2022, pp. 53-56.

4. Law

Transparency in Functioning of Statutory Bodies-Need for Legislative Intervention by Saket Singh. Supreme Court Cases, Vol. 10, pp. j1-j12.

Management

Digital Transformation in Finance -Need, Challenges and Opportunities for Professionals by Dr. V Balachandran and Saumya C Manoharan. Chartered Secretary, February 2022, pp. 41-45.

Role of Data-Driven Artificial Intelligence on COVID-19 Disease Management in Public Sphere: A Review by Sini V. Pillai and Ranjith S. Kumar. Decision, December 2021, pp. 375-390.

Tone at the Top: Should Risk Management Department be Directly Responsible to Board of Directors than CEO by Tirath Raj Mendiratta. Insurance Times, February 2022, pp. 23-27.

Taxation and Finance

Highlights of the Union Budget 2022-23 by Asish Mohan. Chartered Secretary, February 2022, pp. 40.

Taxation of Cryptocurrency in India by Vaibhav Garg. Practical Lawyer, March 2022, pp. 65-70.

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.

National Update

SEBI may allow foreign investors in commodity derivatives market

Securities and Exchange Board of India (SEBI) has put forth its suggestion to allow the FPIs (Foreign Portfolio Investors) to trade in the non-agricultural commodity derivatives and few broad selected agricultural commodities. SEBI emphasizes on increasing the reach of the commodity derivatives at the global level. Such a move would increase the liquidity in commodity derivative markets. It would also help in owing to economies of scale which would resultantly help in leveraging the commodity derivative market. Such a regulation is on the verge of the implementation which would mutually benefit the investors and the commodity derivatives market. The motive behind such an idea is to place the India from price taker to price setter. FPIs being financial investors were early inhibited to participate in exchange traded commodity derivatives due to their high volatility which may arise sudden entry or exit.

Read more at: https://economictimes.indiatimes.com/ markets/stocks/news/sebi-may-allow-foreign-investorsin-commodity-derivatives-market/articleshow/89841623. cms?utm_source=contentofinterest&utm_medium= text&utm campaign=cppst

Swing Pricing on Debt Funds Postponed to May 1

SEBI has introduced swing pricing framework for certain Mutual Fund Schemes to prevent the savvy investors from exiting the funding market in the times of uncertain contingencies. It has deferred the implementation of the swing pricing framework to May from March. The debt mutual funds such as bonds, debentures and commercial papers are not as liquid as equity shares. So, therefore, to resort for redemption here, the swing pricing framework plays a key role. Swing pricing would help specifically during redemption pressure, where the mutual fund scheme is able to sell the debt mutual funds easily by lowering the net asset value (NAV). Debt mutual funds include debt instruments like bonds, debentures and commercial papers, which are not as liquid as equity shares. So, when a large redemption order is placed then the debt funds have to either keep respective cash holdings or sell the instruments which they hold.

Read more at: https://www.outlookindia.com/business/ swing-pricing-on-debt-funds-postponed-to-may-1-here-swhat-it-is-and-how-it-helps-news-184547

RBI opens up UPI for feature phones, no internet needed

Reserve Bank of India has introduced special features for phone users with an intent to provide user friendly digital payment platform. RBI Governor, Shaktikanta Das has launched UPI123Pay and DigiSaathi on 8th March, 2022. Now, all those who do not possess smartphone or internet connection can also have access to Unified Payments Interface (UPI) payments. UPI123Pay would allow customers to use feature phones for all the transactions except scan and pay. Customers need to link their bank account with feature phones to avail this facility. DigiSaathi is a 24x7 helpline for digital payments. The benefit of using such a unified payment system can be availed by the customers staying in both rural and urban areas. The RBI Governor stated, "This current decade will witness a transformative shift in digital payments ecosystem across the country". He also expressed that the central bank has taken many steps in the last three years to push the digital transactions and lower down the cash transactions.

Read more at: https://www.livemint.com/industry/ banking/rbi-opens-up-upi-payments-to-400-mn-featurephone-users-11646735372187.html

RBI asks people to follow safe digital banking practices amid rising cyber frauds

RBI has issued precautionary measures against fraudulent transaction in the public interest. As per the analysis of the complaints of frauds, the RBI emphasized on the concern towards the knowingly or unknowingly disclosure of confidential banking information to the unauthorized users or unknowing fraudulent. It has advised to never share confidential banking information which includes OTP, CVV and observe cyber hygiene practices. RBI has published 'BE(A)WARE – A booklet on Modus Operandi of Financial Frauds' in which the methods and precautions are included to be adopted by the common public against fraudulent transactions and digital hygiene. It has guided upon the general practice to be adopted to ensure secure and safe digital transactions. As per the analysis it has been concluded that "Sharing of confidential information by the customers, knowingly or unknowingly, is one of the major causes leading to the financial frauds".

Read more at: https://economictimes.indiatimes.com/ news/economy/policy/rbi-asks-people-to-follow-safedigital-banking-practices-amid-rising-cyber-frauds/ articleshow/89184435.cms

National Update

Reserve Bank of India removes interest cap for microfinance loans

The Reserve Bank of India (RBI) has extended the eligibility criteria for microfinance loans to a household having an annual income of up to Rs. 3 lakh and has also removed the interest rate cap on such loans. As per the final guidelines issued for microfinance on 14th March 2022, the RBI said that it would be vigilant over the rates charged by the lenders so that they could not charge usurious rates. It also laid stress to place a capping on the pricing of loans by the lenders. The microfinance institutions have been necessitated to disclose their pricing related information to the prospective borrower in a lucid and elaborative manner. The RBI has asked the lenders to prominently reflect the minimum, maximum and average interest rates charged on the loans. The regulator, RBI has increased the loan cap in order to benefit the borrowers to avail the loan for their personal interests.

Read more at: Reserve Bank of India removes interest cap for microfinance loans | Business Standard News (businessstandard.com)

SEBI eases norms for one-time mandate in mutual fund transactions

The markets regulator has said that one-time mandates in favour of SEBI recognised clearing corporations may be accepted. The Securities and Exchange Board of India (SEBI) has issued a circular in order to ease norms for one time mandate in units of mutual funds, after various representations from stakeholders and recommendations from Mutual Fund Committee for smooth and convenient implementation of the circular issued in 2021. In October 2021, SEBI stated that stock brokers/clearing members engaged into mutual fund transactions should not accept payment through one time mandate in their name for mutual fund transactions. SEBI has quoted, "On or after April 01, 2022, new mandates shall be accepted only in favour of SEBI recognised Clearing Corporations and those mandates shall exclusively be for subscriptions to units of Mutual Funds schemes and not for any other purpose".

Read more at: https://www.financialexpress.com/market/sebi-eases-norms-for-one-time-mandate-in-mutual-fund-transactions/2462140/

International Update

New IFAC Digital Platform Assists Public Sector Transition from Cash to Accrual Accounting: Pathways to Accrual

The International Federation of Accountants (IFAC) has launched a digital platform, 'Pathways to Accrual' to provide easy access point to the resources which are helpful for governments and other public sector entities with an intent to undertake a transformation from cash to accrual accounting and ensuring the proper implementation of the International Public Sector Accounting Standards (IPSAS). Pathways to Accrual works upon the work of the International Public Sector Accounting Standards Board (IPSAB)'s Study 14, Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities with revised content and a modernised presentation with simpler navigation. In the interest of the public sector entities, IFAC has come up with 'Pathways to Accrual' accounting system which would ease and smooth the transition

process in a hassle freeway. The platform has been developed by IFAC with a content support by the Chartered Institute of Public Finance and Accountancy (CIPFA) and suggestions provided by the International Public Sector Standards Board (IPSASB) and international community stakeholders.

