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THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Internal Audit & Forensic Accounting in the Digital Era

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Editorial

Internal Audit and Forensic Accounting in the Digital Era

With adoption of technology, world is undergoing digital revolution rather than the digital evolution. The surge in digital acceleration is pushing all professions to innovate and perform by embracing technology besides fuelling businesses to undergo digital transformation for sustained value generation or in pursuit of new growth avenues. Benefits apart, increased adoption of technology has also increased the risks and complexities with changes across the value chain and segments. The enterprises and organization needs to strategize the business models comprehensively for the digital paradigm not only from the perspective of the growth but also to put in place due digital security protocols and reporting framework to promote good governance and mitigate risks arising from frauds and complexities.

The digital revolution has brought about unprecedented challenges—and tremendous opportunities, and we must build our competence, capabilities and mindset to benefit from this digital acceleration. Our profession with its qualification, dynamism and experience has championed the change management and is well poised to unlock value as well as protect public interest by mitigating risks and fraud using the practices of Internal Audit and Forensic Accounting.

The advent of technology, also pushing the businesses to undertake business model innovation to imbibe technology as way of business. Accordingly, the internal audit function is evolving itself into a role of strategic advisor to the management by providing valuable insights for effective decision making to undertake value creation and manage risks by adapting the business processes. The Internal auditor has gained value and credence by adopting the progressive approach of solution provider looking beyond the traditional Compliance-centric approach.

Recognizing the significance of Internal Audit to drive the innovation and change in this digital age, the ICAI is codifying the best practices by revising the Standards on Internal Audit (SIA) from time to time. The ICAI has wide mission to provide continuous support to its members through proactive standards setting and guidance in the area of internal audit, including guidance related to risk management and governance and to conduct research and education to help members offer innovative and effective solutions, and comprehensively serve needs of all stakeholders.

The Internal Audit Standards Board of ICAI is working relentlessly to build requisite skillsets and knowledge of members by bringing out high quality technical literature in the form of Standards on Internal Audit and Technical Guides/ Studies/ Manuals, which constitute an important tool in helping internal auditors to provide effective and efficient internal audit services to the clients. The ICAI is conducting Certificate Course on Concurrent Audit of Banks to enable members, improve the effectiveness of concurrent audit system in banks, improve quality and coverage of concurrent audit reports and understand the intricacies of concurrent audit of banks. Till now, around 28,750 participants have successfully attended the course. Further ICAI is coming with revamped Certificate Course on Internal Audit, aligned to the demands of the digital age.

In the emerging milieu an important aspect is increased instances of fraud especially digital frauds which are complex to detect and manage. The ICAI, understanding the wide impact of these frauds, has been working to develop competence and capabilities of our members in this area by way of certificate courses, technical literature and other resources. In this direction ICAI, under the aegis of Digital Accounting and Assurance Board (DAAB), has already launched a Certificate Course on Forensic Accounting & Fraud Detection. So far more than 12000 members of ICAI have successfully completed the course and providing Forensic Accounting & Investigation Services to Law Enforcement Agencies, Banks and to various corporates.

The need for transparency and accountability is imperative and the demand for forensic accounting is greater than ever. Keeping in view the grim situation the DAAB of ICAI have conceptualised Forensic Accounting and Investigation Standards (FAIS). Currently there are 20 FAIS issued. FAIS were framed under inclusive approach involving Public Exposure and the feedback from Public, Stakeholders, different expert groups and the Regulators.

Needless to say, the members of the ICAI must reorient their mindset on the potential of opportunities arising out of the digital transformation, and therefore, realign and recalibrate themselves, to meet the expectations of stakeholders in the New Age. In accepting this challenge, the profession will have to continue to display integrity, courage and resourcefulness. We have to be ready to face new challenges and to accept new responsibilities. Let us welcome these challenges and face it with determination, dynamism and drive.

-Editorial Board ICAI: Partner in Nation Building

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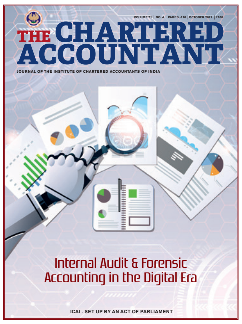

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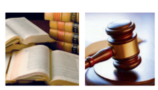

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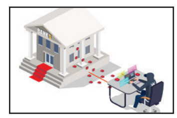

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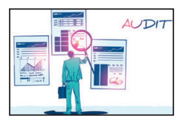

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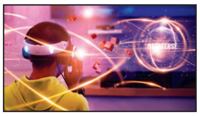

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From the President

CA. (Dr.) Debashis Mitra
President, ICAI

Dear Professional Colleagues,

"The future depends on what you do today."- Mahatma Gandhi

As I pen my thoughts for this communication, I recall the vision and virtues of Mahatma Gandhi, the Father of the Nation whose birth anniversary is on 2nd October. He symbolised truth, simplicity, conscience and ethics. The accounting profession with its service driven leadership and nation first approach has been making significant contribution in ensuring inclusive growth and development of our country.

As we talk about building a self-reliant India, it is the power of knowledge that will lead the development backed by research and innovation driven mindset. Over the years the profession has carved its brand equity as a trusted partner in its conventional roles, however it's time that the profession upskill itself to adapt to the changing business milieu. The Digital era is very dynamic and to uphold the elements of credence and assurance in financial reporting, we must adopt new ideologies, technology and practices to augment the quality of our services. Being technologically ahead is essential for the profession in the digital paradigm not only to realise the potential of technology for value creation but also mitigate its risk and perils. Therefore, it's our constant endeavour as an Institute to keep our members ahead of the learning curve to enjoy the trust of the stakeholders and be the trustee of public interest.

Let me share some of the significant professional developments that have taken place since my last communication:

Standards on Internal Audit (SIAs)- Codifying Best Practices

The Institute of Chartered Accountants of India (ICAI) has always played a pivotal role in the Nation's Standard Setting Framework. In order to keep abreast with the changes in the dynamic business environment, ICAI has been updating the existing Standards & bringing out new Standards on Internal Audit. These SIAs will go a long way in improving the organizational processes & Audit Quality. This shall also escalate the performance benchmark for Internal Auditors.

The Institute has initiated the process of revising Standards on Internal Audit (SIAs) making them principle-based. Revised SIAs are classified and numbered in a series format. Now, six more SIAs providing guidance on important areas are being issued by the Institute. The subjects covered are Risk Management, Internal Auditing in an Information Technology Environment, Third Party Service Provider, Governance, Compliance with Laws and Regulations, and Communication with those Charged with Governance.

Formation of SRO for Social Stock Exchange

The Council of ICAI recently approved the formation of Self-Regulatory Organisation (SRO) for the social auditors as envisaged in the SEBI notification dated 25th July, 2022. The SRO is proposed to be named as "Institute of Social Auditors of India" and will be set up as a Section 8 company under the Companies Act, 2013, under the aegis of ICAI.

ICAI has decided to form the company with the vision to be a leading institution for the development of an independent, ethical, and world-class Social Auditors' profession responding to needs and expectations of the stakeholders. The proposed SRO will focus on capacity building of social auditors through continuous professional advancement with a focus on adherence to the highest ethical standards and compliance with the letter and spirit of social stock exchange requirements.

From the President

Propagating Research and Academics – Bhumi Pujan Ceremony of CoE, Kolkata

The Hon'ble Governor of West Bengal and Manipur, Shri La. Ganesan was the Chief Guest at the Bhumi Pujan Ceremony of the Centre of Excellence (CoE) Kolkata on 4th September, 2022 in the presence of many Council Members and dignitaries. The CoE would be an academic and research hub with a capacity to handle about 500 students and other professionals. The building would be a Green one with a state of art IT infrastructure, a well-stocked digital library and all modern amenities inside the campus. The CoE would be of immense benefit to members and students in Eastern India.

Launch of Six ICAI Representative Offices in the United States of America

Enhancing our global footprints and to position the 'Indian Accountancy Profession' as a 'Brand' worldwide, ICAI launched 6 Representative Offices in the United States of America at Arizona, Austin, Los Angeles, Michigan, North Carolina, and Ohio at an event "*Unite in America*" organized by our San Francisco Chapter. The grand launch was held on 5th September, 2022 at San Francisco in the august presence of Chief Guest CA. Piyush Goyal, Hon'ble Union Minister, Guest of Honour Mr. Taranjit Singh Sandhu, Hon'ble Ambassador of India to the United States of America, Special Guest Dr. T V Nagendra Prasad, Hon'ble Consul General of India. I and CA. Aniket Sunil Talati, Vice President ICAI attended the event virtually. The Overseas Representative Offices now number 33 in addition to 44 Overseas Chapters.

Improving Audit Quality

From 1st of April 2023, the Chartered Accountant firms auditing any listed entity or a banking company or an insurance company will have to compulsorily assess their audit quality maturity using the AQMM rev v1.0. The AQMM v1.0 had been launched as a self-evaluation model in July 2021 whereby the firms were recommended to undertake the evaluation. It has been decided that the scores and the level obtained using the AQMM rev v1.0 shall be reviewed by a peer /AQMM reviewer and thereafter the level of the firm shall be hosted on the website of the ICAI alongside the details of the peer review certificate. The AQMM is an amalgamation of a well-researched set of Audit Quality Indicators (AQIs) developed under the aegis of the Centre for Audit Quality. It not only helps the firms to arrive at their current maturity level but also provides a mechanism for helping and guiding the firms for improving upon their audit quality by identifying the strength/ improvement areas. The firms can develop a road map for upgrading to a higher level of maturity based on the scores obtained using the model. I am confident that the firms would find the model beneficial to further improve the audit quality.

New Scheme of Education and Training

The Council, after deliberating at length on the suggestions received from stakeholders, approved the Proposed Scheme of Education and Training with certain modifications. The Scheme so approved by the Council has been submitted to the Ministry of Corporate Affairs, along with the corresponding amendments in Regulations for final approval. With active participation of a range of stakeholders and deliberations at meetings of Board of Studies and the Council, we are sure that the resultant outcome, namely, the New Scheme of Education and Training with its value added features, would develop global Chartered Accountants with high level of professional skills and ethical values.

ICAI Sustainability Reporting Awards 2021-22

With a view to recognising initiatives of businesses with a transformative contribution to the 2030 Agenda for Sustainable Development as well as benchmarking global best practices in Sustainability Reporting, the ICAI through its Sustainability Reporting Standards Board had instituted "ICAI Sustainability Reporting Awards" in the year 2020-21. The 'ICAI International Sustainability Reporting Awards' was started to recognize and award exemplary entities for outstanding contribution to SDGs which have led initiatives towards Gender Equality and Climate Change and have implemented efficient and innovative sustainable practices.

Taking the legacy forward, the ICAI has launched "ICAI Sustainability Reporting Awards" and "ICAI International Sustainability Reporting Awards" for the year 2021-22. The last date of receipt of Applications for both the awards is 31st October, 2022. I am sure more and more organisations will come forward and participate.

MoU with PIBR & CAAR

ICAI has signed an Memorandum of Understanding (MoU) with the Polish Chamber of Statutory Auditors (PIBR). The MoU between ICAI and PIBR, Poland, is expected to strengthen our presence in Europe by providing prospects for the ICAI Members to get professional opportunities in Poland. The aim of MoU is to work together to develop a mutually beneficial relationship for the members of ICAI and PIBR.

ICAI has also signed an MoU with Chamber of Auditors of the Republic of Azerbaijan (CAAR). The MoU shall strengthen cooperation in areas of mutual interest promoting accounting profession by way of knowledge transfer through joint programs and research initiatives.

The total number of MRAs and MOUs entered into by our Institute with global bodies are now 23.

World Congress of Accountants (WCOA) 2022

We are excited and eager as the dates for the "Olympics of the Accountancy Profession" approaches. I urge all of you to attend the WCOA 2022 in large numbers and make use of this unique opportunity to interact and network with the largest conglomeration of global accounting and finance professionals. We are making wholehearted efforts to make WCOA 2022 a grand success.

In this regard, recently I met Shri Tarun Bajaj, Revenue Secretary and Secretary MCA and Shri Sanjeev Sanyal, Member Economic Advisory Council to the Prime Minster to extend them invitation for the World Congress.

I am pleased to inform that we are receiving overwhelming response from delegates worldwide and till date we have received registrations from more than 80 countries of the world. We are elated to have the presence of a galaxy of eminent speakers, visionaries and thought leaders. I request the Membership to make full use of the opportunity to learn from the best in the industry and upskill yourself with the latest in trend and technology.

Proposed Revision of Empanelment Norms for Government Audit

The O/o C&AG is in the process of revising the empanelment norms of CA Firms and Criteria for Allotment of Audit. The proposed norms as received from the O/o CAG were discussed threadbare and a series of meetings were held at the Institute.

Based on the deliberations, ICAI submitted its suggestions to C&AG at a meeting of "Audit Board for Central Public Sector Undertakings'' organized by the O/o C&AG on 6th September 2022 wherein the various regulatory counterparts were present. Shri Girish Chandra Murmu addressed the inaugural session. Various issues related to Revision of Policy for empanelment of Chartered Accountant firms by Office of the C&AG for allotment of audit and need for enhancement of Audit fee/ remuneration of statutory auditors were discussed. It was proposed by the O/o C&AG that additional qualitative parameters should be introduced as part of Allotment Criteria.

MSME Yatra

The ICAI MSME Yatra, an ambitious initiative to support, facilitate and respond to MSMEs was flagged off on 18th August, 2022 from Mumbai. The initiative aspires to promote the spirit of entrepreneurship amongst MSMEs as well as support MSMEs in improving their productivity through innovation and by way of use of various government schemes. MSME Camp is also organised, wherein the Grievances raised by the MSMEs are resolved in real-time basis and real time Udyam registration of MSMEs also facilitated through ICAI MSME Setu. Since its launch, the MSME Yatra has covered 39 cities. Under the initiative, awareness is being created towards capacity and competence building of MSMEs for catalyzing the growth of the sector to boost job creation and development of economy. The Yatra has received very positive response from the various State Governments and the events at various places were attended by State ministers, Local Members of Parliament & Members of Legislative Assembly. The ICAI MSME yatra programme at Shimla was graced by Shri Rajendra Vishwanath Arlekar, Hon'ble Governor, Himachal Pradesh as Chief Guest on 21st September,2022.

In Conclusion

As we approach the 21st World Congress of Accountants, the Theme – "Building Trust, Enabling Sustainability" touches my mind and heart as Trust is so important for a profession to be respected. In an article titled "*Building Excellence with Integrity, Trust and Transparency*" written in July 2022 issue of "The Chartered Accountant", Former President of our Institute, CA. Y H Malegam writes that "*Success cannot be measured by mere size, whether of membership, practice or profits. It can only be measured by the respect we command*". Respect and dignity are the two words which are prominent in the Dictionary of a Chartered Accountant.

I extend my best wishes to all, as we enter into season of festivals. Let us celebrate these moments of joy, spreading the message of positivity, peace and love.

Best Wishes

Debashis Mitra

CA. (Dr.) Debashis Mitra
President, ICAI
Kolkata, 23rd September, 2022

Photographs

ICAI President CA.(Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati alongwith Chief Guest Shri La Ganesan, Hon'ble Governor, West Bengal and Manipur at the Bhoomi Puja Ceremony of Centre of Excellence at Kolkata. Also seen in the picture are Past President ICAI CA. Subodh K Agrawal, Central Council members CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal and EIRC Chairman CA. Ravi Kumar Patwa. (4th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra meeting with Shri Tarun Bajaj, Revenue Secretary and Secretary, MCA (20th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra being felicitated at National Conference 2022 hosted by Bhubaneswar Branch of EIRC of ICAI organized by PDC of ICAI. (3rd Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA Aniket Sunil Talati releasing Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961 alongwith Central Council Members during the Council meeting. (28th Aug, 2022)

ICAI President CA.(Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati with Shri Balwinder Singh Sandhu, Former Indian Cricketer celebrating Teacher's Day at WIRC. Also seen in the picture are Central Council members CA. Mangesh P Kinare, CA. Priti Savla, CA. Sushil Kumar Goyal, CA. Prakash Sharma and WIRC Chairman CA. Murtuza Kachwala. (5th Sep, 2022)

ICAI President CA.(Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati attending the Interactive Session at Thane . Also seen in the picture are Central Council members CA. Mangesh P Kinare, CA. Priti Savla and WIRC Chairman CA. Murtuza Kachwala. (5th Sep, 2022)

ICAI President CA.(Dr.) Debashis Mitra inaugurating the Conference organized by ACAE Chartered Accountants Study Circle, Kolkata. Also seen in the picture Central Council member CA. Ranjeet Kumar Agarwal and Former Central Council member CA. M P Vijay Kumar. (10th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra amongst the members at a programme organized at the Abu Road (11th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra addressing the Global Summit 2022 – 'India the Harbinger of World Peace' organized by the Brahma Kumaris, Abu Road (12th Sep, 2022)

ICAI & CAAR MoU exchanging ceremony at Baku in the presence of Mr. Vahid Novruzov, Chairman of The Chamber of Auditors of the Republic of Azerbaijan and Central Council member CA. Purushottamlal H. Khandelwal. (16th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra and ICAI Vice President CA. Aniket Sunil Talati during launch of two initiatives of Committee of Members in Practice at Ahmedabad. Also seen in the picture CA. Purushottamlal H Khandelwal (10th Sep, 2022)

ICAI MSME YATRA Programme graced by Chief Guest Shri Rajendra Vishwanath Arlekar, Hon'ble Governor of Himachal Pradesh. Seen in the picture CA.(Dr.) Raj Chawla Central Council member, ICAI. (21st Sep, 2022)

Group photo taken during Programme on Financial Strategy and Planning for FICCI-FLO at COE Hyderabad. Seen in the picture are Central Council members CA. Dayaniwas Sharma, CA. Abhay Kumar Chhajed and CA. Muppala Sridhar (16th Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra addressing the seminar at Dibrugarh. Also seen in the picture EIRC Chairman CA. Ravi Kumar Patwa and branch committee members. (14th Sep, 2022)

ICAI Vice President CA. Aniket Sunil Talati and Past President ICAI CA. Prafulla P. Chhajed at the National Women Conference held at Ahmedabad. Also seen in the picture Central Council member CA. Priti Savla (3rd Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra attending a programme organized by Tinsukia Branch of EIRC of ICAI. Also seen in the picture Chairman EIRC CA. Ravi Kumar Patwa and branch committee members.(14th Sep, 2022)

ICAI Vice President CA. Aniket Sunil Talati and Central Council members CA. Charanjot Singh Nanda, CA. Dayaniwas Sharma attending the ICFAI 2022 (International Conclave on Forensic Accounting & Fraud Investigation) at Gandhinagar. (2nd Sep, 2022)

ICAI President CA. (Dr.) Debashis Mitra addressing the Capacity Building Programme on GST in the presence of Chief Guest Shri Pramod Sawant, Hon'ble Chief Minister of Goa and Central Council Central Council member CA. Rajendra Kumar P. (20th Sep, 2022)

Know Your Ethics

1. Can a Chartered Accountants firm give advertisement in relation to Silver, Diamond, Platinum, or Centenary celebration of the firm?

A. Yes, as per Paragraph 2.14.1.6(iv) F under Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics, considering the need of interpersonal socialization/ relationship of the members through such get-together occasions, the advertisement for Silver, Diamond, Platinum, and Centenary celebrations of the firms has been permitted to be published in any newspaper or in the newsletters.

2. Can a Chartered Accountant in practice accept original professional work emanating from the client introduced to him by another member?

A. No, paragraph 2.14.1.6(iv) N under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, as appearing in Volume -II of the Code of Ethics, prescribes that a member should not accept the original professional work emanating from a client introduced to him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.

3. Whether a Chartered Accountant in practice can give public interviews and also whether he can furnish details about himself or his firm in such interviews?

A. As per paragraph 2.14.1.6(iv) O under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics, a Chartered Accountant in practice can give public interviews. While doing so, due care should be taken to ensure that such interviews or details about the members or their firms are not given in a manner highlighting their professional attainments, any detail which is given must, in addition to meeting above requirements, be given only as a response to specific question, and of factual nature only.

4. A Chartered Accountant in practice during a TV interview, handed over a biodata of his firm to the Chairperson. Such biodata detailed the standing of the international firm with which the firm was associated. It also detailed the achievements of the concerned partner and his recognition as an expert in the field of taxation in the country. The chairperson read out the said biodata during the interview. Is it a professional misconduct?

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Know Your Ethics

A. Yes, Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, prohibits solicitation of client or professional work either directly or indirectly by circular, advertisement, personal communication, or interview or by any other means since it shall constitute professional misconduct. The member would be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, under the given circumstances.

5. Whether a member can appear on television, films, internet, and broadcast in the Radio or give lectures at forums?

A. Yes, Council direction under Paragraph 2.14.1.7(x) under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949, as appearing in Volume-II of Code of Ethics prescribes that a member may appear on television, films and internet and agree to broadcast in the Radio or give lectures at forums and may give his name and describe himself as chartered accountant. Special qualifications or specialized knowledge directly relevant to the subject matter of the programme may also be given. Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible. What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

6. Whether website of any Chartered Accountant can provide a link to the website of ICAI, its Regional Councils and Branches and also to the websites of Govt./Govt. Departments/ Regulatory authorities and other professional bodies?

A. Yes, it is permitted that website may provide link to the website of ICAI, its Regional Councils and Branches and also to the websites of Govt./Govt. Departments/Regulatory authorities and other professional bodies.

7. Whether a Firm of Chartered Accountants can use catchwords / catchphrases on its website, Letter heads and visiting cards?

A. The mention of catchwords / catchphrases (for e.g., excellence in a particular area, Firm having professionals of integrity etc.) on Firm's website, Letter heads and visiting cards is not permissible in view of the provisions of Clauses (6) and (7) of Part-I of the First Schedule to the Chartered Accountants Act,1949. It may be noted that the above catch words are only indicative and not exhaustive.

8. Can a member/ Firm of Chartered Accountants print his/its vision and values behind the visiting cards?

A. No, since such printing of vision and values behind the visiting cards may result in solicitation and violation of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.

9. Can a Chartered Accountant in practice advertise his professional attainments or services, or can he use any designation or expression other than Chartered Accountants on professional documents, visiting cards, letter heads or sign boards, etc.?

A. No, as per Clause (7) of Part I of the First Schedule to the Chartered Accountants Act,1949, a Chartered Accountant shall be deemed to be guilty of professional misconduct, if he advertises his professional attainments or services, or uses any designation or expressions other than chartered accountant on professional documents, visiting cards, letter heads or sign boards, unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council.

However, the 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.

10. Can a Chartered Accountant in practice also practice as an Advocate?

A. Yes, Council direction under Paragraph 2.14.1.7(v) under Clause (7) of Part I of the

First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics prescribes that a Chartered Accountant in practice who is otherwise eligible may practice as an Advocate subject to the permission of the Bar Council but in such cases, he should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an Advocate. In respect of other matters, he should use the designation 'Chartered Accountant' but he should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

11. Whether a Chartered Accountant in practice can use expression like Income Tax Consultant, Cost Accountant, Company Secretary, Cost Consultant, or a Management Consultant?

A. No, Council direction under Paragraph 2.14.1.7(ii) of Clause (7) of Part I of the First Schedule to the Chartered Accountants Act,1949, appearing in Volume II of the Code of Ethics prescribes that it is improper for a Chartered Accountant to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant, or a Management Consultant.

12. Can a Chartered Accountant in practice give the date of setting up the practice or date of establishment on the letterheads and other professional documents, etc.?

A. No, Council direction under Paragraph 2.14.1.7(iv) of Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics prescribes that the date of setting up of the firm on the letterheads and the professional documents, etc. should not be mentioned. However, in the Website, the year of establishment can be given.

13. Whether Companies in which Chartered Accountants have been appointed as directors on their Board can publish description about the Chartered Accountant's expertise, specialization and knowledge in any particular field or add appellations or adjectives to their names in the prospectus or public announcements issued by these companies?

A. The Council's attention has been drawn to the fact that more and more companies are appointing Chartered Accountants as directors on their Boards. The prospectus or public announcements issued by these companies often publish descriptions about the Chartered Accountants' expertise, specialization and knowledge in any particular field or add appellations or adjectives to their names. Attention of the members in this context is invited to the provisions of Clause (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act,1949.

In order that the inclusion of the name of a member of the Institute in the prospectus or public announcements or other public communications issued by the companies in which the member is a director does not contravene the above noted provisions, it is necessary that the members should take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients for professional work by the member. While it may be difficult to lay down a rigid rule in this respect, the members must use their good judgement, depending upon the facts and circumstances of each case to ensure that the above noted provisions are complied with both in letter and spirit.

It is advisable for a member that as soon as he is appointed as a director on the Board of a company, he should specifically invite the attention of the management of the company to the aforesaid provisions and should request that before any such prospectus or public announcements or public communication mentioning the name of the member concerned, is issued, the material pertaining to the member concerned should, as far as practicable be got approved by him.

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

CHARTERED ACCOUNTANTS' BENEVOLENT FUND (CABF)

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

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. 17 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

Contributions can also be made directly through NEFT/RTGS

Name of A/C	:	Chartered Accountants Benevolent fund
Name of Bank & Branch	:	Axis Bank Ltd., Swasthya Vihar Branch
A/C No.	:	913010046844303
IFS code	:	UTIB0000055

Voluntary contributions/ donations are also accepted from the Family Trusts of Chartered Accountants, which are managed and regulated by the members of the ICAI, for meeting the expenditure in connection with grant of financial assistance to the members of the ICAI and to their dependent(s) as per criteria laid down by the CABF.

A small contribution with a big heart from each member would facilitate grant of a good amount of financial assistance to needy and suffering members/ dependents of members of the profession to mitigate their hardship during unfortunate circumstances.

LET'S BE A PART OF THIS NOBLE MISSION FOR EXTENDING HELPING HAND TO OUR MORE AND MORE PROFESSIONAL COLLEAGUES DURING UNFORTUNATE CIRCUMSTANCES

Applicability of Ind AS 108, 'Operating Segments' on section 25 company of the Companies Act, 1956 (now, section 8 of the Companies Act, 2013)

A. Facts of the Case

1. A Corporation is a Central Public Sector Undertaking (CPSU), wholly owned by the Government of India, under the Administrative Ministry of Social Justice and Empowerment and is registered under section 25 of Companies Act, 1956 (now, section 8 of the Companies Act, 2013).

2. The querist has stated that the corporate office of the Corporation is in Kanpur. The Corporation is having five auxiliary production centers and five regional marketing centers on Pan-India basis. The Corporation is having its manufacturing units in Head Quarter (HQ), Kanpur and all auxiliary production centers; and effects sale from all the units, viz., the Corporation's auxiliary production centers and regional marketing centers including HQ, Kanpur. An auxiliary production center is also proposed to be opened in Faridabad, Haryana.

3. The Corporation manufactures as well as outsources various aids and appliances such as tricycle, wheel chairs, motorised tricycle, hearing aids, artificial limbs, calipers, crutches, walking sticks, spectacles, dentures etc. for persons with disability and old age persons at its corporate office and its auxiliary production centres.

4. The Corporation is the nodal agency for the Senior Citizen Scheme of the Ministry of Social Justice and Empowerment, Government of India and also receives grant-in-aid under the Assistance to Disabled Persons (ADIP) Scheme of the Department of Empowerment of Persons with Disability, Ministry of Social Justice and Empowerment of the Government of India. The Corporation is also an implementing agency for the Corporate Social Responsibility (CSR) Scheme of various Central Public Sector Enterprises (CPSEs) and distributes the aids and appliances under CSR scheme of the CPSEs.

5. The major portion of turnover of the Corporation is against Government grant, i.e., approximately 70% from ADIP and Senior Citizen Scheme of the Government of India. Further, 20% to 25% of turnover depends on the order of State Government(s), Central Public Sector Enterprises, National Institutes etc. Rest 5% to 10% turnover occurs through cash sales/sale through dealer. The Corporation operates on Pan-India basis.

6. The querist has stated that the financial statements of the Corporation are being prepared as per Indian Accounting Standards as applicable with effect from financial year (F.Y.) 2018-19. The accounts of the Corporation are subject to audit by the statutory auditors appointed by the Comptroller and Auditor General (C&AG) of India under section 139(5) of the Companies Act, 2013 (hereinafter referred to as 'the Act'). The statutory auditors are responsible for expressing opinion on the financial statements under section 143 of the Act based on the independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. C&AG is required to conduct supplementary audit under section 143(6)(a) of the Act and give its report.

7. The querist has mentioned that as per core principles of Ind AS 108, 'Operating Segments', **"An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects *of the business activities* in which it engages and the economic environments in which it operates."**

(Emphasis supplied by the querist.)

8. Further, as per paragraph 2 of Ind AS 108, "This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply". The Corporation is established by the Government of India as not for profit making and purely for restoration of dignity of persons with disabilities. Further, the Corporation has also enhanced its wings for welfare of senior citizens. The Corporation is not in any types of business but welfare of persons with disabilities and senior citizens. Since the objective of the Corporation is only social welfare of needy and poor persons with disabilities and senior citizens, profit generation is not part of its object.

9. Statutory auditors during statutory audit of F.Y. 2020-21, have raised the point that the Corporation is not preparing operating segment report as per Ind AS 108.

10. The management of the Corporation is of the view that Ind AS 108, 'Operating Segments' is not

applicable on the Corporation as it is not carrying any type of business, whose nature and financial effects are required to be disclosed.

11. The Corporation is engaged in manufacture and distribution of rehabilitation aids and appliances to divyangjan and senior citizens and the operation is on Pan-India basis. The Corporation, on the principle-approval from its administrative Ministry, conducts assessment camps on Pan-India basis and then ensures the distribution by sending its team and material to the site. The materials can go to the site from any of its manufacturing units or from its marketing offices. The marketing offices also get the material through stock transfer from manufacturing plants. Thus, the Corporation considers itself to be operating in a single segment.

B. Query

12. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee (EAC) on applicability of Ind AS 108, 'Operating Segments' on the Corporation. If applicable, EAC may also give its opinion on the method of presenting such data, considering the nature of operations of the Corporation, as per the requirements of Ind AS 108, 'Operating Segments'.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to applicability of Ind AS 108, 'Operating Segments' on the Corporation and if Ind AS 108 is applicable, the method of presenting the data, considering the nature of operations of the Corporation, as per the requirements of Ind AS 108 . The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for various government grants/ aids received by the Corporation, accounting for revenue earned by the Corporation etc. Further, the Committee states that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified by the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.

14. The Committee notes from the Facts of the Case that the Corporation is a section 25 company of Companies Act, 1956 (now section 8 of Companies Act, 2013) and is wholly owned by the Government of India. Further, the financial statements of the Corporation are prepared as per Indian Accounting Standards from the F.Y. 2018-19. With regard to applicability of Ind AS 108, 'Operating Segments', the Committee notes the following paragraph of Ind AS 108, 'Operating Segments':

> "2 This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply."

From the above, the Committee notes that Ind AS 108, 'Operating Segments' shall apply to companies to which Ind ASs notified under the Companies Act apply. Since the financial statements of the Corporation are prepared as per Indian Accounting Standards, the Committee is of the view that Ind AS 108, 'Operating Segments' shall apply to the Corporation. The Committee also notes that no specific exemption is available to any entity from this Standard, on the basis that it is a not-for-profit organisation or section 8 company.

15. With regard to contention of the querist that Ind AS 108 is not applicable to the Corporation because it does not carry out any 'business activity' and its object being 'not for profit making', the Committee notes the following requirements of Ind AS 108:

> "**1 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates**."

> "5 An operating segment is a component of an entity:
>
> (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
>
> (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
>
> (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

6 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Ind AS, an entity's post-employment benefit plans are not operating segments.

7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

8 For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors."

The Committee notes from the Facts of the Case that the Corporation is earning revenue from sales to CPSEs, National Institutes, etc. and by way of cash sales through dealers. Therefore, the Committee is of the view that though profit generation is not the objective of the Corporation, it is engaged in business activities from which it may earn revenues and incur expenses. The Committee is of the view that as per section 8 of the Companies Act, 2013, a section 8 company is the one, which apart from following other conditions as per section 8, intends to apply its profits, if any, or other income in promoting its objects. Thus, the Act does not prohibit a section 8 company from earning profits for its sustenance or from carrying on commercial/business activities for its intended objectives; rather it only requires that any profits, if earned out of the commercial/business activities cannot be distributed as dividend. Accordingly, contention of the querist in this regard that since the Corporation's objective is not profit-making and that it does not undertake any business is not valid for applicability of Ind AS 108.

