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THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

**Winning Challenges
Gaining Milestones**

**COVID-19 : Impact of Disruptions on
Financial Reporting and Auditing**



Appeal to contribute in ICAI Covid 19 Relief Fund

The COVID-19 pandemic marks an unprecedented time in modern history that will require the best of humanity to overcome. Little we would have realised the unfolding of epidemic like this, which situation is yet unfolding, and have brought the economic momentum to a much lower trajectory. Situation like this would need support to collaborate with the government initiatives to scale up governmental efforts to help those in distress. At this moment, the affected people in India will need help to tide over the viral disease, and in this scenario, ICAI has decided to stand with our distressed fellow countrymen, and actively participate in the national effort to support them at this difficult time. Due to the ongoing lockdown, much needed on the ground of social distancing and therefore 'stay home' advisory from the government; some of our fellow countrymen will need extensive support from the government. Further, we need to contribute to the government initiatives to bolster necessary infrastructure and human ware to fight this epidemic.

To provide much-needed relief for the people affected by the viral disease and those who are in distress; ICAI appeals to all its Members and Students to donate generously for this noble cause through the link (([visit icaai.org/covid19/](https://visit.icaai.org/covid19/))).

Donations can be made through Demand Draft, Cheque, RTGS and online mode; offline collections in form of cheques/demand draft should be given in the name of "ICAI COVID 19 Relief Fund". All such offline contributions can be made in the ICAI Bank Account having the following details:

Bank: HDFC Bank
Account No.: 50100098409265
IFSC No: HDFC0000590

The collected amount will be given to PRIME MINISTER'S NATIONAL RELIEF FUND/PM CARES FUND. All contributions towards this Fund are eligible for deduction from Income Tax under section 80G. Further, the date for claiming deduction under section 80G under IT Act has been extended by the government and now the donation made up to 30.06.2020 shall also be eligible for deduction from income of FY 2019-20. The donors are requested to give their name, membership number /Student /Firm registration number, address, amount and date of contribution, PAN details (if any) so that receipts could be obtained from Prime Minister's National Relief Fund/PM CARES Fund for onward transmission to the donors. The letter/email can be sent to:

The Additional Secretary
M&C-MSS
The Institute of Chartered Accountants of India
ICAI Bhawan, A-29, Sector-62
Noida-201309, Email: msshead@icaai.in

Looking forward for your generous contribution in these special circumstances in the interest of mankind.

(CA. Atul Kumar Gupta)
President ICAI

Winning Challenges - Gaining Milestones

The robust Indian economy that had been enjoying highest growth rates amongst emerging economies is today on testing times emerging out of unimagined and unparalleled crises from a microorganism. COVID 19, a viral disease, has spread from one country to another extinguishing life in thousands necessitating countries across the globe to lock down their economies and shield human life. The economic interests have taken a backseat in the interest of life of men and women as well as for the wellbeing of society. The Indian government is proactively taking several steps to alleviate the problem and mitigate the economic impact on the country. Advisories have been issued on general hygiene, social distancing and self-isolation. It is for the countrymen to adhere to these, in their own interest and in the interest of society or lose out in the process. The time to act is now and requires contribution by each one of us. We should not only follow the advisories in letter and spirit but also encourage others to follow them. Sardar Vallabhbhai Patel said – *“The negligence of a few could easily send a ship to the bottom, but if it has the wholehearted cooperation of all on the board it can be safely brought to port”*.

These testing times require Institute and the profession to make contribution to the initiatives of the Government. The accounting profession is widely acknowledged as one of the key enablers of socio-economic vision and policies of government. Chartered Accountants channelize their time and efforts, directly and indirectly, with sincerity and dedication towards corporate governance and fulfil the moral responsibility that the profession demands from them without an iota of artifice. At this juncture, the members need to contribute professionally as well as financially. ICAI is encouraging members to join together and make contribution to the *Prime Minister's National Relief Fund*. The Institute is collecting contributions in a separate Bank account. Contributions have also been made by the employees of ICAI to the tune of about ₹ 30 Lakhs.

The disruptions caused by the present situation in the economy are impacting businesses significantly and bringing several issues and challenges to fore for the preparers of financial statements and

auditors on a number of aspects. The fundamental nature of the work and the outstanding quality of their performance has made Chartered Accountants a quintessential part of Indian economy and recipients of paramount respect. In the wake of lockdown, the members of the Institute are committed as professionals to ensure that financial reporting and auditing continues to remain reliable and trustworthy wherein financial reporting is based on applicable accounting framework and audit opinions are according to best audit procedures laid down in 'Standards on Audit'. The Institute has released an advisory on "Impact of Coronavirus on Financial Reporting and the Auditors Consideration" highlighting important areas that require attention in respect of financial statements for the year 2019-20. In these challenging times this advisory will be of immense value to discharge professional responsibilities in an effective manner.

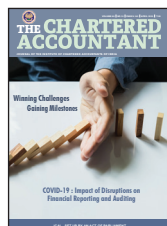
The members should also closely monitor and understand a number of strategic actions being taken by the Government, Reserve Bank of India, other regulatory bodies and courts in the interest of sustaining economy and sail it through thick and thin. These are aimed not only to protect the poor and needy but also for the functioning of business and industry. The Ministry of Corporate Affairs has also taken a slew of measures to give relaxations to businesses. The applicability of recently released Companies (Auditor's Report) Order, 2020 has been made from the year 2020-21. Relaxations are also being granted to relax compliances that would be difficult to adhere. For example, the Securities and Exchange Board of India has relaxed submission of results of fourth quarter and for financial year 2019-20 for the listed companies.

The present times warrant many such decisions that members need to understand in the professional interest. The society looks forward to your abilities as Chartered Accountants to work with integrity and perseverance to provide the best quality professional services and beyond.

Editorial Board ICAI: Partner in Nation Building

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From the President



CA. Atul Kumar Gupta
President, ICAI

My dear Professional Colleagues,

As I write this message, the world around us has been undergoing tough unprecedented challenges arising out of COVID-19 pandemic; which is yet unfolding; disrupting professional and social strata altogether.

Central government and State Governments have taken up drastic measures including locking down whole country for 21 days to impede the cascading trigger impact of this catastrophe. Covid 19 has created paramount fear and alarm in the minds of one and all. A potent solution rightly appears to be social distancing so that community spread of disease is stopped as exposure to the infection can prove to be fatal in case of weak immunity.

Swami Vivekananda said – “*the world is the great gymnasium where we come to make ourselves strong*”. It is time for us not to let feelings of distress overpower us, but to surge ahead by following the directions of government and follow professional medical advice. In testing times like this, I on behalf of the Institute convey my best wishes to one and all with prayer to almighty to keep you all safe and request you to take necessary precautions and keep your faith and hope alive. We need to derive strength from each-other and stand together as a community to overcome the challenges which humankind is

going through currently.