Read more at: https://www.ifac.org/news-events/2022-02/new-ifac-digital-platform-assists-public-sector-transition-cash-accrual-accounting-pathways-accrual

FRC consults on revised guidance for recognising Key Audit Partners for local audit

The Financial Reporting Council (FRC) has issued a consultation paper regarding proposed changes to be made in the statutory guidance issued to the Recognised Supervisory Bodies (RSBs) on the realisation of the key audit partners for local audit. The need of the hour for the recognition of the key auditors have been realised for the execution of smooth and error free flow of local audit. The

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role of auditors plays a key role in the accurate evaluation and audit of the accounts with due diligence and intricacies. The FRS will be issuing the feedback statements to welcome the comments ahead of its publication. The comments on the revised guidance were invited to be received by 28 March 2022. The FRC expects to finalise its revised guidance by Spring 2022. The new guidelines will be applied for all the applications received by the RSBs after its publication.

Read more at: https://www.frc.org.uk/news/february-2022/ frc-consults-on-revised-guidance-for-recognising-k

IFRS Foundation agrees Memoranda of Understanding to establish ISSB presence in Frankfurt, marking first step towards a global footprint

The Trustees of the IFRS Foundation have agreed to a Memoranda of Understanding (MUs) with German public and private institutions to build the partnerships and funding arrangements with an intent to establish the presence of the International Sustainability Standards Board (ISSB) in Frankfurt. The MOU is aimed to establish the ISSB office in Frankfurt. The key function of the ISSB office would be to host board meetings and act as a nodal centre for the Europe, Middle East and Africa (EMA) region. The signing of MOUs with private sector and public sector institutions took place in the presence of IFRS Foundation Trustees on 1-3 March 2022. The Trustees are involved in the governance of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board. The signatories of the signed MOU are public sector institutions and private sector institutions which took place in conjunction with a meeting of the IFRS Foundation Trustees in 1-3 March 2022.

Read more at: https://www.ifrs.org/news-and-events/ news/2022/03/ifrs-foundation-agrees-mous-to-establishissb-presence-in-frankfurt/

UKEB Final Comment Letter submitted to the IASB-Subsidiaries without Public Accountability: Disclosures

The UK Endorsement Board (UKEB) has submitted its Final Comment Letter (FCL) to the IASB on the Exposure Draft. The UKEB supports IASB in the development of the IFRS that would permit the subsidiaries to apply for full IFRS standards with minimal disclosure and without public accountability. UKEB has proposed enhancements in regard to the disclosure requirements by adopting 'top-down' approach and considering exemptions. UKEB has proposed some of the disclosures. The two main areas which include the disclosure requirements of IFRS 7 Financial Instruments are: Disclosures and IFRS 13 Fair Value Measurement. IFRS 17 disclosure requirements have expressed its reservations for ED proposals for subsidiaries not publicly accountable to provide IFRS 17 disclosure requirements. The concrete objective of UKEB project is to establish an IFRS Standard that permits the eligible subsidiaries to apply minimal disclosure requirements with the recognition, measurement and presentation requirements in IFRS Standards.

Read more at: https://www.endorsement-board.uk/ukebfinal-comment-letter-submitted-to-the-iasb-subsidiarieswithout-public-accountability-disclosures

Making \$923 million of financing available for Ukraine, says World Bank

The World Bank President, David Malpass said that 'The World Bank is providing \$923 million as a financial aid for Ukraine'. He added that the government of Ukraine can use this cash for the most needed services including the pensions if required. The extensive support has been provided to the affected country, Ukraine, in order to recover from the devastating stage caused due to war. The World Bank has acted as a big support during the times of adversity when the infrastructure and people lives were badly affected. The financial aid has been a major contribution towards the rectification and improvising the economy. Such an extended help has bought a significant impact in improving the lives of the people and helping them in meeting their requirements.

Read more at: https://www.business-standard.com/ article/international/making-923-million-of-financingavailable-for-ukraine-says-world-bank-122031500049_1. html

Legal Decisions



LD/70/121 [ITAT Mumbai: ITA No 1557/Mum/2020] Reji Easow Vs. The Income Tax Officer, Thane; 08/03/2021

ITAT held that assessee was eligible for benefit u/s 54 by holding that the date of possession of property should be considered as the date of purchase and not the date of registration of agreement as contended by the Revenue; Assessee sold his residential property in May 2014 and claimed exemption of Rs.79.92 lakh under Section 54 against a property purchased for which the agreement was registered in Feb 2012; ITAT noted that for the new property, the allotment was made in July 2011 whereas the assessee took the physical possession of new property in April 16.

LD/70/122 Delhi High Court: W.P. No 1409/2022 Kurz India Private Limited Vs. The Prin. Commissioner of Income Tax; 03/03/2021

Reassessment notice and order disposing objections quashed by the Delhi High Court by noting that reasons to believe in the instant case were invalid with no rational nexus to belief for escapement of income; Reassessment notice was issued for AY 2015-16 on the sole ground relating to Rs.1.54 Cr. alleged to be claimed as expenditure by the Assessee, whereas Assessee contended that such amount was not claimed as a revenue expense but disclosed by way of a written note in accordance with requirements of AS-29; HC notes that order disposing objections did not deal with the submissions advanced by the Assessee and "the impugned order is based on the premise that the contingent liability has been claimed as revenue expense";

LD/70/123 [ITAT Mumbai: ITA No 764/ Mum/2021] Everest Kanto Cylinder Limited Vs. Asst. Commissioner of Income Tax (LTU); 25/02/2021

ITAT upheld addition made to book profits of the amount offered under normal tax provisions and reflected in Form 26AS; Once the error was committed by the assessee in preparation of Profit and loss statement by not adding the entire amount shown in 26AS as income of the assessee on account of omission, which was otherwise required to be included in the statement of the profit and loss account, then it cannot be said that the said amount which was wrongly or deliberately or otherwise left to be included in the book of accounts, cannot be added to the book profit for the purpose of section 115JB; A pedantic interpretation to the book profit as mentioned in the Explanation 1 to Section 115JB would be an antithesis to the purpose, for which it was enacted by the legislature and would result in absurdity and contradictions.

LD/70/124 [ITAT Mumbai: ITA No. 540/ Mum/2021] The Dy. Commissioner of Income Tax Vs. Vipul Suresh Kumar Modi; 17/02/2021

ITAT confirmed CIT(A)'s order deleting the addition for alleged penny stock share sale as unexplained investment, holding that no addition can be made in case of unabated assessment in absence of any incriminating material found during search; For AY 2012-13, pursuant to search conducted on Indo Count Industries Limited and group concerns, Revenue held that sale of shares of Global Capital Markets Ltd. (GCML) by Assessee was a penny stock transaction, undertaken by the Assessee in a pre-arranged manner in connivance with the operators to evade taxes and treated the entire sale consideration of Rs.47.63 Lacs as unexplained investment and a further addition of Rs.2.38 lacs, being 5% commission paid for obtaining accommodation entry, as unexplained expenditure u/s 69C.