16. The Committee further notes from paragraph 5 of Ind AS 108 that apart from engaging in business activities as discussed above, an operating segment is a component of an entity whose results are reviewed by entity's chief decision maker to decide regarding resource allocation and assess performance and for which discrete financial information is available. Thus, while applying Ind AS 108, the Corporation should first identify its operating segments considering its business activities, the way results are reviewed by chief operating decision maker and whether discrete financial information is available or not, in its own facts and circumstances as per the requirements of paragraphs 5 to 8 of Ind AS 108 (as reproduced above).

17. The Committee is further of the view that after identifying operating segments, the Corporation should report information about each such operating segment that has been identified as discussed above or results from aggregating two or more of those segments and that exceeds the quantitative thresholds in accordance with the requirements of Ind AS 108 as reproduced below:

"Reportable segments

11 An entity shall report separately information about each operating segment that:

(a) has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and

(b) exceeds the quantitative thresholds in paragraph 13.

Paragraphs 14–19 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

12 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this Ind AS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;

(b) the nature of the production processes;

(c) the type or class of customer for their products and services;

(d) the methods used to distribute their products or provide their services; and

(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds

13 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.

(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements."

The Committee is of the view that the Corporation should determine its reportable segments considering its own facts and circumstances based on the requirements of Ind AS 108, as discussed above and then provide appropriate information as required by Ind AS 108.

18. The Committee also notes the following requirements of Ind AS 108, particularly, in case the Corporation concludes that it has a single reportable segment:

"Entity-wide disclosures

31 Paragraphs 32–34 apply to all entities subject to this Ind AS including those entities that have a single reportable segment. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this Ind AS.

Information about products and services

32 An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

33 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.

(b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major customers

34 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Ind AS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities."

D. Opinion

19. On the basis of the above, the Committee is of the view that Ind AS 108, 'Operating Segments' shall apply to the Corporation as discussed in paragraph 14 above. Therefore, the Corporation should determine its operating segments and reportable segments considering its own facts and circumstances based on the requirements of Ind AS 108, and then provide appropriate information as required by Ind AS 108, as discussed in paragraphs 16 and 17 above. Further, in case considering the facts and circumstances, it is assessed that the Corporation has a single reportable segment, entity-wide disclosures as stated in paragraphs 31 to 34 of Ind AS 108 are required to be given by the Corporation, as discussed in paragraph 18 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 April 11, 2022. 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 one volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/.
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.

Looking at Risk Management in the context of Internal Audit

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Largely people seek stability, growth and security. Forces beyond their control bring change to their expectations about the future. In common parlance, we call these forces as "Risk". In pursuit of maximization of wealth, individuals / organizations invest their hard-earned money into the entities. Therefore, those entities assume a larger role in ensuring that the investors get desired return and value over a period. Risks which are applicable to individuals take a multifold, wider, and deeper form when it comes to dealing with them at an entity level. Therefore, these are to be managed. This is nothing but what we call – Risk Management. It is not at all a new topic for discussion, but it is worth having a fresh look and embedding the risk concepts into an internal audit using modern tools.

Risk Management falls within the ambit of behavioural sciences i.e. imperfect sciences. Hence, unlike perfect science (say concept of gravitational force is universal in terms of its application), risk management applies differently to each organization. Therefore, it is essential to put a context to the discussion. Our context is based on:

1. **Corporate Governance**: A mechanism that directs and controls the entities. A Committee on Corporate Governance emphasized on enhancement of shareholder's value keeping in view the interests of other stakeholders.[1]

2. **Ethics and Values**: It is nothing but a set of Do's and Don'ts adopted by an entity considering applicable rules and regulations. E.g. an engineering product manufacturing company decides not to participate in tendering process floated by an entity which belongs to a country with the very high level of corruption. So, it is essentially making a choice considering established principles and regulations.

   Entities assign a particular value to particular objectives – say undertaking research in medicine that can change your DNA. They feel that it will give them a competitive advantage. Accordingly, they set objectives and try to achieve those. Whether changing DNA is ethical or not could be a point of discussion. But for that entity undertaking that research is valuable. (There are multiple theories around ethics like "Axiology" which deals with what elements can contribute to the intrinsic value of state of affairs)

3. **Definition of Internal Audit:** As per Framework Governing Internal Audits, Internal Audit is defined as follows: "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives." It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

So, when we think about "Risk" with respect to any entity, at minimum, we need to consider how Corporate Governance, Ethics and Internal Audit function are positioned and how they are practiced.

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[1] *(Source: https://www.sebi.gov.in/sebi_data/commondocs/corpgov1_p.pdf)*

Risk Management

Before we jump to the management level it is important to spend some time in comprehending what is risk? Essential problem is, it means different areas, severity, and significance for every individual. Somebody may be easily jumping from a high cliff into the waters and another one may choose to keep himself always away from waters. That means everybody's definition of risk is different. Therefore, our discussion is focused on how entities deal with risks and not on how individuals perceive and manage risks.

> **Risk is defined by COSO as "the possibility that events will occur and affect the achievement of strategy and business objectives." Risks considered in this definition include those relating to all business objectives, including compliance.[2]**

Usually, the term risk has a negative connotation. However, if we see risk management evolution, more emphasis is now being put on the upside of risks, i.e. risk of losing an opportunity. In a way, conscious risk taking is gaining importance in contrast to interpreting Risk Management as almost equal to Risk Avoidance.

So anything that brings volatility to the decided business strategy can be called as a risk event. Do refer to Standard on Internal Audit (SIA) 130 Risk Management for definition of Risk Management.

A word of caution for the internal auditors - Risk Management is to be owned by the senior management and the Board. Internal Auditors are supposed to be an independent agency in the evaluation and enabling the Risk Management.

For a big, complex entity operating in multiple geographies, it would be ideal to have "Top down" approach to Risk Assessment compared to the "Bottom Up" approach where there is a chance that too many trivial nature risks might get identified.

If Risk is "what may go wrong", then many things may be going wrong in an organization or getting practiced as the way they should be e.g. employees coming late, one TDS payment being delayed by one day, customer deliverable deadline not met, one provision pertaining to branch office expenses was missed out in quarter 2 and so on. But an entity would be interested in capturing "Relevant" risks and not the ones which can be called as common "cough and cold" type risks.

The relevance can be better understood if the objectives of Risk Management are well understood. Broadly any entity is interested in ensuring:

1. Safeguarding of its assets
2. Reliable financial and operational reporting
3. Effectiveness and efficiency of its operations, and
4. Compliance with applicable statutes and own policies

These principles/objectives are laid down by COSO internal control framework and are also embedded in the definition of "internal financial controls" as given in section 134 of The Companies Act, 2013.

It is interesting to note that IFRS/Ind AS Frameworks on financial reporting use word "Relevance" and not "Accuracy". Relevance is defined to include "nature" and "materiality".

> **Relevance - Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Source: Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS).[3]**

So, with these broader objectives, one can reasonably assess the risks which are applicable to an entity.

Actual Process of Risk Identification

The lifespan of entities has drastically come down in the last few years. This contrasts with good old days entities where one could see that they are being in existence for decades. Except the few

[2] *Source: https://www.coso.org*

[3] *https://resource.cdn.icai.org/60915asb49580.pdf*

global giants, companies have seen/experienced transformations through sales, mergers, acquisitions, diversifications and so on. Since continuous disruption is inevitable, context of Risk Management keeps ever changing.

Risk Identification ideally should happen at two levels – Entity and Business Processes.

Entity level risks - Identifying risks at the entity level is a process having close nexus with business strategy. If going out of business or its closing down is the final risk implication, then one needs to analyze trigger events that slowly or in a straight way affect the appropriateness of going concern assumption. COVID times have taught all of us how badly the disruption could be.

All top listed entities, irrespective of industries, included COVID related risks in their annual report's "management discussion and analysis" section. Slow trigger events could be an inability to innovate which will finally impact revenue levels and thereby sustainability of operations.

So there are "contributory factors" to each risk statement and each such statement has its own possibilities and loss impacts in terms of materialization. Entity level risks relate to the long term viability of the entity after being able to address the expectations of all the stakeholders. These risk, therefore, appear to be broader and pervasive in nature. A few examples include succession planning inadequacy, foreign currency exchange rate fluctuations, cyber-attacks, customer concentration, non-compliance with regulations, employee attrition, litigation risks and so on. These risks vary due to the company's nature of operations, overall governance enforcement, control environment, industry to which it belongs, geographical footprint, etc. Any compromise or lapses in the above areas acts as a triggering event to the identified risk statement.

> **ICAI Standard on Internal Audit (SIA) 220 as - Conducting overall internal audit planning states that "A risk based planning exercise shall form the basis of the overall internal audit plan. The Internal Auditor shall undertake an independent risk assessment exercise to prioritise and focus the audit work on high-risk areas, with due attention to matters of importance, complexity and sensitivity"**

Process level risks: At business process level, the risks mostly relate to non-achievement of related business objectives. These include risks of inappropriate financial reporting, procedural non-compliances, delays, losses, rejections, rework, breakdowns, etc.

One needs to understand that business process level risks are relatively easy to identify and assess. This is because the underlying information is easy to see, analyze and gather. E.g. deviation from approved purchase policy can be identified by looking at actual purchase data or delayed recording of expenses can be identified by checking cut-off documents. As we go up in the management level, then one needs to have an aggregative data, correlation of data elements with each other, draw inferences, make judgments and identify exceptions and so on.

Therefore, the process or transaction level effectiveness of risk mitigation can be a "black and white" conclusion. But for entity level, financial statement level, one needs to apply professional judgment to decide if the risk is higher, if it is a fraud risk, whether it requires an audit committee's attention, etc. At this level, it is more of a "view" about the risk than an absolute "conclusion".

Risk Management in current times: Risk Management being an evolutionary subject, is witnessing a paradigm shift in terms of scoping, rolling out and monitoring. The earlier approach was more towards seeing risk management as compliance, it was person dependentand handled by very few people in the organization. Now with technology enablement, many aspects can be based on actual data and statistical models.

Internal auditors are therefore required to learn how to do risk assessment using various data inputs i.e. facts. A concept which is widely gaining importance is "Fact Based Risk Assessment".

Let us evaluate this through an example. Suppose "high employee attrition" is a risk and an internal auditor is assessing the risk as a part of his scope. By traditional means the person will recollect his own understanding of the risk, previous high-level issues reported to the board/ audit committee, etc. There are logical steps that are relevant in current times as well. Additional refinement can be achieved by looking at multiple data sets, patterns like:

- Past 5 years of attrition data classified using parameters like employee level wise attrition, reasons, period, peer company's information, the industry average.
- measures taken by company, their benefits.
- level of people on the bench.
- work culture.
- salary structures… and so on.

Various tools can be used to analyze, comprehend, correlate, and infer the above data. It is a common experience that data speaks differently than our understanding of the related process or area. Detailed data analysis is possible using simple excel spreadsheets and it can pinpoint the exact root cause which is causing the change in the risk levels. Once analyzed, data can be effectively presented using dashboarding tools (e.g. PowerBI). One should finally link the "Relevance" to the identified data inferences. See if the likelihood is really high, underlying account balances are really material, if the market would react negatively to the risk if materialized, what is the level of attrition envisaged by the business while putting the strategy in place, etc.

Internal auditors should ask a question to themselves that whether all audit scopes are supported by the fact-based risk assessment. If the answer is "No" or if there is a struggle to gather the data then possibly it is time to revisit the audit scope, i.e. whether the audit is required on an annual basis, level of efforts to be put in, etc.

One needs to keep in mind that doing risk assessment is a wise man's job. The person doing risk assessment should have knowledge of the entity, human behavior, micro-macro economic factors relevant to the entity. Applying these things to a given risk context requires experience and good level of professional judgment. Philosophers say that complete scepticism is an impossible attitude in life. Therefore, an internal auditor should be reasonably sceptical in doing risk assessment. This is beneficial to the internal auditors as well as the entity which is served by them.

Very senior Indian Classical Tabla player has said that while learning anything there are four elements - Shastra (Science which explains "Why?"), Tantra (Technique, i.e. "How?"), Vidya (Syllabus, i.e. "What?") and Kala (an art element to pull other three things together in a given context). Similarly, we have Governance, Ethics, Internal Audit definition telling us why an entity should have Risk Management. Techniques are nothing but fact-finding measures which are discussed in the paragraphs above. The syllabus is established global frameworksand various regulatory requirements. Now it is up to the internal auditors as to how they learn "Art" of Risk Assessment and enhance the value of their internal audits.

References

- ICAI Guide on Risk-based Internal Audit: https://kb.icai.org/pdfs/20997guide_risbbasedIA.pdf
- The Institute of Internal Auditors Supplemental Guidance on Assessing the Risk Management Process *IPPF-PG-Assessing-the-Risk-Management-Process.pdf (iia-p.org)*

Synopsis of the Standards on Internal Audit

Contributed by the Internal Audit Standards Board of the ICAI. Comments may be sent to cia@icai.in and eboard@icai.in

The internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient with the overall objective to help meet organizational goals.

The internal auditing profession has undergone a sea-change recently, in response to the technology and environmental changes occurring within the profession and also to the changes within the organisations it serves. These developments have helped shift the focus from strict internal control appraisal and analysis to a broader spectrum of value-added activities focused on the continuous improvement of organisations' operations. As the pace of change accelerated, internal auditors needed to visualize and seize emerging opportunities for meeting the organizational needs.

As a result, a new definition of Internal Audit was needed to more accurately reflect the new direction of the profession. The Institute of Chartered Accountants of India (ICAI), therefore, embarked upon a refreshing exercise in 2018, which sought to better describe the internal audit profession and its various activities by revisiting its Standards on Internal Audit. These were all revised and rewritten to capture the prevailing and emerging essence of internal auditing and the critical components of modern-day internal auditing.

The new Standards on Internal Audit issued by the ICAI are all principle based and outline the objective of issuing the particular Standard along with a brief outline of the essential requirements for its compliance. Standards are classified and numbered in a new series format, as follows:

(i) 100 Series : Standards on Key Concepts

(ii) 200 Series : Standards on Internal Audit Management

(iii) 300–400 Series : Standards on the Conduct of Audit Assignments

(iv) 500 Series : Standards on Specialised Areas

(v) 600 Series : Standards on Quality Control

(vi) 700 Series : Other/Miscellaneous Matters

A synopsis of each of the Standards on Internal Audit is as follows:

The **Preface to the Framework and Standards on Internal Audit** facilitates understanding of the scope and authority of the pronouncements of the Internal Audit Standards Board (IASB), issued under the authority of the Council of the Institute of Chartered Accountants of India. It also delineates the rigorous process followed in developing each SIA and the collaborative approach taken in seeking inputs from all quarters prior to its approval by the Council of ICAI.

The **Framework Governing Internal Audits** is an over-arching document which provides an overview of the various key components that govern internal audit (e.g., Basic Principles, Key Concepts, Standards, Guidance notes etc.) and how these come together, and along with the Code of Ethics, help to ensure the conduct of quality audits.

Basic Principles on Internal Audit are critical in helping to establish the credibility of both the individual internal auditor and also the performance of the internal audit activities. This document includes the ten basic principles which are fundamental to conducting an internal audit, five of which establish the credibility of the internal auditor and the remaining five outline the elements essential for the performance of internal audit activities.

100 Series: Standards on Key Concepts

Standard on Internal Audit (SIA) 110, Nature of Assurance deals with assurance assignments performed by internal auditors. The Standard is designed to provide clarity on:

(a) Whether the internal auditor can provide an opinion/ assurance;

(b) Essential requirements which must be satisfied to be able to provide the assurance; and

(c) Nature of assurance that can be provided (Reasonable or Limited) and under what circumstances.

Standard on Internal Audit (SIA) 120, Internal Controls deals with internal audits conducted where internal controls are a subject of audit review and are being assessed, evaluated and reported on. The overall objective of this Standard is to clarify the responsibilities of management and auditors over Internal Controls and how certain requirements need to be met to assess, evaluate, report and provide independent assurance over Internal Controls.

Standard on Internal Audit (SIA) 130, Risk Management applies to all risk based internal audits and also where risk management framework is a subject matter of an audit, and is being assessed, evaluated and reported upon. This Standard clarifies the responsibilities of management and Internal Auditor over risk management, and prescribes the essential requirements with regard to assessment, evaluation, reporting and assuring risk management.

Standard on Internal Audit (SIA) 140, Governance applies to internal audits conducted where governance activities and framework is a subject matter of an audit and is being assessed, evaluated and reported on by the Internal Auditor. The overall objective of this Standard is to clarify the responsibilities of Management, Audit Committee, Board of Directors and Internal auditors towards various stakeholders (both internal and external), and the requirements which need to be met to assess, evaluate, report and provide independent assurance over the governance framework.

Standard on Internal Audit (SIA) 150, Compliance with Laws and Regulations (CLR) applies to all internal audits conducted where compliance activities and framework is a subject matter of an audit and is being assessed, evaluated and reported on by the Internal Auditor. The overall objective of this Standard is to clarify the responsibilities of management and auditors over CLR, and the requirements which need to be met to assess, evaluate, report and provide independent assurance over the compliance framework.

> **Basic Principles on Internal Audit are critical in helping to establish the credibility of both the individual internal auditor and also the performance of the internal audit activities.**

200 Series: Standards on Internal Audit Management

Standard on Internal Audit (SIA) 210, Managing the Internal Audit Function deals with the responsibility of the Chief Internal Auditor or a person who has been assigned to coordinate and manage the overall performance of activities related to internal audit.

Standard on Internal Audit (SIA) 220, Conducting Overall Internal Audit Planning deals with the internal auditor's responsibility to prepare the Overall Internal Audit Plan, also referred to as the Annual Internal Audit (Engagement) Plan.

The current law in India permits internal audit to be performed either by an entity's employee (i.e., personnel on the payroll of the organization or its group company) or by a professional who is part of an external agency (e.g., a firm of practising Chartered Accountants undertaking internal audit engagements). Hence the objective of an internal audit defined in each situation may vary.

The Standard on Internal Audit (SIA) 230, Objectives of Internal Audit applies to all ICAI members in both situations, irrespective of whether the internal audit is conducted by them in the capacity of an employee or as a representative of an external audit firm.

Standard on Internal Audit (SIA) 240, Using the Work of an Expert applies to internal audit assignments where part of the internal audit work is completed by an Expert and relied upon by the Internal Auditor to provide independent assurance. However, an external service provider with expertise in accounting and auditing, and engaged to provide regular internal audit services, is not treated as an Expert for this Standard. For such appointments, the Internal Auditor shall refer to another SIA 230 on "Objectives of Internal Audit" to fulfil the requirements of engaging External Service Providers, such as ensuring an Engagement Letter to cover the terms and conditions of the appointment.

Standard on Internal Audit (SIA) 250, Communication with Those Charged with Governance (TCWG) is to emphasise the need for a continuous dialogue and discussion on essential internal audit matters between the Internal Auditor and TCWG in a process driven manner and to ensure that this communication is independent, definite, effective, and timely.

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

Standard on Internal Audit (SIA) 310, Planning the Internal Audit Assignment covers the second level i.e. planning the Internal Audit Assignment for a particular part of the entity.

Standard on Internal Audit (SIA) 320, Internal Audit Evidence explains certain key requirements in the process of collection, retention and subsequent review of appropriate and reliable internal audit evidence.

Standard on Internal Audit (SIA) 330, Internal Audit Documentation explains certain key requirements in the process of collection, preparation, retention and subsequent review of complete and sufficient internal audit documentation.

Standard on Internal Audit (SIA) 350, Review and Supervision of Audit Assignments aims at ensuring the effective and efficient performance of the audit procedures in line with quality standards and overall audit objectives of the audit assignment. This Standard applies to all internal audit assignments, conducted either by an in-house auditor and/ or an out-sourced auditor and to any advisory assignments undertaken by the Internal Auditor.

Standard on Internal Audit (SIA) 360, Communication with Management applies to all internal audit activities and audit assignments. The communication required for the Internal Auditor to report his findings in the form of a formal presentation or written report(which is the subject matter of another Standard (SIA) 370, Reporting Results.)

Standard on Internal Audit (SIA) 370, Reporting Results deals with the internal auditor's responsibility to issue only the first type of report, the Internal Audit Report pertaining to specific audit assignments and not to the periodic (e.g. Quarterly) reporting for the whole entity as per the Annual/ Quarterly audit plan. Also, this SIA does not cover the form or content of the Internal Audit Report where an assurance (i.e. a written opinion as per SIA 110) is being provided, for which a separate Standard on Internal Audit (SIA) 380, Issuing Assurance Reports should be referred to.

The objective of **Standard on Internal Audit (SIA) 390, Monitoring and Reporting of Prior Audit Issues** is to ensure that the auditee mitigates the risks highlighted in the audit observations through timely corrective actions or that a conscious decision is taken to accept the risks, in case recommendations are delayed or not implemented. This Standard applies to all prior internal audits where audit issues remain open, pending the implementation of audit recommendations within pre-agreed timelines.

> "The Standard on Internal Audit (SIA) 230, Objectives of Internal Audit applies to all ICAI members in both situations, irrespective of whether the internal audit is conducted by them in the capacity of an employee or as a representative of an external audit firm."

500 Series: Standards on Specialised Areas

Standard on Internal Audit (SIA) 520, Internal Auditing in an Information Technology Environment (ITE) applies to internal audit assignments conducted in an IT environment, where the IT systems are managed by the company. The overall objective of performing an internal audit in an ITE is to provide independent assurance and help in making improvements in the ITE, thereby enabling the achievement of business objectives.

Standard on Internal Audit (SIA) 530, Third Party Service Provider (TPSP) covers those situations where the IT systems are managed by external third-party service providers. It applies to both the TPSPs and their User Entities. Another objective of this Standards is to ensure quality independent audit reports on TPSP's Controls. These audit reports help the User Entity to develop trust in the controls at the TPSP. Conversely, these reports also help to build confidence with the TPSP in their own service delivery processes and controls. The secondary objective of this Standard is to prescribe requirements for the Internal Auditor in evaluating the TPAA report provided by an Independent Auditor covering the effectiveness of outsourced processes of TPSP.

Recommendatory Status of Standards on Internal Audit

All the Standards on Internal Audit as issued by the ICAI are recommendatory in nature.

Standards on Internal Audit as issued by the Institute are available on the link for free download: *https://www.icai.org/Resources.html?mod=6*

Role of internal auditor in fraud detection & mitigation

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"AUDITOR IS WATCHDOG AND NOT BLOODHOUND" is well known saying. This is something which is ingrained in the mind of all auditors. Recent events and backlash against the auditing community make us wonder whether this thought is still valid or not. There seems to be a gap between the expectations of the stakeholders and the regulators and what is being delivered. This may be a perception but as it is famously said that perception is reality. The role of internal auditors has also been under the radar.

A few days back there was a news item as regards a van loaded with cash that was stolen by the driver of the Van. Upon investigation, it was identified that the driver had recently joined the organization and the police verification process was not carried out. This directly indicates a process failure that if detected/ controlled could have avoided the fraud. This is just one example and if we do a deep dive into most of the cases, fraud is an outcome of what we call a fraud triangle theory which consists of three elements i.e. incentive, rationalization, and opportunity.

Standard on internal audit (SIA-11) – Consideration of fraud in internal audit

The standard though not mandatory especially requires the internal auditor to consider the fraud risk and ensure due care is taken to address the fraud risk during the course of the internal audit. The role of the internal auditor would be to identify potential fraud indicators or red flags and communicate the same to those charged with governance.

Changing expectations from internal auditors

In addition to providing value addition and assurance to the management, the internal auditors are now expected to contribute to identifying fraud risk and helping the organization in mitigating & detecting fraud. The internal auditors are required to be more alert and more conscious efforts are needed in those directions. The regulators and the public have constantly questioned the role of the auditors and their inability to prevent and detect fraud.

These changing expectations also result in more opportunities. The internal auditors would have to prepare themselves to face these challenges.

How do internal auditors prepare for these challenges?

- **Understanding technology** - Technology is changing very rapidly and along with the ease of doing business it also brings about newer risks. Take an example of online payments which are very common now, the auditing procedures and methodology which is required are substantially different as compared to the traditional payment system. The auditing steps should include the potential risk from frauds by modifying the bank account numbers, phishing attacks, compromise of passwords, use of authorized devices etc.

  Many organizations have started moving towards robotic processes and accordingly, the internal auditors would need to upgrade their knowledge about these methods and how to perform audits under such situations. Additionally, developments in the field of artificial intelligence and analytical tools need to be closely tracked. The new ways of doing business and gathering data would have an impact on the auditing procedures, their efficiency and outcomes.

- **Investing & use of technology** – Modern auditing requires auditing through the system and not around the system. The audit firms would need to invest substantially in new technologies which provide them with an edge in performing internal audits and meeting the stakeholder's expectations. The time has come when it would not be possible to perform audits in a conventional manner and using data analytic tools and auditing software will be mandatory.

> "The role of the internal auditor would be to identify potential fraud indicators or red flags and communicate the same to those charged with governance."

- **Big data -** The buzzword today is big data and the auditors would need to develop an eye to understand the data and identify trends or patterns which would help them draw audit conclusions. There is a need for formal training programs within the audit firms as regards how to process and analyze voluminous data. These are specialized skills that need to be developed.

- **Understanding cyber risk –** This has become a very important element in today's world and though internal auditors need not be experts on this subject, it is important that they understand the potential risk emanating from this aspect. The internal audit processes and checklist would have to be redefined to include steps to audit this aspect. In many cases, help from experts should be sought which would make internal audit more comprehensive and provides greater assurance to the management and stakeholders. Earlier there was a conception that such risks are only relevant to very large organizations however they are equally relevant to small and medium businesses also.

- **Being more aware and conscious of the risk –** Being more alert and aware of the potential threat would help the auditors a great deal in developing the audit scope and planning the audit. This would set the ball rolling and will go a long way in meeting desired objectives.

- **Be aware of regulatory guidance and international practices -** The ICAI has issued an auditing standard on the auditor's responsibility relating to fraud in financial statements. Though this forms a statutory audit perspective, knowledge about the same would help the internal auditors as their work is also being used by the statutory auditors of the entity. The framework governing internal audit issued by ICAI which is presently recommendatory also talks about risk management and fraud risk is one of the elements of risk management. Internationally there is guidance available on fraud risk management also through standards and practice guides issued by The Institute of Internal Auditors.

Fraud is generally understood to mean the risk of unexpected financial, material or reputational loss as a result of fraudulent actions of persons internal or external to the organization. This also includes the risk of misstatements in financial statements.

Though the ultimate responsibility of managing the fraud risk is of the management, the internal auditors with their in-depth understanding of the systems, process risk & controls are best suited to support the companies mitigate and detect fraud risk.

"A stitch in time saves nine" is an old and famous saying and this applies to risk management principles also, and hence fraud mitigation plays a very important role. Some of the areas where internal auditors can play a key role and act as an extended arm of the management are elaborated in the below paragraphs:

> "The auditing steps should include the potential risk from frauds by modifying the bank account numbers, phishing attacks, compromise of passwords, use of authorized devices etc."

A. Create a framework for fraud risk management

The internal auditors can help the entities to create a fraud risk framework. This would include items like:

- Tone at the top and management philosophy
- Guidelines for fraud risk assessment
- Prevention and detection
- Monitoring and reporting
- Substantiality
- Identifying the responsibilities and accountability

This is usually a starting point in the journey of fraud risk management and the charter document which is presented to the audit committee and board for approval.

B. Fraud risk assessment

Fraud risk assessment simply means proactively addressing the vulnerabilities towards threats from internal and external sources.

Organizations are exposed to various types of fraud risks including:

- Embezzlement of funds
- Misappropriation of assets
- Theft of propriety information

In order to do a fraud risk assessment, one must understand the concept of the fraud triangle. The fraud triangle is commonly used to explain the reason behind the fraud. It has three main pillars

> **There is a need for formal training programs within the audit firms as regards how to process and analyze voluminous data.**

Opportunity	• Weakness in internal control • Concentration of control • Lack of segregation of duties • Lack of management oversight • Lack of documentation
Incentive	• Personal incentives • Sales/Profit driven incentives (these create pressure to report numbers) • Expectations from the stock market, investors, etc.
Rationalization	• Personal problems • Grievances with management or practice followed by senior management • Poor tone at the top

Steps involved in fraud risk assessment

1. **Creation of risk universe** - This is usually the first step in the process of fraud risk assessment. Here the internal auditor meets the senior management and process owners and understands the businesses, existing ERP systems, SOP, etc. Based on this understanding a risk universe is created. During this step, all the possible risks are identified and documented. This process needs to be interactive and in consultation with various process owners and business heads.

2. **Quantify the potential risk and rate them between high, medium and low** - The audit team after having identified the potential risk would perform a detailed examination of system design and controls which mitigate the risk.

   This step would include evaluating the following:

   - Maker-checker controls
   - Concentration of power
   - Inherent controls
   - Understanding whether the controls are manual or automated
   - Testing the systems in different situations

Based on the above, the frequency and impact of each risk are identified, and a risk map is created. The risk which has high frequency and high impact is usually classified as a high risk.

3. Creation of fraud risk register and treatment of risk - The risks are addressed in the following manner

   - Avoid or terminate the risk
   - Transfer the risk
   - Treat the risk with mitigating controls (this helps in bring the risk down to a manageable level)
   - Assume the risk

4. Integrate the fraud risk register with the internal audit plan - The internal

audit plan should focus on auditing the controls which mitigate the fraud risk. The periodicity and extent of verification would depend on the type of risk and operating effectiveness of the control. One example is tabulated below:

Function / Activity	Risk	Risk rating	Control
Payment	Risk of unauthorized payment	High	• Multiple checks and approval at different levels • The linkage between PO and payment • Payments only permitted to authorized vendors • Online payments are restricted to specific devices and IP

C. Drafting code of conduct & policies

The internal auditors can also have a role to play in supporting the organization in creating the code of conduct for its employees. These typically include:

- Policy as regards acceptance of gifts from vendors, customers, etc.
- Anti - Bribery policies and guidelines
- Gifts to customers/ dealers etc.
- Conflict of interest related guidelines

Having such robust guidelines brings clarity as regards the process to be followed and also once documented, compliance with the same can be covered as a part of the internal audit program.

D. Fraud awareness training programs

Being aware of potential risk also helps mitigate the risk and as a result, the employees tend to be more careful in their day-to-day operations.

Internal auditors can play a significant role in creating a training calendar for the organization and conducting such training programs.

E. Fraud risk detection

This is an area where internal auditors can play a key role. One of the expectations from the internal auditor is to identify potential red flags and loopholes in the system. Though an internal audit is different from a forensic audit, it is possible for an internal auditor to identify potential fraud risks.

Some key steps / tips are as under:

- **Planning** - The internal audit plan and checklist should include the fraud risk aspect. This would bring out clarity during the course of the audit. The selection of the audit population should be done after considering the fraud risk.
- Use professional scepticism
- Being alert to unusual transactions / large expenses
- Keeping an open mind and observing things around you
- Look at the larger picture and not be focused only on the sample selected

Some of the examples of red flags are as under:

Particulars	Details / examples
Deficiencies in system design which create opportunities to perpetrate fraud	• The person handling the cash has access to the accounting system • No system to document the price discovery mechanism • Procurement person is also responsible for the bill passing and payment processing • No segregation of duties or maker-checker controls • Modifications to vendor master or employee masters not reviewed

Lack of operating effectiveness of controls	• Many instances of unapproved payments • Bank reconciliations not performed on a timely basis • Many cases of deviations from standard operating procedures • Errors in MIS / reporting to senior management • Deficiencies in supporting documents

F. Help companies in setting up fraud prevention & detection software & system

Various software/tools are installed that flag unusual transactions and raise alerts which then can be examined/ confirmed with human intervention. A common example of this can be found in credit card companies. These systems/ software flag high-value transactions or transactions during non-business hours and automated confirmation calls are made to the customers. This acts as an effective fraud prevention mechanism.

The internal auditor can play a role in helping the management identify and implement such systems.

As we conclude, there are numerous opportunities for internal auditors in the mitigation and detection of fraud. However, the auditing fraternity would have to continuously upgrade their skills and make investments in terms of time as well as money in modern technologies. In a start-up era, the promoters and investors would look upon the internal auditors with greater responsibilities and expect them to play a more consultative role in setting up the systems which pave way for future business growth.

FORENSIC ACCOUNTING

Understanding the Forensic Mandate

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Forensics is now a new buzzword in this era of high-profile frauds which has found many headlines these days. The term forensics has become so popular that the media (and some others) have coined a new term called "Forensic Audit" to indicate a fraud investigation. Forensic Accounting, in its classical sense, refers to the activity of gathering facts and evidence in the accounting domain to support legal cases. However, now it has become more of a generic term to indicate a particular type of "detailed audit" designed to unearth fraudulent activity. This stems primarily from the fact that forensics is seen as an extension of a typical audit and Chartered Accountants (CAs) are generally best placed to also undertake Forensic Accounting and Investigation work.