With this pandemic resulting in economic lockdown; the global and national economy will see daunting challenges. As Chartered Accountants, we also need to understand the economic fallout of the disease and its implications on accounting and auditing profession. World over many global institutions including IFAC are working to analyse the possible impact on businesses and developing appropriate guidance for the profession. In India, our Institute has also analysed accounting and auditing aspects of these challenging times and released an advisory ‘Covid-19 Disruptions - ICAI Advisory on Accounting and Assurance related issues for the Financial Year 2019-20’ to guide preparers and auditors, which is available on <https://resource.cdn.icai.org/58829icai47941.pdf>.

The members of our Institute are committed as professionals to ensure that financial reporting continues to be of high quality and reliable based on applicable accounting framework and audit opinions on performing the best audit procedures laid down in standards on auditing. I am hopeful that said advisory will help them in furthering said objective. At this juncture, I earnestly request you to explore work from home not only for yourself but also for other colleagues and students pursuing practical training to ensure safety for everyone. In view of the prevailing circumstances, all the regulators have already eased the compliance deadlines for which we had suitably represented to Ministry of Finance, Reserve Bank of India (RBI) and other regulators to avoid hardships being faced by members and Industry due to this global pandemic. The Hon’ble Union Finance Minister has already announced a number of reliefs in this regard.

The Indian Government is taking multiple steps to contain the disease with advisories in place to avoid gathering at public places to impede the spread of pandemic through social distancing. We are a socially responsible profession and to avoid any possible health hazard and consequential issues, as a proactive measure, the Council of the Institute at its meeting held on 12 March, 2020 decided to cancel all programs, events, classes that require the physical gatherings up to 15th April, 2020. The members and students can take benefit of Digital Learning Hub <https://learning.icai.org> providing online training

From the President

courses that can be accessed anywhere, anytime using SSP credentials. This Digital Learning Hub comprises E-books, video lectures and other material covering the domain through which members and students can learn and enhance their knowledge. Structured and unstructured CPE hours are also available through the platform as it has been decided that members can obtain 10 Structured CPE hours through Digital learning Hub up to June 2020. Needless to say that there is no fee to access Digital Hub for members and students. I am happy to share that IFAC recognising the online modules in these times of crises; had sought if we could provide this facility globally to all Professional bodies for a limited time and ICAI has offered its voluntary and free support for the professional brethren globally.

Responding to lockdown announced by the Hon'ble Prime Minister Shri Narendra Modi to counter the spread of highly contagious disease, ICAI has also issued directions that its employees shall be working from home. As most of the services related to members and students are now made available online, however, in case need arises you can reach out to concerned office / officers; the details of the same are available elsewhere in this issue. For the benefit of students, many steps like e-learning, video lectures, certain relaxation in GMCS/ITT for the students whose attempt is due in May 2020; absence arising due to COVID-19 lockdown shall not be counted for the purpose of deduction of leaves, option to change the Centre of Examination (Online window already closed on March 23, 2020) and rescheduling of examinations to June 2020, have already been undertaken.

The ICAI in its epic journey sprawling over seven decades has always worked with the Government to achieve national objectives. It is not without reason that Institute has built an indisputable brand as Partner in Nation Building. ICAI has always supported various initiatives and schemes launched by Government for the benefit of stakeholders and public at large. ICAI interacts with the Government to understand their perspective with an objective to keep our actions in tune with the national imperative. In a significant development; three Central ministers visited ICAI in the month of March, 2020. ICAI, in its endeavour to reach to maximum number of Chartered Accountants and clear their doubts; had organised a Live Webcast on 'The Direct Tax - Vivad se Vishwas Bill, 2020' on March 16, 2020 at ICAI

Head Office, New Delhi. It was indeed a historical moment and honour for all of us that Smt. Nirmala Sitharaman, Hon'ble Union Minister of Finance and Corporate Affairs; CA. Piyush Goyal, Hon'ble Union Minister of Railways and Minister of Commerce & Industry visited ICAI and addressed the webcast. Earlier, it was an opportunity for us to have fruitful discussions on the role of Chartered Accountants in Indian Growth story and achieving target of USD 5 trillion Indian economy with Shri Suresh Angadi, Union Minister of State for Railways when he visited ICAI on March 13, 2020.

Tax laws, in spite of best efforts, are sometimes vulnerable to different interpretations leading to dichotomy between the tax payers and tax administration. As a mechanism for resolution of pending tax disputes related to Direct Taxes, the Ministry of Finance on March 17, 2020 notified the Direct Tax - Vivad se Vishwas Act, 2020. The Act is aimed at reducing pending litigations in the area of Income Tax and simultaneously generating revenues for the Government in a timely manner. The Act creates opportunity for the taxpayers to end their tax disputes with the Income Tax department by paying disputed tax and get waiver from payment of interest and penalty. They will also get immunity from prosecution. In view of COVID-19, further relaxations have also been given. The scheme that is now open till June 30, 2020 will not attract any penalty or interest in case settlement of dispute under the scheme is done till the date. The scheme targets to finalise a settlement of as many as 4.83 lakh direct tax cases that are pending in different forums with potential revenue of ₹ 9.32 lakh crore. My all fraternity colleagues across the country are encouraged to promote the scheme among their clients and endeavour for the settlement of direct tax related disputes for a progressive India.

The Indian Chartered Accountancy profession has held a distinguished mark for the skill sets we possess. Our endeavour should be not only to equip our students to face present challenges but also to prepare them as 'future Accountant'. Rightly mentioned, as 'New age professional' we need not only review our present methodology but also help future Chartered Accountants to imbibe newer and emerging skills. To achieve more focused approach, this time we have carved out a separate 'Students Skill Enhancement Board (SSEB)' to work on 'Attitude' of

From the President

our students. As rightly said *"it is not the aptitude but the attitude that determines one's altitude"*. Where aspiration of Board of Studies (Academic) will be to develop more case study-based evaluation for testing aptitude, aspiration of SSEB (BoS – Operation) will be on attitude building. To achieve that, both the Boards in their first meeting initiated number of reforms covering introduction of CPE hours for students during 3 years of Article training, implementation of e-portal for Industrial Training, introduction of welcome kit for students at the time of Article registration, introduction of forensic audit techniques in AICITSS curriculum and establishing a cell for developing case studies. Once a pool of quality case studies will be available, that can act as foundation not only for our examination system to move further towards machine-based evaluation but also in collaboration with other stakeholders; our vision should be to provide leadership value to global Institution(s).