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

LD/70/125 [ITAT Mumbai: ITA No. 966/ Mum/20201 The Dy. Commissioner of Income Tax Vs. Dilip J Thakkar; 16/02/2021

ITAT held that the extended period of 16 years for reopening of assessment is retrospective, and thus, applicable to AY 1999-2000, in the light of Explanation below Section 149(3); Assessee-Individual was subjected to reopening of assessment for AY 1999-2000 in March 2015 by invoking the provisions as amended w.e.f. Jul 1, 2012 to allow reopening in cases involving income from assets located outside India upto 16 years from the end of relevant AY; ITAT held that the Delhi HC ruling in Brahm Dutt where the extended time limit was held to be prospective in nature, was not binding on it and that the Delhi High Court had no occasion to refer to, or take note of, the Explanation below Section 149(3) which categorically made the amendment retrospective.

LD/70/126 [ITAT Bangalore: ITA No. 1954/ bang/2016] I.G Petrochemicals Limited Vs. The Dy. Commissioner of Income Tax; 16/02/2021

ITAT disallows deduction of customs duty, excise duty and penalty incurred on import of generator u/s 43B leased out to the Assessee by its promoter; Observes that the lease agreement was extended from time to time with supplementary agreements but there was nothing on record or in the lease agreement to suggest that Assessee would be liable for statutory dues in import of turbine generator; As per Revenue since the amount was paid as penalty for specific infraction, it could not be allowed as a deduction; As per ITAT, payment was made under protest and so the amount was a disputed liability and it cannot be said that the liability had crystallized / accrued in the relevant AY.

LD/70/127 [Bombay High Court: ITA No. 2013 of 2017] Commissioner of Income Tax Vs. Abode Builders: 16/02/2021

Bombay High Court held assessee as 'developer' in terms of section 80-IB(10) in the case where it was entitled to certain profit in a joint venture agreement; As per High, unless Assessee had any role in the development, the joint venture partner would not agree to share 50% profit; Revenue alleged that there was a lack of ownership of the land on which the project was constructed, in which regard the High Court observed that documents such as Intimation of Disapproval (IOD) and Commencement Certificate issued by the Municipal Corporation were in Assessee's name and all taxes in relation to the land were paid by the Assessee 1998 onwards;

LD/70/128 [ITAT Delhi: ITA No. 2424/ Del/2018l Maharashtra Seamless Ltd. Vs. The Dv. Commissioner of Income Tax: 14/02/2021

ITAT held that inspection with regards to quality, quantity and weight of the product pre-shipment cannot be treated as technical and managerial services under the provisions of the Act or DTAA; AO had observed that assessee made payments in foreign currency to various agencies on which no tax was deducted at source and held the payments to be in the nature of managerial and technical services under Section 9(1)(vii); As per ITAT, inspection and examination of the goods before shipment is a common practice and it cannot be treated as a technical and managerial service.

LD/70/129 [ITAT Surat: ITA No. 3094/ Ahd/2011] Bilag Industries Pvt. Ltd. Vs. The Jt. Commissioner of Income Tax; 11/02/2021

ITAT quashed assessment orders passed after a period of 36 months from end of relevant AY; For AY 08-09, ITAT noted that the DRP passed its order on Sep 25.09.2012, whereas the final assessment order was passed on 31.10.2012 as against 31.03.2012; ITAT observed that purpose behind time limit laid down in Section 153 was that assessment should be completed in time; Assessee-Company had preferred appeals against the final assessment orders for AYs 2007-08 and

2008-09 whereby a legal ground challenging the validity if assessment order as barred by limitation was raised; Revenue objected to assessee's raising the additional ground since this fact was not raised before the AO or the DRP; ITAT finds that the additional ground of appeal raised by the Assessee was a purely legal issue and did not require any fresh investigation of facts and thus admitted it:

LD/70/130 [ITAT Surat: ITA No. 1837/ Ahd/2016] Bajarang Developers Vs. The Asst. Commissioner of Income Tax: 11/01/2021

ITAT sustains addition in re-assessment by noting that that preparation of books of accounts by the assessee to be an afterthought since prepared pursuant to survey on one of its partners who admitted to assessee earning profits; In a survey carried out on a partner of the Firm, he admitted to the firm having earned a profits for AYs 2010-11 and 2011-12 whereas Revenue found that no return was filed till the date of survey and initiated reassessment proceedings in response to which Assessee submitted return of income declaring income of Rs.10.52 Lakh whereas the partner admitted to Assessee having earned a profit of Rs.16.68 Lakh.



LD/70/131 [2022-TIOL-325-HC-MAD-GST] M/s Ganges International Pvt Ltd vs UOI and Ors; 22/02/2022

The Court invoked "Doctrine of Necessity" to allow the applicant to file refund claim u/s 142(3) of the CGST Act in respect of service tax paid under reverse charge basis and differential CVD/ SAD paid on imported inputs that could not be transited as an input tax credit under TRAN-1 u/s 140(1) and directed the department to consider such claims for the purpose of permitting the petitioners to carry forward the accrued credit to the electronic credit ledger of the GST regime.

LD/70/132 [2022-TIOL-303-HC-AHM-GST] M/S Bodal Chemicals Ltd vs UOI; 11/02/2022

When the ISD credit in respect of which the assessee filed TRAN-1 failed to appear in GSTR-6 return due to glitches in GST portal and hence the assessee could not distribute the same to its units, the court directed the department to permit the assessee to file the GSTR-6 return manually taking such credit and also to permit him to distribute such credit to its units

LD/70/133 [2022-TIOL-288-HC-JHARKHAND-GST] R K Transport Pvt Ltd vs UOI; 16/02/2022

When the department issued a letter to the assessee demanding interest on the alleged ground of delay in filing of return in Form GSTR-3B and the assessee, in turn, raised objection to the said calculation of interest, the said demand letter was quashed with liberty for the department to initiate appropriate adjudication proceedings and determine the liability of interest under the relevant applicable provisions Section 73 or 74 of the CGST Act.

LD/70/134 [2022-TIOL-228-HC-MUM-GST] M/S Globus Petroadditions Pvt Ltd vs UOI; 01/02/2022

When Commissioner (Appeals) allows the Petitioner's Appeal directing the refund officer to grant the refund, it is not open for the refund officer to disregard the said directions of his superior while deciding the refund applications filed by the assessee in pursuance of the said order of Commissioner (Appeals) for any reason including on the ground that the said order has been internally reviewed by the Commissioner and he has been directed to file an appeal against the said order before GST Tribunal.

Disciplinary Case



Failed to qualify Audit Report in respect of charging of non-occupancy charges by the society in excess of statutory limit -- Held, Respondent is guilty under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949.

Held:

In the instant case, the Respondent was the auditor of a Housing Society (hereinafter referred to as the Society). The charge against Respondent is that he has not qualified his Audit Report in respect of charging of non-occupancy charges (NOC) by the society in excess of 10% under false and discriminatory account heads, in contempt of the Hon'ble Supreme Court and High Court Orders of 2007, thereby defrauding and misappropriating the members' funds. The Respondent in his defence submitted that the Society had cleverly opted to show the legitimate NOC of 10% service charges separately in income and expenditure account and deliberately clubbed the excess NOC collected in the service charges head and the Respondent had no reason of any suspicion of the illegitimate act of the Society while auditing. The Committee noted that as per the requirement of the Section 79A of the Maharashtra State Co-operative Societies Act, 1960, the Society cannot collect any charges in the guise of "Shifting Charges", or "Tenancy Deposit" or higher non-occupancy charges, over and above the mandatory 10% Non-Occupancy Charges on the Society's service/ Maintenance charges. The defence taken by the Respondent that he could not verify the additional charges because of the fact that excess charges were clubbed with the service charges shows his causal approach towards the audit. The Committee observed that each year audit is an independent audit and every auditor is required to plan his audit programme as per nature and volume of transactions of the entity and apply different procedures to verify the transactions. But in the instant matter, the Respondent failed to verify the details of maintenance charges. The Committee also observed that transactions related to income from services charge were limited and could be verified by the Respondent. If he had verified the details of maintenance charges charged from the members and analysis of figures of service charges and Non-Occupancy charges, he would have detected the charging of excess Non-Occupancy charges under the guise of additional maintenance charges by the Society from the Members, who let out their flat on rent, in violation of provisions of the Maharashtra State Co-operative Societies Act, 1960. In view of above noted facts, the Committee held that the Respondent guilty of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