In this article, we will look at the fundamentals of forensics, especially in sofar as it applies to the auditing domain, with which it gets confused so often. But first, we need to explore this term a little and make a clear distinction between what it is, and why it's actually not an audit. Given the nature of the assignment, and the skills required to undertake forensic work, we will also discuss the manner in which Auditors need to approach forensic assignments and ensure that these are properly integrated as part of the overall engagement mandate, whether Statutory Audit or Internal Audit. The sensitivity of the subject matter (frauds and questionable transactions) makes it very important that the Auditors approach forensic assignments in a highly proficient manner and give them the required focus and due professional care.

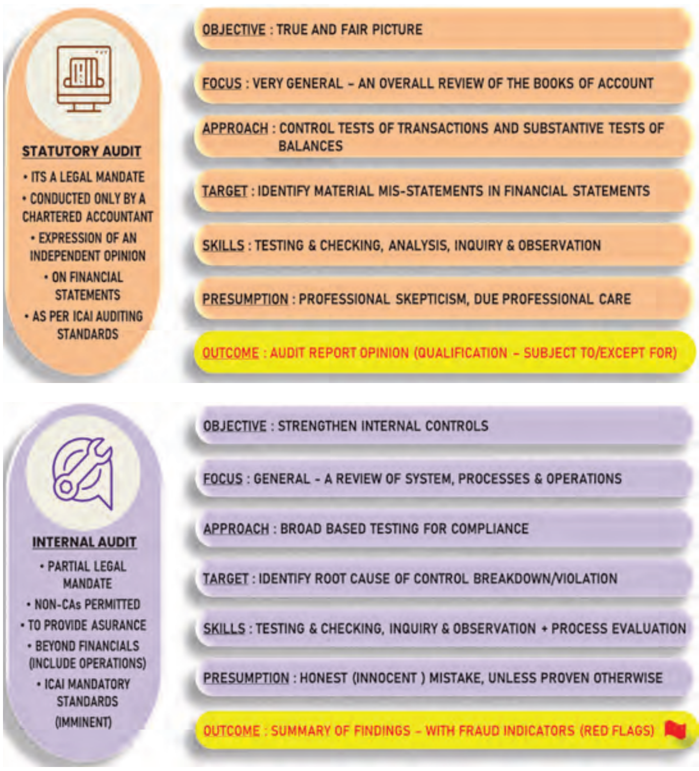
Correcting the terminology

Before we talk about forensic fundamentals and the mandate, we need to make sure we are speaking a standard "forensic language" so that we are all on the same wavelength. This is very important since so much of the terminology in different domains gets interchanged and causes unnecessary confusion, added to the fact that new terms like "Forensic Audit" mentioned above, get used quite casually and cause misuse of the technical terms. There are actually four domains where aspects of forensics come into play - Statutory Audit, Internal Audit, Forensic Accounting and Investigations. However, this is more by accident, and not by design. In fact, if you look at it closely, all four domains are absolutely different by design.

Through four simple infographics (presented below), we attempt to identify the key distinctions between these four domains. Certain key elements relevant to each domain (e.g., Objective, Focus, Approach, etc.) are used as a basis to make the distinctions. As can be observed, there are certain fundamental differences between all four domains. Hence, it's inappropriate to mix-up the terms, or use them interchangeably, especially by the professional conducting an assignment in any one of the domains. It's risky not only for the professional but also for the clients and other stakeholders, as the receiver of the output has to be absolutely clear as to the nature of the outcome of the assignment. Mixing them up can also result in a confusing approach and sub-standard execution of the assignment. Hence the term "Forensic Audit" should be avoided, as it mixes up the two domains.

The following four infographics will provide greater clarity regarding the fundamental elements of the four domains, and their importance in agreeing to the mandate:

FORENSIC ACCOUNTING



NOTE: This infographic is not part of the FAIS literature, but a a creation to clarify the distinctions between the four domains.

Based on the above, the professional has to educate not only himself but also apprise his clients and other stakeholders (e.g., the Board of Directors or a Court of Law) as to which one of the four mandates they have agreed to, since the outcome to be delivered will be different in each case. For example, if the mandate includes forensics, then the nature of the work involves gathering evidence for legal purposes and covers most (if not all) of the population. It will not be a sample based "Audit" designed to provide general assurance of true and fair or effectiveness of internal controls. That is why mixing up these fundamental elements is highly risky and should be avoided at all costs.

Forensic Accounting and Investigation Standards

The Institute of Chartered Accountants of India (ICAI) has recently issued a full set of new 20 Standards covering the two domains of Forensic Accounting and Investigations. These are referred to as the "Forensic Accounting and Investigation Standards" (or FAIS) and, sometime in the future, will become mandatory for all members of the ICAI when conducting assignments in these two domains. It's also probable that these may eventually apply to all professionals operating in the area of forensics and investigations.

It would be prudent for all professionals engaged in forensic accounting or investigations to be conversant with the FAIS as they will be able to conduct high- quality assignments based on these Standards. Since the focus of this article is to make the ICAI professional familiar with the manner of engaging in forensics, we will limit our focus only to certain fundamental aspects, rather than get into the details of each of the standards. For those interested, a digital copy of the Compendium of the FAIS is available on: *https://resource.cdn.icai.org/66387daab53640.pdf*

Role of the professional regarding forensics

Generally, the ICAI professional would have a mandate in line with the infographic presented above. The practising CAs should ensure engagement communication to confirm this mandate. However, many times this is not very crystal clear, especially for the CAs working in industry (e.g., as an Internal Auditor). In fact, some stakeholders, like the promoter may believe the mandate to be very broad (and include some element of forensics or investigations), while other stakeholders within the same organisation (such as operational management) may think it's rather narrow. Part of the reason for this confusion can be ascribed to the culture of the organisation, but partly also to the personal credibility of the CA professional, who is expected to deliver more than the mandate, especially in the area of frauds and irregularities!

Nevertheless, every Auditor is expected to generate an outcome (such as an Audit Report) which highlights certain shortcomings in the systems and processes which are the subject of his audit procedures. While most of the findings would highlight an unaddressed risk, and the need to mitigate the risk with some recommendations, some of the findings may actually indicate certain "red flags" highlighting potential fraud risks. Management would be directed to address those concerns with a higher degree of importance and urgency. Technically, the Auditor is not expected to go beyond this scope or undertake any further forensic or investigative work to confirm or deny the suspicions. This is because its neither his mandate, nor may he have the skills to do so.

> **"The Institute of Chartered Accountants of India (ICAI) has recently issued a full set of new 20 Standards covering the two domains of Forensic Accounting and Investigations."**

On the other hand, the professional may decide to undertake additional procedures on his own to validate the suspicions, in which case he runs the danger of creating problems for the FAIS professional who may come later with a mandate to unearth the fraud. At this point, we may find that the culprit has been alerted and covered his trail, and possibly even destroyed key evidences. This is why we cannot drift from one domain to another. Nevertheless, there are situations where the Internal Audit Department (IAD) has a standing mandate to conduct fraud investigations, in which case one would find the Chief Audit Executive well prepared, equipped and possessing the desired skills for conducting forensic and investigation assignments.

Hence, it is critical for the CA professional to have (or get) clarity on the mandate.

> **"Internal Audit Department (IAD) has a standing mandate to conduct fraud investigations, in which case one would find the Chief Audit Executive well prepared, equipped and possessing the desired skills for conducting forensic and investigation assignments."**

Forensic Fundamentals

Forensic work requires some very critical steps that the CA professional needs to keep in mind when undertaking these assignments. Using the FAIS as the basis, we summarise the important aspects as follows:

Basic Principles

The literature requires five principles which are essential to establish the credibility of the professional and another five performance- related principles to establish the reliability of the work done. The first five cover the basic attributes of the professional and are quite straightforward. Some of the Performance related principles are worth mentioning here:

(a) **Predications**: No forensic or investigation assignment is to commence without a clear understanding of the trigger. The list of violations, the red flags, the list of allegations, fraud indicators, etc., are all part of the predications, which need to be recognised in conjunction with the context and the situation. While in audit we are looking for the "unknown" (e.g., material miss-statements or control weaknesses), in forensic or investigations we are seeking evidence for something that is "known" (e.g., code violations or allegations of fraud – something relatively specific).

(b) **Primacy of Truth**: The overall objective is to unearth the truth and to support this with compelling evidence which speaks for itself, and can withstand the scrutiny of cross-examination in a court of law. The truth is most often established with facts, figures and reliable & appropriate evidential matter.

(c) **Facts and Opinions**: Personal perspectives have to be separated from professional judgement and this is particularly important when interviewing a witness or a suspect. While in audit we are expected to express our professional opinion, however when reporting on forensic assignments we avoid such opinions (see point **Reporting**, below).

The Mandate: The Standard on Nature of Engagement focuses on the mandate, a topic already covered above, but worth reiterating the following points:

(a) Forensic Accounting is closely related to frauds, and also acts as means to conduct financial fraud investigations designed to establish the presence or absence of frauds and irregularities as per law.

(b) It cannot be confused with other financial examinations like audit and it requires special skills and techniques to conduct these assignments.

(c) The professional has to be absolutely clear on the domain of operation: is it an Internal Audit, a Forensic Accounting assignment or an Investigations?

(d) One also has to avoid any confusion on the role "assigned" vs. role "assumed", and check if the assumed role is acceptable or not?

Risk Assessment: Forensic Assignments generally involve a high probability of suspicious transactions and business arrangements, or the possibility of fraudulent events. All these are risks which need to be factored in right from the beginning and covered well at the planning and execution stage.

Legal Aspects: It's important to re-emphasize and keep in mind that the work and output of the Forensic Accountant or Investigator may be subject to subpoena and therefore, the professional should be familiar with (and extra cautious) regarding the applicable laws and regulations and their implications. In fact, he has to function just as much as a lawyer as an accountant.

Application of Hypotheses
These assignments require the formulation and testing of a hypothesis which may prove/ disprove a modus operandi, which in turn may establish or refute the predication (the original allegations). In a way, it's like putting together a jigsaw puzzle where each piece acts like a hypothesis and may not even belong there, apart from being in the right place.

> **"Forensic Assignments generally involve a high probability of suspicious transactions and business arrangements, or the possibility of fraudulent events."**

The Execution
The execution of these assignments is done in two phases, firstly behind the scenes to collect as much evidence as possible, and then by confronting the individuals (if part of the mandate) with face-to-face interviews to corroborate and validate the preliminary evidence.

Digital Evidence: A lot of the evidence is now discovered in digital form and the expertise required to gather this evidence is quite specialised in nature. Evidence discovery also requires strict legal compliance (e.g., Chain of Custody).

Reporting: It is not the job of the professional to identify the suspect as "guilty or innocent". That would result in a conflict and is the role of another third party (the judge). The job of the professional is to report the evidence discovered and, at most, the conclusions which may be drawn from the evidence discovered.

Conclusion

When undertaking Forensic or Investigation assignments, the CA professional has to be absolutely clear regarding the mandate given and how well this is in line with his expertise. If working in Industry, it is possible that the mandate may require the professional to assume a role which is different from the role assigned (e.g., Internal Auditor). Consistent with this new role, the professional needs to execute his forensic assignments to allow him to deliver in line with the agreed mandate, which will NOT be an Audit.

Assignments in this domain are now expected to comply with the new Forensic Accounting and Investigation Standards (FAIS). Hence the report to be issued has to be consistent with the FAIS and will not be an audit report or even a report involving an opinion over the guilt or innocence of any individual. The report would most likely be a list of evidences discovered, which prove or disprove the predications as per mandate. If these evidences indicate a fraudulent modus operandi, then the evidences should be presented as such.

Defensive Solutions against Cyber Threats in Indian Banking Ecosystem

***Ankur Khairwal and **Dr. Haresh Barot**

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In the current tech era, one of the most destructive crimes is cyber fraud. With time, they are growing rapidly, and the banking sector is most prone and always remains top in the hit list. Improved digitization in the banking sector has given a fillip to cyber frauds globally. Fraudsters targeting the financial sector have grown very rapidly in past years. Bank frauds such as unauthorized access to credit/debit card details, phishing, identity theft, vishing and smishing followed by QR code/ UPI scams are growing rapidly. Considering possible approaches in thought, we have explored possible channels and possible prevention strategies against such cyber threats.

Fraud, committed with either a small or big amount, puts the banks' reputation at stake. Fraud detection is a set of tasks and activities undertaken to prevent/safeguard money or property from being obtained illegally and by false means. In this situation, early detection of fraud can save the bank, its reputation, the trust of common people and the economy to a better extent. For this, the bank authorities should be trained in this area.

In the financial year 2020, the fraud percentage by value was 159% as compared to financial year 2019. The average lag between cyber fraud and detection is about 24 months, which affects recovery.[1] In cyber fraud there is no border, fraudsters sitting across borders can easily commit multiple frauds by the use of technology. Early detection of fraud will help maximize the recovery amount. It will further warn the fraudulent indirectly about the robustness and high security of the banking system. Governing bodies have warned the banks about following the proper norms and compliance. Increasing cyber awareness and fraud awareness in the staff and training them regularly will help in early fraud detection. The weak implementation of Early Warning Signals (EWS) is the key challenge in early fraud detection. If the challenges are overcome, and a monitoring system is made, robust fraud detection can be easier and earlier. Lately, it shatters the banking system's security and eventually affects the economy.

Timely inspection, monitoring and its reporting play a vital role. Focus should be on proper compliance with KYC, norms for releasing funds, ensuring the safety of customers' funds. There should be a proper monitoring system and robust appraisal cycle, which monitors the release and proper recovery of the amount from time to time. For the auditing authority to report and identify the frauds, proper incentives should be announced. Sometimes when the fraudulent getaway is undetected, it becomes difficult for agencies to track and bring them back. Due to this, the case is prolonged and recovery is delayed. It is high time that we should use all the safe technology advancements in the banking sector, which helps in detecting suspicious activities going on with the cyber system of banks and accounts. [1,2]

Defensive Approach

Implementing Cybersecurity framework: RBI Guidelines

The RBI Guidelines on Cybersecurity Framework would allow banks to establish and implement a cyber-security policy as well as a cyber-crisis management strategy. The necessity to exchange information about cybersecurity events with the RBI would also aid in the framework of proactive threat detection and mitigation.[3]

Few prevention strategies that can help to mitigate fraudulent activities:

> Fraud detection is a set of tasks and activities undertaken to prevent/safeguard money or property from being obtained illegally and by false means.

- Anti-fraud environment to prevent a critical component of any fraud risk management process is the establishment of an anti-fraud mindset as way of life by the administration.
- Historic fraudulent assessment that has an efficient risk incident response plan uses lessons learned from previous fraud instances to fine-tune the architecture and avoid similar crimes from going into effect.
- Proactive fraud risk evaluation that consists of the cornerstone of mitigating risk should be a periodic evaluation and review of the possibility and effect of various fraud scenarios, as well as an assessment of the organization's preparation against such fraud risk
- Continuous monitoring uses tools and techniques for real-time/near-real-time monitoring of possible fraud threats are crucial to preventing future fraud events.
- Whistleblowing includes a policy that ensures no retribution against the presenter is essential for detection of fraud earlier on, as is an efficient complaints channel.

Among the approaches banks might deploy, security solutions that are Rule-based assessment and includes historical data to identify patterns of fraudulent behavior that you are already aware of:

- Anomaly-based assessment which assists in the discovery of abnormal behavior that may suggest fraudulence or perhaps another concern.
- Advanced analytics which determine if additional materials or behaviors will be engaged in fraud depending on persons, locations, or practices that have previously been implicated in fraud instances
- Linkage assessment that connects data associated with previous frauds (e.g., identities, emails, credit card information, employment history, etc.) for quicker identification and mitigation
- Textual assessment includes examining documentation, communications, as well as other text-based proof for basic terminology and forms of expression used during frauds. [3,4]

> The RBI Guidelines on Cybersecurity Framework would allow banks to establish and implement a cyber-security policy as well as a cyber-crisis management strategy.

Implementation of Awareness training

There are many challenges faced by the banks to detect frauds. With the increase in technology advancement, cyber-attacks have also been sophisticated and advanced for which awareness training amongst the customers, employees and directors is must. Proper awareness training can help in early detection of fraud, and prevent fraud. Awareness training should be planned keeping in mind the major challenges. Education on security and awareness is very important in financial institutions. Awareness amongst bank customers can reduce the fraud up to a limit, and banks should spread awareness amongst the users too.

Key points around which trainings can be planned:

- Understanding the definition of fraud and cyber frauds: staff, customers should understand the meaning of fraud and basic details of frauds.
- Awareness on advanced technological frauds such as phishing attacks, ransomware, malware, APT, social engineering attacks.
- Why frauds are planned:

Identifying the motive behind the fraud.

- Identifying RFA: Red flag accounts should be identified by keeping an eye on large amounts of money transfers and loan accounts.
- Assess and identify fraud reporting mechanism.
- Incident Response plan.

Making the target audience understand the definition of awareness. Spreading awareness through communication channels like Figure 1.1

Figure: 1.1: Spreading awareness through communication channels

Banks should make fraud awareness-training programs mandatory. Based on that, employee assessment can also be done. Facilitating the staff, customers and target audience by planning and executing training on a quarterly basis will educate them about frauds and preventive measures.

Effective content of the training will help to grow the interest of the seekers. The use of technology and devices should be taught to the staff so that they are not blocked by the traditional banking system. Small mistakes are leading to big cyber-attacks. Cyber-attacks target bank processing systems and intervene in big financial transactions. Consumers should be aware to inform the bank in case of missing funds or unauthenticated login to net banking. For example, an increase in cashless transactions should be done with all security measures by the consumers. All the employees should be provided with content of the devastating impacts of security breach, cyber system hacks, ATM system hacks etc. So that they always take measures for preventing the attacks. Here is an example of cyber-attack on bank.

> “Awareness amongst bank customers can reduce the fraud up to a limit, and banks should spread awareness amongst the users too.”

- **Cosmos Bank Cyber-attack:** Hackers hacked the bank's ATM system. They gained all the card details and took off money from 28 countries. Immediately, they withdrew the amount before any action could be taken against them.

Figure: 1.2: shows overview of cosmos bank cyberattack

Implementing risk management service

Risk Management is the process of analyzing, assessing, identifying and planning to prevent frauds and losses. In simple terms, if a bank is crediting money as a loan, then it exposes itself to risk. To prevent this, a Risk Management Model should be developed which will prevent fraud initially by detecting fraud at the first instance and responding to it. Risk management also helps in taking action when fraud occurs.

The International Organization for Standardization (ISO) has developed some standards that all banks should follow on the global scale. The Risk Management model should contain the following few key areas for effectiveness:

- Technology and data analytics tool.
- Use of information security management system
- People, Culture and Organizational Interest.
- Planning, Strategy and Governance.
- Process Compliance and Controls Strategy.

If the banks do not give the required importance to risk management, it can expose them to frauds. Implementing RMS and letting the customers know about it can definitely build up their trust in the organization. Complying with the latest cybersecurity and using the latest technology advancements while making a risk management model will be a big plus. Risk Management should contain the steps to mitigate risk, prevent fraud and report them. A strong team of technical and cybersecurity domain experts should be formed, which prepares the staff about the technology-based threats.

A well-formed Risk Management Service will increase accountability and transparency within the system. With the rapid increase in cyber frauds, it has become a necessity for all banks and financial institutions. The target audience should be made aware of the criticality if the risk is not assessed timely. [6] In the model, it should have a list of events which can damage and the amount of damage that can be done to the business. Then the necessary actions should be planned in order to manage those risks. Continuous review of the reporting and assessment should be made. It should be considered whether the mentioned steps are being followed or not. Disciplinary actions should be taken if the model is not being followed. The panel that identifies cyber risk and prevents frauds should be incentivized. This will keep the morale of the staff up. In conclusion, Risk Management Service is a must in the banking sector. Table: 1.1 shows details about internal controls and fraud risk management activities.

> “Use of technology and devices should be taught to the staff so that they are not backed by the traditional banking system.”

Table: 1.1: Internal control for fraud risk management activities.

Mechanisms	Fraud Risk management activities
Fraud Risk Management	• Establishing a cyber fraud risk assessment process. • Involving an appropriate person in the information security fraud risk assessment process. • Performing an overall fraud risk assessment on a regular basis.
System Monitoring	• Continuous network and server monitoring. • Continuous IT infrastructure monitoring. • Providing periodic evaluation of anti-fraud controls. • Using independent evaluation in banks through internal audit programs. • Use of advanced technology in continuous monitoring programs.
Anti-fraud control activities	• Defining and documenting mitigating controls and linking them to the identified risks. • Modifying existing controls, designing and implementing new preventive controls and implementing strategies.
Information and communication	• Promoting the importance of fraud risk management programs through communication channels. • Scheming and developing information security awareness training programs.

Implementing Proper Risk assessment framework

Fraud risk management is an important activity, not a one-time event. As an organization grows and changes, so do its fraudulent threats that are an assessment of the gaps in risk management and internal control skills discovering missing features in comparison to industry norms to discovering improvement potential for existing fraud risk methods.[4] Identifying targets for correcting gaps and developing an implementation plan to reach the desired outcome, Fraudulent risk assessment includes conducting organisation-wide fraudulent risk assessments of elevated activities and operations, assessing the efficiency of corporate governance in risk management, and recording results in the context of a comprehensive fraudulent risk level. Figure 1.2 presents a few steps for managing the same.

Figure: 1.3: Steps for managing suspicious transactions and fraudulent response strategy

Framework for managing suspicious transactions and a fraudulent response strategy creating a fraudulent strategy and fraud prevention plan

(i) Set baselines for controlling fraud risk by delineating roles and duties.

> **“A strong team of technical and cybersecurity domain experts should be formed, which prepares the staff about the technology-based threats.”**

(ii) Effectively direct reaction and reporting processes in the case of identified or suspected fraud activity, Information analysis, and ongoing activity monitoring entail gathering data from many systems and mining it for abnormalities, inconsistencies, and strange trends.[10]

The framework aids in casework and investigations while decreasing false positives. Fraud risk-informed training includes

(i) Ethical problem workshops to teach employees to notice red flags in the online banking system, directing them to where they may get help and counsel, and displaying management must be committed to preventing fraud

(ii) Establishing a whistle-blower policy that encourages workers and other individuals to speak freely without fear of consequences and creating a safe and anonymous reporting structure, such as an unattended grievance mailbox.

Appropriate System/ IT-Audits

An audit is a part of the detailed analysis; it plays an important role in all fraud detection and prevention. It also minimizes risk faced by the organization. [4] An internal structure should be well designed to address the needs of the organization while also being adaptable and ready to change.[6] Although numerous elements influence cyber risk, banks should priorities the criteria when deciding if they are at a heightened threat of cybercrime like technological invasions which technique has now become increasingly prevalent throughout the world. With accessibility to our accounts, data available via the cloud, and portable devices, numerous organizations' internal networking may now be accessed. Technological changes, business structures, and data floods all contribute to a plethora of reasons that increase cyber risk. [5]

Internal IT auditor's understanding of fraud would be based on collected and assessed data that are recognized red flags that indicate possible fraud. An auditor should be familiar with the hallmarks of fraud, as well as the specific strategies, schemes, and scenarios utilized to conduct fraud, assess the indications of fraud and decide if more action or inquiry is required, and examine the efficacy of procedures to prevent or detect fraud. Below, figure 1.4 shows about the audit functions.[7]

Figure: 1.4: Shows Audit functions

organization can protect it from major cyber fraud.

Acknowledge one's vulnerability to fraud risk assessment or weak points, identify the gaps in current fraud preventative health and detection methods of control, suggest corrective steps and techniques for dealing with fraud alerts, and investigate the signs – both confirmed and suspected fraud occurrences – is a holistic approach to anti-fraud countermeasures.

Implementing Regulatory Governance and compliance

Implementation of proper governance and compliance framework can also optimize cyber fraud in banking sectors. Banks must understand the growing need to address/ control suspicious transactions in a comprehensive and integrated approach, which also will benefit a business in a multitude of ways. Anti-fraud programs, safeguards, ethical behaviour, including adherence to systems and guidelines in the organizational processes are evaluated by identifying its susceptibility to fraud as the foundation for effective anti-fraud methods.[4] The absence of sufficient financial regulation was detrimental either to fraud system of internal control. Only a concerted and sustained effort on the component of an organization can protect it from major cyber fraud.

Implementing Employee Monitoring

Implementing employee monitoring can reduce fraud to an extent, and proper monitoring can help maintain better security. Employee Identification in False or misleading types, Irregular account access and monitoring involve login information for no valid business reason, account settings outside typical business circumstances, and bank information from outside the bank's geographic region.

Irregular accessibility is a kind of misbehavior that may signal that the organization is being considered as a potential object for illicit practices. Inappropriate account access and monitoring happens when an inside fraudster repeatedly accesses and analyses a particular account. Excessive access to a user's account might signal that the accounts are being evaluated as a possible target for improper misrepresentation, or that an insider fraudster has perpetrated a fraud and also has returned to see if the crime was discovered; unexpected account activity may also include submitting transactions from outside office hours or hours after a client branch visitation. [6]

The activities may suggest that an inside fraudster has recognized and exploited the account, Unusual general ledger transactions to an individual's bank account must be examined. [8][9] Similarly, irregular transfers to the accounting system from dormant payers, aged or susceptible account holders, or affluent account holders may be indicators of fraud activities, Regulations should be developed and constructed in such a way that they cannot be overruled without authorized permission, irrespective of the size of the company. Inadequate protection and disregard for staff obligations can lead to collaboration with risky third parties. Responsibilities should be separated at all organizational levels and be appropriate to each unique job. [11]

Use of Advanced vigilance tool

To avoid unusual and elevated online transactions, detection and prevention equipment is being employed. Designed to check potentially unlawful transactions, interactions, or access, these systems continually monitor user activity and provide risk metrics. [12] Those technologies are utilized by the IT and regulatory departments of e-commerce firms and digital financial institutions to continuously monitor for fraudulent behaviours committed by their customers. Figure 1.5 shows best practices for fraud detections tools.

> **"A machine learning-based fraud detection technology might assist banks by allowing them to instrument it across several channels of information to be studied."**

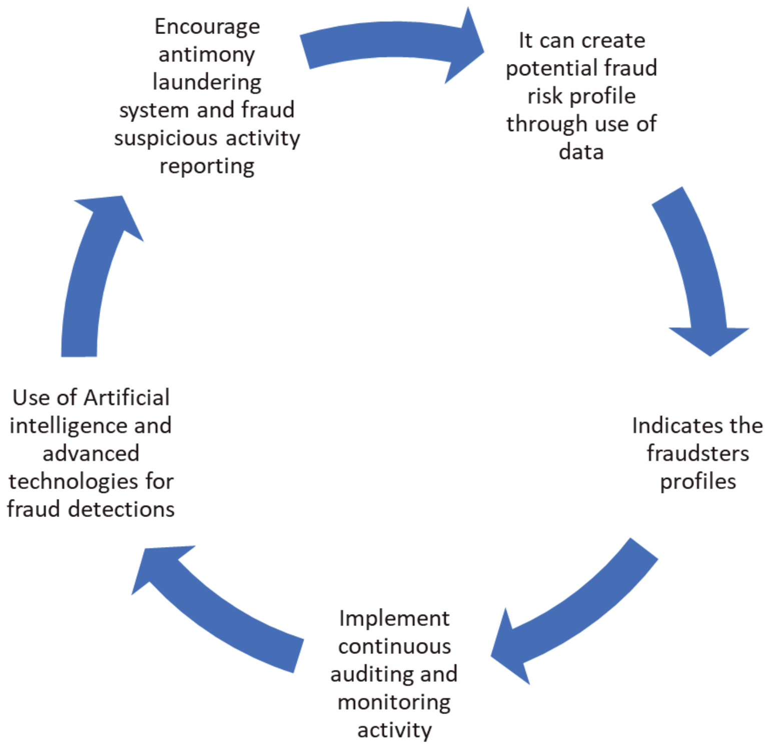

Figure:1.5: Shows the best practices for fraud detections

IT and experts opt to employ these technologies to ensure the validity of operations while also protecting critical data for consumers and the company. A machine learning-based fraud detection technology might assist banks by allowing them to instrument it across several channels of information to be studied. This implies that the model might be trained to identify fraud in much more than one sort of transaction or program, or with both at about the same instance. Following table 1.2 shows use cases of advanced vigilance tools

Table: 1.2: Shows the use of advanced vigilance tools

Use of Advance vigilance tool	Risk Management
	Anti-Money Laundering
	Fraud Detection
	Monitoring
	Prevention strategies against financial frauds
	Regulatory
	Early identification of frauds

Here are a few examples of advanced fraud prevention tools:

1. **ClearSale** is a complete fraud protection system that uses artificial intelligence, complex statistical methodologies, and a staff of expert fraud analysts to give the best possible results for their clients.
2. **Signifyd** uses artificial intelligence and machine learning to expose actionable commerce insights for businesses.
3. **Sift** is a holistic digital trust and safety package that enables clients to protect their interactions and work with real-time machine learning to optimize growth.

> **"Implementing employee monitoring can reduce fraud to an extent, and proper monitoring can help maintain better security."**

4. **Riskified** is an e-commerce fraud protection software that claims to prevent fraud from the logic to the checkout process while increasing consumer conversions.

Conclusion

Fraud has far-reaching consequences that go beyond monetary loss. While cyber fraud has an impact on individuals, businesses, organizations, services, and the environment. Entities can make better judgments if they understand the overall impact of fraud. Whether perpetrated by opportunistic individuals or major organized crime groups, any form of fraud can have significant consequences. On the other hand, serious and organized crime may often enhance the scope and effect of fraud. The existing security frameworks have many strong provisions to mitigate cyber fraud risk.

The proposed framework suggests the process of proper IT audit and its integral parts; this evidently shows how impactfully audit should be done. Combining comprehensive risk assessment, fraudulent activity and fraud reporting will be necessary as cyber hazards appear in the domains of fraud and financial crime. The structure of risks, which is dynamic and interdependent, demands ongoing monitoring to allow for the correct reaction. Understanding the evolving nature of scams and frauds techniques is thus a crucial first step. Using sophisticated solutions and tools within the security ecosystem, financial services are required to establish multiple layers of defense.

The key solution to our concern is a robust audit, among all defensive solutions, one underlying requirement is keeping our software up to date, through this, will be able to achieve better outcomes. Post fraud, it is important to capture detection and start its inspection taking as little time as possible. Teamwork is essential with the same dedication among all.

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AUDIT

Evaluation of audit quality maturity of firms using AQMM Rev v1.0

Contributed by the Centre for Audit Quality of the ICAI. Comments may be sent to caq@icai.in and eboard@icai.in

Audit Quality is paramount to the Institute of Chartered Accountants of India and setting up of the Centre for Audit Quality was a step in that direction. While defining and ascertaining audit quality remains a complex subject, the Centre for Audit Quality (CAQ) launched an Audit Quality Maturity Model (AQMMv1.0) in the year 2021.

AQMM v 1.0 is an evaluation model, an amalgamation of a well-researched set of Audit Quality Indicators (AQIs), which not only help firms to arrive at their current maturity level but also provides a mechanism to help and guide to improvise their audit quality.

The Mandate

The evaluation of the level of the firm's audit quality maturity using AQMM has been recommendatory for the firms since its launch in July 2021. However, AQMM has now become mandatory from 1st of April 2023. The firms conducting an audit of listed companies or banks, or insurance companies will now be required to undertake the assessment of audit quality maturity using the Audit Quality Maturity Model (AQMM) rev v1.0.

The firms conducting an audit of branches only are not covered by the mandate.

Revised Audit Quality Maturity Model (AQMM rev v1.0)

The Audit Quality Maturity Model (AQMMv1.0) has been fine-tuned to carry out minor modifications in two of its sub-sections for the benefit of the firms:

1.5(i) has been modified to specifically provide a quality review of the engagements required by Para 60 of SQC 1 as against the requirement of quality review of all audit engagements.

This has been modified keeping in line with the requirements of SQC 1 for conducting a quality review of engagements so that the firm is not at loss with a low score even after meeting the mandatory requirements.

The words ''partner review"' have also been done away with, as partner review is a must for all engagements.

3.3(ii) has been modified to give weightage to the firm for being empaneled with either of the regulators as against giving the impression that the firm would score only when empaneled with both the regulators.

Responsibility for undertaking evalution of audit quality maturity

The firm's Chief Executive Officer (or equivalent) or Managing Partner (or equivalent) who assumes the ultimate responsibility for the firm's system of quality control, shall be responsible for self-evaluation of audit quality maturity using AQMM rev v1.0 and review of AQMM scores by a Peer/AQMM reviewer.