FROM THE PRESIDENT

We should also acknowledge that Accountancy profession is highly dynamic and requires persistent value addition in education delivery and curriculum. The 3 year article-training program of ICAI is a path breaking system of upskilling students that cannot be achieved merely by theoretical education. Its purpose is to provide candidates with comprehensive and intricate practical knowledge. We are in the process of developing a skill grid for students undergoing article training to assess inculcation of relevant skill sets. With changing environment, delimitation of jurisdiction, new ways of doing business and disruptive technology where the need of the hour is to re-skill ourselves; we need to see that our students are generation next professionals who are ready for new age jobs.

One of the ICAI Past Presidents, CA. Y.H. Malegam, once mentioned that the growth of Profession lies where every member has requisite skills rather few excels. We need to develop an eco-system where training to the students is so comprehensive that they are not only master in aptitude but also bring in right and righteous attitude which will determine their altitude and will bring laurels to Profession. We are working on mechanism to assess skills on continuous basis with appropriate interventions. While it is imperative for the students to have zest for knowledge; it is the principals who will monitor and guide students in their all-round development. Members should

encourage students to maintain an electronic record of practical training to match with skill grid.

The overall growth of business and industry assures that the future of accountancy is bright. As the world progresses exponentially, it is essential for accounting education to also simultaneously expand its horizons and stay up to date. A virtual meeting of IFAC on the topic *'International Panel on Accountancy Education of International federation of Accountants'* was held on March 13, 2020 to discuss various matters related to accountancy education, wherein ICAI also made a presentation.

As rightly said, You can not build a great building on a weak foundation. You must have a solid foundation if you're going to have a strong superstructure; we need to further strengthen our services to members and students alike so as to generate a feeling of admiration amongst them towards the second leading professional accounting body across globe. To achieve that, we have institutionalised effective monitoring of e-Sahaayataa and functioning of SSP through separate directorate. We are also working on the establishment of National Call Centre and promote e-governance by providing Digi-Locker facility to issue ICAI documents in digital mode for members and students. I am happy to intimate that now we are moving towards hundred per cent digital evaluation in examinations, verification result to be made available in 7 days, implementation of bio-metric/digital recording of attendance at CPE programs, and launching of CABF Portal for easy and quick disposal of request for support.

It is our endeavor to ensure that the future Chartered Accountants acquire unmatched proficiency in accounting domain and are well prepared for future professional lives. We need to move ahead with clearer focus and direct our efforts to achieve success. In the words of "Thomas Edison" *"I never did anything worth doing by accident, nor did any of my inventions come indirectly through accident, except the phonograph. Now when I have fully decided that a result is worth getting, I go about it, and make trial after trial, until it comes."*

Best wishes, stay safe and healthy!



CA. Atul Kumar Gupta
President, ICAI
Delhi, 1st April, 2020

Photographs



Meeting with Shri Om Birla, Hon'ble Speaker of Lok Sabha

ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria with Shri Om Birla, Hon'ble Speaker of the Lok Sabha (13.03.2020)

Bhoomi Poojan, Ahmedabad



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria with Shri Vijay Rupani Hon'ble Chief Minister of Gujarat at Bhoomi Poojan of New Building of Ahmedabad Branch of WIRC of ICAI. Also seen in picture, ICAI Past Presidents CA. Sunil Talati and CA. Prafulla P. Chhajed and Central Council members CA. Jay Chhaura, CA. Aniket Talati, Adv. Vijay Kumar Jhalani (Govt. Nominee), WIRC Chairman CA. Lalit Bajaj among other dignitaries (29.02.2020)

Shri Vijay Rupani, Hon'ble Chief Minister of Gujarat addressing the members at Bhoomi Poojan of New Branch of Ahmedabad Branch of WIRC of ICAI (29.02.2020)



ICAI President CA. Atul Kumar Gupta during a meeting with Shri Akhilesh Mishra, Additional Secretary, Ministry of External Affairs and CA. Mahavir Singhvi, Joint Secretary, Ministry of External Affairs (17.03.2020)

Photographs



Direct Tax - Vivad se Vishwas Bill, 2020

ICAI President CA. Atul Kumar Gupta presenting a memento to Smt. Nirmala Sitharaman, Hon'ble Union Minister of Finance & Corporate Affairs during her visit to ICAI to address the webcast (16.03.2020)



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria with Hon'ble Union Minister of Finance & Corporate Affairs Smt. Nirmala Sitharaman and Hon'ble Union Minister of Railways and Minister of Commerce & Industry CA. Piyush Goyal, along with Central Council colleagues CA. Charanjot Singh Nanda, CA. Rajesh Sharma, CA. Prafulla P. Chhajed (Immediate Past President), Adv. Vijay Kumar Jhalani (Govt. Nominee), CA. G. Sekar, CA. Chandrashekhkar Chitale, CA. Satish Gupta, CA. Shriniwas Joshi, CA. (Dr.) Sanjeev Singhal, CA. Aniket Talati, CA. Dayaniwas Sharma, CA. Tarun Ghia, CA. Anuj Goyal, CA. Pramod Jain, CA. M. P. Vijay Kumar, CA. Prakash Sharma, CA. Rajendra Kumar P., CA. Hans Raj Chugh, Chairman, NIRC, CA. Shashank Agrawal and ICAI Acting Secretary Shri Rakesh Sehgal (16.03.2020)



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria along with Hon'ble Union Minister of Finance & Corporate Affairs Smt. Nirmala Sitharaman and Hon'ble Union Minister of Railways and Minister of Commerce & Industry CA. Piyush Goyal during Live Webcast (16.03.2020)



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria in an interaction with Hon'ble Union Minister of Finance & Corporate Affairs Smt. Nirmala Sitharaman and Hon'ble Union Minister of Railways and Minister of Commerce & Industry CA. Piyush Goyal, (16.03.2020)

Photographs



Seminar on Bank Audit

ICAI President CA. Atul Kumar Gupta along with ICAI Vice-President CA. Nihar N. Jambusaria at Seminar on Bank Audit in Jalandhar. Also seen in picture, Central Council members CA. Pramod Jain, CA. Hans Raj Chugh, CA. Charanjot Singh Nanda and CA. (Dr.) Sanjeev Singhal (03.03.2020)



Members Meet, Yamuna Nagar

ICAI President CA. Atul Kumar Gupta along with Central Council colleagues in a group photograph at the interactive meet with members (04.03.2020)



Members Meet, Yamuna Nagar

ICAI President CA. Atul Kumar Gupta along with Central Council colleagues CA. (Dr.) Sanjeev Singhal, CA. Charanjot Singh Nanda, CA. Hans Raj Chugh during an interactive meet with members (04.03.2020)



Members and Students Meet, Amritsar Branch

ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria during an interactive meet with members and students in Amritsar. Also seen in picture, ICAI Past President CA. Amarjit Chopra, (03.03.2020)