PR-/224/2016-DD/281/2016/ File No.: DC/913/2018 Sh. Haresh Hingroni Vs. Vijay **Anant Mungale**

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. Government notifies Sri Shankara Cancer Foundation, Bangalore for the purposes of section 35(1)(ii) -

Notification No. 14/2022, dated 03-03-2022

In exercise of the powers conferred by section 35(1) (ii) r.w.r. 5C & 5E, the Central Government vide this notification has approved, 'Sri Shankara Cancer Foundation. Bangalore (PAN:AAHTS5593F)' under the category of 'University, College or other institution' for Scientific Research for AYs 2022-23 to 2026-27.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/ notification/notification-no-14-2022.pdf

II. CIRCULARS

1. Clarification regarding the Most-Favoured-Nation (MFN) clause in the Protocol to India's DTAAs with certain countries - Circular No. 03/2022, dated 03-02-2022

The Protocol to India's DTAAs with some of the countries, especially European States and OECD members (The Netherlands, France, the Swiss Confederation, Sweden, Spain and Hungary) contains a provision, referred to as the MFN clause. Though each MFN clause in these DTAAs has a different formulation, the general underlying provision is that if after the signature/ entry into force (depending upon the language of the MFN clause) of the DTAA with the first State, India enters into a DTAA with another OECD Member State, wherein India limits its source taxation rights in relation to certain items of income (such as dividends, interest income, royalties, Fees for Technical Services, etc.) to a rate lower or a scope more restricted than the scope provided for those items of income in the DTAA with the first State. such beneficial treatment should also be extended to the first State. In view of the specified decree/ bulletin/publication on interpretation of the MFN clauses and the representations received from the taxpavers and field formation seeking clarity. the CBDT vide this Circular has issued certain clarifications on the applicability of the MFN clause:

The detailed Circular can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/ circular/circular-3-2022.pdf

2. Income-tax Deduction from salaries during the Financial Year 2021-22 under section 192 of the Income-tax Act, 1961 - Circular No. 04/2022, dated 15-03-2022

This CBDT Circular contains the rates for deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2021-22 and explains certain provisions of the Income-tax Act, 1961 and Income-tax Rules, 1962, including the broad scheme of TDS from Salaries, persons responsible for deducting tax at source from Salaries and their duties, computation of income under the head "Salaries" etc.

The detailed Circular can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/ circular/circular-04-2022.pdf

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. More than 29.8 lakh major Tax Audit Reports (TARs) filed on the e-Filing portal of the Income Tax Department - Press Release, dated 16-02-2022

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.

Out of 29.8 lakh of the major statutory forms, over 2.65 lakh Form 3CA-3CD and around 24.5 lakh Form 3CB-3CD have been filed in FY 21-22. More than 2.71 lakh other Tax Audit Reports (Form 10B, 29B, 29C, 3CEB, 10CCB, 10 BB) have been filed till 15.02.2022. The ITD expresses gratitude to all tax professionals and taxpayers for the support in compliances and requests the attention of taxpayers who are yet to accept the Tax Audit Report submitted by their CA to complete the process of submission.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/ Attachments/1055/PressRelease-More-than-29-8-lakhmajor-TARs-filed-16-2-22.pdf

2. ITD conducts searches on a group engaged in organizing multi-state gaming activities, online betting, etc. - Press Release, dated 24-02-2022

The ITD conducted search and seizure operations on a business group engaged in gaming activity, online betting (including cricket betting), etc. on 15.02.2022. Total of 29 premises spread over Mumbai, Delhi, Surat, Jaipur, Pune and Kolkata were covered. The search action revealed that the group was operating in a clandestine manner and had concealed its operations and income from law enforcement agencies. The revenue generated by the group from its activities is largely in cash.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/ Attachments/1056/ITD-conducts-searches-on-a-groupengaged-in-organizing-multi-state-gaming-activitiesonline%20betting-dated-25-02-2022.pdf

3. ITD conducts searches s in a major Telecom Group & in Mumbai - Press Release(s), dated 03-03-2022

The ITD conducted search & seizure operations on a multinational group, engaged in distribution of telecom products and providing captive software development services, on 15.02.2022. The ultimate shareholding of the group lies with a foreign entity of a neighbouring country. Further, the ITD carried out search and seizure operations on 25.02.2022 on certain contractors executing contracts of Brihanmumbai Municipal Corporation (BMC), a prominent person and their close associates. In all, more than 35 premises in Mumbai have been covered during the search operation.

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/ Attachments/1058/PressRelease-ITD-conducts-searches-ina-major-Telecom-Group-3-3-22.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/ Attachments/1057/PressRelease-ITD-conducts-searches-in-Mumbai3-3-22.pdf

4. Order under Para 3 of the Faceless Penalty Scheme, 2021 for defining the scope of penalty to be assigned to the Faceless Penalty Scheme, 2021 - Order, dated 10-03-2022

In partial modification of the Order dated 20.01.2021 as further clarified by Order dated 26.02.2021, the CBDT in exercise of powers under Para 3 of the Scheme, has ,inter alia, directed that in addition to exceptions provided in the aforesaid Orders, the following class of penalties shall remain outside the purview of the Scheme:- "Penalty proceedings in cases where pendency could not be created on ITBA because of technical reasons or cases not having a PAN, as the case may be." This order comes into effect immediately.

The complete text of the above Order can be downloaded from the link below:

https://www.incometaxindia.gov.in/Lists/Latest%20 News/Attachments/508/Order-up-3-Faceless-Penalty-Scheme-2021.pdf



GST

1. Turnover limit for e-invoicing reduced from ₹ 50 crore to ₹ 20 crore

The Central Government on the recommendations of the GST Council has amended Notification No. 13/2020-CT dt. 21.03.2020 to reduce the threshold limit of aggregate turnover for the applicability of e-invoicing provisions from ₹ 50 crore to ₹ 20 crore. The said amendment shall become effective from 1st April 2022.

Notification No. 01/2022-CT dt. 24.02.2022

2. Amendment in Notification No. 2/2017-Central Tax dt 19.06.2017 notifying the jurisdiction of Central Tax Officers

A new para 3A has been inserted vide Notification *No.* 02/2022-*CT dt.* 11.03.2022 in the *Notification* No. 2/2017-Central Tax dt 19.06.2017 to empower the Additional Commissioners or Joint Commissioners of Central Tax of some of the specified Central Tax Commissionerates with All India Jurisdiction for the purpose of adjudication of the show cause notices issued by the officers of the Directorate General of Goods and Services Tax Intelligence (DGGI) under sections 67, 73, 74, 76, 122, 125, 127, 129 and 130 of CGST Act, 2017.

Consequently, Circular No.169/01/2022-GST dt. 12.03.2022 has been issued to amend the erstwhile Circular No. 31/05/2018-GST dt. 09.02.2018 which specified the proper officers under sections 73 and 74 of the Central Goods and Services Tax Act. 2017 and under the Integrated Goods and Services Tax Act, 2017.