Firms are required to maintain the supporting documents to support their scores which would be made available to the peer reviewer /AQMM reviewer during the review process.

Review of the scores and the level obtained using AQMM Revised v1.0

The scores and the level obtained by the firm using the AQMM revised v1.0 shall be reviewed by the Peer Reviewer alongside the peer review. This would technically mean that the firms would assess their scores and levels once in three years, when the peer review falls due. However, for the firms whose last peer review cycle has been completed and not a year has elapsed from the date of the last review, such firms may choose to get their scores reviewed before their next peer review falls due by an AQMM reviewer.

AQMM Reviewer is a member of the Institute of Chartered Accountants of India and will be empanelled as a peer reviewer. He is appointed by the Peer Review Board for conducting AQMM review any time before the peer review cycle of the firm falls due.

Availability of the level of the firm obtained in the public domain

Upon review of the scores and the level obtained by the firm using AQMM revised v1.0 by the peer reviewer/AQMM Reviewer, the level of the firm arrived by the firm shall be hosted on the website of the ICAI alongside the details of the peer review certificate.

However, the firms in no case shall release the scores/ level obtained through self-evaluation in the public domain.

How to undertake evaluation under AQMM?

The AQMM has been divided into three broad sections covering the operations, the human resource, and the strategic/functional areas of the firm. Each of the three areas has been further divided into various sub-sections based on various audit quality parameters. The maximum possible scores have been laid under each of the sub-section. It is important for the firm to score well under each section, as the level of the firm is based on the scores under each of the individual sections and not as a whole. The scoring of the firm is out of 600 in total, of which 280 have been allocated to Section 1, 240 to Section 2 and 80 to Section 3.

Section 1 deals with the Operations Practice Management having 9 sub-sections covering the revenue from assurance, the vision and mission statement of the firm, the availability and use of practice manuals, the usage of audit quality manuals and audit tools, the level of service delivery, the quality control for engagements, client sensitization, and the use of Information technology.

Section 2 covers Human Resource Management. It has 5 sub-sections covering Resource Planning & Monitoring.

Section 3 deals with the Practice Management - Strategic and Functional which includes 3 subsections covering Whistle Blower Policy, Adequate Infrastructure and Empanelment with Regulators like RBI and C&AG. The section attracts negative scoring.

To help the firms in their evaluation, the Centre for Audit Quality shall shortly be unveiling the digital version of the AQMM. This would facilitate the firms in evaluating and saving their AQMM scores and the reviewers for undertaking the reviews digitally to the extent possible.

Benefits of evaluation for the firms

- Helps to identify the current level of audit maturity
- Helps to identify the strength/ improvement areas
- Helps to chalk out a road map for improvement

The Centre for Audit Quality together with the Peer Review Board is also proposing to organize meetings with the firms and the peer reviewers at various locations across India to run through the process, the underlying benefits and the requirements under the mandate. The firms are advised to go through the Implementation guide available on the website before undertaking the scoring. To read out the complete text of AQMM Rev v1.0, you may visit *https://resource.cdn.icai.org/71488caq57512.pdf.*

TECHNOLOGY

Potential Risk and Challenges on Implementation of Blockchain Technology in Accounting

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Blockchain technology is regarded as another pioneering technology after cloud computing, internet of things and big data. Blockchain's unique characteristics which are immutability, transparency, and reliability were found to be useful not only in cryptocurrencies but also in accounting. However, blockchain in accounting is still in its early stages and has many challenges and potential risks to make it more reliable. In order to explore the challenges and potential risks of implementation of blockchain technology in the field of accounting, an opinion survey of professionals has been made in this study. Major challenge of concern by respondents is lack of skilled manpower followed by low data performance. Transformational risk (moving the existing framework to the blockchain based methodology) is the major potential risk identified by the respondents followed by system risk. Results also reveal that opinion of the respondents of different profession -groups are not significantly different for various statements. Factor analysis was also applied to 14 items of risk and extracts 5 risks such as operational risk, system related risk, legal risk, security risk and processing risk.

Introduction

Technological advancements and their adoption in the accounting profession have been more effective to date than in other profession. Blockchain is an emerging technology introduced in 2008. Blockchain technology (BT) is regarded as another pioneering technology after cloud computing, internet of things and big data, which has garnered concern from financial institutions, governments and technology enterprises (Yang, Li, Wu & Zhao, 2017). It is regarded as one of the most disruptive technologies since the internet (Yermack, 2017) or even "a game changer" (Andersen, 2016).

It was first used as a peer-to-peer ledger for registering the transactions of Bitcoin cryptocurrency. As it is being used in a decentralised manner, it removes the need for "trusted third parties" (Cachin, 2016). None of the participating entities can change an approved and registered activity without involving the other participating entities. Its content and all transactions are secure and cannot be altered after being added. Since no one can individually alter any of the recorded transactions, it is nearly impossible to fake records or repudiates an agreement. This feature is well suited for conducting different business activities like accounting.

Blockchain technology may represent the next step for accounting. Blockchain is very useful for accounting as the technology is based on transparency, decentralisation and immutability (Tapscott, & Tapscott, 2017). Blockchain technology has the potential to impact all recordkeeping processes, including the way transactions are initiated, processed, authorised, recorded and reported. Blockchain technology may provide new opportunities to reduce transaction costs dramatically and decrease transaction settlement time. It also brings changes in business models and business processes that may impact back-office activities such as financial reporting, tax preparation and could bring new challenges and opportunities to the audit and assurance profession. The function of accounting has been enhanced by blockchain (Ducas & Wilner 2017) as this technology helps to eliminate reconciliations and ensures transaction history.

> **The importance of blockchain technology in business and accounting is increasing day by day, as blockchain is a highly secure and calculable system.**

The importance of blockchain technology in business and accounting is increasing day by day, as blockchain is a highly secure and calculable system which provides peer-to-peer transactions without third party involvement. Besides, once the information of the transaction is recorded, the system stores multiple copies of it, so there is a rare probability to change or delete it from the system; which means the blockchain ledger would remain unaffected by unexpected events (Coyne and McMickle, 2017). Furthermore, the quality of data is exhaustive, reliable and widely available (Kiviat, 2015). Moreover, important advantages of blockchain technology are immutability, decentralisation, transparency visibility, traceability and verification.

These are considerable advantages that cannot be ignored, but blockchain still has many challenges and the potential risk to making it more reliable. It is a complex and new technology as non-technical persons or people from earlier generations are not familiar with it. Size and storage are also challenges for accounting with blockchain. Blockchain provides remarkable savings in transaction costs and time, but the high initial capital cost could be the limitation (Golosova & Romanovs, 2018). On the other hand, the most important challenges of BT (blockchain technology) are related to scalability, energy consumption, latency and low data performance (Dai and Vasarhelyi, 2017). Once the information is coded in BT, it is accessible to all of the network participants. Therefore, it could harm users' privacy, (Tan and Low, 2019) but also becomes attractive to hackers (Moll and Yigitbasioglu, 2019). That is, only adding new blocks of data into a blockchain does not guarantee that the transaction actually took place in real life (Schmitz and Leoni, 2019). Another challenge for BT is the auditing, accounting and corporate reporting regulatory framework, which is extremely strict. This technology also might expose firms to risks that they have not encountered before like transformational risk, (moving the existing framework to the blockchain based methodology) cyber security risk, legal risk, value transfer risk, privacy risk and policy and regulatory risk. This new business model also exposes the interacting parties to new risks which were previously managed by central intermediaries.

Although a number of studies focus on using blockchain technology in various aspects, the application of blockchain in accounting is still in its early stages so it has many challenges and risks. To explore the challenges and potential risks on the implementation of blockchain technology in the field of accounting, an opinion survey has been made in this study.

Review of Literature

The purpose of this review of previous studies is to understand the challenges and risks associated with blockchain based accounting.

Zheng et.al (2021) in their research presented a comprehensive overview on blockchain. They listed some challenges like scalability, privacy leakage and selfish mining. They argued that with the number of transactions increasing day by day, the blockchain server becomes bulky. Further, they explained that blockchain cannot guarantee transactional privacy since the values of all transactions and balances for each public key are publicly visible and blockchain is susceptible to attacks of colluding selfish miners.

Zhang et.al (2021) analysed the feasibility of combining blockchain with artificial intelligence. After that, they listed some related application scenarios about the convergence of both technologies and also point out existing problems and challenges such as scalability, security, privacy and data collaboration between on-chain and off-chain storage.

Tiron-Tudor et.al (2021) examined strengths, weaknesses, opportunities and threats (SWOT) analysis for accounting or auditing companies implementing BT. In weakness, they highlighted scalability, complexity low performance large energy consumption, low security against cyber criminals, no intermediary to contact in case of loss of users' credentials, lack of experience and standards and corporate governance issues.

Atanasovski, Trpeska & Lazarevska (2020) in their study critically assessed the disruptive potential of the technology for modern accounting information systems and accounting professionals. Further they highlighted the main challenges for the technology, such as the issues of scalability, interoperability, confidentiality and security.

Todorova (2020) tried to address few challenges that the accounting profession is facing due to the recent technological advances and their augmented business application. The author stated that apart from the many opportunities that blockchain has brought into the accounting domain, there are also many uncertainties and challenges. For instance, there is a whole host of regulatory issues requiring urgent decisions by the policy makers, another challenging issue is of smart contracts. Their features such as real-world enforceability, territoriality and liability should be addressed and legally arranged. Further, the author discussed standardisation of blockchain technology. According to him, the technology required the development of standards that should be approved globally. These standards should cover terminology, privacy and security issues.

Weered (2019) studied blockchain and its impact on information risk management. He assessed that if organisations want to remain in control of their block chain-enabled IT environment, only considering the internal IT control environment is no longer sufficient; organisations need to start considering the control environment of the entire block chain network.

Bansal, Batra, & Jain (2018) discussed the basic features of blockchain technology and the impact of it on accounting and auditing. They argued that this new technology transaction tools offered the greatest opportunities for change in various accounting mechanisms and created a new platform to reshape the world of business and transform the accounting and auditing profession. Its potential disruption on the accounting industry cannot be overlooked.

Yu, Lin and Tang (2018) in their paper tried to explore the potential application of blockchain technology in financial accounting and its possible impacts on independent auditors and financial accountants. At the outset, the authors pointed out that due to limited data processing capacity, information confidentiality and regulatory difficulties, blockchain has limited application in financial accounting. Overall, the application of blockchain in financial accounting has opportunities and threats.

Iuon-Chang & Tzu-Chun (2017) in their study explained the components of blockchain advancements that may lead to more robust and helpful administration. Addressing the security issues and difficulties behind this inventive method is additionally a significant theme that needs attention.

Research Gap

After the study of the above literature, it was found that in the field of accounting there is no comprehensive survey on blockchain technology regarding challenges and potential risk perspectives. This study is an attempt to explore the stakeholder's opinion about the challenges and risks associated with blockchain based accounting.

Research Questions

This study poses the following research questions related to challenges and risks associated with blockchain based accounting:

RQ_1: What are the challenges that emerged on the implementation of blockchain technology in the accounting?

RQ_2: What are the potential risks related to the implementation of blockchain technology in the accounting?

Hypothesis

The present research attempts to test the following hypothesis:

H_{01}-There is no significant difference among the opinions of various professionals regarding challenges on implementation of blockchain technology in accounting.

H_{02}-There is no significant difference among the opinions of various professionals about potential risk on implementation of blockchain technology in accounting.

Research Methodology

Sampling method: The data collection was conducted by the judgmental sampling method.

Survey Instrument and Data collection: In order to achieve the objective of the present study, a survey was conducted with the help of a structured questionnaire through Google forms for collecting responses from the various stakeholders. The Google form was circulated through e-mail, WhatsApp, Facebook, LinkedIn, Instagram and WhatsApp Status Stories, for a wider audience outreach.

Questionnaire: For data collection, the questionnaire was designed for professionals' to collect their opinion regarding challenges and protentional risk related implementation of blockchain technology in the field of accounting. The questionnaire contained two sections. The first section dealt with demographic information of respondents. Through this section information on their gender, age-group, city, profession and experience were collected. The second section contained 8 statements on challenges and 14 statements of potential risk to which respondents had to answer on a 5-point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1).

56 responses were collected from different parts of the India from various professionals like CA/CS/ICWA, academicians and IT experts.

Reliability of Questionnaire

To check the reliability of the questionnaire, Cronbach's Alpha test has been applied separately for the challenges and risks and the results indicate good internal consistency among them. (Cronbach's alpha of 8 statements is .770 and 14 Likert scale statements is .850)

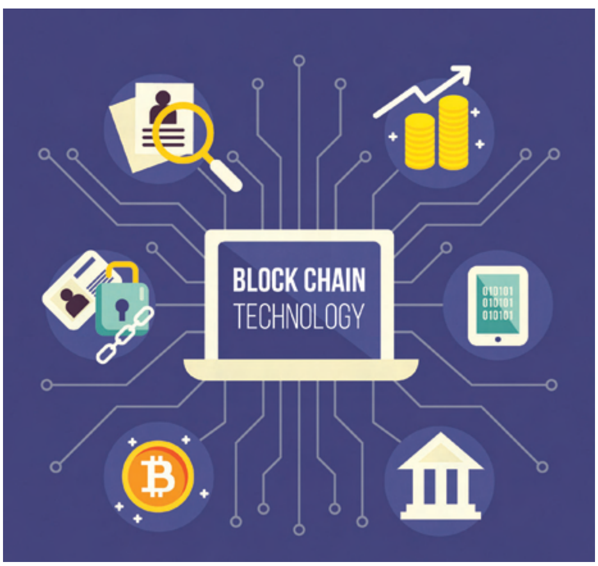
Statistical Techniques: Mean, Coefficient of Variance, Factor Analysis, and Kruskal-Wallis H Test have been applied for the present research. Normality of data decides whether to use parametric tests or non-parametric tests. The normality has been checked through Kolmogorov-Smirnov (K-S) test. Results show that all the values of the K-S test are significant as all the p values are less than 0.05. This rejects the null hypothesis of normality and it can be concluded that the distribution is not normal and non-parametric tests have to be applied.

Demographic Profile of Respondents

A brief demographic profile of respondents for this paper is given in the following table.

Table:1 Respondents Demographic Profile

(A) Gender Wise		(B) Profession Wise			(C) Age Wise			(D) Experience		
Male	Female	CA/CS/ ICWA	Academicians	IT Experts	>25 years	25-40 years	<40years	>5 years	5-10 years	<10 years
25 (44.6%)	31 (55.4%)	21 (37.5%)	12 (21.4%)	23 (41.1%)	8 (19.6%)	30 (53.6%)	26.8 (10%)	18 (32.1%)	29 (51.8%)	9 (16.1%)



Data Analysis and Discussions

In order to identify the potential risks and challenges on implementation of blockchain technology in accounting, an intensive review of literature review has been made. All identified risks and challenges were examined through an opinion survey. The detailed discussion and analysis are made for potential challenges and risks separately in the following paragraphs.

(A) **Potential Challenges**

Descriptive Statistics for Opinion of Professionals Regarding Challenges

Before data analysis, the characteristics of the data and descriptive statistics have been calculated and presented in the given Table 2. Results show the mean opinion, coefficient of variation and rank.

Table 2: Descriptive Statistics of the opinion of Professionals regarding Challenges

Challenges	Mean	C.V.	Rank
Lack of skilled manpower	3.87	30.39%	I
Low data performance	3.8	32.29%	II
Lack of government regulations	3.71	31.56%	III
Lack of standardisation	3.54	37.32%	IV
High initial capital cost	3.5	35.31%	V
High energy consumption	3.43	39.65%	VI
Still an underdeveloped technology	3.21	41.46%	VII
Data privacy and security	2.57	49.69%	VIII

Table 2 shows that respondents identified lack of skilled manpower as a major challenge for the adoption of blockchain technology in accounting. For this, additional professional training is required to acquire new skills to be able to exploit information through new technology. For blockchain accounting, organisations will require experienced professionals.

The Coefficient of variation (C. V.) shows that there is not much variation in the responses for all statements. The highest C. V. value is 49.69% mean for data privacy and security, Respondents have different opinion regarding this. Although the mean value shows that respondents are on agreement. The lowest value of C. V. is 30.39%% which is for "Lack of skilled manpower". In general, C. V. ranges between these two extreme points.

Hypothesis Testing

H$_{01}$-There is no significant difference among the opinions of various professionals regarding challenges of blockchain based accounting.

In this section, opinions of professionals have been analysed on the basis of their profession. There are three professional groups and it was earlier found that respondents from IT sector are higher as compared to other profession. Results have been analysed using Kruskal-Wallis H Test and have been presented in Table 3.

Table 3: Hypothesis testing of Challenges

Challenges	Kruskal-Wallis H Test		Hypothesis Accepted Rejected
	Chi-Square	**P Value**	
High initial capital cost	.695	.706	Accepted
Lack of skilled manpower	.880	.644	Accepted
Lack of Government regulations	4.413	.110	Accepted
Still an Underdeveloped technology	.402	.818	Accepted
Lack of Standardisation	.923	.630	Accepted
High energy consumption	6.851	.033*	Rejected
Data privacy and security	3.703	.157	Accepted
Lack of Awareness	6.487	.039*	Rejected

*significant at 5% level

In Table 3, results reveal that the opinions of respondents of different professions groups are significantly different for "High energy consumption" & "Lack of Awareness". Results of Kruskal Wallis H Test reveal that the opinion of respondents of different profession-groups is significantly different for 2 out of 8 statements. Thus, it can be said that the profession is not an important factor in influencing the opinion of respondents for various challenges.

> **Blockchain technology in accounting will transform business models from a human-based trust model to an algorithm-based trust model, which creates risks for organisations that they may have not encountered previously.**

(B) Potential Risks

Descriptive Statistics for Opinion of Professionals Regarding Risk

To know about the various risks related to blockchain based accounting opinions of professionals collected through questionnaires and descriptive statistics have been calculated and the same have been presented in the below table.

Table 4: Descriptive Statistics of opinion of Professionals regarding Potential Risk

Potential Risk	Mean	C.V.	Rank
Transformational risk (moving the existing framework to the blockchain based methodology)	3.86	29.40%	I
System risk (continuously updating the system)	3.73	28.23%	II
Legal risk (laws vary from country to country)	3.57	36.55%	III
Volatility risk (related to crypto currency)	3.55	35.18%	IV
Key management risk (in case of accidental loss or private key theft)	3.43	34.66%	V
Divergence risk (inconsistency of transactions)	3.34	35.78%	VI
Operational and IT risk (lower transaction processing rate during congestion)	3.34	35.78	VII
Policy & regulatory risk (lack of governance)	3.29	38.75%	VIII
Privacy risk (if using public blockchain]	3.09	40.13%	IX
Smart contract risk (error in creation and operation of smart contracts)	2.96	39.70%	X
Value transfer risk (due to the absence of intermediary)	2.87	43.10%	XI
Authentication risk (related to public and private key combination)	2.86	42.78%	XII
Standard risk (of doing business)	2.82	43.87%	XIII
Information security risk	2.73	45.42%	XIV

As per Table 4, the majority of respondents are to some extent on the agreement side as is evident by the mean scores. The opinions of respondents differ from neutral opinions. Respondents identified transformational risk (moving the existing framework to the blockchain based methodology) as a major risk for the adoption of blockchain technology in accounting followed by system risk. Blockchain technology in accounting will transform business models from a human-based trust model to an algorithm-based trust model, which creates risks for organisations that they may have not encountered previously. The Coefficient of variation (C. V.) shows that there is not much variation in the responses for all statements. The highest C. V. value is 45.42% for information security risk means for this risk respondent's opinions are not the same. There is a variation in the opinion of respondents.

Since blockchain based technology is the current trend in the industry hence respondents were asked to give their opinions about the potential risks associated with this technology. Respondents were given 14 items to rate their opinion on a 5-point Likert scale. Later, factor analysis was applied to those 14 items to extract factor or characteristics these factors are representing.

Factor Analysis

Factor analysis results are given below:

Table 5: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.751
Bartlett's Test of Sphericity	Approx. Chi-Square	287.925
	Df	91
	Sig.	.000

Since KMO and Bartlett's Test was conducted for suitability of data and results are presented in Table 4. The KMO measure of .751 which is nearly equal to 0.8 and is greater than 0.5 indicates that the sample is adequate and factor analysis is useful.

Factor analysis is applied using the principal Component method using varimax rotation method. A total of 5 components were extracted having eigen value above 1. Cumulatively 72.69% variance was explained by these 5 extracted factors. Items falling in each factor along with factor loading are given in the table below:

Table 6: Factor and Factor Loading

Rotated Component Matrix[a]	Component				
	1	2	3	4	5
Divergence risk (inconsistency of transactions)	.797				
Volatility risk (related to crypto currency)	.796				
Smart contract risk (error in creation and operation of smart contracts)	.738				
Value transfer risk (due to absence of intermediary)	.700				
Transformational risk (moving the existing framework to the blockchain based methodology)		.868			
System risk (continuously updating the system)		.678			
Standard risk (of doing business)		.609			
Legal risk (laws vary from country to country)			.854		
Policy & regulatory risk (lack of governance)			.821		
Information security risk				.832	
Privacy risk (if using public blockchain]				.629	
Operational and IT risk (lower transaction processing rate during congestion)					.872
Key management risk (in case of accidental loss or private key theft)					.719

After applying factor analysis on the data collected from the respondents, the following five factors have been identified on the basis of the risk involved in each factor the factors have been named.

Operational Risk: In this, the risk associated with the implementation of blockchain based accounting have been gathered like Divergence risk (inconsistency of transactions), volatility risk, smart contract risk and value transfer risk.

As far as accounting is concerned, the consistency of transaction and money measurements are two important concepts which are inherent in the accounting discipline. Our survey also reveals high inconsistency in both risks.

These are major challenges because without making any standardisation in two risks, there would be little possibility to introduce blockchain based accounting system successfully.

I. **System Risk:** The second major threat to introducing blockchain based accounting system is related to the system. The continuous updating of the system is the need of the hour; it leads to enhanced operation cost for organisation hence the system related risk is also to be considered at the time of implementation of blockchain based accounting.

II. **Legal Risk:** The third major risk in order to implementing blockchain based accounting is legal and regulatory risk. Change in the policy of the concerned government creates uncertainty in the business environment. Here it is important to mention that in India, RBI has banned all the transactions of cryptocurrency but consequently, the Supreme Court has denied such an order from RBI. Such type of uncertainty creates regulatory threats on implementation of latest technology like blockchain.

In order to execute blockchain-based accounting, the concerned government's policy must be examined.

III. **Security Risk:** Some respondents created doubt that the information security risk may exist in the implementation of blockchain-based accounting. However, blockchain technology is created through the most secure and immutable technology but respondents showed some reservations regarding security issues. The high C.V. reported under the security risk factor that is (45.42%). It clearly indicates that the highest volatility has been found in the security factor as compared to the other four factors identified under factor analysis.

It may also concluded that uniformity has been identified among respondents regarding security issue. Hence the doubts raised by respondents are to be examined in the right direction.

IV. **Processing Risk:** The maximum respondents agreed that the rate of the transaction on constant time factor is very less, and every transaction consumes not only a good amount of time but also involves heavy consumption of electricity.

So in the implementation of blockchain based accounting system, the processing rate of transaction must be taken into account.

Hypothesis Testing

H_{02}-There is no significant difference among the opinions of various professionals about potential risk on implementation blockchain based accounting.

Table 7: Hypothesis testing of Risks

Potential Risks	Kruskal-Wallis H Test		Hypothesis Accepted/ Rejected
	Chi-Square	P Value	
Key management risk (in case of accidental loss or private key theft)	.984	.611	Accepted
Operational and IT risk (lower transaction processing rate during congestion)	1.737	.419	Accepted
Transformational risk (moving the existing framework to the blockchain based methodology)	.390	.823	Accepted
System risk (continuously updating the system)	.903	.637	Accepted
Information security risk	3.346	.188	Accepted
Standard Risk (of doing business)	3.221	.200	Accepted
Smart contract risk (error in creation and operation of smart contracts)	3.806	.149	Accepted
Value transfer risk (due to absence of intermediary)	2.003	.367	Accepted
Privacy risk (if using public blockchain)	.503	.778	Accepted
Policy & regulatory risk (lack of governance)	9.263	.010*	Rejected
Divergence risk (inconsistency of transactions)	1.331	.514	Accepted

Potential Risks	Kruskal-Wallis H Test		Hypothesis Accepted/ Rejected
	Chi-Square	P Value	
Legal Risk (Laws vary from country to country)	6.190	.045*	Rejected
Volatility Risk (related to cryptocurrency)	.975	.614	Accepted
Authentication risk (related to public and private key combination)	1.923	.382	Accepted

*significant at 5% level

Table 7 reveals that the opinion of respondents of different professions group are significantly different for policy and regulatory risk (lack of governance), and Legal Risk (Laws vary from country to country).

Results of Kruskal Wallis H Test reveal that the opinion of respondents of different profession-groups is significantly different for 2 out of 14 statements. Thus, it can be said that the profession is not important factor in influencing the opinion of respondents regarding various potential risks.

Conclusion

Blockchain guarantees trust, assures immutability transparency, decentralisation, visibility, traceability and verification, and supports disintermediation in addition to providing extra security for transactions executed over the internet. These are considerable advantages that cannot be ignored, but the application of blockchain to accounting is still in its early stages. Thus blockchain still has many challenges and potential risk to making it more reliable.

> **Blockchain guarantees trust, assures immutability transparency, decentralisation, visibility, traceability and verification, and supports disintermediation in addition to providing extra security for transactions executed over the internet.**

The following major challenges are identified by the various respondents.

- Lack of skilled manpower
- Low data performance
- Lack of government regulations
- Lack of standardisation

Blockchain technology still is in the infancy stage. The dearth of qualified IT workers persists and those who have the skills remain in high demand. Scalability is another probable issue and an obstacle for many blockchain applications. There is also a lack of regulatory clarity and lack of standardisation regarding the underlying blockchain technology,

As far as major risks are concerned by the respondents, they are:

- Transformational risk (moving the existing framework to the blockchain based methodology)
- System risk (continuously updating the system)
- Legal risk (laws vary from country to country)
- Volatility risk (related to crypto currency).

Blockchain is a new technology that must overcome a number of risks. In order to respond to such risks, firms should consider establishing a robust risk management strategy, governance, and controls framework.

Factor analysis was also applied to 14 items of risk and extracts 5 risks such as operational risk, system related risk, legal risk, security risk and processing risk. The high C.V. reported under the security risk factor that is (45.42%). It clearly indicates the highest volatility found in the security factor as compared to the other four factors identified under the factor analysis.

Results also reveal that opinion of respondents of different professionalgroups is significantly different for 2 out of 8 statements regarding challenges and for potential risk only 2 out of 14 statements are significantly different. Thus, it can be said that the profession is not important factor in influencing opinion of respondents for various challenges.

> **Blockchain is a new technology that must overcome a number of risks. In order to respond to such risks, firms should consider establishing a robust risk management strategy, governance, and controls framework.**

These challenges and risks have the potential to be reduced in a short amount of time, as with more experience and application, blockchain develops as a popular technology. Technology is in continuous upgradation as has been the case with the internet that witnessed substantial advancements over a short period of time. Such advancements will provide solutions to blockchain's inability to scale thereby significantly reducing usage costs. Future work will focus on robust risk management strategy, governance, and controls framework for the successful implementation of blockchain technology in accounting.

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> **Technology is in continuous upgradation as has been the case with the internet that witnessed substantial advancements over a short period of time.**

CSR and COVID-19: Changing Regulatory Landscape, Insights, and Implications

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Corporate Social Responsibility (CSR) has grown manifold. CSR has become a national priority. It has evolved from 'philanthropy' to the 'comply or explain' approach to 'comply only'. Emerging dimensions of CSR comprise its changing regulatory landscape, CSR Accounting and Social Audit perspectives, and COVID-19 implications. COVID-19 had been a catalyst and impacted CSR practices further.

Traditionally, the maximum amount of CSR had been spent on education. However, post the outbreak of COVID-19, the amount spent on healthcare had improved substantially. Evidence has indicated the emergence of *need-based*, *focused*, *strategic*, and *sustainable* CSR practices. In addition, the COVID-19 disruptions led to lower CSR spending. This conceptual article is based on secondary data for the period 2014-15 to 2020-21 retrieved from the national CSR portal of the Government of India. It provides pertinent CSR implications for stakeholders, regulators and professionals.

Introduction

CSR is a historical concept. It has become popular since the American economist questioned the operational framework of companies (Bowen, 1953). Business must be conducted in the desired manner to protect the interests of stakeholders. Later on, CSR developments led to an active discourse on companies' attitudes toward the protection of the interests of stakeholders' (Davis, 1960; Frederick, 1960; Walton, 1967; Carroll, 1979). In the Indian context, the Report of the Social Audit Committee by Tata Steel in the 1980s reflected the objective clause in the Articles of Association as an indication of the company's social and moral commitments toward stakeholders. The stakeholder theory (Freeman, 1984) supports the notion of the protection of the interests of stakeholders unlike the classical school of thought. Further, management experts have been accentuating needs and concerns to engage in an active dialogue that fosters the well-being of the stakeholders.

Developments in CSR are contextualised. Compliance with CSR has increased in India since the enactment of the Companies Act, 2013. CSR aids to execute context-specific organisational actions and policies. It considers the protection of the interests of stakeholders aligned with the environmental, social, and governance (ESG) parameters. CSR activities also improve environmental, political, and transnational relationships. CSR enhances business competitiveness, and ensures the resilience and going concern ability of firms. Firms have increasingly realised that they can better compete in the markets by making a significant contribution to society and the surrounding environment. The

enforcement of CSR activities becomes crucial to achieving the social and economic goals of firms. A move from conventional CSR to a more focused, resilient and sustainable CSR approach in VUCA (volatility, uncertainty, complexity, and ambiguity) world delivers better valuation.

Need for CSR

CSR is the commitment by businesses for improvements and developments in the life of the social community. Protecting stakeholders' interests while doing business is a challenge (Freeman, 1984). Simultaneously, the business is expected to earn profits without violating legal, societal, and ethical norms (Friedman, 1970). In this context, CSR is bolstered by the notion that companies can work in coherence with societies henceforth they need to make sufficient contributions toward social development. Therefore, CSR as a concept has emerged as an important tool of corporate reporting leading to enhanced disclosures facilitating the attainment of the sustainable development goal (SDG) of inclusiveness and cohesiveness in the national, societal, and developmental interests of emerging nations. To boost the growth and development process in these countries, governments expect businesses as partners to support sustainable development goals. This can become possible by inculcating CSR culture. CSR reporting facilitates the investor community by empowering informed and proper decision making. Compliance with CSR yields myriad social and economic benefits. The managers need to decide how much to spend on CSR in consonance with the CSR policy. To support stakeholders' perspectives and to integrate CSR as a part of corporate culture, a commendable policy framework is legislated by the regulators to achieve the sustainable development goals and sustain profits for the planet and the people.

Changing Regulatory Landscape of CSR

Though CSR has been practised since the ancient era albeit informally, the concept earned formal recognition on the implementation of CSR provisions of the Companies Act, 2013. In India, CSR has evolved as a growing area of interest for companies, professionals, academics, and researchers. Before the finalisation of the Companies Act 2013, many CSR initiatives were taken which laid the foundation to legislate CSR. As per Section 135 of the Companies Act, 2013, each company which has a net worth of Rs. 500 crores or more, or a turnover of Rs. 1000 crore or more; or a net profit of Rs. 5 crores or more in any financial year must adopt CSR policy for spending a minimum of 2% of the average net profit of the preceding three financial years. Profit is to be spent on CSR activities in the current year based on calculations U/s 381 and 198 of the said Act. The CSR Committee formulates a CSR policy. The CSR Committee is comprised of a minimum of three directors of whom at least one must be an Independent Director. The company has to spend on CSR activities listed in Schedule VII of the aforesaid Act, viz., eliminating poverty, advancing education, encouraging gender equality etc. to name a few. CSR is a Board-driven process.

> **"CSR aids to execute context-specific organisational actions and policies. It considers the protection of the interests of stakeholders aligned with the environmental, social, and governance (ESG) parameters."**

To implement CSR norms, the Board plays a significant role. The Board approves the recommendations made by the CSR Committee to execute the CSR policy. It ensures that the amount allocated for CSR is spent on CSR activities in congruence with the

CSR policy. Further, disclosure of CSR spent is required on the website of the company. CSR Rules 2014 to 2016 guide the proper implementation of CSR provisions. To enhance monitoring mechanisms of CSR, the government has recently mandated CSR compliance. The regulatory landscape of CSR is having a paradigm shift from a "Comply or Explain" to a "Comply" approach. Earlier, CSR was based on the "Comply or Explain" approach which implied that either company should comply with CSR norms or else they need to explain non-compliance of CSR in the Board's report with reasons. Default concerning CSR norms now will attract a penalty.