Interactive Meet, Chandigarh Branch

ICAI President CA. Atul Kumar Gupta along with ICAI Vice-President CA. Nihar N. Jambusaria during an interactive meet with members. Also seen in picture, Central Council members CA. Pramod Jain, CA. (Dr.) Sanjeev Singhal and CA. Hans Raj Chugh and NIRC Chairman CA. Shashank Agrawal (04.03.2020)

Photographs

Meeting with Union Minister of State for Railways



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria during an interaction with Shri Suresh Angadi Hon'ble Union Minister of State for Railways (13.03.2020)



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria presenting a memento to Shri Suresh Angadi, Hon'ble Union Minister of State for Railways. Also seen in picture, CA. Rajesh Sharma, CA. (Dr.) Debashis Mitra, CA. Sushil Kumar Goyal, CA. (Dr.) Sanjeev Singhal, CA. Pramod Boob, CA. Prasanna Kumar D, CA. Chandrashekhar Chitale, CA. Anuj Goyal, CA. M. P. Vijay Kumar, CA. Dheeraj Kumar Khandelwal, CA. Jay Chhaira, CA. Babu Abraham Kallivayalil, CA. Hans Raj Chugh, CA. Rajendra Kumar P, CA. Shriniwas Joshi, CA. G. Sekar (13.03.2020)

Interactive Meet, Ludhiana



ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria along with their Central Council colleagues CA. (Dr.) Sanjeev Kumar Singhal, CA. Charanjot Singh Nanda, CA. Hans Raj Chugh and CA. Pramod Jain during an interactive session with members (03.03.2020)

ICAI President CA. Atul Kumar Gupta and ICAI Vice-President CA. Nihar N. Jambusaria with Central Council colleague CA. Rajesh Sharma being welcomed by Ludhiana Branch of CIRC during an interaction meet with members (03.03.2020)



ICAI in Action

ICAI makes new forays in research

Being at the centre of accountancy education in the Country, ICAI has to play a central role in the academic research. The research committee of the Institute has decided to conduct collaborative research with Institutes having MOUs/MRAs with ICAI. The Research Collaboration Programme is to inculcate a vibrant research environment and to promote global collaboration with research scholars of leading universities/institutions around the world. The committee has also decided to provide Doctoral Research scholarship to members of the Institute. Doctoral scholarship will be awarded to registered Ph.D. Scholars from UGC recognized Indian universities/ deemed universities/ colleges, IIMs having University/IIMs approved Ph.d. Programme to pursue and complete their doctoral research in auditing, taxation, commerce, management and accounting discipline. The committee is also going to organize International Research Awards. The objective of this award is to enhance the research activities in Accounting, Finance and Taxation and allied areas and recognising the good research work internationally.

Release of Guidance Note on Audit of Banks

The banking sector is quintessential part of Indian economy that has been and is a major indicator of the economic strength of the country. It is essential for the overall economic growth that the banking sector remains healthy and robust. Audits performed under established standard ensures proper functioning of banking sector. To guide members to perform audit of banks, ICAI has released a 2020 edition of Guidance Note on Audit of Banks. This will help statutory auditors to remain well equipped in terms of the knowledge of the banking industry and gain insight into the systems and processes within the banking industry,

Codifying Best Practices - Standards on Internal Audit

It is important to implement best practices in organisations so as to improve governance and function within the framework of laws and regulations. The Internal Audit Standards Board has

recently issued three Exposure Drafts of Standards on Internal Audit. These, available at https://www.icaig.org/post.html?post_id=4620, are as follows:

1. Standard on Internal Audit (SIA) 140, Governance.
2. Standard on Internal Audit (SIA) 150, Compliance with Laws and Regulations.
3. Standard on Internal Audit (SIA) 530, Communication with Those Charged with Governance.

Release of exposure drafts are opportunity for the members to be part of creation of Standards by sharing their practical knowledge emanating out of their experiences. Comments will be very helpful if they clear rationale, explain applicability and provide suggestions in changing wordings.

Improving the financial reporting practices

ICAI is plays a paramount role in improving the financial reporting practices prevailing in India. The Financial Reporting Review Board (FRRB) of ICAI reviews the general-purpose financial statements of various enterprises to determine compliance with the reporting requirements of various applicable statutes, Accounting Standards/ Ind AS and Standards on Auditing. In its endeavour to support regulators as well as to bring transparency in financial reporting, the FRRB is constantly working on cases referred by Ministry of Corporate Affairs (MCA), Securities & Exchange Board of India (SEBI), Election Commission of India (ECI) or any other regulator from time to time.

In view of the recent media reports as regards certain systemic issues with respect to Yes Bank, FRRB has decided to take up the review of general purpose financial statements of Yes Bank for Financial Year 2017 - 18 and 2018 – 19. In case the FRRB finds any material / serious non-compliance, it would refer the case to the Director (Discipline) of ICAI for initiating action against the Auditor under the Chartered Accountants Act, 1949. In so far as the management of the enterprise is concerned, the FRRB would inform irregularity to the regulatory body relevant to the enterprise. In case non-compliances observed are not material and do not affect the true and fair view of financial statements, the FRRB would appropriately bring the non-compliance to the attention of the Auditor.

Developments

Accounting Reforms in Indian Railways

ICAI Accounting Research Foundation (ARF) has received a Letter of Award from the Indian Railways for preparing accrual-based financial statements for FY 2017-18 and FY 2019-19 along with developing the framework on the applicability of Ind AS to the accrual-based financial statements. ICAI ARF will also be preparing various studies to bring about a qualitative improvement in the financial statements of Indian Railways.

Change in procedure of the Expert Advisory Committee for expediting the process of issuance of opinions.

A change in procedure of the Expert Advisory Committee for expediting the process of issuance of opinions has been suggested at the last meeting of the Committee that all the queries should be assigned to Resource persons/experts for preparation of basic (first) draft of the opinion which will be further reviewed by the office. The office along with its comments/views will present the opinions before the Committee for its consideration.

MCA E- Form SPICEe+ - Compliance and other aspects

The Indian Government is continuously working to improve economic environment and bring ease of doing business. The intention is to make it convenient for the entrepreneurship to flourish and thus bring growth in the country. In this regard, the Ministry of Corporate Affairs has notified & deployed a new Web Form christened 'SPICE+' (pronounced 'SPICE Plus') replacing the existing SPICE form. SPICE+ is an integrated Web Form which would offer 10 services by 3 Central Government Ministries & Departments (Ministry of Corporate Affairs, Ministry of Labour & Department of Revenue in the Ministry of Finance) and One State Government (Maharashtra), thereby saving as many procedures, time and cost for Starting a Business in India and has been made applicable for all new company incorporations w.e.f. 23rd February 2020. As per the Rules, all new companies incorporated through SPICE+ w.e.f. 23rd February 2020 would also be mandatorily required to apply for opening the company's Bank account through the AGILE-PRO linked web form.