Customs

Notification

1. Shipping Bill (Post export conversion in relation to instrument based scheme) Regulations, 2022

The Board has notified the Shipping Bill (Post export conversion in relation to instrument based scheme) Regulations, 2022 w.e.f 22.02.2022 enumerating the manner and time limit for applying for post export conversion of Shipping Bill in certain cases and the conditions and restrictions for such conversion vide Notification No. 11/2022-Customs (N.T.) dt. 22.02.2022.

Circular

www.icai.org

2. Implementation of automation in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 with effect from 01.03.2022.

Certain amendments have been made in existing Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 to simplify the procedures with a focus on automation and making the entire process contact-less. It sets out the automated procedures to be followed by the importer with regard to intimation of intent to avail IGCR Benefit, import of goods at concessional rate, receipt of goods, goods

sent for job work from importer's premises, receipt of goods from the job worker, inter-unit transfer of goods, utilization of goods for intended purpose, re-export or clearance for home consumption, monthly statement and maintenance of account, etc.

Circular No. 04/2022-Customs dt. 27.02.2022

FEMA Updates



Review of FDI Policy for permitting foreign investment in Life Insurance Corporation of India (LIC) and other

modifications for further clarity of the existing **FDI Policy**

DIPP Press Note No. 1 (2022 Series) dated March 14, 2022

The Government of India has reviewed the extant FDI Policy for permitting foreign investment in Life Insurance Corporation of India and other modifications for consistency and further clarify of the existing FDI Policy. Accordingly following amendments have been made under the Consolidated FDI Policy Circular of 2020, as amended from time to time (FDI Policy):

- **Definition of Convertible Note (Para 2.1.9):** in the definition of convertible the period of conversion has been changed from "period not exceeding five years" to "period not exceeding 10 years".
- Definition of Indian Company (Para 2.1.27): Definition of Indian Company has been clarified and same reads as under:

Indian Company means a Company as defined in Companies Act 2013 which is incorporated in India, or a body corporate established or constituted by or under any Central or State Act.

Note:

It is clarified that reference to "Company" or "investee company" or "transferee company" or "transferor company" in the FDI policy also includes a reference to a

body corporate established or constituted by or under any central or state act.

- b. It is further clarified that if the term "company" or "Indian company" "Investee company" is qualified reference to a company incorporated under the Companies Act, such term shall mean a company incorporated under Companies Act but not a body corporate.
- It is also clarified that "Indian Company" does not include a society, trust or any entity, which is excluded as an eligible investee entity under the FDI Policy.
- New Definition of Share Based Employee Benefits added (Para 2.1.47A): a new para is inserted in FDI Policy defining Share Based Employee Benefits as under:

Share Based Employee Benefits means any issue of Capital Instruments to employees, pursuant to share based employee benefits schemes formulated by a body corporate established or constituted by or under any Central or State Act.

New definition of Subsidiary added (Para 2.1.48A): A new para is inserted defining Subsidiary as under:

Subsidiary shall have same meaning as assigned to it under Companies Act 2013 as amended from time to time.

- 5. Existing paras 3.4.2(vi) and 3.4.2(vii) are renumbered as 3.4.3 and 3.4.4
- Definition of Real Estate Business at para 5.1(f) of existing FDI Policy and Note (i) to Para 5.1.10.2 are amended and aligned:

Amended definition of Real Estate business at para 5.1(f) will be as under:

"Real estate business" means dealing in land and immovable property with a view to earning profit there from and does not include development of townships, construction of residential/ commercial premises, roads or

bridges, educational institutions, recreational facilities, city and regional level infrastructure, townships and Real Estate Investment Trusts (REITs) registered and regulated under SEBI (REITs) Regulations 2014. Further, earning of rent/ income on lease of the property, not amounting to transfer, will not amount to real estate husiness.

The same definition has been amended at Note (i) of Para 5.1.10.2 of FDI Policy.

FDI In Life Insurance Corporation - New para 5.2.22.1A is inserted:

FDI in LIC is allowed upto 20% under automatic route subject to conditions. New para 5.2.22.1A has been inserted in existing FDI Policy of 2020.

The other conditions in para 5.2.22.3 of FDI Policy are now bifurcated in two parts through insertions of new paras 5.2.22.3.1 and 5.2.22.3.2 applicable on Indian Insurance Companies / Intermediaries or insurance intermediaries and LIC respectively. The existing clauses (a) to (j) and amended clause (k) under para 5.2.22.3 are placed under para 5.2.22.3.1 titled "Other Conditions applicable to Indian Insurance Companies and intermediaries or insurance intermediaries" and new clauses (a) to (c) are placed under para 5.2.22.3.2 titled "Other Conditions applicable to Life Insurance Corporation of India (LIC).

Please refer Press Note for detailed amendments to Other Conditions clause.

Para 4 and Para 5 of Annexure 3 of FDI Policy relating to acquisition of shares under scheme of merger/amalgamation/demerger and issue of employees stock option scheme (ESOPs) / seat equity are amended. The detailed amendments can be seen at Press Note link given at the end.

The above changes will take place with effect from March 14, 2022.

The detailed Press Note can be viewed at https://dpiit.gov.in/sites/default/files/Press_ Note_1_2022_14March2022.pdf

ICAI News



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Organised by Board of Studies - Operations (SSEB)

Four Weeks Residential Programme on Soft Skills Development at Centre of Excellence

Jaipur (For Boys) & Hyderabad (For Girls)



Learning Outcomes

- Articulation Skills
- Leadership Qualities
- Art of Negotiation
- Personality Development
- Open-Mindedness
- Effective Communication Skills
- Interpersonal Managerial Skills

Salient Features

- Waiver of Payment of Fees to top 10 Rank Holders of Intermediate Exam
- · Part of Practical Training.
- Exemption from Management and Communication Skills (MCS) forming part of AICITSS

9th May to 4th June 2022.



Venue:	
Centre of Excellence	(CoE),
lainus	

Participants:
Boys (CA Students)

Fees: Rs. 48,000/-

Date (From & To):

9th May , 2022 to 4th June, 2022.



Venue:
Centre of Excellence (CoE),
Hyderabad

Participants:
Girls (CA Students)

Fees:

Rs. 48,000/-

Date (From & To):

9th May , 2022 to 4th June, 2022.



For Jaipur Registration (For Boys) https://bit.ly/3JjEGQF



For Hyderabad Registration (For Girls) https://bit.ly/36pcgWS

Registration on First come First basis and batches will be allotted as per eligibility.

Eligibilty- CA students who have completed one year of articleship are eligible to join the course.

Disclaimer - The scheme of Four weeks Residential Program may be modified or altered at any time. All decisions about the aforesaid scheme shall be at the sole discretion of ICAI and binding on all. ICAI reserves the right to change the dates and other modalities as per the requirement.

For further assistance – +91 9958121521/ 01203045988/929 smita.taneja@icai.in

APRIL 2022

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ICAI News

Invitation for empanelment as Examiners for Chartered Accountants Examinations

Applications are invited from eligible members of the Institute and other professionals including academicians of reputed educational institutions, tax and legal practitioners etc., having a flair for academic activities including evaluation of answer books and willing to undertake confidential assignments as a dedicated examiner, for empanelment as examiner in respect of the following papers of the Chartered Accountants Examinations.