> **CSR reporting facilitates the investor community by empowering informed and proper decision making. Compliance with CSR yields myriad social and economic benefits.**

To enrich CSR practices, the Institute of Chartered Accountants of India (ICAI, 2020) has issued a guidance note on accounting for CSR expenditure. It elaborates on accounting aspects of CSR expenditure which may be in cash or kind or both as per the Generally Accepted Accounting Principles and Accounting Standards. Accordingly, if the CSR amount remains unspent on an ongoing project, it shall be transferred to "the Unspent Corporate Social Responsibility Account", within 30 days from the closure of the financial year. This amount is to be spent within three financial years. In case of failure, the amount shall be transferred to a Fund as stated in Schedule VII within 30 days from the end of three financial years.

Measurement and recognition criteria of CSR Accounting requires creating provision and liability for CSR expenditure. In case, the company spends excess than the required amount of CSR, an asset will have to be recognised in the books of accounts. This excess CSR amount spent can be set off against the CSR requirement for succeeding financial years. Indirect taxes on CSR contribution will be considered as CSR expenditure. Any gain out of CSR activities shall be recognised in the profit and loss statement as non-business profit. Further, it will be treated as a liability in the balance sheet and simultaneously a charge against profit.

Monitoring Mechanisms of CSR: The Board of the company is empowered to plan and execute the CSR activities. CSR disclosure is a part of the Board's report. The CSR disclosure is mandatory to be filed in the MCA21 registry. The existing legal framework of mandatory CSR disclosures, accountability of the CSR Committee, the Board and independent financial audit provides monitoring mechanisms for CSR.

CSR Accounting and Social Audit: To account for CSR practices, the ICAI has issued a guidance note prescribing accounting treatment. Accounting for CSR provides an opportunity to comprehend it like any other business transaction. It enhances the responsibility of supervisors managing the entities. Guidance note on accounting for CSR has laid another cornerstone in its successful implementation. In addition, regulators are contemplating bringing in a mandatory 'Social Audit' (Shukla, 2022). It can be used for a comprehensive

> **To implement CSR norms, the Board plays a significant role. The Board approves the recommendations made by the CSR Committee to execute the CSR policy.**

impact assessment of CSR spending. It will ensure efficient and effective CSR spending and justified use of CSR funds. This initiative is expected to further stiffen the CSR regulations. Initially, the Social Audit is to be made applicable to public sector undertakings, later on it might cover all companies. In this context, the Securities and Exchange Board of India has already given a direction to the ICAI to devise a suitable standard. The introduction of "Social Audit" will enlarge the scope for accounting professionals. It is expected to benefit various sections of society in true spirit. It will ensure that needy people get an advantage of CSR spending at the national level in addition to the extant practice of spending CSR wherein preference is given to the local community.

> **To enrich CSR practices, the Institute of Chartered Accountants of India (ICAI, 2020) has issued a guidance note on accounting for CSR expenditure.**

CSR Disclosures: Strategic, Resilient and Sustainable Practices

Quality CSR disclosures by firms increase their investment efficiency and valuation. CSR compliant and resilient companies are better suited to recover from business shocks and environmental threats. Companies with a good level of CSR compliance make more sales, earn better profits, and gain brand image. In addition, stakeholders support these companies in times of crisis, and such companies remain sustainable.

The idea of strategic CSR was first introduced by Baron (2001). Over the past years, a paradigm shift had been observed from philanthropy to strategic CSR. The spirit of strategic CSR points out the competitive advantages of compliance with CSR. Strategic CSR activities make social good by enhancing prestige, increased stakeholder participation, lowering risks and making business innovations. The reputation enhancing property of strategic CSR triggers positive attributes for extant and future stakeholders' perspectives. Firms should form a strategy to align their CSR activities to attain business objectives. Suitable integration of CSR strategy in business operations leads to better social and financial performance which promotes business resilience.

The moderating impact of CSR reporting on the relationship between related party transactions and firm value imply reduced managerial opportunism (Hendratama & Barokah, 2020). Henceforth, resilient companies should regard CSR as an essential component of their innovations and transformations in tough times (COVID-19). Eloquent disclosure of sustainability information in CSR reports proves advantageous for firms. The dynamic business environment requires a sustainable approach to achieve ESG goals. Business objectives need to be aligned with the United Nations' goal of sustainable development to make the world a better place to live in the ensuing years.

CSR as a Tool for Risk Mitigation and Innovations

CSR initiatives have many dimensions viz., education, health, poverty, malnutrition, women empowerment, and environmental sustainability. CSR works as a tool for risk management and promotes innovations. Practices such as waste reduction, prevention and extenuation of pollution, employee health and safety measures capture transformative CSR initiatives. CSR practices reduce compliance risk, provide a positive reflection in terms of stock prices (Ding, et. al. 2021) and reduces the probability of a stock price crash. CSR spending has a significant positive effect in terms of stock market reflections (Basak, et al. 2020). During the 2008–2009 crisis, firms with high CSR intensity experienced more profits and sales in addition to four to seven per cent higher stock returns than firms with low social capital (Lins, et al. 2017).

The international reporting practices such as sustainability, integrated reporting and ESG framework mitigate business expansion risks.

> **Companies with a good level of CSR compliance make more sales, earn better profits, and gain brand image.**

Risk management practices protect firms' value. Firms should attempt to increase economic value by contributing to society. Those firms which carry out CSR practices in the true spirit must be acknowledged for investing in environmental and social projects as a part of their commitment.

> **CSR practices lead to tangible and intangible benefits to stakeholders in terms of social inclusion.**

CSR and COVID-19

The COVID-19 pandemic caused many business disruptions. It has brought myriad transformations in areas such as technology, logistics and supply chains, digital banking, and digital healthcare to name a few. It had posed various challenges in deciding on marketing strategies, patterns of consumption, ways of advertising and making communication, supply patterns, spending on CSR and its relevant implications. The organisational understanding in transforming crisis (COVID-19) to core capabilities by optimum use of resources can add value to enhance the rational, heuristic, and dynamical capability of firms as a core competency (Biswas, et al. 2021). Firms with better CSR and environmental performance are less prone to the adverse impact of COVID-19. As every crisis has opportunities as well as challenges, the companies planned to spend more on healthcare as a CSR expenditure. COVID-19 has provided unparalleled stress, testing time and simultaneous opportunities in the domain of CSR. Spending CSR on healthcare was a great gesture and a golden opportunity to unite with the social and business communities.

The government has clarified that the amount spent on COVID-19 is eligible as a CSR expenditure. CSR expenditure on health has promoted healthcare infrastructure. Though the operation of the universal healthcare system in emerging markets is at a nascent stage, COVID-19 provided an opportunity as well as the momentum for the improved practices of telemedicine, mobile health (m-Health) and digital health (d-Health) facilities.

Table 1: CSR Spent in India, INR Crores (% of Total CSR)

CSR Area	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Education	3,188.09 (31.67)	4,921.06 (33.90)	5,559.17 (38.76)	7,281.54 (42.59)	7,977.65 (39.59)	9,531.63 (38.61)	2,954.17 (33.46)
Healthcare	2,525.92 (25.09)	4,633.46 (31.92)	3,669.46 (25.58)	4,269.68 (24.97)	5,527.37 (27.43)	6,734.30 (27.28)	2,961.97 (33.55)
Total CSR	10,065.93	14,517.20	14344.40	17097.66	20150.27	24,688.66	8,828.11

Source: https://www.csr.gov.in

Note: Percentage factions are rounded off.

A glimpse of CSR data has revealed that a popular category of spending on CSR had been "education". CSR spending on education has been 31.67% in 2014-15 to 33.46% in 2020-21, a trend since the enforcement of CSR. Spending on education is great for the growth, and development of human resources for an emerging economy. However, post-outbreak of COVID-19, in the year 2020-21, the focus of CSR spending has been shifted from "education" to "healthcare". Therefore, a drastic positive change in healthcare expenditure from 25.09% in 2014-15 to 33.55% in 2020-21 had been observed. This evidence indicates the emergence of *need-based, focused, strategic,* and *sustainable* CSR practices. In addition, though the CSR spending in India from 2014-15 to 2019-20 had indicated an overall increasing trend (INR 10,065.93

to 24,688.66 Crores) in 2020-21, CSR spending has reduced dramatically (INR 8,828 Crores). So, the intervention of COVID-19 in CSR spending is apparent. Lower CSR spending will increase CSR reserves which entails an extended commitment of companies toward more socially responsible behaviour in the days to come.

> **Data on CSR have indicated the emergence of need-based, focused, strategic, and sustainable CSR practices.**

Conclusion

The journey of CSR as a historical concept from philanthropy to comply or explain to the comply approach has been successful. CSR is the need of the hour and a national priority for India. The regulatory landscape has guided us about CSR provisions and its rules. The monitoring mechanism of CSR is expected to ensure better compliance. CSR practices lead to tangible and intangible benefits to stakeholders in terms of social inclusion. Developments such as CSR Accounting and Social Audit can bring efficient, effective and impactful results in the ensuing years. CSR spending in prominent areas of education and health augurs well. During the pandemic, governments are pursuing the aim of implementing widespread healthcare measures in emerging economies. There had been a reduction in CSR spending during the period of COVID-19. The major shift in spending on CSR from the education to health category during the pandemic period was apparent. COVID-19 has intervened in spending on CSR. Data on CSR have indicated the emergence of *need-based*, *focused*, *strategic*, and *sustainable* CSR practices. CSR spending can facilitate resolving myriad societal issues and it provides support for protecting People, Planet and Profit.

CSR practices can be fruitful for the attainment of SDGs. Managers need to understand a few steps to realise the true spirit of contributing to society by way of spending on CSR. A stepwise CSR process can be followed for adherence to CSR norms. For instance, in step one, understand the true spirit of CSR, and its tangible and intangible benefits. In step two, design appropriate CSR policy and inculcate CSR as a part of strategy while carrying out business operations. In step three, chose areas of spending on CSR and ensure that CSR spending will create value for all. In step four, implement CSR by spending on CSR, either directly or choosing partners or through agencies. In the fifth and last step, do a Social Audit to ensure CSR spending has been done with efficacy. Under CSR, part of the profit made by corporations is spent on society in a meaningful manner. The government or regulator's understanding to allow broad-based CSR activities deserves appreciation. CSR Accounting and Social Audit provide ample scope of engagement for professionals. CSR is expected to be an ever-green corporate phenomenon. Its importance cannot be undermined until business entities continue as going concerns.

> **CSR practices can be fruitful for the attainment of SDGs. Managers need to understand a few steps to realise the true spirit of contributing to society by way of spending on CSR.**

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- **To Recognize, Reward and Encourage Excellence of Businesses in Integrated Reporting**
- **To Recognize initiatives of Businesses with a transformative contribution to the 2030 Agenda for Sustainable Development**

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3. Selection by External Jury - Professionals, Academicians, Industrialists, philanthropists & representatives from regulatory bodies, etc.

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Fiscally Transparent Entities - Tax Treaty Benefits

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Tax treaty entitlement to fiscally transparent entities (FTEs) has been a matter of debate in the arena of international tax. The crux of this complexity lies in the divergent principles and tax practices by various nations in relation to entity characterisation rules, i.e., tax treatment of an entity as 'taxable entity' or 'fiscally transparent'. This article attempts to explore and highlight few issues about claiming treaty benefits by FTE.

What are fiscally transparent entities (FTE)?

Characterisation of any entity and how a state recognises such entity is important as it may have an impact on who pays tax on the source of income – entity or owners of the entity and eventually determine who is eligible to tax treaty benefits.

Depending upon the extent of taxation, entities can be classified under two classes:

i. Single entities / Non-transparent entities – which are taxed as individual bodies.

ii. Transparent entities / See through entities / Flow through entities - which are taxed only at the level of owners and not at the entity level.

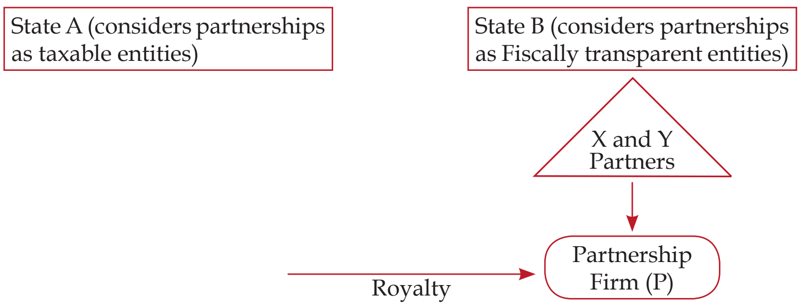
Some countries tax the entity as separate entities wherein tax is levied at the level of entity, such entities are referred to as single/ non transparent/ opaque entities. Whereas fiscal transparency is a concept wherein, the entity's income flows through to its owners and is taxed in the hands of the owners. Applicability of tax treaty benefits to a fiscally transparent entity has been a matter of debate as it is not a taxable entity. OECD issued a report in 1999, "The Application of the OECD Model Tax Convention to Partnerships" (OECD report on partnership) wherein the Committee then examined the following approach to taxation of partnerships wherein partnership is not liable to tax, instead tax payable on the income of the partnership is determined at each partner's level.

Countries where tax laws provide that income derived by a partnership from a particular source must be computed first at the partnership level as if the partnership was a distinct taxpayer. Each partner is then allocated his share of that income which retains its character and is added to his personal income for purposes of determining his taxable income. His taxable income, including his share of the partnership's income is then reduced by the personal allowances and deductions to which he is entitled and tax is then determined, assessed and paid at the partner's level. Therefore, the partnership is not itself liable to tax.

The fact that an "entity" is transparent for tax purposes does not mean that it is transparent for other legal purposes. Normally the entity has legal standing in respect of making contracts. Partnerships, trusts and some other body corporates such as investment funds, real estate investment trusts, Limited Liability Corporations (LLCs) etc. may be examples of fiscally transparent entities.

Let us understand the tax impact of partnership firms and its partners through following illustration:

P is a partnership established in State B. X and Y are P's partners who are resident of State B. State B treats P as a transparent entity. P derives royalty income from State A that is not attributable to a permanent establishment in State A. State A treats the partnership as a taxable entity.



This example involves the fundamental difference in the tax treatment of partnerships in State A and State B. Under State A domestic law, the taxpayer will be partnership P. State A could then argue that since partnership P is ***not person liable to tax*** in State B (therefore not resident as per tax treaty), partnership P is not entitled to the benefits of the treaty. Therefore, State A would tax income derived by P regardless of the tax treaty between State A and B. This would mean that the income on which X and Y are liable to tax in State B would be subjected to tax in State A regardless of the tax treaty. The solution suggested by the OECD in the model convention and through BEPS (Multilateral instruments) to encounter such situation is explained in the ensuing paragraphs.

Where are these FTEs prevalent?

Partnership and partnership-like structures are quite popular business forms in the United States (US). US tax laws also provide for an elective system, called "Check-the-Box" rule. Under this rule, all domestic and foreign entities, which are not stock companies, can elect to be a partnership or corporation or are treated as disregarded entity for tax purposes. They can take legal forms such as C-Corporation, S-corporations, Limited Liability Company (LLC), Partnerships, etc.

Apart from the US, other countries such as Singapore, the Netherlands, the UK, Sweden etc. consider partnerships / similar entities as fiscally transparent.

In India, both partnership and Limited Liability Partnerships (LLPs) are treated as separate taxable entity and share of profit /income from the same is exempt in the hands of partners.

> **"Countries where tax laws provide that income derived by a partnership from a particular source must be computed first at the partnership level as if the partnership was a distinct taxpayer."**

FTE – entitled to tax treaty benefits?

The legal and tax structure of an entity determines its entitlement to tax treaty benefits based on the various conditions specified in a particular tax treaty.

Considering that partnership is the prominent form of FTEs globally, the focal point of this discussion is surrounded around partnerships.

Let us analyse the logical flow of the articles of the OECD Model Tax Convention on Income and on Capital, 2017 (OECD MTC).

As per OECD MTC, Entitlement to tax treaty benefits is dependent on whether the entity is a "person" and qualifies to be a "resident" of a contracting state as per the relevant tax treaty.

Article 1 – Persons covered by the convention - It provides that the convention shall apply to **persons** who are **residents** of one or both of the contracting states.
Article 2- Taxes covered – provides for tax covered
Article 3 – General Definition – the term "person" includes an individual, a company and any other body of persons
Article 4 – Definition of Resident - defines the term 'resident of a contracting state' in an exclusive manner to mean "any **person** who, under the laws of that state, is **liable to tax** therein by reason of his domicile, residence, place of management or any other criterion of a similar nature.

Let us analyse the eligibility for treaty benefits one by one:

Is partnership a person?

As per OECD MTC Commentary on Article 3, partnerships will also be considered to be "persons" either because they fall within the definition of "company" or, where this is not the case, because they constitute other bodies of persons.

Is a partnership a "resident of a Contracting State or liable to tax"?

After the recommendation of the OECD report on partnership and post BEPS, Action 2, "Neutralising the Effects of Hybrid Mismatch Arrangements", the OCED commentary was amended in 2017 to specifically address the issues in claiming tax treaty benefits by fiscally transparent entities. Paragraph 2 was inserted in Article 1 *"income derived by or through an entity or arrangement that is treated as* ***wholly or partly fiscally transparent*** *under the tax law of either Contracting State shall be considered to be an income of a resident of a Contracting State but only to the extent that the income is treated, for purposes of taxation by that State, as the income of a resident of that State".*

> **"In India, both partnership and Limited Liability Partnerships (LLPs) are treated as separate taxable entity and share of profit /income from the same is exempt in the hands of partners."**

Further, the objective of including the requirement, 'liable to tax', is to ensure that only those persons who are potentially exposed to double taxation should be given treaty protection. Since, strictly speaking, a fiscally transparent entity is not 'liable to tax' in its own capacity and its owners are taxed, it may be argued that a fiscally transparent entity does not meet the criteria of "resident" of the contracting state. **Thereby, treaty benefits would be extended to only those owners or FTEs who qualify to be resident of that state and to the extent are liable to tax on such income.**

Based on the above, let us analyse the solution suggested for the illustration presented earlier.

State A can consider the entitlement to treaty benefits to X and Y, both residents of State B, who should also be considered to be the beneficial owners of such income as these are the persons liable to tax on such income in State B.

India's position on the eligibility of treaty benefits to FTE

India is of the view that when a partnership is denied treaty benefit on the grounds that it is a fiscally transparent entity, the partners are also denied treaty benefits unless there is an express provision in a tax treaty to the contrary.

It may be noted that India has reserved its right for the entirety of Article 3 of MLI not to apply to its Covered Tax Agreements thereby, it has refuted to include paragraph 2 of Article 1 of the OECD MTC in its tax treaties.

Only very few Indian tax treaties, with the US, UK, and Sweden, contain specific provisions allowing for the granting of treaty benefits to a fiscally transparent entity through Article 4.

However, countries like Austria, Singapore, Switzerland, the Netherlands, etc., where partnerships are considered as FTEs, may continue to face difficulties in claiming benefits under the Double tax avoidance agreement (DTAA) with India, in the absence of express provisions for granting treaty benefits.

Let us analyse some of the DTAAs between India and other countries.

Particulars	India and US	India and UK	India and Singapore	India and Sweden
Article 1	Convention shall apply to persons who are **residents** of one or both of the Contracting States, except as otherwise provided in the Convention.	Convention shall apply to persons who are **residents** of one or both of the Contracting States.	Agreement shall apply to persons who are **residents** of one or both of the Contracting States.	Convention shall apply to persons who are **residents** of one or both the Contracting States.
Article 3 – Person	the term "person" includes an individual, an estate, a trust, a partnership,	the term "person" includes an individual, a company, a body of persons	the term "person" includes an individual, a company, a body of persons and	The term "person" includes an individual, a company, a body of persons and any other entity
	a company, any other body of persons, or other taxable entity.	and any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States.	any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States.	which is treated as a taxable unit under the taxation laws in force in the respective Contracting States.
Article 4	the term "resident of a Contracting State" means in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries.	the term "resident of a Contracting State" means in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries.	The term "resident of a Contracting State" means any person who is a resident of a Contracting State in accordance with the taxation laws of that State.	The term "resident of a Contracting State" means- In the case of a partnership or estate, the term applies only to the extent that the income derived by such partnership or estate is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries.
Analysis	Tax treaty benefits extended to FTE or owners of FTE vide Article 4(1)(b).	Tax treaty benefits extended to FTE or owners of FTE vide Article 4(1)(b).	Article 4 does not explicitly specify that tax treaty benefit will also apply to FTE or owners of FTE.	Tax treaty benefits extended to FTE or owners of FTE vide Article 4(1)

As evident from above, as far as India is concerned, a partnership (wholly or fiscally transparent) shall be eligible (either partnership or its partners) for relief under DTAA only if Article 1 and 4 specifically prescribes such relief.

> **"Only very few Indian tax treaties, with the US, UK, and Sweden, contain specific provisions allowing for the granting of treaty benefits to a fiscally transparent entity through Article 4."**

Let us have a look at some judicial pronouncements on the topic - globally and in India:

1. Anson (formerly Swift) v HMRC [2015] UKSC 44, the case concerns an individual member, Mr Anson, of a Delaware LLC. The issue was whether he was entitled to double tax relief for US tax paid on the profits of the LLC. He was taxed personally on his share of the LLC profits in the US as the US viewed the company as a transparent entity. However, HMRC in the UK viewed the LLC as a corporate entity, which had merely paid the member the equivalent of a dividend. Therefore, from the UK perspective he had not personally been taxed on the same income and so did not qualify for double tax relief. However, Supreme Court allowed the treaty relief to Mr Anson since the profits of LLC were directly taxed in his hands and LLC was treated as transparent in the US.

2. A similar matter as to the classification of a US entity was decided by the Supreme Court of Japan in the case of the Japanese Taxation of Delaware Limited Partnership (2013 (Gyo-Hi) No. 166 – judgment July 2015). The taxpayers invested in a business managed by a Delaware LP, which leased and ran apartments in the US. On the point whether a Delaware LP was, for the purposes of Japanese tax law, a separate entity or was fiscally transparent so that its income was taxable directly in the hands of the investors, the Supreme Court set out very clearly the below criteria – Firstly, under Japanese law, it was necessary for the Court to decide whether or not it was clear (beyond doubt) under the laws of the foreign country that the entity had a legal status equivalent to a corporation under Japanese law. If the Court was unable to decide, then, secondly, from the perspective of the attributes of the entity, it had to consider whether or not the entity had separate rights and obligations.

   This ruling is in contrast with Anson ruling mentioned above, since there the Supreme Court purely relied on entity classification made in the US (country of residence), while here the decision was based on entity classification in Japan (country of source).

3. Calcutta High Court in P&O Nedlloyd Ltd & Others v ADIT WP Nos. 457 and 458 of 2005. The taxpayer was a UK partnership between P&O Containers Ltd of the UK and Nedlloyd Lines BV of the Netherlands. It was engaged in operating ships in international traffic, including India. Although the income

derived from India was taxable on non-residents under Indian domestic law, the partnership claimed exemption from tax under Article 9 of the 1993 India/UK treaty. The tax authorities asserted that the partnership was not entitled to treaty benefits, because it was not liable to UK tax. However, Article 3(2) of 1993 treaty includes a partnership as a person, if it was treated as a taxable entity under the Indian Income-tax Act 1961. Although the partnership is not a taxable entity under UK tax law, it is a taxable entity under Indian tax law. The Honourable Court, therefore, regarded the partnership as a person entitled to the treaty benefits of Article 9. The decision however, did not include the fact that partnership failed the Article 4(1) requirement of being liable to UK tax.

4. Mumbai Tribunal in the case of Linklaters LLP v ITO [2010] 40 SOT 51 (Mum) examined the question whether the treaty benefits, under the India-UK treaty, were available to the partners of a partnership firm which had income sourced from India. The Tribunal in that case adopted an objective approach in granting treaty benefits, as long as the profits were taxed in the UK.

5. It is also notable that w.e.f. 27.12.2013 the India/ UK treaty has addressed this problem through Article 4(1)(b), specifically granting treaty benefits to income derived by a partnership to the extent that it is taxed in the partner's hands in the UK.

6. Further, Income tax authorities also a issued circular (No. 2/2016, dated 25.02.2016) that the India-UK tax treaty would be applicable to a partnership that is a resident of either the India or the UK, to the extent that income derived by a partnership firm is taxed in the UK in the hands of its partners.

7. Mumbai Tribunal in the case of A.P. Møller–Mærsk (2015) 235 Taxmann 513, held that the "taxability of the income" in the resident State, should govern eligibility for treaty benefits. Therefore, even though a partnership firm may be a fiscally transparent entity, as long as its profits were taxed in the hands of its partners in the resident country, benefits of the tax treaty could not be denied to the partnership.

8. The Authority for advance ruling ('AAR') in the case of Schellenberg Wittmer held that the question involved in the extant case was "whether Swiss partnerships would be treated as residents of Switzerland under the double taxation agreement between India and Switzerland". The AAR held that since the partnership is not a taxable entity in Switzerland, it would not qualify to be a 'person' as per Article 3 of the India – Switzerland tax treaty. Rebutting the Applicant's reliance on the OECD MTC, the AAR observed that since India is not a member of the OECD, any recommendation of the OECD could be relevant to India tax treaties only if such provision is agreed to be included by both the contracting states.

Conclusion

The OECD partnership report, OECD MTC, tax practices in each state and principles emanating out of the judicial precedents have developed numerous divergent tax rules when it comes to taxation of FTEs.

While the adoption of Article 3 of MLI – Transparent entities may resolve few issues for countries who have agreed to apply Article 1(2) of the OECD MTC, same remains unresolved as far as India is concerned, as India has refrained from applying the same to its tax treaties.[1]

[1] Following are reference materials

i. OECD Model Tax Convention on Income and on Capital, 2017

ii. OCED report of 1999, "The Application of the OECD Model Tax Convention to Partnerships"

iii. Base Erosion and Profit Shifting – Action 2 - Neutralising the Effects of Hybrid Mismatch Arrangements

Green Bonds: A Step towards Sustainable Future

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The green bond market has grown rapidly in recent years. In Budget 2022, the Union Finance Minister proposed to issue green bonds as a part of the government's total market borrowing in 2022-23, these resources will be mobilised for developing the green infrastructure. This is a significant step towards the nation's commitment to reducing carbon intensity and achieving net-zero emission target by 2070. This article highlighted the significance of green bonds and ESG investing. Further, it discussed the factors to consider for green bond issuers as well as suggestions for green bond market participants.

Introduction

Environmental, Social and Governance (ESG) investing also known as 'sustainable investing', 'Socially Responsible Investing', or 'impact investing' refers to the integration of Environmental, Social, and Governance factors alongside financial performance factors in investment decision-making. ESG are the non-financial aspects for evaluating the sustainability and societal impact of the companies, which are further assessed by the socially conscious investors for making investment decisions. Responsible investors or socially conscious investors are those that consider non-financial factors as a part of their investment evaluation process to identify the material risks and growth opportunities apart from the financial factors. Such investors generally avoid making investments in 'sin' stocks, such as firms involved in tobacco, gambling, and alcohol business.

Green bonds are a part of ESG investing (Outlook India, 2022). These are the fixed-income debt instruments intended primarily to raise funds for the environmental and climate-related projects. The first-ever green bond i.e., 'Climate Awareness Bond' was issued in 2007 by European Investment Bank and World Bank (EIB, 2007). Recently in Budget 2022-23, the Union Finance Minister mentioned energy transition and climate action as one of the visions of the government during the 'Amrit Kaal', the 25-year period leading up to India @100. She announced to issue sovereign 'green bonds' as a part of the government's total market borrowing and that resources will be mobilised for developing green infrastructure. The proceeds will be used to fund public-sector initiatives aimed at lowering the economy's carbon intensity (Government of India, 2022).

The issuance of green bonds is a great step in the direction of the government's commitment towards net-zero and becoming green economy. The Green bonds and ESG bonds are becoming attractive for the investors as it is based on the practice of Socially Responsible Investing which is regarded as valuable in the bond market in recent times. As our Indian corporates are adopting more sustainable business practices, the issuance of green bonds has increased significantly in 2021. From January 2021 to November 2021 more than a dozen companies issued green bonds and raised around $6.11 billion as shown in Figure 1, which is the highest from 2015 since the green bonds were first issued. Companies like JSW Hydro, Greenko, Adani Green are the large issuers of green bonds while Axis bank AT1, Ultratech Cement, Adani Electricity Mumbai are the larger fundraisers through ESG bonds in 2021.

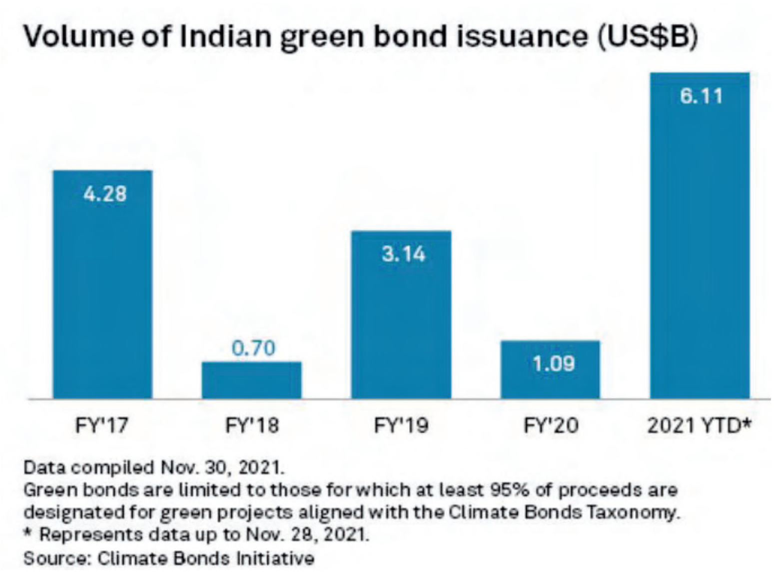

Figure 1: Growth in ESG & Green bonds in India

Source: (S&P Global Market Intelligence, 2022)

Green Bonds

Green bonds are the debt securities issued by any sovereign organisations, inter-governmental groups or alliances, and corporates to raise funds for projects that are environmental and climate-related. Apart from government and companies, World Bank also issues green bonds for various projects in India from time to time. With a growing emphasis on environmentally sustainable and green infrastructure, investors are increasingly viewing investments in the industry as a kind of social and corporate responsibility.

While issuing green bonds, issuers commonly specify how the proceeds from the bond issuance will be utilised, so investors can understand the purpose before making investments. Securities and Exchange Board of India (SEBI, 2017) has defined green bonds as "debt securities in which the funds raised will be used for the project(s) and/or asset(s) that fall into the following categories:

a. Renewable and sustainable energy sources such as wind, solar, and other clean energy sources.

b. Environmentally friendly transportation such as mass/public transportation,

c. Sustainable water management

d. Adaptation to climate change

e. Energy efficiency, including efficient and green building and so forth

f. Sustainable waste management such as recycling, efficient waste disposal, etc".

The most important feature of green bonds is that they are focused on having a positive impact on sustainable development goals (SDGs) and environmental protection. Furthermore, because these bonds are issued for 'green' projects, their credentials have the potential to attract a bigger pool of global investors, given the fast incorporation of ESG indicators into the investment analysis process. Issuance of Green bonds has several benefits as can be seen in

Figure 2. It can be considered as an additional source of financing for the companies and can attract a broader range of investors, including institutional investors that help issuer to fund such long-term projects. It may also reduce the cost of funding of such projects due to additional tax benefits which may be given to green initiatives.

Provide an additional source of financing	Given immense green investment needs, bonds are an appropriate financing instrument to fund such projects. As a new instrument, green bonds can leverage a wider investor base including institutional investors (such as pension funds, insurance companies and sovereign wealth funds) which can help channel funds to such long term projects.
Enabling more long-term green financing by addressing maturity mismatch	Many countries, including India are constrained in their ability to provide long term finance due to liability maturity issues and lack of hedging duration risks. Funds of long term nature, from varying class of investors, can be channelled through long term bonds issuances, to mitigate this issue.
Lower cost of funding	It is expected that with the need to encourage investment in Green initiatives, a larger pool of capital and investments may be made available to fund the same. Like is seen in the infra debt space in Indian infrastructure industry, there may be possibilities of regulatory tax benefits which may be given to green businesses, due to which the cost of such funding may reduce.
Making new green financial products available to responsible and long-term investors	Pension funds, insurance companies, sovereign wealth funds and other institutional investors that have a special preference for sustainable investment and long-term investment are looking for new financial instruments to achieve their investment targets. Green bonds provide these investors with the access to such products and a way for many other investors to diversify their portfolios. As global multilateral institutions and development organisations champion the cause of green bonds, a wider participation of issuers across the globe will also address geo-political risks for investors.