Further, the Corporate Laws & Corporate Governance Committee of ICAI has decided to organise awareness programmes on this new Form. Comments/ suggestions are sought from stakeholders on the difficulties faced while incorporating the company through said form at the link: <https://forms.>

[gle/s7LNc2cqYnXaSPiJ9](https://forms.). Members are requested to fill in the details so that the same may be forwarded to MCA for appropriate consideration.

FAQ's on the LLP Settlement Scheme, 2020

In view of the LLP Settlement Scheme, 2020 issued by the Ministry of Corporate Affairs which is effective from 16th March to 13th June, 2020, The Corporate Laws & Corporate Governance Committee has prepared FAQ's on the LLP Settlement Scheme, 2020 for the benefit of its members and other stakeholders and uploaded the same on ICAI website. The FAQs are available at <https://resource.cdn.icai.org/58719clgc47796.pdf>. Members may read the document to have answers to common questions of the scheme.

Structured CPE hours on Digital Learning Hub

ICAI Digital Learning Hub is an integrated Learning Management System (LMS) which brings a new knowledge ecosystem in a collaborative pedagogical model and with participatory learning to improve learner outcomes. The Council has decided that 20 hours structured CPE learning which has to be completed by members holding COP, wherein 4 hrs of structured learning could be through e-Learning Videos available free of cost on **#ICAIDigitalLearningHub has been extended to 10 hrs till 30 June 2020**. The digital learning platform brings you professional and academic content in multiple formats which can be used in a self-paced manner.

Providing Quality Learning to Student students

Institute firmly believes that the students, the future of profession, need right environment for acquiring knowledge and skills. In view of the ongoing spurt of the COVID-19 pandemic and in the interest of the wellbeing of students, the Chartered Accountant Examinations initially scheduled from 2nd May 2020 to 18th May 2020 stand rescheduled and the said examinations shall now be held from 19th June 2020 to 4th July, 2020. The details are available at <https://resource.cdn.icai.org/58830icai-47942exam270320.pdf>. **Exemption from completion of Orientation Course and Information Technology Training (https://www.icai.org/new_post.html?post_id=16391&c_id=219) and Management and Communication Skills Course (https://www.icai.org/new_post.html?post_id=16390&c_id=219) has also been granted in overall interest of the student. ■**

Know Your Ethics

Ethical issues in Question/Answer form¹



Q. What is the distinction between the two schedules to the Chartered Accountants Act, 1949?

A. The two schedules to the Chartered Accountants Act, 1949 are distinguished on the basis of gravity of misconduct and quantum of punishment for the misconduct, the second schedule pertaining to comparably more grave misconduct and higher punishment.

Q. What will be the procedure where a member is guilty of charges both under the First Schedule and Second Schedule to the Chartered Accountants Act, 1949?

A. The procedure to be followed when a member is accused of misconduct under both schedules is the same which is followed for misconduct under the second schedule.

Q. Can a member in practice render Management Consultancy and other services?

A. Yes, in the exercise of authority granted under section 2(2) (iv) of the Chartered Accountants Act, 1949, the Council has passed a resolution permitting Chartered Accountants in practice to render entire range of "Management Consultancy and other services". These are appearing at pages 103 -105 of the Code of Ethics, 2009(edition).

Q. Whether a member in practice is permitted to undertake the management of NRI funds?

A. No, the member is not permitted to undertake such assignment because the same is not covered under "Management Consultancy and Other Services" permitted to be rendered by the practicing members of the Institute.

Q. Can a Chartered Accountant provide 'Portfolio Management Services' (PMS) as part of CA practice?

A. No, the Explanation to Clause (xix) of the definition of 'Management Consultancy and other Services' expressly bars the activities of broking, underwriting and Portfolio Management. Hence, the same is not permissible.

Q. Whether a Chartered Accountant in practice is required to obtain any trade license for practicing?

A. No, a Chartered Accountant in practice is not required to obtain any trade license for practicing as a professional. From the stand point of ICAI, the certificate of practice is the only requirement to practice as a Chartered Accountant. It may, however, be noted that a Government / specified Authority may require additional requirement like registration, and the members may need to comply with such requirements.

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

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

Q. Can a Management Consultancy Company advertise its services?

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

¹Contributed by Ethical Standards Board of ICAI

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Know Your Ethics

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

A. Yes, a member can have a branch office. In terms of Section 27 of the Chartered Accountants Act, 1949, if a Chartered Accountant in practice or a firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. Failure on the part of a member or a firm to have a member in charge of its branch and a separate member in case of each of the branches, where there are more than one, would constitute professional misconduct. However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are:

1. Such members/firm be allowed to open temporary offices in a city in the plains for a limited period not exceeding three months in a year.
2. The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.
3. The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.
4. The temporary office should not be mentioned in the letter-heads, visiting cards or any other documents as a place of business of the member/firm.
5. Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

The above conditions apply to any additional office situated at a place beyond 50 km from the municipal limits in which office is situated. It is to be noted that the requirement of Section 27 in regard to a member being in charge of an office of a

Chartered Accountant in practice or a firm of such Chartered Accountants shall be satisfied only if the member is actively associated with such office. Such association shall be deemed to exist if the member resides in the place where the office is situated for a period of not less than 182 days in a year or if he attends the said office for a period of not less than 182 days in a year or in such other circumstances as, in the opinion of the Executive Committee, establish such active association. It is necessary to mention that the Chartered Accountant in charge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant, he must be in whole time employment with him.

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

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

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

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

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

Q. Is it permissible for Chartered Accountants in practice to collectively have joint training session for their clients on GST?

A. Yes, it is permissible for two or more Chartered Accountants in practice collectively to have joint training session for their clients on GST, and share the fees collected from the clients thereof. ■

Provision for Disputed Tax Cases

A. Facts of the Case

1. A private limited company (hereinafter referred to as 'the company') is registered under the Companies Act, 1956. The company is engaged in the manufacturing of heavy equipments and providing services to group companies outside India.
2. The querist has stated that the financial statements of the company are prepared in accordance with Indian Accounting Standards (Ind ASs) notified vide Companies (Indian Accounting Standards) Rules, 2015 under section 133 of the Companies Act, 2013 (the Act) and other relevant provisions of the Act.
3. In line with the requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' the company has adopted the following accounting policy with respect to accounting for provisions, contingent liabilities and contingent assets specifically related to corporate income taxes:

"Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. When the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, only when such reimbursement is virtually certain.

Contingent Liabilities: Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle, or a reliable estimate of the amount cannot be made."