Foundation Examination			
Paper-1	Principles and Practice of Accounting		
	Business Laws & Business Correspondence and Reporting		
Paper-2	Part I : Business Laws		
	Part II : Business Correspondence and Reporting		

Intermediate Examination		
Paper -1	Accounting	
Paper -2	Corporate & Other Laws	
Paper -3	Cost and Management Accounting	
Paper -5	Advanced Accounting	
Paper -6	Auditing and Assurance	
Paper -8	Financial Management and Economics for Finance	

Final Examination		
Paper -1	Financial Reporting	
Paper -4	Corporate and Economic Laws	
Paper -5	Strategic Cost Management and Performance Evaluation	
	Elective Papers	
Paper -6	6A: Risk Management	
	6D: Economic Laws	

The eligibility criteria for empanelment as examiner are as follows:

- Chartered Accountants with a minimum of five years standing in practice or in service are eligible.
- University Lecturers/Professors with a minimum of five years teaching experience are eligible.
- ICWA, ACS, M.Com, Post Graduates in Economics or Law, Lawyers, IT Professionals, MBA (Finance) and other professionals with at least five years experience, either in academic position or in practice or in employment are eligible to apply. Those with work experience having direct relevance to the aforesaid subjects(s) of examination(s) will be preferred.
- Persons above 65 years of age are not eligible.
- Persons who are visually impaired or suffer from such other physically disability that might necessitate taking the assistance of any other person for evaluation of answer books are not eligible.
- Persons who are undergoing CA Course of the Institute are not eligible.

ICAI News

- Persons whose applications were rejected earlier from the Panel are eligible to apply again after a gap of 1 year from the date of rejection.
- Those who are already empanelled with ICAI as examiners need not apply. Their candidature will be considered in the normal course, at the appropriate time.
- Persons associated with the coaching activities are not eligible. Those who have ceased to be associated with the coaching activity, are permitted to apply after a gap of 5 years.

Scales of honorarium for evaluation of answer books

Examination	Paper	Rate (for Digital Evaluation)
Foundation	1 & 2	Rs 125/- per answer book
Intermediate(IPC)	1,2,3,5,6 & 8	Rs 150/- per answer book
Final examination	1-8	Rs.190/- per answer book

Application for empanelment as examiner can be made online at http://examinerspanel.icaiexam.icai.org.

ICAI has implemented the Digital evaluation (Online Evaluation) of answer books in all the papers of Foundation, Intermediate and Final examinations. Hence, applicants are expected to be comfortable working on computers and also evaluating answer books on-line. However, requisite training will be provided, before on-line evaluation assignments are undertaken. Please fill the application online, take a print out, affix your photograph, sign it and send with all the requisite enclosures to the following address:

Shri S K Garg
The Additional Secretary (Exams)
The Institute of Chartered Accountants of India
ICAI Bhawan
Indraprastha Marg
New Delhi – 110002

Additional Secretary (Exams.)

Classifieds

- 5899 Ernakulam based firm of 30 year standing invites proposal for partnership from new members or merger from firms. Email to racee1991@gmail.com with details.
- 5900 CA Firm having 40 years' standing with audit and taxation assignments requires CAs (Partners) to head its Mumbai, Delhi and Bengaluru Branches. Email: secretaryjvd@gmail.com
- **5901** Gurugram Based Thirty Two Year Old CA firm looking for Partners / firms on

- induction / merger basis. Email: sangeeta. pgc@gmail or Phone No: 9811278153.
- 5902 Delhi based FCA with commercial experience in corporates 40 years seeking assignment on partnership/ subcontract basis in professional consultancy etc.: 9810023290 email: rkwadhawan@yahoo.com
- **5903** Required Partners for a Partnership firm. Call Chat Mail on 9920317933/ 9321787756 casgd.office@gmail.com.



सी.जी.-डी.एल.-अ.-07032022-233969 CG-DL-E-07032022-233969

> असाधारण EXTRAORDINARY

भाग ।।।__खार ४ PART III—Section 4

प्राधिकार से प्रकाशित PUBLISHED BY AUTHORITY

सं. 126] No. 126]

नई दिल्ली. सोमवार, मार्च 7, 2022/ फाल्ग्न 16, 1943 NEW DELHI, MONDAY, MARCH 7, 2022/PHALGUNA 16, 1943

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

NOTIFICATION

New Delhi, the 4th March, 2022

F. No.1-CA(7)/198/2021.—Whereas the draft regulations further to amend the Chartered Accountants Regulations, 1988 were published, as required under sub-section (3) of section 30 of the Chartered Accountants Act, 1949 (38 of 1949), vide Notification No. 1-CA(7)/198/2021 dated the 27th May, 2021 in the Gazette of India, Extraordinary, Part III, Section 4, inviting objections and suggestions from all persons likely to be affected thereby before the expiry of forty-five days from the date on which copies of the Gazette notification containing the draft amendments were made available to the public;

And whereas, copies of the said Gazette notification were made available to the public on the 27th May, 2021;

And whereas, the objections and suggestions received from the public in respect of the said draft regulations have been considered by the Council;

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. (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2022.
 - They shall come into force on the date of their final publication in the Official Gazette. (2)
- In the Chartered Accountants Regulations, 1988 (hereinafter referred to as the said regulations), in regulation 28G in sub-regulation (1), in proviso, for the words and figure, "sub-regulation (3)", the words and figure, "subregulation (4)" shall be substituted.
- 3. In the said regulations, in regulation 29D, in the Explanation for the words "for becoming eligible for admission to Final examination", the words "before applying for membership of the Institute" shall be substituted.
- 4. In the said regulations, in regulation 159, -
- (i) in sub-regulation (1),- for the figure, "150", the figure "200" shall be substituted;
- in sub-regulation (1A),-for the figure, "100", the figure "200" shall be substituted. (ii)

CA. (Dr.) JAI KUMAR BATRA, Secretary

[ADVT.-III/4/Exty./679/2021-22]

Note: The principal regulations were published in the Gazette of India, Extraordinary, dated the 1st June, 1988 vide number 1-CA(7)/134/88 dated 1st June, 1988 and last amended vide Notification No. 1-CA(7)/197/2021 published in the Gazette of India, Extraordinary dated 8th July, 2021

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ICAI in Media

Glimpses of March 2022

The Telegraph

CALCUTTA THURSDAY 3 MARCH 2022

ICAI thrust on peer audit

PINAK GHOSH

Calcutta: The newly elected president of the Institute of Chartered Accountants of India (ICAI), Debashis Mitra, has his hands full with a bunch of knotty issues range ing from peer review of auditors to crypto-currencies and carbon emission.

The ICAI has decided to make it mandatory for ac-counting firms to have a peer review of their work.

This will be done in a

phased manner starting from April and the exercise is expected to take around four vears

"While the peer review process already exists, it was not mandatory earlier. Now we have made it mandatory for various categories of



Debashis Mitra

firms," Mitra, who assumed office in February, told The Telegraph.

Public interest entities which are engaged in the au-diting of listed firms, they will be peer reviewed first. Then comes the firms who are auditing non-listed entities. The process will be done in phas-"the ICAI chief said.

The ICAI has chartered ac-countants who are registered

as peer reviewers with the in-stitute. "The peer reviewers are selected by the institute to review a firm which has done the audit of a listed company. They will check whether all the auditing standards were followed, whether a firm has a good training system, how the firm ensures independence while doing audits," said

Emerging areas

Mitra said the ICAI is doing research on how emerging areas such as blockchain, cryp-tocurrency, artificial intelligence, data analytics, environment and climate change are widening the scope of the profession and how chartered accountants can adapt to these changes. "Government has not said

that they are going to ban cryptocurrencies. So, we are trying to see to what extent and how cryptos are going to affect the economy and the profession. We are working on a research paper on cryptocurrencies trying to cover three areas - accounting, auditing and taxation of cryp-tos," said Mitra.