Figure 2: Benefits of Green Bonds *Source: Vivro (2018)*

> **"Green bonds are the debt securities issued by any sovereign organisations, inter-governmental groups or alliances, and corporates to raise funds for projects that are environmental and climate-related."**

Current Trends in India

India has started green bonds since 2015. Looking at Figure 3, it is apparent that India has the second-largest burgeoning green bond market among emerging markets after China (IFC, 2021). Yes Bank issued the first green bond in India in February 2015 to raise around 1000 crores with a tenure of 10 years for renewable energy projects. In the same year, the Export-Import Bank of India, CLP Wind Farms, ReNew Power Ventures, and IDBI Bank all issued Green Bonds in the country. In 2021, more than $6.11 billion is raised through green bonds by more than a dozen companies, which is the highest since its inception in 2015. ESG investing has also got a lot of prominence in India especially after COVID-19.

> **"The most important feature of green bonds is that they are focused on having a positive impact on sustainable development goals (SDGs) and environmental protection."**

As per a 2021 report, the number of Indian signatories in UN-PRI tripled in 2020, India has ten ESG mutual funds in 2021 from two ESG mutual funds in 2019, around 220 Indian companies are disclosing their emissions report through Carbon Disclosure Project (CDP). The inflow in ESG funds in India has grown from Rs. 2094 crores in 2019-20 to Rs. 3686 crores in 2020-21 (Economic Times, 2021). As of November 2021, the total Assets Under Management (AUM) of ESG funds in India is Rs. 12,320 crores which have grown 4.7 times from November 2019 (ET Times, 2021). These growing numbers reflect the awareness among the companies, investors, and other stakeholders, that the companies need to find new ways to manage their impact on people and the planet to remain viable. As per CRISIL (2021) report, ESG in India is expected to rise at least 15% to reach $ 60 billion by 2025. Recently in 2021, two Indian rating agencies have introduced ESG ratings and scores. In Jan 2021, Acuité launched ESG Risk AI for the assessment of ESG risks of top 1000 companies. Later, CRISIL launched ESG scores for 225 companies across eight sectors in June 2021.

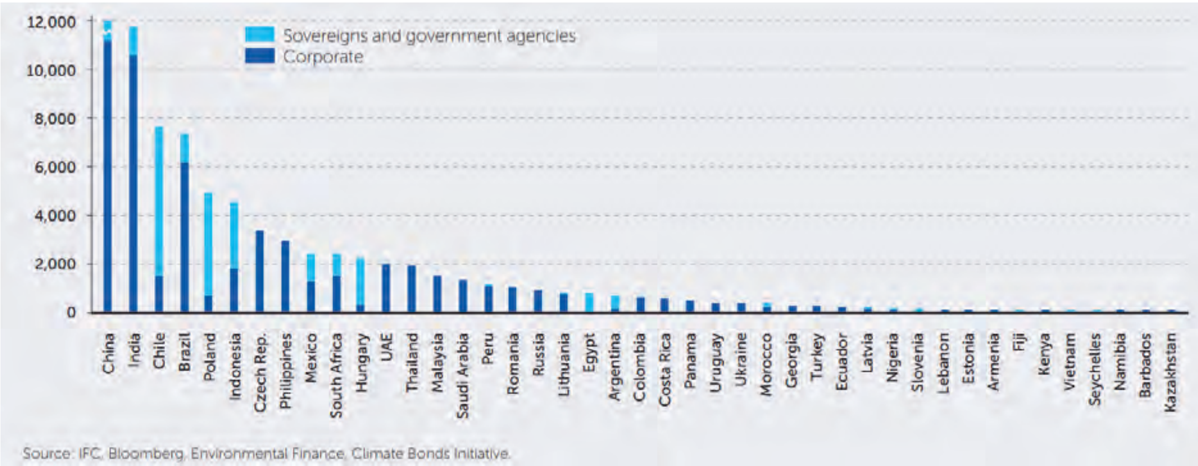

Figure 3: Cumulative Emerging Market Green Bond Issuance, 2012–2020 (US$ million)

Source: International Finance Corporation (2021)

Consideration for the issuers of green bonds

Green bonds significantly differ from other forms of bonds, as they are specifically created to meet the requirements of environment-friendly projects (Bhutta et al., 2022). The bond issuer raises a fixed sum from investors over a specified period of time, returns the investment when the bond matures and pays a set amount of interest (coupons) along the way. A green bond can be issued by any government or private entity. Issuers of green bonds should take into account the following factors (Bhutta et al., 2022; Park, 2019):

To label the bond as 'green' or not

There are potential advantages and shortcomings of labelling the bond as 'green'. As compared to traditional bonds and other asset classes, green bonds assist the issuers to access a wider range of investors. They have the potential to attract new investors who are conscious of ESG issues. When compared to conventional bonds, increased demand for green bonds is anticipated to result in increasingly beneficial terms and a better value for the issuer. Issuance of green bonds also has a significant positive impact on the reputation of the issuers, as it reflects their commitment towards the environment and enhances their environmental performance. Issuance of green bonds also has some downside; the issuance and operating costs of green bonds could be higher than those of a conventional bond. Issuer bears the additional cost of tracking, monitoring, and reporting processes, as well as an upfront investment to design the bond's green criteria and sustainability objectives. Additionally, issuers may also have to encounter penalties for a green default.

Selection of green criteria

There are various standards and guidance sources for green bonds such as Green Bond Principles, Green Bond Indices, the Climate Bond Standards. SEBI (2017) has defined the green bonds and the categories of projects for which the funds can be raised. Green bond issuers should apply the most comprehensive and transparent approach to select the green criteria as per the available standards and guidelines. They should also consider the potential investors' expectations and requirements from the investment. Investors may have different priorities for making investments in green bonds such as issuer's credit rating, environmental objective, price of the bond, third-party assurance, and overall business activities of the firm.

> **"As compared to traditional bonds and other asset classes, green bonds assist the issuers to access a wider range of investors."**

Reporting after the issuance of green bonds

Investors are interested to ensure that the investments they have made have delivered the desired environmental benefits. Therefore, green bond issuers must report on the environmental and social value created from the projects regularly (at least once a year) during the life of green bonds. They should plan to monitor and evaluate the process, and incorporate data collection techniques and key performance indicators (KPIs) to track the environmental outcomes over time.

> **Investments in green bonds can be done by both retail investors and institutional investors.**

External Assessment

External assessment is desired by both issuers and investors. Issuers engage external consultants to guide them in designing the criteria and process of green bonds due to possible reputational risk and investors also look for the assertion that the management of proceeds is appropriate and used to fund the green initiatives that were proposed. There are two approaches for external assessment:

a. *Second-party consultation*

Commonly known as 'second opinion', an external expert provides an assessment of the green aspects of the bond. Usually, an environmental expert is engaged in assessing the criteria that will be used by the issuer for choosing projects for funding.

b. *External third-party assurance*

Third-party assurance is applied to both financial and non-financial reporting and is performed by audit professionals. It is considered the most rigorous form of assessment. The audit professionals conduct assurance of the non-financial reporting based on the international/ national standards such as the International Standard on Assurance Engagement (ISAE) 3000. ISAE 3000 is an international standard developed by the International Auditing and Assurance Standards Board (IAASB) published in 2003 and later revised in 2013. Unlike financial reporting, external assurance of non-financial reports is a voluntary activity in India. Assurers can assist the issuers in designing bond criteria, selecting and evaluating projects, tracking the proceeds and environmental outcomes. Investors also need to be assured that proceeds of green bonds in which they have invested are allocated to the eligible projects appropriately and will provide a positive environmental impact. Independent third-party assessment of green bonds increases investors' level of confidence in invested green bonds.

Avoid 'greenwashing'

Sometimes issuers face accusations and reputational risk of greenwashing while issuing the green bonds. The greenwashing accusation on the issuer may be due to various reasons such as unsustainable core business activities of the issuer, proceeds are allocated for the activities not considered 'green' by investors, proceeds are not monitored and managed properly. Issuers may avoid this allegation by being transparent with the investors through reports, having an efficient measuring and tracking process for the allocation of proceeds and environmental outcomes, and external assurance.

Recommendations for Stakeholders

There are four major types of participants in the green bond market, i.e., market regulator, issuers, investors, and third-party assurers. Market regulator SEBI has defined the categories of green bonds and disclosure requirements that the issuer has to adhere to in offer documents and reports that are to be generated post-issue. Issuers need to decide the green criteria as per the standards and guidelines for the issuance of green bonds and proceeds should be utilised for the stated purpose only. The issuer should provide a report related to green bonds along with an annual report with the details of utilisation of proceeds and unutilised funds as per their monitoring. Investments in green bonds can be done by both retail investors and institutional investors. Investors that consider ESG issues in investment decision-making prefer to invest in such debt securities.

Chartered Accountants play a crucial role in ensuring compliance with laws and regulations. The auditors of the report are required to gather pertinent and appropriate audit evidence concerning compliance with laws and regulations that are known to directly affect the material amount and disclosures

> **Chartered Accountants play a crucial role in ensuring compliance with laws and regulations.**

in reporting. Chartered Accountants audit these reports related to green bonds to determine whether the information provided by the green bonds' issuers is accurate. They verify the internal tracking approach of the issuer and disbursement of funds from green bonds proceeds to the project. They assist the entity in achieving its sustainability objectives and integrating it with business strategy and decision making. An External auditor's assessment improves the reliability of the report and increases the investors' confidence.

Concluding Remarks

In recent years, sustainability and climate change have become significant global challenges. The extent to which companies are harming or doing well for the society and environment has received a lot of attention from many quarters. India is among one of the fastest developing economies. Therefore, its efforts towards sustainability and climate change are going to have a major impact on the world's sustainable development. Three months prior at the 26th Conference of Parties (CoP 26) Glasgow, the Prime Minister of India pledged to achieve net-zero emission by 2070 and to reduce carbon emissions by one billion tonnes by 2030. He also pledged to increase renewable energy's part of the energy mix to 50% and proclaimed LIFE-'Lifestyle for Environment' as a watchword for sustainable development. Indian corporates are also taking steps to reduce emissions and around 56 Indian companies have already set a target for net-zero emissions by the beginning of the 2030s. The Finance Minister's announcement for the issue of sovereign green bonds is a great step in the direction of the government's commitment towards attaining its net-zero target. The green bond market is expanding significantly globally, this step of government will enhance the ESG climate in the country and will give a further boost to ESG investing.

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Non-compliances observed in the Ind AS Financial Statements pertaining to Statement of Cash Flows

Contributed by the Financial Reporting Review Board of the ICAI.
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Financial Statements are the paramount source in hands of the stakeholders to understand the financial well-being of an enterprise. The users are highly reliant on the information presented in the financial statements and therefore the preparers ought to ensure that it is correct, complete, relevant and adhere to the applicable regulatory requirements. Financial Reporting Review Board (FRRB) reviews the General Purpose Financial Statements (GPFS) of enterprises with the view to identify non-compliances with Accounting Standards/ Ind AS and Standards of Auditing, CARO, Companies Act, and other applicable statutory requirements. The non-compliances observed by the Board are compiled and published under the name of "Study on Compliance of Financial Reporting Requirements". Till date, three volumes of the aforesaid publication have been released by the Board. Further, one more publication on "Study on Compliance of Financial Reporting Requirements (Ind AS Framework)" has been released for preparers and auditors of the Ind AS financial statements. In addition, the Board publishes such non compliances observed by way of articles in the 'Journal' of the Institute.

This article is in furtherance of the FRRB's endeavour to update the members and other stakeholders in the field of financial reporting. It may be noted that in this article, the observations related to Ind AS framework have been classified on the basis of components of financial statements i.e. Assets, Equity, Liabilities for Balance Sheet and revenue, interest income, employee benefits etc. for Statement of Profit and Loss and likewise. This article deals with the non-compliances, observed by the Board, with regard to Statement of Cash Flows which is an important element for Ind AS financial statements.

Observations related to Statement of Cash Flows

Re – Measurement of Defined Benefit Plan

Case

In the Cash Flow Statement of a company, the net profit before tax was used to derive cash flow from operating activities. The re-measurement of the defined benefit plan was deducted under ''Other Comprehensive Income''.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 20 – Reporting cash flows from operating activities

"Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

a) Changes during the period in inventories and operating receivables and payables;

b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits of associates; and

c) All other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables."

Observation:

It was noted that re-measurement of the defined benefit plan has been deducted under ''Other Comprehensive Income (OCI)''.

It was further noted that **under The Cash Flow Statement, the net profit before tax has been used to derive cash flow from operating activities, however, ''re-measurement of the defined benefit plan'' has been adjusted here. It was viewed that since it is part of OCI, so it should not be adjusted to the net profit before tax while calculating the cash flow from operating activities.**

Accordingly, it was viewed that the requirement of Ind AS 7 has not been complied with.

Taxes on Income

Case

In the Statement of Profit and Loss of a company, income tax expense relating to the current year and tax adjusted for earlier years was shown. The exact amount was disclosed by the company as income tax paid in its cash flow statement.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 35 – Taxes on income

"Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing or investing activity."

Paragraph 36

"Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed."

Observation:

It was noted that the income tax expense as disclosed under Statement of Profit and Loss was the same as disclosed in the cash flow statement as income tax paid.

Considering the balances of provision for taxation and advance tax appearing in the balance sheet, it was viewed that both the amounts could not be the same. In the Statement of Cash Flow, the actual amount of income tax paid by the company should have been disclosed.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Adjustments in Cash Flow Statement

Case

In the Cash Flow Statement of a company various adjustments were made which were not in line with the requirements of Ind AS 7.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 10– Presentation

"The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities."

Paragraph 11

"An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities."

Paragraph 44A to 44 E of Ind AS 7 – Changes in liabilities arising from financing activities

"**44A**- An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A,an entity shall disclose the following changes in liabilities arising from financing activities:

a) Changes from financing cash flows;

b) Changes arising from obtaining or losing control of subsidiaries or other businesses;

c) The effect of changes in foreign exchange rates;

d) Changes in fair values; and

e) Other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities."

Observation:

Following discrepancies were observed relating to the statement of Cash Flow:

a) There was no depreciation debited to the Statement of Profit and Loss, however, the same was erroneously adjusted in the cash flow statement.

b) The fair value adjustment on interest-free ICD received from the holding company was shown under cash flow from financing activities as repayment.

c) The proceeds from long term borrowings – Financial institution which was shown under cash flow from financing activities was contrary to its presentation under note on the financial liabilities where it was classified as short-term borrowing. Thus, contrary information was provided in the financial statements.

d) The Company did not disclose changes in the financing activities arising from cash and non-cash changes as required by paragraphs 44 A to 44E of Ind AS 7.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Repayment of External Commercial Borrowings

Case

In the cash flow statement of a company, certain amount was reported as repayments of External Commercial Borrowings under the head 'Cash Flow from Financing Activities'. It was noted that the balances of 'External Commercial Borrowings' reduced from the previous year to the current year.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 43– Non-cash transactions

"Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities."

Observation:

It was noted from notes to the financial statements of a company on 'Non-Current Borrowings' and 'Other Current Financial Liabilities' that balances of 'External Commercial Borrowings' shown under both Non-current borrowings and Other current financial liabilities reduced from previous year to current year. As per the notes, the reduction indicated repayment during the year.

However, in the Cash Flow Statement under the head 'Cash Flow from Financing Activities', the amount of repayments of External Commercial Borrowings reported was different from what should have been done as compared to the reduction disclosed in the notes to the financial statements.

It was viewed that if the difference in the amounts reported in the cash flow statement and what should have been reported as per the notes to the financial statements were due to any repayment in a mode other than cash then the same should have been disclosed separately as required in paragraph 43 of Ind AS 7 but no such disclosure was made.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Capital Expenditure

Case

In the cash flow statement of a company, a cash outflow was reported as 'capital expenditure' under Cash Flows from Investing Activities."

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 16– Presentation

"The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development cost and self-constructed property, plant and equipment."

Observation:

It was noted from the cash flow statement that a cash outflow has been reported as 'capital expenditure'. The capital expenditure was on account of cash paid to acquire property, plant and equipment. **It was viewed that such cash outflow should have been reported using the proper description of the line item viz. 'acquisition of property, plant and equipment' rather than as 'capital expenditure'** in line with the above mentioned requirements of paragraph 16(a) of Ind AS 7.

Accordingly, it was viewed that the description given while presenting the cash outflow on acquisition of property, plant and equipment was not in line with the above-stated requirement of Ind AS 7.

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How the Metaverse will impact the world of finance

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At its most basic, the metaverse is a three-dimensional virtual universe that combines augmented and virtual reality with social media to create a simulated digital environment. The technology offers users a greater sense of participation, autonomy, and boundlessness. For businesses, it is an opportunity to engage with stakeholders beyond the brick & mortar storefront and smartphone-based apps. With the acceleration of digital-based economies,The metaverse is expected to be a crucial digital platform for financial transactions. Consequently, major financial institutions around the world are exploring the platform in different ways.

In this article, we explore the many ways in which the metaverse will impact the world of finance. Although yet developing, the technology undoubtedly holds the potential to reshape the future of the industry to make it better connected, insights-led, and purpose-driven. But only time will tell if and how well the industry is able to harness the potential of this promising technology.

In November last year, KB Kookmin Bank, one of South Korea's largest financial institutions, announced that it has developed the metaverse VR Branch Testbed[1]. It termed the initiative as an experiment that would allow customers to access its services in the metaverse.

Likewise, earlier this year, JPMorgan, the largest bank in the US, unveiled the bank's suite of Ethereum-based services and released a report exploring how businesses can find opportunities in the metaverse[2].

At its most basic, the metaverse is a three-dimensional virtual universe that combines augmented and virtual reality with social media to create a simulated digital environment. The technology offers users a greater sense of participation, autonomy, and boundlessness. For businesses, it is an opportunity to engage with stakeholders beyond the brick & mortar storefront and smartphone-based apps.

For financial services, the metaverse holds the potential to transform the sector as we know it today. It offers a whole new reality by making financial transactions seamless, accessible and more secure than ever before. According to a survey in 2022, 67% of global banking executives agreed that the metaverse will have a positive impact on their organizations, while 38% said it will be a breakthrough or transformational. Around 92% agreed future digital platforms need to offer unified experiences that enable interoperability of customers' data across different platforms and spaces[3].

"For financial services, the metaverse holds the potential to transform the sector as we know it today. It offers a whole new reality by making financial transactions seamless, accessible and more secure than ever before."

[1] *https://forkast.news/headlines/south-korea-kb-kookmin-bank-presents-metaverse-vr-bank-testbed/*
[2] *https://www.businesstoday.in/amp/latest/trends/story/jpmorgan-becomes-worlds-first-bank-to-arrive-on-metaverse-322803-2022-02-16*
[3] *https://bankingblog.accenture.com/ultimate-guide-to-banking-in-the-metaverse*

So, how will the metaverse impact stakeholder experience in the financial services segment?

As the examples cited above show, major financial institutions around the world are exploring the platform in different ways.

- **Financial services in the metaverse:** The elementary technology ecosystems of the metaverse – comprising of blockchain, cryptocurrencies, non-fungible tokens (NFTs) and decentralized finance (DeFi) - are all geared toward an open, decentralized and permissionless internet. Traditional financial products and services will be reinvented by these evolving technologies. For instance, DeFi-enabled insurance and cryptocurrencies will reshape real-time data collection and claims automation. Another example would be that of banks – they can identify potential customers, onboard them through crypto wallets, and provide payments, lending and custody services.

  To leverage these opportunities and to stay up to date with consumer preferences, financial services companies will need to be tuned in to rapid innovation in the metaverse and tie them back to traditional infrastructure. The approach could include developing their own private metaverse, and enabling specially-designed products and even marketplaces. This factor will be a key determinant to reap rewards and succeed in the real and virtual future.

- **Cryptocurrencies and NFTs will be the currency of the metaverse:** A cryptocurrency is a digital or virtual currency that is secured by cryptography. To elaborate, cryptocurrencies are encrypted data string that denotes a unit of currency. These are monitored and organized by blockchains.

  On the other hand, NFTs are a special kind of digital file that represents a single unit of value. They earn their uniqueness from verifiable assets with identifiers and attributes that give them worth. They are an individualized digital commodity that can't be exchanged for another asset, but only for themselves. Given their inimitability, NFTs are one of the most promising payment solutions for the metaverse.

  These unique digital assets represent the most promising payment solutions for the metaverse. The advent of cryptocurrencies and NFTs could enable monetization in the virtual world. For example, virtual real estate is likely to have profound consequences on the future of the tangible property market. The drastic increase in digital land trading has prompted a number of companies to plan virtual cities in the metaverse.

- **Blockchain technology will ensure the safety of financial transactions in the metaverse:** Blockchain technology refers to a system in which a record of transactions is maintained across several computers that are linked in a peer-to-peer network. The technology duplicates and distributes the digital ledger of transactions across the entire network of computer systems – making it difficult to change, hack or cheat the system.

  Without a doubt, blockchain technology is essential for the smooth execution and functioning of financial services in the metaverse. Here are some of the characteristics of the technology that add great value to the metaverse:

  i. **Security:** Instant transactions in the metaverse will be carried out securely with the use of blockchain technology. Through decentralization of storage and data processing nodes, it enables safe storage, transmission and synchronization of data.

  ii. **Accessibility:** By synchronizing thousands of independent nodes, blockchain technology creates a decentralized ecosystem and allows all users to experience the same virtual world simultaneously.

  iii. **Tokens:** Tokens are secure storage devices that transmit virtual content, personal data and authorization keys in an encrypted form. They ensure the security of confidential information in the metaverse.

  iv. **Governance:** By regulating economic, legal and social interactions between the users of the metaverse, blockchain-led smart contracts are integral to the smooth functioning of financial transactions in the metaverse.

  v. **Interoperability:** Blockchain technology facilitates seamless functioning across different systems and interfaces. This factor is especially important when in the context of NFT valuations in the virtual world.

- **Driving the next wave of innovation:** The financial services industry holds the potential to play a significant role in mainstreaming the metaverse by deploying new technologies as primary means of a commercial transaction - such as cryptocurrencies and blockchain. The industry can use this opportunity to drive the next phase of innovation - including new forms of digital currencies and digital contracting. By leveraging these technologies, users can experience the fastest, safest and most convenient experience of financial transactions in the future.

  By creating virtual points of presence, the metaverse will provide financial institutions with an opportunity to connect with a new generation of customers, partner with new-age service providers and tap into hitherto unexplored talent pools through new channels, services, experiences, digital goods and assets. The technology also holds the potential to disrupt the complex spectrum of fintech services – including payment solutions, custodial services, forex and liquidity services. Regulatory solutions relating to tax, compliances and accounting – including cross-border and cross-currency transactions will also be impacted.

While the potential is promising, financial institutions need to practice abundant caution before investing in the technology. Given that it's an evolving technology, some key elements to support commerce and the meta-economy still need to be determined and scaled before it can be effectively functional for the financial services domain. These include factors such as technology infrastructure, cyber security and a governing framework.

Blockchain technology refers to a system in which a record of transactions is maintained across several computers that are linked in a peer-to-peer network.

The ahead-of-the-curve thinkers

In KB Kookmin Bank's metaverse version, simple transactions such as remittances are managed at a teller window. Employee avatars inside the virtual VIP lounge help clients analyze risk-return profiles or design investment portfolios. Inside the main hall, customers can browse their personalized financial information. A head-mounted VR device enables access to the experience. The institution also plans to use its virtual branch to educate young people on finance and train employees.

In a media interaction, JPMorgan said that there is a lot of client interest to learn about the metaverse and they are attempting to highlight what the current reality is, and what needs to be built next to maximize the full potential of our lives in the metaverse[4].

While KB Kookmin and JP Morgan may be among the first instances of the financial industry's tryst with the metaverse at scale, it certainly is not the last. In the time to come, this collaboration will reshape the ways in which financial institutions engage with stakeholders, render their services and approach their business. For example, Acorns, a fintech company, is providing a debit card with an AR engagement that can be viewed through the smartphone. Westpac Banking Corporation is offering financial data visualization and budgeting through smartphone-based augmented reality[5].

Is the financial services industry ready for the metaverse?

According to a report, it took the internet 15 to 20 years to diffuse into banking. The mobile phone took five to six years. Now, as the world prepares for Web 3.0, 47% of bankers believe that customers will use augmented reality/ virtual reality as an alternative channel for transactions by 2030[6].

Blockchain technology facilitates seamless functioning across different systems and interfaces. This factor is especially important when in the context of NFT valuations in the virtual world.

As observed in the report 'Opportunities in the metaverse': "Supply and demand dynamics are driving people into the meta-economy. Over time, the market for metaverse real estate could evolve in a similar way as the real estate market in the analogue world. In time, the virtual real estate market could start seeing services much like in the physical world, including credit, mortgages, and rental agreements.[7]"

Progressive organizations that keep up with the advances in technology and deliver to the rising customer expectations will become the leaders of the new digital reality in the financial services sector. If harnessed thoughtfully, the technology has the potential to evolve the financial services sector in the manner that smartphones and other touchscreen devices did a decade ago.

Having said that, there is no denying that the technology is still emerging and rapidly evolving. It will take some time for it to become fully functional.

Gauging a brand's preparedness for the metaverse

Before investing in the metaverse, financial institutions will need to introspect on the technology's strategic needs and potential benefits in the context of their brand. It would be prudent for financial institutions to

4 *https://www.businesstoday.in/amp/latest/trends/story/jpmorgan-becomes-worlds-first-bank-to-arrive-on-metaverse-322803-2022-02-16*
5 *https://www.theuxda.com/blog/augmented-reality-in-digital-banking-maximizes-ux-possibilities*
6 *https://bankingblog.accenture.com/banking-in-the-metaverse-the-next-frontier*
7 *https://www.jpmorgan.com/content/dam/jpm/treasury-services/documents/opportunities-in-the-metaverse.pdf*

remember that not everything in the metaverse will be relevant for every business. Some questions that they can ask themselves include:

- What are the goals of your metaverse strategy?
- What is your plan and budget to navigate the metaverse?
- Which services, when rendered in the metaverse, can offer customers a never-before experience?
- What value will the metaverse add to the stakeholder experience?
- Given that the technology is in its nascent stages, what is the potential magnitude of value accrued for the brand?
- How will the strategy benefit the brand differently from the physical and on-screen versions of the business?

> **Progressive organizations that keep up with the advances in technology and deliver to the rising customer expectations will become the leaders of the new digital reality in the financial services sector.**

The Bottomline

The metaverse holds the potential to revolutionize the financial services industry. It offers immense benefits by collaborating with people, spaces, and services in both the virtual and real worlds. Although yet developing, the technology undoubtedly holds the potential to reshape the future of the industry to make it better connected, insights-led, and purpose-driven.

Leading financial organizations across the world have begun to acknowledge that creating a strong digital asset and meta presence early on will be critical to their relevance in the future. This recognition is translating into huge investments in the metaverse by global brands. But only time will tell if and how effectively and efficiently the industry is able to harness the potential of this promising technology.

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Impact Investing in India: An Environmental Analysis

***Kajal Tolani and **Prof. H.P Mathur**

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There are several ways to finance traditional firms, and numerous theories have previously been developed, but the area that is under researched is the financing of third sector organisations and the financing tools thereof. Impact Investment is an innovative source of finance that is being seen by the global investment community as a powerful instrument for financing social enterprises. This article highlights the challenges that Impact Investors encounter and tries to identify the opportunities and threats for Impact Investment in India using PESTLE analysis. The study will be helpful to professionals to get insights into this emerging financing tool.

Introduction

Impact Investment is an innovative tool to divert the world's financial market resources towards solving global issues (Clarkinngioni, 2016). The term was coined by Rockefeller Foundation in 2007. The Global Impact Investing Network (GIIN) defined impact investing as "investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return". Impact Investors actively pursue both financial and social returns and have become a vital source of funding for social enterprises (Block et al., 2021)we find that the three most important criteria are the authenticity of the founding team, the importance of the societal problem targeted by the venture, and the venture's financial sustainability. We then compare the importance of these screening criteria across different types of impact investors (i.e., donors, equity investors, and debt investors. Impact funds are rising in number and variety, indicating a growing interest in leveraging equity, debt, and alternative instruments to achieve social impact (Alijani & Karyotis, 2019). Affordable housing, microfinance, energy, financial services, agriculture, water, sanitation and healthcare are some of the sectors receiving the highest portion of impact investing money (Roth, 2020).

Research on impact investing is evolving from pre-paradigm to paradigm stage where understanding terminological and definitional boundaries is the area of focus for majority of the researchers, but surprisingly, the number of research in the field has grown slowly. This lack of knowledge production on the field increases the risk of failure for both the investors and investees (Agrawal & Hockerts, 2021).To fill this knowledge gap, this study aims to (i) identify and understand the hindrances those are impeding the growth of Impact Investing and, (ii) scan the external environmental factors using PESTLE framework.

"What we have done for ourselves alone dies with us; what we have done for others and the world remains and is immortal"- Albert Pike.

a. **Impact Investors and Investment tools**

Impact investors, in particular, actively sought social or environmental impact in addition to financial rewards, which distinguishes them from traditional investors (Chowdhry et al., 2019). They are more closely involved in strategy and company development than commercial investors (Ravi et al., 2019). A wide range of individual and institutional investors are attracted to Impact Investments, which include private foundations, development finance institutions, fund managers, pension funds, family offices, insurance companies, individual investors, NGOs and religious institutions. Impact Investors can be divided into two groups based on their return expectations: Impact first and Financial first (Freireich & Fulton, 2009). 'Impact first' investors look for maximising environmental or social returns while demanding a minimum financial return. Foundations and family offices prefer to operate as 'Impact first' investors since it allows them to achieve their goals while also earning profits (Thornley & Dailey, 2010). On the other hand, 'Financial first' are the ones those seek market rate returns apart from social or environmental impact. Pension funds, banks, development finance institutions and wealth funds are among the most common types of these investors. According to Impact Investors Council, Impact Investments can be made in the form of various financial assets as grant support, subordinated loans, senior loans, cash, guarantees, cash, fixed income, public and private equity.

b. Investees

On the demand-side, the investee organisations (both for-profit and non-profit), who are in search of financial resources to achieve their goal of solving social issues, are the major players (Mittal et al., 2021). Charities, Community Interest Companies (CICs), community benefit societies, social enterprises and private enterprises having social objective and profit distribution limitation to shareholders are considered as Impact Investees (Agrawal & Hockerts, 2019; Brown & Swersky, 2012)

> **"Research on impact investing is evolving from pre-paradigm to paradigm stage where understanding terminological and definitional boundaries is the area of focus for majority of the researchers."**

Literature Review

Impact investing is an emerging asset class in which the research is rapidly growing (Höchstädter & Scheck, 2015), with most of the research in the field focusing on understanding the terminological and definitional aspects. However, academic research on this novice investment tool lags behind practitioner research, thus there is need to delve deeper into other aspects such as stakeholder management in the institutional environment, understanding socio-economic and institutional challenges and legislative issues (Agrawal & Hockerts, 2021; Alijani & Karyotis, 2019).

A study conducted by Islam (2021) based on a review of 114 articles assisted the researcher in determining that the challenges faced by Impact Investors remain a key question to be addressed in future research. According to the study of Quinn & Munir (2021) less attention has been given on using hybrid categories as a political device for strategic advantage whereas Clarkin & Cangioni (2016) suggested that a solid legal infrastructure is essential to ingrain investor trust and give assurance of compliance and disclosure.

Moreover, Impact Investing is gaining traction in India, and its potential is beginning to be realised. India has a massive development deficit, and Impact Investing can assist in India's development (Mittal et al., 2021).

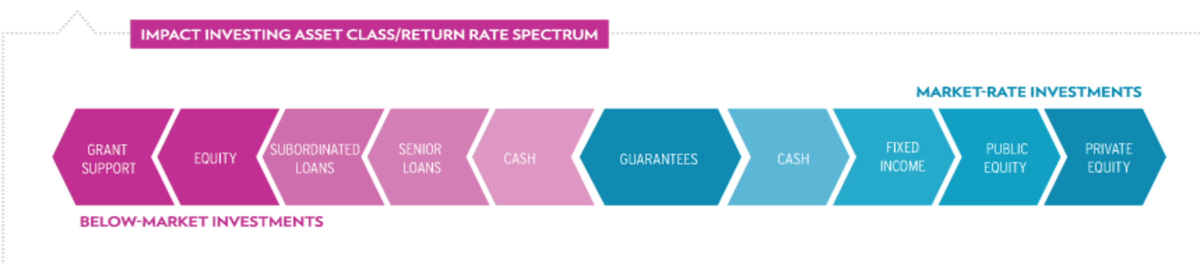

Fig.1 Impact Investment Asset class

Source: Impact Investment Council

Based on these studies, the researcher opted to use PESTLE analysis to uncover the challenges faced by Impact Investors and how external factors are affecting this newly growing field of study, with special reference to the Indian context.