4. During the course of assessment proceedings under the Income-tax Act, 1961, certain disallowances/additions are made to the taxable income as reported in the corporate income tax

returns by the Assessing Officer/Transfer Pricing Officer and demands are raised. In respect of the disallowances/additions which are contested before the higher authorities ('the disputed tax positions'), the tax demands paid/adjusted, if any/as appropriate are shown as advances and included under 'Advance Income Tax' (current tax asset) in the balance sheet.

5. As per the querist, for various reasons, some positions assumed by the company at the time of finalising the financials/filing the returns are not disputed by the tax authorities (CBDT). However, subsequently, these positions may be disputed by CBDT for other corporations and won against various appellate forums, based on which the positions assumed by the company may be rendered *certain or uncertain*. In such cases, CBDT may even open closed assessments for scrutiny as long as the relevant assessment years are not time-barred for further evaluation. (Emphasis supplied by the querist.)
6. The company evaluates all open / disputed tax positions based on actual prior income tax audit history for similar matters, relevant external judicial precedents for the matters disputed and legal opinions as appropriate, to ascertain the probability and likelihood of sustaining the company's tax return filing position upon appeal. Based on such assessment, no reserve is created if a favourable outcome is *certain*. (Emphasis supplied by the querist.)

B. Query

7. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee for the above explained tax positions as to:
 - (a) Whether the accounting policy adopted by the company of not making tax provision in respect of disputed tax positions which have favorable judicial precedence/attorney opinion as discussed in paragraphs 5 and 6 above, is acceptable as per the generally accepted accounting practices of the Indian Accounting Standards and the prudence concept.
 - (b) For uncertain positions in such disputed tax cases, through the company's evaluation as discussed in paragraphs 5 and 6 above,
 - (i) where the company has a 'more likely than not' assessment of a favourable outcome, whether a contingent liability disclosure alone is appropriate?

- (ii) where the company does not have a 'more likely than not' assessment of a favourable outcome, should the accounting treatment be creation of reserve (including reserve for interest)?
- (c) When no provision/ contingent liability is recognized, should there be any disclosure to this effect in the notes to the financial statements, assuming the outcome is certain?

C. Points considered by the Committee

8. The Committee notes that the basic issue raised in the query relates to accounting for disputed tax positions, viz., the disallowances/additions which are contested by the company before the higher authorities. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for tax positions taken by the company which have not yet been disputed by the Income-tax authorities for the tax returns filed by the company, accounting for tax demands paid/adjusted in respect of disputed tax positions, etc. Further, the Committee wishes to point out that its opinion is expressed purely from accounting perspective and not from any legal perspective. At the outset, the Committee wishes to mention that the opinion expressed hereinafter is based on the Ind ASs applicable for the financial year 2018-19. However, the Committee wishes to point out that future amendment to Ind AS 12 'Income Taxes', viz., Appendix C relating to 'Uncertainty over Income Tax Treatments' which is applicable from future date, may have a bearing on the extant issue.
9. With regard to accounting for disputed tax positions, the Committee notes that Ind AS 12 provides guidance on current tax and deferred tax, however does not provide detailed guidance on provisions relating to income tax disputes and uncertainties. In this regard, the Committee notes that Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' provides detailed guidance on provision relating to similar kind of disputes and uncertainties. Accordingly, although provisions relating to income taxes have not been addressed in Ind AS 37, the Committee has considered, hereinafter, the requirements of Ind AS 37 in the context of such provisions. The Committee further notes the following requirements of Ind AS 12, 'Income Taxes' and Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', notified under the Companies (Indian Accounting Standards) Rules, 2015:

Ind AS 12:

88. An entity discloses any tax-related contingent liabilities and contingent assets in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see Ind AS 10, *Events after the Reporting Period*).

Ind AS 37:

"A provision is a liability of uncertain timing or amount.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A contingent liability is:

- (a) a possible obligation that arises from

past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.”

“14 A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

15 In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:

(a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and

(b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow

of resources embodying economic benefits is remote (see paragraph 86).”

“23. For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).”

“27 An entity shall not recognise a contingent liability.

28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.”

“86 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.”

“91 Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.”

10. The Committee notes from the above that an element of judgement is required to determine whether the demand raised in respect of additions/disallowances in cases pending before various Income-tax authorities should be provided for in the accounts or treated as contingent liability and disclosed by way of a note

to the accounts depending upon the assessment of likelihood of the outcome of the uncertainty. It is for the management of the enterprise to decide and for the auditor to assess, considering the circumstances of each case, whether the demand raised warrants recognition of provision or disclosure of contingent liability. The Committee is of the view that while making such judgement, all the facts and circumstances of the case and all the evidences available on the reporting date, including for example, legal opinion of an expert on the possibility and extent of outcome (success or failure) of the company's cases in the court of law, experience of the company or other enterprises in similar cases, decisions of appropriate authorities, etc. should be considered. Further, the Committee is also of the view that events after the reporting period but, before the date of finalization of accounts, should also be taken into consideration. The Committee wishes to clarify that the fact that no demand has been raised by the authorities does not necessarily indicate that demand cannot be raised in future. Accordingly, on the basis of above evaluation, if it is determined that it is more likely than not that a present obligation exists at the end of the reporting period, the company should recognise a provision (if the recognition criteria are met) and where it is more likely that no present obligation exists at the end of the reporting period, the entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

11. Further, the Committee is of view that accounting for the interest liability that may arise on demands should be dealt with considering the same principles as for the original income tax liability, as discussed in paragraph 10 above.

D. Opinion

12. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 7 above:
- (a) and (b) Considering the requirements of Ind AS 12 and Ind AS 37, as discussed in paragraphs 9 and 10 above, in respect of disputed tax positions where the demands have been raised in respect of additions/disallowances, an element of judgement is required to determine whether the same should be provided for in the accounts or treated as contingent liability and disclosed by way of a note to the accounts depending upon the assessment of likelihood of the outcome of the uncertainty. While making such judgement, all the facts and circumstances of the case and all the evidences available on

the reporting date, including for example, legal opinion of an expert on the possibility and extent of outcome (success or failure) of the company's cases in the court of law, experience of the company or other enterprises in similar cases, decisions of appropriate authorities, etc. and events after the reporting period but, before the date of finalization of accounts should be considered. On the basis of above evaluation, if it is determined that it is more likely than not that a present obligation exists at the end of the reporting period, the company should recognise a provision (if the recognition criteria are met) and where it is more likely that no present obligation exists at the end of the reporting period, the entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote. Accounting for interest liability (if any) should be dealt with considering the same principles as for the original income tax liability, as discussed in paragraph 11 above.

- (c) Since no provision/ contingent liability is recognised/ disclosed considering the requirements of Ind AS 37, no disclosure is required in the notes to financial statements.