He said non-financial reporting and auditing areas such as carbon emission and environment compliance are gaining prominence at a rapid pace not only globally but also in India. Capital market regulator Sebi has mandated top 1,000 listed companies to furnish business responsibility report to the stock exchanges covering environmental, cial and governance (ESG) perspectives.

MUMBAI Delhi BusinessLine TUESDAY · MARCH 8 · 2022

CAs in practice can register on GeM portal: ICAI

KR SRIVATS

New Delhi, March 7

The Institute of Chartered Accountants of India (ICAI) has now made it clear that CAs in practice/CA firms can register themselves on the GeM (Government e-marketplace) portal.

However, the information published on the portal should be in compliance with the provisions of the 'code of ethics' already in place for CAs, the institute

This clarification is expected to come in handy for CAs in practice/CA firms as registration on the portal is a prerequirement for providing professional services to government departments/organisations, sources said.

ICAI has been receiving queries on CAs in practice/CA firms registering themselves on the GeM portal.

A one-stop portal

The GeM portal, launched on August 9, 2016, by the Commerce Minister, is a one-stop portal to facilitate online procurement of commonuse goods and services required by various governdepartments organisations/PSUs.

It aims to enhance transparency, efficiency and speed in public procurement. It provides e-bidding, reverse eauction and demand aggregation tools to help government users achieve the best value for their money.

The Institute of Chartered further strengthening the Ac-Accountants of India (ICAI), as partner in nation building, always offers its wholehearted support in the endeavours of developing countries for institutionalisation and development of accountancy profession. Being founding member of many international accounting bodies of repute and having MRA/MoUs with 23 global bodies, the ICAI feels that it has a much larger role to play by extending its expertise to develop the accountancy profession and it has extended its expertise and infrastructure support in the past for various countries. The endeavour is to build capacity in transition economies

A delegation led by Mr. Hussain Niyazy, the Auditor General of Maldives & President of CA Maldives visited ICAI on March 8, 2022. The Institute of Chartered Accountants of the Maldives (CA Maldives) was established on 8th September 2020 after the enactment of the Maldives Chartered Accountants Act 13/2020 to regulate the audit profession.

During the interaction, CA (Dr.) Debashis Mitra, President, ICAI stated "The visit of leadership of CA Maldives is the first step towards working closely with each other in the areas of sustainability, forensic accounting, and valuation standards setting etc. for the benefit of the profession in Maldives. ICAI offers its support to CA Maldives in

Delegation of CA Maldives Visited ICAI

By India Education Diary, Bureau Admin On Mar 9, 2022

countancy Profession there."

CA Maldives had sought assistance of ICAI for getting an in-depth introduction on the working of ICAI particularly in the areas of examination, course structuring,

services, continuous Professional development etc. besides the various important initiatives taken by ICAI relating to Sustainability, Forensic accounting, Valu-Learning Hub.

the accountancy profession in Maldives by formulating mutual co-operation between the two Institutes for advancement of accounting knowledge, professional and intellectual development of the professionals in Maldives. The delegation was very appreciative of the various pragmatic initiatives

ation Standards, and Digital disciplinary mechanism, peer ICAI would support CA Malreview, Members & students dives for the development of and efforts taken by ICAI.

FOCUS Over 40% active CA students today are girls

Plethora of job opportunities along with economically viable education has attracted more girls in recent years

Astha.Hemant timesgroup.com

winnesgroup.

Word a niche for themselds, and chartered accountancy (CA) is no different.
Debashis Mitra, president,
Institute of Chartered Accountants of India (ICAI)
(2022-23) says that today,
women comprise 28% of
the total membership of
ICAI while female students
comprise 42% of the total
active CA students.

Revealing statistics

Revealing statistics
ICAI Data shared with Education Times reveals that
over the past five years, the
number of women CAs has
seen a constant rise. "The
number was 64,685 women
CAs in 2017, followed by
70,047 in 2018; 73,807 in
2019; 81,564 in 2020 and
89,983 in 2021, *says Mitta.
Among the new admisstons in the foundation/CPT
courses at ICAI, the number
of female students stands at
54,960 in 2021 (45,48% of
the total students). The percentage has risen massively from 2011, when the total
number of girls taking admission into CA courses
was 54,416 (36,54% of the
total students.)

was 54,416 (36.54% of the total students).
In the last decade, around 70 female aspirants have topped the CA exams at different levels. The respective of the control of th different levels. The respec-tive number of girl toppers



are: Common Proficiency Test (7), Foundation (8), PCC (2), Intermediate (24), IPCC (2) and Final (28).

Myriad of reasons

Ved Jain, past president, ICAI (2008-09), says, "Post liberalisation of the Indian economy, the field of CA opened up to better job op-portunities for everyone. A portunities for everyone. A conducive environment within offices started attracting girls to the field. At that time, the two issues facing girls entering a professional field were cost of education and late marriage; the field of CA answered both. "Amariji Chopra, past president, ICAI (2010-11), says, "Compared to professional fields like Medicine and Engineering, the cost of and Engineering, the cost of CA education is miniscule, as students basically need to self-study. As for parents being worried about their girl's marriage, few female

- Kinjal Ajmera, AIR 1, CA Intermediate CAs choose to marry within the fraternity. Also, taking a gap due to getting married or starting a family does not mean the end of a woman's professional journey. CA is extremely open to professionals journey CA is extremely open to professionals joining back as long as they keep themselves updated with the field." In fact, their sobriety and complete dedication makes grils preferred employees

healthy k-life balance attracted me to the field. Since

Since preparation for CA did not require me to travel out of

complete dedication makes gitis preferred employees for few roles within any CA organisation, adds Chopra. With more gits entering the field, CA offices also started weighing in the advantages of hiring them. "Male candidates may have taken up the profession due to the societal pressure of providing for the family but with no interest in it. However, gits had to struggle to ver, girls had to struggle to achieve the status of being a achieve the status of being a CA, thus they proved to be great employees," adds Ja-in. Chopra says that hesi-tancy in sending girl CAs for

नवभारत टाइम्स ICAI बदलेगा सीए का कोर्स

travel assignments may be the only roadblock facing girl CA professionals today. Priti Paras Savla, central council member (ICAI), independent director on boards of various listed companies, busts this myth. "My company has a ratio of 60:40 in favour of women professionals. In case of assignments requiring travel

signments requiring travel, girl candidates are willing

o travel, which underline

their changing mindset, she says.

सीप् का कोर्स । विकास वर्ष दिख्ली : दीवरपूर । जीर पर वर्ष दिख्ली : दीवरपूर । जीर पर देव जा किया के दिख्ली के दिख्ली हैं। अर्दर्श के प्रतिकृत के दिख्ली हैं। अर्दर्श के प्रतिकृत हैं। अर्दर्श के प्रतिकृत हैं। अर्दर्श के प्रतिकृत हैं। अर्दर्श के प्रतिकृत हैं के प्रतिकृत हैं। अर्दर्श के प्रतिकृत के प्रतिकृत के प्रतिकृत के प्रतिकृत हैं। अर्दर्श के प्रतिकृत के प्रतिक

ICAI in Media

*The Indian EXPRESS

ICAI to revise curriculum this year, increase number of IT labs by 40%, says institute's new president

The newly-elected president of the ICAI, Debashis Mitra also told that the institute is working on revising the CA curriculum this year after a period of five years as opposed to the norm of 10 years and the first draft of the revised curriculum was sent to the government on March 22.

Written by Sheetal Banchariya | New Delhi | Updated: March 23, 2022

The newly-elected president of the Institute of Chartered Accountants of India (ICAI), Debashis Mitra, announced that the institute is eyeing digital initiatives as part of the action plan for the year 2022-23. The institute is also aiming to increase the number of information technology (IT) labs to integrate technology into the CA curriculum.