> **In addition to encouraging individuals to participate in the innovation process, the emergence of social entrepreneurs and social businesses promotes economic growth and social equity.**

Objectives of the study

To understand the current state and challenges of Impact Investment in India.

To identify the environmental factors affecting Impact Investing in India.

Research Methodology

The study was conducted using the available literature on Impact Investing using globally recognised databases like Google Scholar, Scopus, Web of Science and Proquest. The study is divided into two sections. The first section explores the current state of Impact Investing and the hurdles that are being faced by Impact Investors in India. In the second section, the 'PESTLE' framework has been used to identify the environmental factors affecting Impact Investments in India.

Impact Investing in India

Investing for social benefits is not a novice concept in India. Rather, roots of philanthropy by investors can be traced in the Indian history. Entrepreneurs like Jamshedji Tata, G.D Birla, Sir Edulji Dinshaw will always be remembered for their contribution towards the development of the society. Impact Investing is an innovative investing method which provides an opportunity to the Indian investors to do social good while generating returns. In 2001, India's first for-profit Impact Fund, Aavishkar Capital, was founded, bringing Impact Investing to the country (Mittal et al., 2021). According to Impact Investment Council Report (2021 in Retrospect), a total of ~$6.8 Bn equity investments was attracted by 294 Indian impact enterprises across 3451 deals in 2021. While the number of agreements increased by 5% in 2021, overall investment amount increased by 135% when compared to 2020. According to the data, investments in only 14 firms accounted for over 60% of total Impact investment volume in 2021. Lok Capital, Aavishkar Capital, Acuman Capital, Asha Impact are some major players of Indian Impact Investing industry. Impact Investment Council (IIC) is the leading national industry body to strengthen Indian Impact Investing. In an emerging economy like India, it is reasonable to assume that the demand for Impact Investments will be more than that of developed economies because of the resource-constrained environment (Zahra et al., 2009) and lack of financial institutions (Kistruck et al., 2011).

> **Investors are becoming more aware towards sustainability and social well-being along with financial returns.**

Challenges of Impact Investing

Definitional ambiguity: There are numerous ambiguities in terms of definition and terminology. Few studies have attempted to define Impact Investing. Several articles, however, mix up impact investing with venture philanthropy, socially responsible investing and venture capital (Agrawal & Hockerts, 2021)**.** Terminological clarification is warranted to establish the field and create awareness among investors.

Uncertainty of Financial Returns: The appetite for Impact Investment among the investor community seems to be limited due to uncertainties regarding financial returns that are comparable to or equal to those from non-impact investments. The earliest Impact Investors were philanthropists and other investors are ready to accept lower-than-market profits. The widespread belief that Impact Investment yields sub-commercial profits is a fundamental impediment to the adoption of this novel way of funding (Iarossi et al., 2019).

Impact Measurement: Impact measurement is a hurdle in Impact Investing. The proliferation of Impact Investment across various sectors, such as health, education, affordable housing, agriculture and environment, requires metrics for measuring social impact to exist in a variety of industries. As a result, current thought to overcome measurement problem is to attempt and build standard tools for diverse industries in a formal measuring procedure (Mittal et al., 2021).

Impact Washing: The phrase "Impact Washing" refers to the usage of the term "Impact Investing" as a marketing approach to attract investment or boost reputations rather than focusing on material solutions to environmental and social challenges. Those who fail to properly analyse their investments thoroughly become victims of impact washing (Busch et al., 2021).

PESTLE Analysis

Washington State University defined **PESTLE** analysis as a framework or tool for marketers to study and track macro-environmental (external marketing environment) elements that affect an organisation, company, or industry. It investigates the political, economic, social, technological, legal, and environmental factors in the external environment. The study attempts to analyse the macro environment factors that are affecting the Impact Investment Industry.

Political: In order to meet its development aims, the Indian government is gradually partnering with the private sector. Some of the prominent examples showing the increasing interest of the government in the field are – (i) The Aspirational Districts Plan initiative, which encourages investment in specified districts through CSR finance and Impact Investment. It is managed by the Small Industries Development Bank (SIDBI), a fund of funds that invests in start-ups with a high social impact. (ii) The Indian government has announced its desire to build a social exchange (Mittal et al., 2021). In response to the global call for sustainable development, governments are focusing on innovating ways of funding but there is a darker side to this, as hybrid categories can be used for political advantage, stakeholders such as investors, managers, governments, regulatory, and certifying agencies can take the veil of a hybrid category to form politically advantageous social arrangements to achieve their own specific interests (Q. C. Quinn, 2017).

> **"The climate-tech startups are primarily financed by angel investors, Impact investors, venture capital funds, development finance institutions and private equity funds."**

Economic: In addition to encouraging individuals to participate in the innovation process, the emergence of social entrepreneurs and social businesses promotes economic growth and social equity. This is due in part to the fact that some of the barriers to sustainable and long-term economic growth (such as youth unemployment, climate change, ageing populations, and increased social conflicts) can only be resolved through social innovation (Han & Shah, 2020). Indian Impact Investment Industry has provided a platform to these social enterprises to raise funds and to scale their operations.

Social: Impact Investment is being commended and promoted by the global development community due to its ability to make a difference in global development concerns

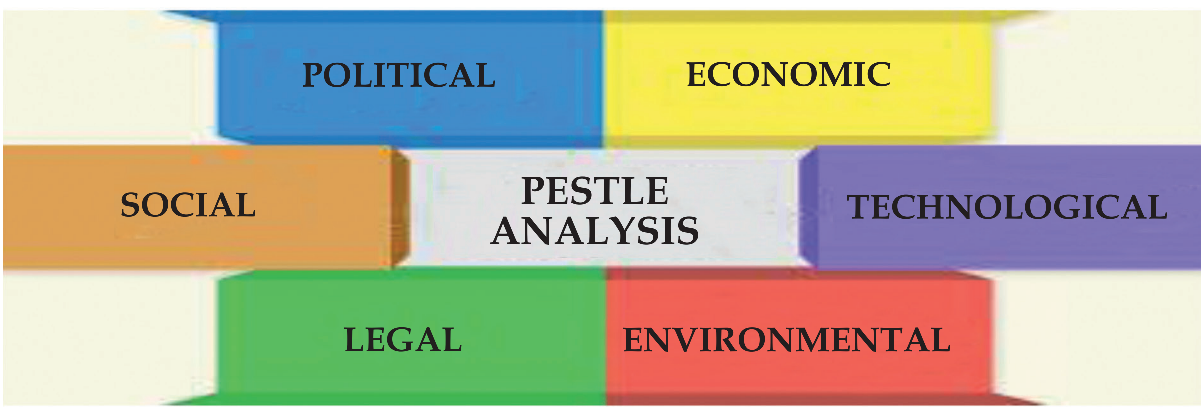

Figure. 2 PESTLE Analysis

Source: https://www.dreamstime.com/illustration/pestle-analysis.html.com such as poverty, inclusion, and climate change (Iarossi et al., 2019). With environmental and social factors increasingly becoming a key subject in financial markets, there is a definite movement toward addressing actual impact among the investment community (Busch et al., 2021). Investors are becoming more aware towards sustainability and social well-being along with financial returns. In emerging economies, societal challenges such as women's empowerment, lack of sustainability, and social and economic marginalisation are being addressed by social enterprises (Yunus et al., 2010) by creating socially innovative and commercially oriented solutions (Agrawal, 2018). Such innovations require patient capital which can be provided by Impact Investments but the fear of impact washing among the investors makes it less desirable than traditional investing.

Technological: The increased social innovation by social enterprises will require more demand for funds that could be met by Impact Investments as they usually look for highly inventive and scalable business models that employ tech-focused products and services to reach a wider number of beneficiaries (S. Ravi et al., 2019). Moreover, with the enhancement of technology, new tools are emerging for social impact measurement which is also a favourable indication for the growth of Impact Investment Industry. IRIS, B Lab's Global Impact Investing Rating System and the Acumen Fund's Lean Data methodology are some of the popular impact measurement tools (Reisman et al., 2018).

Despite the availability of such tools, it appears that there are still barriers to their adaptation (Phillips & Johnson, 2021).

> **"Impact Investing in India is still at its initial stage but has immense potential to evolve and emerge as a powerful financing tool if it gets a conducive and supportive environment."**

Environmental: India's share of global emissions has doubled in the previous two decades as a result of greater urbanisation and rising affluence and is expected to continue to climb. At the same time, India is particularly vulnerable to the climate catastrophe, ranking 7th on the Global Climate Risk Index 2021, due to its reliance on rainfed agriculture, a long coastline, and a lack of social safety nets. India's climate-tech startup ecosystem is booming, despite its infancy, with a varied spectrum of organisations working on climate mitigation, adaptability, and resiliency at various stages. The climate-tech startups are primarily financed by angel investors, Impact investors, venture capital funds, development finance institutions and private equity funds. Majority of investors financing climate-tech startups are Impact Investors and commercial startups. But the climate startups have their fair share of challenges as they do not have a distinctive identity in the spectrum of startups and insufficiency of funding sources hinder their growth (*Early-Stage Climate- Tech Startups in India*, 2021)

Legal: Though owing to definitional uncertainty and the novelty of the field, there is no specific legislation for Impact Investments in India but based on the nature of these investments, laws those become applicable are- FEMA 1999, Companies Act 2013, LLP 2008, Income tax Act 1961, SEBI (Alternative Investment Funds) Regulations, 2012 and guidelines issued by RBI from time to time. Given the importance of this innovative financial tool in financing social causes, it is imperative that legislation specific to social enterprises and Impact Investment be drafted and implemented.

Poltical

- Opportunities:
- Increasing government interest in Pvt Investment.
- Government pondering over social stock exchange
- Threats:
- Stakeholders can use hybrid categories as a veil to achieve their specific goals.

Economic

- Opportunities:
- Reduces goverment's fiscal expenditure.
- Enhancing economic growth
- Threats:
- Unstable exchange rate and high inflation demotivates foreign investors to invest in Indian third sector.

Social

- Opportunities:
- Global development community is promoting Impact Investment.
- Environmental and social factors are becoming key factors in financial market.
- Threats:
- Majority of the investment community is still focused on traditional investing.

Technological

- Opportunities:
- Increasing social innovations
- Development of new tools for social impact measurement
- Threats:
- Adoption rate of impact assessment tools is low
- Specific tools for not- for-profits are insufficient

Legal

- Opportunities:
- Impact Investors can register themselves under various forms such as company, LLP, proprietor etc.
- SEBI framed regulations for social venture funds
- Threats:
- In India, there is no legislation framed specially for Impact Investment
- Foreign investors have to adhere to various laws as FEMA, FCRA and SEBI guidelines.

Environmental

- Opportunities:
- Number of climate- techs have increased in India
- Global community is concerned for climate change.
- Threats:
- Lack of awareness on climate change
- Lack of action plan on climate change

Fig.3 PESTLE Analysis at glance

Conclusion

The gap between demand and supply of the funds required to attain the goals of sustainable development is wide. Innovative solutions to social problems require innovative ways of funding with a dual focus on social and financial returns. Impact Investment is one such source that can be helpful in reducing this gap, but to thrive and grow, this field requires a conducive and supportive environment. India is a developing economy and has its fair share of social problems. This study shows, Impact Investing in India is still at its initial stage but has immense potential to evolve and emerge as a powerful financing tool if it gets a conducive and supportive environment. Necessary changes in the legislative frameworks, government policies and institutional support are required to make this financial innovation succeed.

> **"Innovative solutions to social problems require innovative ways of funding with a dual focus on social and financial returns. Impact Investment is one such source that can be helpful in reducing this gap."**

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ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

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

1. Accountancy

Busy CEOs and financial reporting quality: evidence from Indonesia by Khairul Anuar Kamarudin and Wan Adibah Wan Ismail. *Asian Review of Accounting*, vol.30, No.3, 2022, pp.314-337.

Ind AS/IGAAP-interpretation and practical application: sale of a stake in a subsidiary by a parent without loss of control by Dolphy D'Souza. *Bombay Chartered Accountant Journal*, August 2022, pp.98-100.

2. Auditing

Vulnerability assessment: tool for internal audit by Rajendra Ponkshe. *Bombay Chartered Accountant Journal*, August 2022, pp.33-37.

3. Economics

Gendered Impact of the COVID-19: Insights from an interpretative phenomenological perspective by Supreet Kaur. *Vikalpa The Journal for Decision Makers*, April-June 2022, pp.91-105.

Institutionalization of results-based budgeting in the public sector: political and economic pressures by Nizar Mohammad Alsharari. *Asian Review of Accounting*, vol.30, No.3, 2022, pp.352-377.

Parivatisation of public sector banks: An alternate perspective. *RBI Bulletin*, August 2022, pp.77-86.

Rol of blockchain in facilitating insurance business: a way forward by Rajesh Verma, Harshita Katyal and Kunal Goyal. *The Journal of Insurance Institute of India*, July-September 2022, pp.80-90.

4. Investment

Impact of multilateral instrument on mergers and acquisitions in India by Vinit Desai. *The Chamber's Journal*, July 2022, pp.71-77.

5. Management

Corporate governance in a whole new world by Alok Gananath. *Chartered Secretary*, August 2022, pp.68-72.

CSR committees, politician and CSR efforts by Jun Guo and Yang Yu. *Asian Review of Accounting*, vol.30, No.3, 2022, pp.297-313.

Performance management shouldn't kill collaboration: How to align goals across functions by Heidi K. Gardner and lvan Matviak. *Harvard Business Review*, September-October 2022, pp.118-127.

Social Compact: Co-creating socially responsible businesses the indian way by Ernesto Noronha. *Vikalpa The Journal for Decision Makers*, vol.47, part.2, 2022 pp.119-124.

6. Taxation and Finance

Disclosure of foreign assets and income in the income-tax return by Ritu Punjabi. *Bombay Chartered Accountant Journal*, August 2022, pp.40-48.

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

Legal Decisions

Income Tax

LD/71/34 Calcutta High Court: ITA No.338/2016 Prin. Commissioner of Income tax Vs. Linde India Limited 05th Sept 2022

High Court upheld that no addition made under Section 40(a)(i) was rightly deleted by ITAT noting that amount paid by the Assessee to its German counterpart was neither debited in the P&L Account nor was it claimed as deduction in computing business; Revenue had made a disallowance of Rs.72.89 Cr and further enhanced the long term capital gain on sale of land in Chennai by invoking the provisions of Section 50C; ITAT had noted that assessee had paid amount to its counterpart as a capital work in progress, which was not charged to P&L account; Regarding addition u/s 50C, ITAT had directed the Revenue to rework the capital gains by adopting valuation as per DVO.

LD/71/35 Supreme Court: SLP 14823/2022 Anshul Jain Vs. Prin. Commissioner of Income Tax 02nd Sept 2022

Punjab & Haryana High Court had dismissed writ petition challenging Section 148A(d) order and reassessment notice and Supreme Court dismissed assessee's SLP against such High Court order; Supreme Court noted that notice was issued after considering assessee's objections and if the petitioner has any grievance on merits thereafter, the same has to be agitated before the Assessing Officer in the re-assessment proceedings, and under the circumstances, the High Court had rightly dismissed the writ petition, as per Supreme Court.

LD/71/36 ITAT Mumbai: ITA No.834/Mum/2022 The Income Tax Officer, International Taxation Vs. Armine Hamied Khan 30th August 2022

CIT(A) had allowed exemption u/s 54F despite being claimed u/s 54 in the ITR, against which the Revenue had filed appeal before the ITAT, which was dismissed by the ITAT; surrendered her tenancy rights in a residential apartment for a consideration of 4.76 Cr and invested the entire sum along with an additional sum of Rs. 56.80 Lacs in a new residential flat; Referring to Supreme Court ruling in Goetze India, ITAT noted that in the present case a claim for exemption was rightly made, but only a wrong section was quoted while making a claim, which is qualitatively different from a case where a fresh claim is made during the assessment proceedings.

LD/71/37 ITAT Delhi: ITA No.7128/Del/2018 The Asst. Commissioner of Income Tax Vs. Ruhil Developers P. Ltd 30th August 2022

ITAT upheld deletion of penalty u/s 271D r.w.s. 269SS; Prior to Finance Act 2015, section 269SS applied only to loans and deposits but did not apply to 'advance'; and said amendment is not retrospective; A loan is a debt instrument whereas the advance is a credit instrument on the part of the recipient; Assessee had received advances of Rs.5.30 Cr and had provided a list of the parties from whom Assessee had claimed to have received advance in cash, out of which only two parties responded to the summons under Section 131 and revenue thus made addition u/s 68 and also initiated penalty u/s 271D for violation of section 269SS.

LD/71/38 ITAT Mumbai: ITA No. 1725/Mum/2017 The Income Tax Officer Vs. Sejima Texyarn Pvt Ltd 29th August 2022

ITAT upheld deletion of addition u/s 68 on account of unexplained cash credits of share premium; Provision of Section 68 cannot be invoked where share subscription transaction are channelled through bank and wherein the identity and creditworthiness is established; ITAT observed that assessee proved the identity, creditworthiness and genuineness of the transaction beyond reasonable doubt and Revenue failed to establish its stand except the fact that the premium is huge and Assessee did not commenced its operation and there is no justification to invoke the provisions of Section 68 wherein transactions are channeled through bank.

LD/71/39 Delhi High Court: W.P. 12363/2022 Nidhi Bindal Vs. The Income Tax Officer 26th August 2022

High Court set aside reassessment notice along with Section 148A(d) order directing the Revenue to take Assessee's submission on record and pass a reasoned order within 8 weeks since Assessees' reply; Assessees' reply to the show cause notice

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

was not considered before passing the order; Assessee was issued show cause notice on 19/03/2022 required submission by 25/03/2022, to which assessee sought an adjournment of 7 days and 2 days respectively on 25/03/2022 and 28/03/2022 since she had moved to Dubai, assessee filed reply on 29/03/2022; Revenue passed order u/s 148A(d) on 30/03/2022 without considering assessee's reply.

LD/71/40 ITAT Hyderabad: ITA No. 1690/Hyd/2018 Zintec Software P Ltd Vs. The Income Tax Officer 17th August 2022

ITAT held that limitation period of four year for rectification under 154(7) is applicable even to an intimation under Section 143(1); Assessee had preferred the present appeal against the dismissal of its appeal by CIT(A) on the ground that time limit under Section 154(7) applies only to amendment of any 'order passed' referred to in Section 154(1)(a) and not to intimation under Section 143(1) referred to in Section 154(1)(b); The word 'order' used in Section 154(7) shall include the intimation issued under Section 143(1), since no separate limitation period is provided for rectification of intimation under Section 154(7).

LD/71/41 ITAT Pune: ITA No. 1332/Pun/2019 Sai Bhargavanath Infra Vs. The Asst. Commissioner of Income Tax 17th August 2022

ITAT held that that application of first proviso to Section 43CA applies retrospectively and thus the benefit of difference of 10% margin in sale consideration and the stamp duty value for the sale of immovable property is to be given for the year under consideration and the difference cannot be considered as deemed income; Assessee submitted that Revenue had ignored the fact that difference of Rs.19.58 lacs addition made, was less than 10% and the first proviso to Section 43CA squarely applied therefore, addition on account of difference between sale value of flats and stamp duty value of those flats, was not warranted.

LD/71/42 ITAT Delhi: ITA No. 9120/Del/2019 GE Power Systems India Vs. The Asst. Commissioner of Income Tax 10th August 2022

ITAT deletes addition made towards CSR by holding that when the accounts have been prepared in accordance with the accepted accounting principle, the tinkering of Revenue by making the addition of CSR expenses to book profit under Section 115JB, is not justified; Assessee had disallowed the CSR expense in its computation of its taxable income under the normal provisions but the same was not deducted from the book profit under MAT provisions; Section 115JB is a self-contained code and adjustments to book profit can only be done if specified under Explanation 1; None of the clauses envisaged in Sec. 115JB provides that CSR expenses have to be added to book profit and it cannot be said that expenditure on CSR expenses is a transfer to/from reserve.

Disciplinary Case

Respondent certifying Society's Balance sheet without adding fixed assets purchased, during the year, to gross block of assets and without providing proportionate depreciation of such assets – Classification of expenses incurred for purchasing fixed assets into revenue account by society led to increase in deficit in income and expenditure account – Respondent's failure to report material departure from the generally accepted principle of audit -- Held, Respondent GUILTY of Professional Misconduct falling within the meaning of Clause (9) Part I of the Second Schedule to the Chartered Accountants Act, 1949

Held:

In the instant case, the allegation is that the Respondent has certified Balance Sheet for the financial year 2015-16 in which many fixed assets purchased during the year were not added to a gross block of assets and proportionate depreciation was also not provided for these assets. Respondent in defence submitted that fixed assets were bought after the approval of the Management Committee. In this regard, the Committee noted that Society has entered the alleged fixed assets such as Notice & Sign Board, Pumps & Water Meter under the head repairs and maintenance. The Committee upon enquiry learnt that the expenses were classified as 'Revenue Account'. It was noted that all expenses related to repair and maintenance were charged from the General repair and maintenance account and the amount of Rs. 47 lakh was transferred from general repair and maintenance fund and all the related expenses were charged from the same account. The Committee further noted that alleged fixed assets such as Notice & Sign Board, Fire System, Lift Doors, Notice Board & Sign Board were having nil value in the preceding financial year. That the amounts of these items were material and according to the nomenclature of these items, these should have been capitalised by the Society. Due to charging it to revenue, the deficit had increased in Income and Expenditure account which led to the recovery of Rs. 460/- per month as service charges. The treatment of the Society was not appropriate and the Respondent was accordingly required to report in his audit report about the same. The Respondent failed to invite attention to the material departure of the generally accepted principle of audit. The Respondent during the hearing fails to provide reasonable explanations towards the charge made against him and also accepted the principle error made by him. Accordingly, the Committee held him guilty of professional misconduct falling within the meaning of Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sh. Chandrashekhar M. Sharma vs CA. Manoj Kumar Ramrikh Pandey [PR-34/16/DD/322/2016/DC/1024/2019]

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. 'INQ Holding LLC', a Sovereign wealth fund, notified for exemption u/s 10(23FE) - Notification No. 95/2022, dated 16-08-2022

Vide this notification, the Central Government has specified the sovereign wealth fund, namely, INQ Holding LLC (PAN: AADCI5071P), as the specified person for the purposes of section 10(23FE) in respect of the investment made by it in India on or after 16.08.2022 but on or before 31.03.2024 subject to the fulfilment of the conditions specified therein. The assessee shall get its books of account audited by an Accountant and furnish the audit report in the format annexed to this notification at least one month prior to the due date specified for furnishing the return of income u/s 139(1).

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-95-2022.pdf

2. Substitution of Rule 17 and Form No. 10 vide the Income-tax (25th Amendment) Rules, 2022 applicable w.e.f. 01.04.2023 - Notification No. 96/2022, dated 17-08-2022

Vide this notification, the CBDT has substituted Rule 17 pertaining to Exercise of option etc. under Explanation 3 to the third proviso to section 10(23C) or section 11. Further, Form No. 10 pertaining to Statement to be furnished to the AO/Prescribed Authority under clause (a) of the Explanation 3 to the third proviso to section 10(23C) or section 11(2)(a) has also been substituted. This is being done in line with amendment made by the Finance Act 2022 inserting Explanation 3 to the third proviso to section 10(23C) akin to existing and similar provision in section 11(2)(a).

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-96-2022.pdf

3. *The pension fund, 'CPPIB India Private Holdings Inc' notified for tax exemption u/s 10 (23FE) - Notification No. 97/2022, dated 17-08-2022*

The Central Government has specified the pension fund, namely, CPPIB India Private Holdings Inc. (PAN: AAICC2378J), as the specified person for the purposes of section 10(23FE) in respect of the eligible investment made by it in India on or after 17.08.2022 but on or before 31.03.2024 subject to the fulfillment of the conditions specified therein. Further, the assessee shall furnish along with return a certificate in Form No. 10BBC in respect of compliance to the provisions of section 10(23FE), during the financial year, from an accountant.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-97-2022.pdf

4. *Procedure & Form for claiming Refund under section 239A notified - Notification No. 98/2022, dated 17-08-2022*

The Finance Act 2022 inserted a new section 239A which provides that the specified person, who has made the deduction of tax under an agreement or arrangement and borne the tax liability, when no tax deduction was required, may file an application for refund of such tax deducted before the Assessing Officer. Accordingly, Rule 40G has been inserted which provides for procedure to claim refund u/s 239A and also Form No. 29D needs to be furnished in this regard.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-98-2022.pdf

5. *Provisions of section 206(1G) not applicable to non-resident buyer - Notification No. 99/2022, dated 17-08-2022*

Clause (ii) to fifth proviso to section 206(1G) empowers the central government to notify any person to whom provisions of section 206(1G) shall not apply. Accordingly, vide this notification, the Central Government has notified that the provisions of section 206C(1G) shall not apply to a person (being a buyer) who is a non-resident in terms of section 6 of the Act and who does not have a permanent establishment in India.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-99-2022.pdf

6. *Rule 128 pertaining to provisions for claiming foreign tax credit amended w.e.f. 01.04.2022 - Notification No. 100/2022, dated 18-08-2022*

Sub-rule (9) of Rule 128 has been substituted to now provide that the statement in Form No. 67 and the specified certificate or the statement shall be furnished on or before the end of the AY relevant to the PY in which the specified income has been offered to tax or assessed to tax in India and the return for such AY has been furnished within the time specified under section 139(1)/(4). It further provides that where the return has been furnished under section 139(8A), the statement in Form No. 67 and the specified certificate or the statement to the extent it relates to the income included in the updated return, shall be furnished on or before the date on which such return is furnished.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_no_100_2022.pdf

7. *Amendment in Rule 17CB pertaining to Method of valuation under section 115TD(2) - Notification No. 101/2022, dated 22-08-2022*

The Finance Act 2022 amended section 115TD to provide that the provisions of Chapter XII-EB pertaining to taxation of accreted income of the trust in certain cases shall also be made applicable to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of clause (23C) of section 10. Accordingly, rule 17CB has been amended for the said purpose.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-101-2022.pdf

8. Central Government notifies special courts u/s 280A in the State of Chhattisgarh - Notification No. 102/2022, dated 22-08-2022

In exercise of the powers conferred by section 280A(1), the Central Government, in consultation with the Chief Justice of the High Court of Chhattisgarh, has designated all the Chief Judicial Magistrate Courts of the State of Chhattisgarh as Special Courts for the purposes of section 280A for the areas falling within the respective territorial jurisdictions of the Chief Judicial Magistrate Courts in the State of Chhattisgarh.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-102-2022.pdf

9. Andhra Pradesh Pollution Control Board notified for tax exemption u/s 10(46) - Notification No. 103/2022, dated 24-08-2022

In exercise of the powers conferred by section 10(46), the Central Government has notified, Andhra Pradesh Pollution Control Board (PAN AAAJA1610Q), in respect of the specified income arising to that Board subject to fulfilment of conditions laid therein for the FYs 2016-2017 to 2020-2021 subject to the outcome of a specified Special Leave Petition filed by CBDT.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-103-2022.pdf

10. Amendment in Rule 114BB vide the Income-tax (29thAmendment) Rules, 2022 applicable w.e.f. 09.07.2022 - Notification No. 105/2022, dated 01-09-2022

In exercise of powers conferred under section 139A, Rule 114BB prescribes specified transactions wherein every person entering into such transactions shall mandatorily have to quote his permanent account number or Aadhaar number, as the case may be, in documents pertaining to such transaction. Vide this notification, exception to this rule has been specified by providing that provisions of rule 114BB(1) shall not be applicable in a case where the person, depositing the money or withdrawing money or opening a current account or cash credit account is the Central Government, the State Government or the Consular Office.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-no-105-2022.pdf

11. Control of certain Income-tax authorities specified - Notification No. 106/2022, dated 02-09-2022

Section 118 empowers the CBDT that, by notification in the Official Gazette, it can direct any income-tax authority or authorities specified in the notification to be subordinate to such other income-tax authority or authorities as may be specified in such notification. Accordingly, vide this notification, CBDT has specified chain of command of certain authorities i.e. the Principal Chief Commissioners of Income-tax, Chief Commissioners of Income-tax and Commissioners of Income-tax (Appeals) Unit.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-106-2022.pdf

12. Certain assessees notified for tax exemption u/s 10(46) - Notification No. 107&108/2022, dated 05-09-2022

The Central Government has notified u/s 10(46), ‘Central Registry of Securitisation Asset Reconstruction and Security Interest of India’ (PAN AAECC5770G), and ‘Haryana Electricity Regulatory Commission’ (PAN AAAGH0072G), in respect of the specified income arising to that body and Commission subject to satisfaction of conditions laid therein for FYs from 2018-19 to 2022-23 and from 2022-23 to 2026-27 respectively.

The detailed Notification(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification-107-2022.pdf

https://www.incometaxindia.gov.in/communications/notification/notification-108-2022.pdf

13. *Form of statement to be furnished by producers of cinematograph films or persons engaged in specified activity under Rule 121A of the Income-tax Rules, 1962 read with section 285B of Income-tax Act, 1961 - Notification No. 109/2022, dated 14-09-2022*

Vide the Income-tax (30^{th} Amendment) Rules, 2022, Rule 121A pertaining to Form of statement to be furnished by producers of cinematograph films or persons engaged in specified activity and Form No. 52A (Statement to be furnished u/s 285B by a person carrying on production of a cinematograph film or engaged in specified activity or both) has been substituted w.e.f. 14.09.2022. Section 285B providing for provisions for submission of statements by producers of cinematograph films or persons engaged in specified activity is substituted by the Finance Act, 2022.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_no_109_2022.pdf

II. CIRCULARS

1. *Additional Guidelines for removal of difficulties under sub-section (2) of section 194R of the Income-tax Act, 1961 - Circular No. 18/2022, dated 13-09-2022*

in exercise of the power conferred by section 194R(2), the CBDT had earlier issued guidelines in the form of the Circular No. 12/2022 dated 16.06.2022. Subsequently, some more clarifications are requested by stakeholders on various issues. Accordingly, this Circular is also issued to provide clarification on issues which will help to remove difficulties in implementation of this provision. It is clarified that this Circular is only for removing implementation of provisions of section 194R and it does not impact the taxability of income in the hands of recipient which shall be governed by the relevant provisions of the Act.

The detailed Circular can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/circular/circular-no-18-2022.pdf

III. PRESS RELEASES/INSTRUCTIONS/ OFFICE MEMORANDUM/ORDER

1. *ITD conducts searches in Gujarat & West Bengal - Press Release(s), dated 23-08-2022 & 31-08-2022*

The ITD carried out a search and seizure operation on 09.08.2022 on a business group primarily engaged in manufacturing and trading of ceramic tiles. The search action covered a total of 36 premises, spread across Rajkot, Morbi, Ahmedabad, Raipur, Guwahati, Gurgaon, and Kolkata. Also, in another search operation, the ITD carried out a search and seizure operation on 18.08.2022 on two prominent real estate groups of Kolkata.

The complete text of the above Press Release(s) can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1097/Press-Release-ITD-conducts-searches-in-Gujarat-dated-24-08-2022.pdf

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1098/PressRelease-ITD-conducts-searches-in-WestBengal-31-8-22.pdf

2. *ITD conducts searches on a prominent Transmission Tower manufacturing group in West Bengal - Press Release, dated 01-09-2022*

The ITD carried out a search and seizure operation on 24.08.2022 on a prominent Kolkata based group, engaged in manufacturing of Power Transmission & Distribution (T&D) Structure, Steel Structures, Steel ERW Pipes and Polymer products, etc. The search action covered 28 premises spread over West Bengal and Jharkhand.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1099/PressRelease-ITD-conducts-searches-on-a-prominent-Transmission-Tower-manufacturing-group-in-West-Bengal-1-9-22.pdf

3. *Direct Tax Collections for F.Y. 2022-23 up to 08.09.2022 - Press Release, dated 09-09-2022*

The provisional figures of Direct Tax collections up to 08.09.2022 continue to register steady growth. Direct Tax collections up to 08.09.2022 show that gross collections are at Rs. 6.48 lakh crore, which is 35.46% higher than the gross collections for the corresponding period of last year.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1101/Press-Release-Direct-Tax-Collections-for-FY-2022-23-up-to-08-09-2022-dated-10-09-2022.pdf

4. *ITD conducts searches on prominent business groups in Maharashtra - Press Release, dated 09-09-2022*

The ITD carried out a search & seizure action on 25.08.2022 on two groups engaged in the business of sand mining, sugar manufacturing, road construction, healthcare, running of medical college etc. The search action covered more than 20 premises spread over Solapur, Osmanabad, Nashik & Kolhapur districts of Maharashtra.