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| 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 January 08, 2019. The Opinion must, therefore, be read in the light of any amendments and/ or other developments subsequent to the issuance of Opinion by the Committee. |
| 3. | The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty six volumes. A CD of Compendium of Opinions containing thirty six volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur. |
| 4. | Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'. |
| 5. | Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in . ■ |

COVID-19 Impact on Financial Reporting – Accounting Year Ending March 31, 2020

Background

ICAI is concerned about the impact of Coronavirus disease (known as COVID-2019 or COVID-19) on the health of people worldwide as well as on the state of economy and commerce of the world in general and on India specifically. ICAI is guided by the assessments given by the Government and public health authorities, domestic and international.

Latest media reports indicate the possible severe impact of this pandemic that the World Health Organisation (WHO), has been closely monitoring and considering its global impact. On March 11, 2020, WHO has assessed its risk and characterized it as global pandemic in view of the alarming levels of spread and severity, and of the alarming levels of infection.

The adverse impact of this global pandemic can vary from nation to nation, industry to industry and above all entity to entity. The effect depends upon the nature and extent of business connectivity of the individual entities with the nations more seriously affected by this pandemic. Apart from the health and safety of mankind, COVID-19 has unfavourably affected the economic environment which in turn has consequential impact on the results in the financial statements and reporting.



While we are empathetic to the global concerns of health and safety of people, there is also a need to advise the preparers of financial statements to ensure that the potential impact of COVID-19 is suitably considered in preparing and reporting their financial statements for the year ended March 31, 2020. Specific requirements of a few accounting standards that may need special attention are indicated in this Accounting Advisory. It may be noted that we are only drawing the attention of preparers to some of the important requirements of Indian Accounting Standards (Ind AS) and Accounting Standards (AS), and this is not meant to be exhaustive and may differ based on specific facts, circumstances and business of respective preparers.

Part I

Note: The advisory has been prepared for:

1. Entities to whom Ind AS is applicable and
2. Entities to whom AS is applicable, viz,
 - a. Companies to whom Companies, Accounting Standards Rules, 2006 is applicable and
 - b. Non-corporate entities to whom AS issued by ICAI is applicable.

1. Inventory Measurement (Ind AS 2 and AS 2)

(a) In accordance with Ind AS 2 Inventories, and AS 2 Valuation of Inventories, it might be necessary to write down inventories to net realisable value due to reduced movement

Contributed by Accounting Standards Board of ICAI

in inventory, decline in selling prices, or inventory obsolescence due to lower than expected sales.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. The management may consider written down of inventories to net realisable value item by item.

Ind AS 2 and AS 2 also provide that the allocation of fixed production overheads to the costs of conversion is based on the normal production capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred.

Entities should assess the significance of any write-downs and whether they require disclosure in accordance with Ind AS 2/AS 2 as well as paragraph 98 (a) of Ind AS 1, Presentation of Financial Statements, and paragraph 14(a) of AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. It is unlikely that the normal production capacity is to be reviewed for allocating fixed production overheads for the year 2019-2020, because of adverse impact on the utilisation of the production capacity due

to the impact of coronavirus on the overall economy or the segment (s) in which the entity is operating.

2. Impairment of Non-Financial Assets (Ind AS 36 and AS 28)

Ind AS 36 relies on an 'economic' criterion for the recognition of an impairment loss. An 'economic' criterion is the best criterion to give information which is useful to users in assessing future cash flows to be generated as a whole. In estimating the time value of money and the risks specific to an asset in determining whether the asset is impaired, factors, such as the probability or permanence of the impairment loss, are subsumed in the measurement.

Due to COVID-19, there might be temporary ceasing of operations or an immediate decline in demand or prices resulting in lowering of revenues and profitability and reduced economic activity. These are the factors that the management may consider as the indicators that may require impairment testing for the purpose of Ind AS 36 and AS 28.

a. Ind AS 36 Impairment of Assets, and AS 28 Impairment of Assets, require an entity to assess, at the end of each reporting period, whether there is any indication that non-financial assets may be impaired. The impairment test only has to be carried out if there are such indications. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

- b. For indefinite useful life intangible asset or an intangible asset not yet available for use and goodwill, Ind AS 36 requires an annual impairment testing. There could be an indicator that impairment testing of goodwill and indefinite useful life intangible assets are tested as of reporting date even if the entity follows other annual testing cycle as per Ind AS 36.
- c. An entity needs to estimate the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal and the value in use. In cases where the recoverable amount is estimated based on value in use, the considerations on accounting estimates apply.

Critical Factors to Consider

The management needs to consider whether:

- contraction in economic activity due to the outbreak of COVID-19 is considered to be an impairment indicator at the reporting date, which results in an impairment assessment;
- assumptions used for impairment testing and to determine the recoverable amounts before the outbreak of COVID-19 requires any change;
- the assumptions used to determine discount rate to measure the recoverable amount require any adjustments;

- the forecasts or budgets for future cash flows prepared by management should be updated to reflect the impact of COVID-19;
- market assumptions used to determine fair value for recoverable amounts needs reconsideration;
- reasonable assumptions are taken in estimating the value-in-use and fair value less costs of disposal and ensure that the impairment loss, if any, is estimated reliably.

Goodwill impairment

The standard requires that goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Due to COVID-19, there might be significant changes with an adverse effect in operations of a cash generating unit to which goodwill is allocated and therefore requiring additional focus and attention while testing of impairment of goodwill as at March 31, 2020.

The disclosure requirements in Ind AS 36 and AS 28 are extensive. Depending on specific facts and circumstances, entities need to consider providing detailed disclosures on the assumptions and sensitivities considered for effects of the COVID-19.

3. Financial Instruments

Impairment Losses

Entities to whom Ind AS is applicable Ind AS 109 Financial Instruments

Financial Instruments within the scope of Ind AS 109 such as Loans, Trade Receivables, Other Receivables, Investment in Debt instruments, Financial Guarantees and Loan Commitments not measured at fair value through profit or loss, Contract Assets and Lease Receivables are subject to impairment loss recognition and measurement based on an approach called Expected Credit Loss (ECL). This approach was introduced in the aftermath of the global financial crisis of 2008 to strengthen the accounting recognition of loan-loss provisions by incorporating a broader range of credit information. ECL approach is expected to consider forward looking information and it is measured based on probability weighted amount that is determined by evaluating a range of possible outcomes.

The widespread contraction in economic activity across the globe due to the rapid spread of COVID-19 is likely to have an impact on the quantification of ECL and classification of financial assets into 3 buckets for recognition and measurement of impairment losses. In this context, following are important factors to be considered by the preparers.