"We already have over 150 IT centres... labs as we call them centres across India. At the moment, these labs help students learn Tally and other skills but we want to use them for further enhancement of the technological upgradation of the students and see to what extent they (students) can learn artificial intelligence, blockchain and audit analytical tools," Mitra told indianexpress.

By the end of this year, the number of labs is expected to go up by 40 per cent. Recently, the CA foundation exams were postponed as the dates were clashing with the CBSE board exams. Following this, the CA intermediate students have also been demanding the exams be deferred. However, Mitra said there have been no discussions on rescheduling the intermediate exams.

Mitra also told that the institute is working on revising the CA curriculum this year after a period of five years as opposed to the norm of 10 years and the first draft of the revised curriculum was sent to the government on March 22.

Based on the government suggestions, the curriculum will be reworked and

then it will be put out in the public domain for 45 days to get suggestions from the stakeholders. The finalised curriculum will be introduced this year, Mitra

"One of the major focus areas of the revised curriculum is application-based learning... we're going to see how much of an open book system we can have and ask case study based questions. It will help us move away from rote learning and go for application of mind. When we developed the curriculum five years ago, GST was not around but today it has stood the test of time. Hence, the curriculum needs to be revised to meet the industry demands,' Mitra, who is also the chairman of the ICAI research wing, said.

The institute, said Mitra, is aiming to make general management and communication skills classes more than effective "so that students know how to really communicate and put forward their viewpoints".

During his tenure as the president, Mitra wants to improve the facility of reading rooms being run by the regional council and branches. It is an initiative by the Students Skills Enrichment Board (Board of Studies-Operations) to provide a conducive reading atmosphere to the students.

"Many of the students who are joining us come from Tier-II, Tier-III cities. They're not coming from Delhi and Ahmedabad. They should have access to knowledge even with limited resources," he said. At present, there are over 170 reading rooms/ libraries across India. We also want to upgrade our video lectures and include more animations. If you have a lot of animations, it becomes very easy to understand and learning becomes a lot of fun," Mitra

In 2019, the overall pass percentage of new and old courses for both group 1 and 2 in CA final (November) exams was around 21 and 23 per cent, respectively. It reduced to 14 and 5 per cent in November 2020. The CA final pass percentage in December 2021 (old course) exams was less than 1.5 per cent.

On decreasing pass percentages, Mitra said that the reasons could be the changes in exam pattern and more focus on application-based questions.

"The examinations have not been tougher. We have multiple choice questions and are making the questions more application-oriented, asking more questions on case studies. So, if students are in a position to apply their mind to the subject, then they will survive and do well. If they have just memorised the subject and come to appear for the exams, the chances are that they will not pass," Mitra told.

THE TIMES OF INDIA

Soon: IT labs to help CA students master fintech

TIMES NEWS NETWORK

Ahmedabad: To equipfuture chartered accountants with the latest financial technology, the Institute of Chartered Accountants of India (ICAI) will set up 150
IT labs across the country.
Of these, at least five will come up in Gujarat.

me up in Gujarat.

ICAI president Debashis
Mitra, who was in Ahmedabad on Monday, said that
knowledge of new technologies has become very necessarv for CA students as people have taken to various kinds of financial dealings

apart from the traditional transactions.

"IT labs are the need of the hour for students to gain knowledge about crypto-currency, blockchain technology and artificial intellinology and artificial intelli-gence. For this, ICAI will set up 150 IT labs across the co-untry." Mitra said. There are five chapters of ICAI in the state including one in Ahmedabad. Every chapter will have an IT lab facility.

Mitra said that the insti-tute has also decided that CA syllabus will be revised every five years so that the students can practise over-

seas as well.
"At present, the syllabus
is revised every 10 years.
The outline of the new syllabus has been prepared and sent for approval by the union government. It is likely to be implemented from the next academic year," Mitra said.

Mitra also said that the students who have lost one or both parents to Covid have been exempted from pay-

ingregistration fees.
"Initially, this was me ant for 2022 only. However, it has been extended to the next year also," Mitra said.

ET THE ECONOMIC TIMES

TO SUBMIT IT TO GOVT BY APRIL-END

ICAI Working on Paper on Cryptos

Our Bureau

Accountants of India (ICAI) on Tuesday said it is working on a rese-arch paper on guiding its members on accounting and auditing standards for cryptocurrency assets. The report will cover taxation im-

plications, valuation and auditing of crypto and other virtual digital assets (VDAs), the premier profes-sional accounting institute said. It will submit the report to the Centre by April end.
"This (crypto) is a complex topic

and we are seized of the matter.

ICAI president Debashis Mitra said.
The decision to do a research paper follows requests by many members who were gripping with an asset class which is comparatively new to them, he said.

"Auditing crypto is complex, given the nature of its transaction,"
Mitra said. "So, even when the taxation part is somewhat clear, auditing it is tricky. That is why we felt the need to work on the paper on it which will bring better clarity on

The Union Budget 2022-23 has proposed a 30% income tax on crypto assets from April 1. Besides, a 1% TDS on payments towards vir-tual currencies beyond Rs 10,000 in a year and taxation of such gifts in the hands of the recipient has been proposed. The industry has sought



clarification on several aspects of levy on tax on transactions of virtualdigital assets.

SOCIAL AUDIT STANDARD

Mitra said the markets regulator, the Securities and Exchange Bo-ard of India (Sebi), has asked ICAI to prepare a Social Audit Standard for NGOs and not-for-profit organi-

sations.
This will cover the impact reporting and specific Social Audit Standards with respect to sub-themes of social impact such as poverty and nutrition, covering aspects such as scope, engagement accep-tance, basic principles, audit pro-cedures and documentation.

ICAI is working on it and is expected to prepare a draft and submit it to Sebi by the end of this year.

BusinessLine

Working on research paper on cryptos, says ICAI chief

CA Institute will take active steps to raise standards of audit firms: Mitra

We have set up a research roup on this. Crypto is a tech-ical subject. We are seeing the nplication on accounting, ow it should be audited and so the implication of 30 per nt taxation announced in the adget," Mitra said in his first iedia interaction after assumed.

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I, 2023.

The IRDAI board is likely to meet by the end of this month and a decision is likely on this front, he said, adding that he has also requested the Reserve Bank of India (RBI) to implement this "at the earliest" for

meants for audit of impact reporting of social enterprises listed on upcoming social stock exchanges. The standards would cover all aspects of assurance of im-pact reporting like scope, en-gagement acceptance, audit procedures and assurance report.



Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal - The Chartered Accountant. The article may cover any topic relevant to the accounting world covering auditing, finance, laws, strategy, taxation, technology and so on. While submitting articles, please keep following aspects in mind:

- 2500 words.
- ❖ Articles should be original in nature
- The length of articles should be about . An executive summary of about 100 words should accompany the article.
 - ❖ Articles should not have been published or sent for publishing in any other print or electronic media.

Please send articles to Journal Section - The Chartered Accountant, The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi 110 002. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in.

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The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Discover Wealth of Financial Knowledge



An Awareness Initiative by ICAI

In line with the Government of India's national mission on Vitiya Saksharta, The Institute of Chartered Accountants of India (ICAI) on the occasion of 73rd CA Foundation Day had launched an innovative Financial & Tax Literacy Drive to promote financial planning and tax related guidance nationwide. This Drive includes awareness creation through the knowledge hub of seminars & lectures, articles & activities, booklets & video guides by the large community of Chartered Accountants who will act as Vitiya Mitras.

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