The complete text of the above Press Release can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1100/Press-Release-ITD-conducts-searches-on-prominent-business-groups-in-Maharashtra-dated-09-09-2022.pdf

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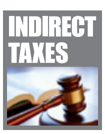

GST

Circular

1. **Guidelines for filing/revising TRAN-1/ TRAN-2**

   In accordance with the orders of Hon'ble Supreme Court dated 22.07.2022 & 02.09.2022 in the case of *Union of India vs. Filco Trade Centre Pvt. Ltd.*, the facility for filing TRAN-1/ TRAN-2 or revising the earlier filed TRAN-1/TRAN-2 on the common portal by an aggrieved registered assessee (hereinafter referred to as the 'applicant') will be made available by GSTN during the period from 01.10.2022 to 30.11.2022.

   The detailed guidelines in relation to the above have been issued by CBIC through the following Circular:

   Circular No.180/12/2022-GST dt. 09/09/2022

CUSTOMS

Notifications

1. **Amendment in exemption extended to certain products when imported through specific Airlines**

   Notification No. 130/2010-Customs dt. 23.12.2010 has been amended to extend the exemption available to printed ticket stocks, airway bills, any printed material which bears the insignia of the importing airline printed thereon including baggage tags, publicity material for distribution free of charge when imported through specific airlines to include American Airlines as well as United Airlines.

   Notification No. 45/2022 Customs (T) dt. 31.08.2022

2. **Customs (Compounding of Offences) Rules, 2022**

   Offence under section 135AA (Protection of Data) and it's compounding amount has been inserted in rule 5 (Fixation of the compounding amount) of Customs (Compounding of Offences) Rules, 2005. Other amendments has been made in rule 6 (Power of compounding authority to grant immunity from prosecution) and rule 7 (Withdrawal of immunity from prosecution in certain conditions).

   Detailed amendment can be accessed at the following link:

   Notification No.69/2022-Customs (N.T.) dt. 22.08.2022

3. **Supersession of Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017**

   The Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 have been superseded by Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 w.e.f. 9th September 2022. These rules shall apply where:

- a notification provides for the observance of these rules;
- an importer intends to avail the benefit of any notification and such benefit is dependent upon the use of the goods imported being covered by that notification for the manufacture of any commodity or provision of output service or being put to a specified end use.

Notification No. 74/2022 -Customs (N.T.) dt. 09.09.2022

4. Amendments in Remission of Duties and Taxes on Exported Products (RoDTEP) Scheme and Scheme for Rebate of State and Central Taxes and Levies (RoSCTL)

Notification No. 76/2021-Customs (N.T.) dt. 23.09.2021 provides the manner of issuing duty credit for goods exported under the RoDTEP Scheme. Recovery of amount of duty credit in case exporter has been allowed excess duty credit and recovery of amount of duty credit where export proceeds are not realised by the exporter as provided in the above notification have been amended vide ***Notification No. 75/2022-Customs (N.T.) dt. 14.09.2022.***

Similar amendment has been made in *Notification No. 77/2021-Customs (N.T.) dt. 24.09.2021* which provides for the manner of issue of duty credit for goods exported under the Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) vide ***Notification No. 76/2022-Customs (N.T.) dt. 14.09.2022***.

5. Extension of validity of e-scrip available in Electronic Duty Credit Ledger

Notification No. 75/2021-Customs (N.T.) dt. 23.09.2021 which provides for Electronic Duty Credit Ledger Regulations has been amended to extend the time limit of use, validity and transfer of duty credit available in e-scrip from one year to two years.

Notification No. 79/2022-Customs (N.T.) dt. 15.09.2022

Circulars

Following significant circulars have been issued by CBIC in relation to Customs-

1. Guidelines for launching of Prosecution in relation to offences punishable under the Customs Act, 1962-***Circular 12/2022-Customs dt. 16.08.2022***
2. Revised Guidelines for Arrest and Bail in relation to offences punishable under Customs Act, 1962-***Circular No. 13/2022-Customs dt. 16.08.2022***
3. Simplification for procedure for compounding of offences under Customs Act, 1962-***Circular No. 15/2022-Customs dt. 23.08.2022***
4. Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 notified vide *Notification No. 74/2022 -Customs (N.T.) dt. 09.09.2022*-***Circular No. 18/2022-Customs dt. 10.09.2022***

FEMA Updates

Overseas Investment Related Provisions

A.P. (DIR Series) Circular No. 12 dated August 22, 2022

In keeping with the spirit of liberalisation and to promote ease of doing business, the Central Government and the Reserve Bank of India have been progressively simplifying the procedures and rationalising the rules and regulations under the Foreign Exchange Management Act, 1999. In this direction, a significant step has been taken with operationalisation of a new Overseas Investment regime. Foreign Exchange Management (Overseas Investment) Rules, 2022 have been notified by the Central Government vide Notification No. G.S.R. 646(E) dated August 22, 2022 and Foreign Exchange Management (Overseas Investment) Regulations, 2022 have been notified by the Reserve Bank vide Notification No. FEMA 400/2022-RB dated August 22, 2022 in supersession of the Notification No. FEMA 120/2004-RB dated July 07, 2004 [Foreign Exchange Management (Transfer or Issue of any Foreign Security) (Amendment) Regulations, 2004] and Notification No. FEMA 7 (R)/2015-RB dated January 21, 2016 [Foreign Exchange Management (Acquisition and Transfer of Immovable Property Outside India) Regulations, 2015]. The new regime simplifies the existing framework for overseas investment by persons resident in India to cover wider economic activity and significantly reduces the need for seeking specific approvals. This will reduce the compliance burden and associated compliance costs.

Some of the significant changes brought about through the new rules and regulations are summarised below:

(i) enhanced clarity with respect to various definitions;

(ii) introduction of the concept of "strategic sector";

(iii) dispensing with the requirement of approval for:

a. deferred payment of consideration;

b. investment/disinvestment by persons resident in India under investigation by any investigative agency/regulatory body;

c. issuance of corporate guarantees to or on behalf of second or subsequent level step down subsidiary (SDS);

d. write-off on account of disinvestment;

(iv) introduction of "Late Submission Fee (LSF)" for reporting delays.

The new OI Rules, OI Regulations and OI Directions can be viewed at below links:

Overseas Investment Rules, 2022:

https://egazette.nic.in/WriteReadData/2022/238239.pdf

Overseas Investment Regulations, 2022:

https://rbidocs.rbi.org.in/rdocs/notification/PDFs/FEMA400E3410E8B6F384DF982443E53E6688627.PDF

Overseas Investment Directions, 2022:

https://rbidocs.rbi.org.in/rdocs/Notification/PDFs/NT110B29188F1C4624C75808B53ADE5175A88.PDF

Matter on Direct and Indirect Taxes is contributed by Direct Taxes Committee, GST & Indirect Taxes Committee of ICAI respectively. FEMA updates by CA. Manoj Shah, CA Hinesh Doshi and CA. Sudha G. Bhushan.

ICAI News

ANNOUNCEMENT

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

As the members are aware, the revised 12th edition of Code of Ethics had come into effect from 1st July, 2020.

It may further be recalled that the applicability of following provisions of Volume-I of Code of Ethics, 2019 has been deferred due to situations prevailing due to Covid and to ensure effective adoption and implementation by the membership at large (Ref. Announcement dt. 31.03.2022 https://bit.ly/3d6YETG): -

1. Responding to Non-Compliance with Laws and Regulations (NOCLAR)
[Sections 260 and 360]

2. Fees - Relative Size
[Paragraphs 410.3 to R410.6]

3. Tax Services to Audit Clients
[Subsection 604]

The Council at its 413th meeting held in August,2022 decided the above-mentioned deferred provisions contained in Volume-I of Code of Ethics, 2019 which have been deferred from 1st July, 2020 till 30th September, 2022 will be made applicable **from 1st October 2022 with certain amendments.**

The detailed provisions (with amendments) pertaining to Responding to Non-Compliance with Laws and Regulations (Sections 260 and 360), Fees-Relative Size (Paragraphs 410.3 to R410.6) and Tax Services to the Audit Clients (Subsection 604) contained in Volume I of Code of Ethics, 2019 may be accessed at www.icai.org.

Ethical Standards Board
The Institute of Chartered Accountants of India

Examination Department

9th September, 2022

Important Announcement

No. 13-CA (EXAM)/December/2022: In pursuance of Regulation 22 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to announce that the next Chartered Accountants Foundation Examination will be held on the dates and places which are given below provided that sufficient number of candidates offer themselves to appear from each of the below mentioned places.

FOUNDATION COURSE EXAMINATION

[As per syllabus contained in the scheme notified by the Council under Regulation 25 F (3) of the Chartered Accountants Regulations, 1988.]

14th, 16th, 18th & 20th December 2022

It may be emphasized that there would be no change in the examination schedule in the event of any day of the examination schedule being declared a Public Holiday by the Central Government or any State Government / Local Holiday.

Paper(s) 3 & 4 of Foundation Examination are of 2 hours duration. The examination wise timing(s) are given below:

Examination	Paper(s)	Exam. Timings (IST)	Duration
Foundation Course	Paper 1 & 2	2 PM to 5 PM	3 Hours
	Paper 3 & 4*	2 PM to 4 PM	**2 Hours**

*In Paper 3 and 4 of Foundation Examination there will not be any advance reading time, whereas in Paper 1 & 2, an advance reading time of 15 minutes will be given from 1.45 PM (IST) to 2 PM (IST).

PLACES OF EXAMINATION CENTRES:

The Chartered Accountants Examinations, December 2022 will be held in the following Indian cities:

Name of the State (No. of Cities)	**Name of the Examination City**
Andaman and Nicobar Islands (1)	Port Blair
Andhra Pradesh (14)	Anantapur, Eluru, Guntur, Kadapa, Kakinada, Kurnool, Nellore, Ongole, Rajamahendravaram, Srikakulam, Tirupati, Vijayawada, Visakhapatnam and Vizianagaram
Assam (5)	Dibrugarh ,Guwahati, Jorhat, Silchar and Tinsukia
Bihar (12)	Begusarai, Bhagalpur, Darbhanga, Gaya, Madhubani, Motihari, Muzaffarpur, Patna, Purnea, Samastipur, Sitamarhi and Siwan
Chattisgarh (5)	Bilaspur, Durg, Raigarh, Raipur and Rajnandgaon
Chandigarh (1)	Chandigarh
Delhi / New Delhi (1)	Delhi / New Delhi
Goa (2)	Mapusa and Margao
Gujarat (20)	Ahmedabad, Anand, Bharuch, Bhavnagar, Bhuj, Gandhidham, Gandhinagar,Himatnagar,Jamnagar,Junagadh,Mehsana,Nadiad, Navsari, Palanpur, Porbandar, Rajkot, Surat, Surendranagar, Vadodara and Vapi
Haryana (18)	Ambala, Bahadurgarh, Bhiwani, Faridabad, Fatehabad, Gurgaon (Gurugram), Hisar, Jind, Kaithal, Karnal, Kurukshetra, Narnaul, Panipat, Rewari, Rohtak, Sirsa, Sonepat and Yamuna Nagar
Himachal Pradesh (1)	Shimla
Jammu & Kashmir (2)	Jammu and Srinagar

Jharkhand (7)	Bokaro Steel City, Deoghar, Dhanbad, Hazaribagh, Jamshedpur, Ramgarh and Ranchi
Karnataka (23)	Bagalkot, Belgaum, Bellary, Bengaluru, Chikkaballapur, Chitradurga, Davangere, Gadag, Hassan, Haveri, Hubli, Kalaburgi (Gulbarga), Kolar, Koppal, Mandya, Mangalore, Mysore, Raichur, Shimoga, Sirsi, Tumakuru, Udupi and Vijayapura
Kerala (14)	Adoor, Alappuzha, Ernakulam, Idukki, Kalpetta, Kannur, Kasaragod, Kollam (Quilon), Kottayam, Kozhikode, Malappuram, Palakkad, Thiruvananthapuram and Thrissur
Madhya Pradesh (15)	Bhopal, Burhanpur, Chhindwara Gwalior, Indore, Jabalpur, Katni, Khandwa, Mandsaur, Neemuch, Ratlam, Rewa, Sagar, Satna and Ujjain
Maharashtra (36)	Ahmednagar, Akola, Amravati, Aurangabad, Badlapur, Beed, Bhiwandi, Khamgaon (Buldhana), Chandrapur, Dhule, Gondia, Ichalkaranji, Jalgaon, Jalna, Kolhapur, Latur, Mumbai, Nagpur, Nanded, Nandurbar, Nasik, Navi Mumbai, Palghar, Panvel, Parbhani, Pimpri-Chinchwad, Pune, Ratnagiri, Sangli, Satara, Sindhudurg, Solapur, Thane, Vasai, Wardha and Yavatmal
Meghalaya (1)	Shillong
Odisha (8)	Balangir, Berhampur (Brahmapur), Bhubaneswar, Cuttack, Jharsuguda, Rayagada, Rourkela and Sambalpur
Puducherry (1)	Puducherry
Punjab (8)	Amritsar, Bathinda, Jalandhar, Ludhiana, Mandi Gobindgarh, Pathankot, Patiala and Sangrur
Rajasthan (22)	Ajmer, Alwar, Banswara, Beawar, Bharatpur, Bhilwara, Bikaner, Bundi Chittorgarh, Churu, Jaipur, Jhunjhunu, Jodhpur, Kishangarh, Kota, Nagaur, Pali - Marwar, Rajsamand, Sikar, Sirohi, Sri Ganganagar and Udaipur
Sikkim (1)	Gangtok
Tamil Nadu (27)	Chennai, Coimbatore, Cuddalore, Dharmapuri, Dindigul, Erode, Hosur, Kancheepuram, Karaikudi, Karur, Kumbakonam, Madurai, Nagapattinam, Nagercoil, Namakkal, Pudukkottai, Salem, Sivakasi, Theni, Tiruchirapalli, Tirunelveli, Tirupur, Tiruvallur, Tiruvannamalai, Tuticorin, Vellore and Villupuram
Telangana (8)	Adilabad, Hyderabad, Karimnagar, Khammam, Mahabubnagar, Nalgonda, Nizamabad and Warangal
Tripura (1)	Agartala
Uttar Pradesh (18)	Agra, Aligarh, Allahabad (Prayagraj), Bareilly, Bulandshahr, Firozabad, Ghaziabad, Gorakhpur, Jhansi, Kanpur, Lucknow, Mathura, Meerut, Moradabad, Muzaffarnagar, Noida, Saharanpur and Varanasi
Uttarakhand (4)	Dehradun, Haldwani, Haridwar and Kashipur
West Bengal (7)	Asansol, Durgapur, Hooghly, Kharagpur, Kolkata, Raniganj and Siliguri

PLACES OF EXAMINATION CENTRES OVERSEAS:

The December 2022 Examinations will also be held at the 8 (Eight) overseas examination centres, namely:

Overseas (8)	Abu Dhabi, Bahrain, Thimphu (Bhutan), Doha, Dubai, Kathmandu (Nepal), Kuwait and Muscat

The Examination commencement timings at Abu Dhabi, Dubai and Muscat Centres will be 12.30 PM i.e. Abu Dhabi, Dubai and Muscat local time corresponding / equivalent to 2 PM. (IST). The Examination commencement timing at Bahrain, Doha, and Kuwait Centre will be 11.30 AM i.e. Bahrain / Doha / Kuwait local time corresponding / equivalent to 2 PM. (IST). The Examination commencement Timing at Kathmandu (Nepal) Centre will be 2.15 PM Nepal local time corresponding / equivalent to 2 PM (IST). The Examination commencement Timing at Thimphu (Bhutan) Centre will be 2.30 PM Bhutan local time corresponding / equivalent to 2 PM (IST).

The Council reserves the right to withdraw any city / centre at any stage without assigning any reason.

Online filling up of examination application forms:

As a part of automation and platform consolidation, ICAI is pleased to announce that all candidates in respect of Foundation Examination will be required to apply online at https://eservices.icai.org (Self Service Portal - SSP) for December 2022 Exam onwards and also pay the requisite examination fee online. These forms are based on your eligibility of your course based on announcements and regulations. These forms will be available on SSP, and you are requested to login with your credentials (Username <SRN@icai.org> and password). These Exam forms will be available in SSP effective designated dates as would be announced on www.icai.org.

Kindly Note: If you have never registered as a user in SSP, Kindly open the following URL:

https://eservices.icai.org

Please use forgot password option in case you have forgotten or lost your password. Students are also requested to Create User Name, Register Course, Convert Course, Revalidate, Update Photo, Signature and Address on SSP only.

Examination fee can be remitted on-line by using VISA or MASTER or MAESTRO Credit / Debit Card / Rupay Card / Net Banking / Bhim UPI.

Opening and Closing of online window for submission of examination application forms.

The following dates(s) may be noted:

Details	**For Foundation Exam** [December 2022]
Commencement of submission of online examination application forms	**14th September 2022** [Wednesday]
Last date for submission of online examination application forms (without late fees)	**4th October 2022** [Tuesday]
Last date for submission of online examination application forms (with late fees of ₹ 600/- or US $ 10)	**9th October 2022** [Sunday]

Furthermore, for students seeking change of examination city / medium for the Chartered Accountants Foundation Examination - December 2022, the correction window for the examination forms already filled shall be available during 8th October 2022 [Saturday] to 13th October 2022 [Thursday].

Examination Fee

The examination fee(s) for foundation course is as under:-

Foundation Course Examination	
For Indian Centre(s)	₹ 1500/-
For Overseas Centre(s) – Excluding Bhutan & Kathmandu Centre(s)	US$ 325
For Bhutan & Kathmandu Centre(s)	INR ₹ 2200

The late fee for submission of examination application form after the scheduled last date would be ` 600/- (for Indian / Kathmandu / Bhutan Centres) and US $ 10 (for Abroad Centres) as decided by the Council.

OPTION TO ANSWER PAPERS IN HINDI:

Candidates of Foundation Examinations will be allowed to opt for English / Hindi medium for answering papers. Detailed information will be found in guidance notes hosted at **https://www.icai.org**

The Candidates are advised to note the above and stay in touch with the website of the Institute, www.icai.org.

(S. K. GARG)
Additional Secretary
(Examinations)

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-2	Business Laws & Business Correspondence and Reporting Part I : Business Laws Part II : Business Correspondence and Reporting

Intermediate Examination (New Syllabus)	
Paper -2	Corporate & Other Laws
Paper -8	Financial Management and Economics for Finance

Final Examination (New Syllabus)	
Paper -1	Financial Reporting
Paper -4	Corporate and Economic Laws
Paper -5	Strategic Cost Management and Performance Evaluation
Paper -6	**Elective Papers** 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 physical 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.
- 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	2	Rs 125/- per answer book
Intermediate (IPC)	2 & 8	Rs 150/- per answer book
Final examination	1, 4, 5 & 6	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.)

Research Committee
The Institute of Chartered Accountants of India (ICAI)
(Set up by an Act of Parliament)

75 आज़ादी का अमृत महोत्सव

WORLD CONGRESS OF ACCOUNTANTS 2022 | 18-21 NOVEMBER | MUMBAI INDIA

ICAI Awards for Excellence in Financial Reporting 2021-22

OBJECTIVE

To recognise and encourage excellence in preparation and presentation of financial information with Gold Shield, Silver Shield and Plaques awards for each category.

Unique opportunity for Organisations to participate under **12 different Categories** in the most prestigious awards of Research Committee, ICAI.

SELECTION PROCESS

SELECTION OF AWARDEES IN SPECIFIED CATEGORIES ARE MADE THROUGH A ROBUST THREE TIER PROCESS

STEP 01 Review by Technical Reviewers

STEP 02 Review by Shield Panel

STEP 03 Selection by External Jury consisting of representatives from regulatory bodies, professionals, academics etc.

Link for Entry Form:

https://docs.google.com/forms/d/e/1FAIpQLSfAI1kSr7EM_bZTfZetCAHqSdvbSw1vluVKOFciH0sRTFMVpw/viewform

Last Date for receipt of entries: October 31, 2022

Note: The documents submitted by the entities for the competition will be kept confidential and not be utilized for any other purpose.

For Award Categories, Procedure for Participation and other details visit

https://www.icai.org/post/icai-awards-for-excellence-in-financial-reporting-2021-22

For further information please contact: Tel.: 011-30110435. Mobile No.: 8800357950. Email: research@icai.in

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Organised by Women Members Empowerment Committee (WMEC)

Jointly with Committee for Members in Industry & Business (CMI&B)

First Placement Programme for WOMEN CHARTERED ACCOUNTANTS

(standing of one year and above)

An opportunity to Recruit Women CAs (Flexi-time/Part-time/ Work from Home)

In the spirit of empowering women members, ICAI has been keeping women members specific initiatives high on its agenda. Through dedicated Women Members Empowerment Committee (WMEC), ICAI has been taking several measures to develop capacities of women members to effectively utilize their professional knowledge and expertise.

Now, ICAI through its Women Members Empowerment Committee (WMEC) and Committee for Members in Industry & Business (CMI&B) is conducting first ever placement programme specifically designed for women members only to explore more placement opportunities who want to work on a flexi-time/part-time/ work from home.

Sr. No.	Activities	Member	Organization
1.	Start date for registration	6^{th} October, 2022	1^{st} October, 2022
2.	Last date for registration	15^{th} October, 2022	15^{th} October, 2022
3.	Opening of database for organizations	-	17^{th} October, 2022
4.	Shortlisting by organizations	-	17^{th} to 19^{th} October, 2022
5.	Consent sending by Members	21^{st} & 22^{nd} October, 2022	-
6.	Online Psychometric and written test, if desired by organizations	27^{th} October, 2022	27^{th} October, 2022

Sr. No.	Centre Name	Date of Interview
1.	Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Jaipur, Kolkata, Mumbai & Pune	31^{st} October, 2022
2.	Bhubaneswar, Chandigarh, Coimbatore, Durgapur, Ernakulum, Indore, Kanpur, Nagpur, Noida, Rajkot, Thane & Visakhapatnam	1^{st} November, 2022

Eligibility of Women members for the programme:

Women Chartered Accountants (not holding full time COP) having membership on 30^{th} September, 2021 or prior to that are eligible to participate.

For further details, please visit: **https://cmib.icai.org/**
For registration, please visit: **https://cmib.icai.org/** under Career Ascent

Chairperson and Vice Chairperson
Women Members Empowerment Committee (WMEC) and
Committee for Members in Industry & Business (CMI&B)

Please contact for any queries/clarification : (011) 30110549/550/430
Organizations may write at **careerascent@icai.in**
Members may write at **experiencedcas@icai.in**

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)

ICAI STARTUP GATEWAY

21ST WORLD CONGRESS OF ACCOUNTANTS 2022 | 18-21 NOVEMBER | MUMBAI INDIA
BUILDING TRUST ENABLING SUSTAINABILITY

आज़ादी का अमृत महोत्सव

COMMITTEE ON MSME AND STARTUP

Presents

STARTUP SUMMIT

Hosted by NIRC of ICAI

Saturday, 8th October, 2022
(10.30am - 5.00pm)
at

Hotel Shangri-La

19, Ashoka Road, New Delhi - 110001

Program Structure

- Startup-Idea Generation to MVP
- How VCs think + Skill of Preparing Pitch Deck for Investors
- Shark Tank - 2 minute Idea Pitch with Angel Investors
- Is it all about Valuation?
- Fireside Chat

Who should attend:
The Said Summit is to be attended by Chartered Accountants

- Who plan to launch their own Startup
- Looking for investment in their Startup
- Providing consultancy to Startup
- Gaining knowledge in this field having wide scope

Chairman,
Committee on MSME & Startup, ICAI

Vice Chairman
Committee on MSME & Startup, ICAI

Please Visit us at
https://startup.icai.org

Registration Link :
https://learning.icai.org/committee/startup/event/physical/

Fees : 1000 + GST

For further details please connect with
Secretary, Committee on MSME & Startup, ICAI
E mail : startup@icai.in, Phone : 0120-3045994

ICAI in Media

Glimpses of Press Clippings published in August - September 2022

The International Press

Honble Governor of West Bengal, Shri La. Ganesan, lays foundation stone for ICAI Centre of Excellence

Kolkata 4th September, 2022:

The Hon'ble Governor of West Bengal and Manipur, Shri La. Ganesan, formally laid the foundation laying stone for Institute of Chartered Accountants of India's (ICAI) Centre of Excellence (CoE) at Rajarhat New Town, Kolkata, by unveiling a plaque. A Bhoomi Pooja ceremony was performed which was attended by the Hon'ble Governor of West Bengal, President, ICAI, CA (Dr.) Debashis Mitra, Vice-President, ICAI, CA Aniket Sunil Talati, ICAI members, guests and dignitaries.

"The Centre of Excellence, which would be an academic and research hub, is expected to be completed by the first half of 2024 with a capacity to handle five hundred students and other professionals. The CoE complex would be a green building with modern amenities and hostel facilities," said CA (Dr) Debashis Mitra, President, ICAI.

"ICAI is planning to give free auditing tools to the members to combat the challenges of artificial intelligence and go for audit in a situation where the technology has to be changed and put in place a new ecosystem," CA (Dr) Mitra said.

ICAI, established by an Act of Parliament in 1949, has nearly eight lac students and over 3.6 lac members at present.

About ICAI

The Institute of Chartered Accountants of India (ICAI), established by an Act of Parliament in 1949 has proven its mark as an elite world class institution devoted to uphold the values of transparency, accountability and integrity. With over 3.60 lakh members and over 7.65 lakh students, ICAI is the world's second largest accounting body. Through its 5 Regional Councils, 166 Branches, 44 Overseas Chapters & 33 Representative Offices, the Institute is taking forward its agenda of inclusive growth & continues to add glory to the profession.

THE HINDU
SATURDAY, SEPTEMBER 3, 2022

Keep abreast of tech advances, ICAI president tells members

'The ICAI is working on development of audit tools and will soon provide them to members free of cost'

SPECIAL CORRESPONDENT
VISAKHAPATNAM

ICAI president Debashis Mitra (third from left) being received at the inaugural of the two-day national conference of ICAI, in Visakhapatnam on Friday. •K.R. DEEPAK

Technology is the future and professional Chartered Accountants (CAs) cannot survive without using it. The rules of the game have changed but, thankfully, the profession has adapted itself to the changes, said Debashis Mitra, president, Institute of Chartered Accountants of India (ICAI).

The ICAI president participated as the chief guest at the inaugural of a two-day national conference 'Dhirya', organised by the Visakhapatnam Branch of South India Regional Council (SIRC) of the ICAI, which commenced here on Friday.

Addressing the delegates, Mr. Mitra said that knowledge and drafting skills alone were not enough and CAs should keep themselves abreast of the latest developments in the field as there was no escape, with technology pervading almost all sectors. The ICAI was working on development of audit tools and would soon provide them to its members free of cost. The institute was planning to establish a national call centre by November, this year, for the benefit of members and students to clear their doubts, he said.

He called upon members to accept challenges and come out with solutions to improve professional standards. It goes to the credit of the ICAI that the Supreme Court in a recent judgment had asked one of the parties to learn from the ICAI, if they wanted to conduct an examination.

Recalling an interaction with the RBI Deputy Governor, Mr. Mitra said that the RBI Deputy Governor said that with banks going for mergers and the number of branches coming down, what was the point in public sector banks having hundreds of auditors, when foreign banks could do with a half-a-dozen auditors. "I replied that unlike foreign banks our documents are not digitised and he said that digitisation would be done within the next two to three years. The positive outcome was that we are interacting with the RBI once in three months for exchange of views on the way forward," he said.

World Congress of Accountants

Mr. Mitra also said that the World Congress of Accountants will be held in Mumbai from November 18 to 21. It is being held in India after over 100 years.

SIRC chairman China Masthan Talakayala, Central Council Members (CCMs) Purushottamlal Khandelwal (Ahmedabad), CV Chitale (Pune), D. Prasanna Kumar (Visakhapatnam) and Visakhapatnam branch chairman G. Vasudevamurty were among those who spoke.

Eastern Chronicle
WINDOW TO THE EAST
MONDAY, SEPTEMBER 5, 2022

Guv lays foundation stone for ICAI Centre of Excellence

CHRONICLE NEWS SERVICE

KOLKATA: The Governor of West Bengal and Manipur, La. Ganesan, formally laid the foundation laying stone for Institute of Chartered Accountants of India's (ICAI) Centre of Excellence (CoE) at Rajarhat New Town, by unveiling a plaque. A Bhoomi Pooja ceremony was performed which was attended to by the Governor, President, ICAI, CA (Dr.) Debashis Mitra, Vice-President, ICAI, CA Aniket Sunil Talati, ICAI members, guests and dignitaries.

"The Centre of Excellence, which would be an academic and research hub, is expected to be completed by the first half of 2024 with a capacity to handle 500 students and other professionals. The CoE complex would be a green building with modern amenities and hostel facilities," said CA (Dr) Debashis Mitra, President, ICAI.

"ICAI is planning to give free auditing tools to the members to combat the challenges of artificial intelligence and go for audit in a situation where the technology has to be changed and put in place a new ecosystem," CA (Dr) Mitra said.

ICAI, established by an Act of Parliament in 1949, has nearly eight lakh students and over 3.6 lakh members at present.

ICAI in Media

अमर उजाला दिल्ली NCR युवा Youth नई दिल्ली | बुधवार, 24 अगस्त 2022 amarujala.com

आईसीएआई छात्रों की करेगा काउंसलिंग

नई दिल्ली। इंस्टीट्यूट ऑफ चार्टर्ड अकाउंटेंट ऑफ इंडिया (आईसीएआई) ने मिजोरम के स्कूल शिक्षा विभाग के साथ एक समझौता ज्ञापन (एमओयू) पर हस्ताक्षर किए। इस एमओयू के तहत आईसीएआई पांच साल तक मिजोरम के सेकेंडरी व सीनियर सेकेंडरी स्तर के छात्रों की करियर काउंसलिंग करेगा। इसके साथ-साथ कॉमर्स शिक्षा व सीए कोर्सेज को लेकर भी उन्हें जानकारी दी जाएगी। समझौता ज्ञापन पर हस्ताक्षर मिजोरम के सरकारी और सरकारी सहायता प्राप्त माध्यमिक व उच्च माध्यमिक स्कूलों के छात्रों के बीच कॉमर्स की शिक्षा को बढ़ावा देने के लिए किए गए हैं। इस एमओयू के तहत पांच साल तक मिजोरम का सहयोग किया जाएगा। ब्यूरो

THE HINDU BusinessLine
WEDNESDAY, AUGUST 31, 2022

ICAI okays setting up SRO for social stock exchange

KR SRIVATS
New Delhi, August 30

The CA Institute's central council has approved the formation of a Self-Regulatory Organisation (SRO) to oversee the functioning of social auditors under the SEBI-notified framework for social stock exchanges.

The SRO is proposed to be named as "Institute of Social Auditors of India" and will be set up as a Section 8 company under the Companies Act 2013, under the aegis of ICAI.

Commenting on the central council decision, Debashis Mitra, President, ICAI, said, "ICAI has decided to form SRO with the vision to be a leading institution for the development of an independent, ethical, and world-class social auditors' profession responding to needs and expectations of the stakeholders." Sanjeev Kumar Singhal, Chairman of ICAI's Auditing and Assurance Standards Board, told *BusinessLine* that the formation of SRO reflects the commitment of ICAI towards development of social enterprises and the social sector in line with the sustainable development goals.

"It's a transformational step that will provide much-needed funds for the social sector," he said. The new class of auditors viz the social auditors will be an important pillar of social stock exchange since they will help install the confidence in the sector. The sector should come forward and use the opportunity in the right earnest," he said.

It maybe recalled that SEBI had, on July 25, notified a framework for social stock exchanges that would pave the way for social enterprises with an additional avenue to raise funds. The idea of a social stock exchange was mentioned by Finance Minister Nirmala Sitharaman in her 2019-20 Budget speech.

As per the recent SEBI notification, a social auditor is defined as an individual registered with an SRO under ICAI. To pursue the role of a social auditor, an individual must qualify a certification program to be conducted by the National Institute of Securities Market (NISM) and hold a valid certificate. ICAI is closely working with NISM in developing the course curriculum and the study material for the social auditor's certification programme.

Classifieds

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