Critical Factors to Consider

- Recognition of 12 months ECL versus Lifetime ECL is based on segregation of credit exposures into 3 buckets viz. Stage 1- those with no significant increase in credit risk, Stage -2 those with significant increase in credit risk and Stage 3-

Credit impaired. In case of certain financial assets such as Trade Receivables where the simplified approach is applicable, this segregation of credit exposures into 3 buckets is not required.

- Measurement of ECL- Adverse impact on the business of borrowers or debtors may impact the following credit risk parameters:
 - Risk of default (probability of default) i.e. the likelihood of default by the borrower may have increased significantly due to reduced economic activity;
 - Estimated amount of the loss itself in the event of default (loss given default). Contraction in economic activity and its impact on consumers may have affected value of collaterals and business cash flows adversely affecting the expected amount of loss;
 - In this period of substantial business dislocation, borrowers may tend to fully utilise undrawn limits and loan commitments, which in turn would impact another credit risk parameter i.e. exposure at default.
- ECL requirement of Ind AS 109, the measurement of ECL is expected to consider current as well as forecasted macro-economic conditions and more than one scenario. Entities may need to develop one or more scenarios considering the potential impact of COVID-19.

- Ind AS 109 – Appendix A states that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flow of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about various events, for example, the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.
- Entities may also need to consider the impact of any Prudential Regulatory actions to sustain the economy such as loan repayment holidays, reduction in interest rates etc.
- In respect of Ind AS 107, Financial Instruments Disclosures, entities may need to disclose the impact of COVID-19 on various credit related aspects such as methods, assumptions and information used in estimating ECL, policies and procedures for valuing collaterals etc.
- If the entity is unable to assess the impact of COVID-19 in estimating the impairment loss due to the inadequacy of information, the same should be disclosed appropriately.
- Non-Banking Financial Companies (NBFCs) and Asset Reconstruction Companies (ARCs) should

also carefully consider the recent guidance provided by Reserve Bank of India (RBI) on implementation of Ind AS (RBI/2019-20/170 DOR (NBFC).CC.PD. No.109/22.10.106/2019-20 - Implementation of Indian Accounting Standards).

Entities to whom AS is applicable

- In case of financial assets such as Loans, Trade Receivables etc., entities shall be guided by the requirements of AS 4, Contingencies and Events Occurring After the Balance Sheet Date.
- In respect of financial assets within the scope of AS 13, Accounting for Investments, entities may have to carefully consider the requirements of making provisions for decline in the value of investments, which is other than temporary.
- In respect of Banks and Insurance Entities, preparers need to consider impact of COVID-19 on classification of Loans and Advances into Standard, Sub-standard, Doubtful and Loss categories in addition to the Prudential Regulatory requirements of RBI and The Insurance Regulatory and Development Authority of India (IRDAI).

Fair Value Measurement Entities to whom Ind AS is applicable Ind AS 113 Fair Value Measurement

- Individual Ind ASs such as Ind AS 109, Ind AS 16 etc. prescribe when to measure an asset or liability at fair

value and how to recognise the resultant fair value gains and losses i.e. in profit or loss section or other comprehensive income section of Statement of Profit and Loss. Equally, important is Ind AS 113 Fair Value Measurement, which lays down certain fundamental principles in respect of Fair value, its definition and how to determine it? In this context, the following are the critical factors to be considered in determining fair value both for measurement or disclosure requirements by the preparers.

Critical Factors to Consider

- Ind AS 113 recognises the fact that there are different ways in which fair value is determined i.e. it can be based on observable market price (quoted price in an active market – Level 1) or application of valuation techniques (Level 2 and Level 3) as of the reporting date.
- The current financial and capital market environment across the globe has got affected by the rapid spread of COVID-19 and may have developed the following features:
 - Significant volatility or indications of the significant decline in market prices of financial instruments like equity, bonds and derivatives.
 - Significant decrease in volume or level of activity.

- The above features may need adequate management consideration and professional judgment to determine whether the quoted prices are based on transactions in an orderly market.
- It may not be always appropriate to conclude that all transactions in such a market are not orderly. Preparers should be guided by the application guidance in Ind AS 113 that indicates circumstances in which the transaction is not considered an orderly transaction.
- Preparers using valuation techniques may have to consider the impact of COVID-19 on various assumptions including discount rates, credit-spread/counter-party credit risk etc.

Entities to whom AS 13 is applicable AS 13 Accounting for Investments

- In respect of financial assets within the scope of AS 13, entities have to carefully consider the impact of COVID-19 on determination of fair value for valuation of investments classified as Current Investments.

Hedge Accounting

Entities to whom Ind AS is applicable Ind AS 109 Financial Instruments

Ind AS 109 has elaborate requirements on the application of hedge accounting, which is an accounting choice for the entities. The requirements, among others, include the

qualifying criteria for hedge accounting, how to assess hedge effectiveness and accounting for its impact in the financial statements.

Critical Factors to Consider

- The standard permits a highly probable forecast transaction to be a qualifying hedged item. If entities have adopted cash-flow hedge accounting for certain forecasted transactions, they should assess whether the transaction still qualifies as a highly probable forecast transaction considering their business environment.
- Entities will need to assess any hedge ineffectiveness and record the impact of that in profit and loss.
- Estimate the fair value of derivatives, including paying special attention to underlying assumptions of derivatives, e.g., forward curve of interest rate, foreign currency, commodity etc.

Entities to whom AS is applicable

ICAI Guidance Note on Accounting for Derivative Contracts (Issued 2015)

- In respect of recognition and measurement of derivatives within the scope ICAI Guidance Note on Derivatives, entities may need to consider the impact on key inputs/assumptions such as foreign currency rate, interest rate, etc. used in their valuation techniques, including the potential impact on hedge accounting.

4. Leases

Entities to whom Ind AS is applicable Ind AS 116 Leases

- Due to COVID-19, there may be changes in the terms of lease arrangements or lessor may give some concession to the lessee with respect to lease payments, rent free holidays etc. Such revised terms or concessions shall be considered while accounting for leases, which may lead to the application of accounting relating to the modification of leases. However, anticipated revisions should not be taken into account.
- Variable lease payments may be significantly impacted, especially those linked to revenues from the use of underlying assets due to contracted business activity.
- Discount rate used to determine the present value of new lease liabilities may need to incorporate any risk associated with COVID-19.
- If any compensation is given/declared by the Government to the lessor for providing concession to the lessee, it should be considered whether the same needs to be accounted for as lease modification as per Ind AS 116 or whether assistance received from Government is to be accounted as government grants under Ind AS 20.
- Entities will need to determine whether as a result of COVID-19, any lease arrangement has become onerous.

Entities to whom AS is applicable Leases (AS 19, AS 29)

- Due to COVID-19 there can be changes in the terms of lease arrangements or lessor may give some concession to the lessee with regard to lease payments. Such revised terms or concessions shall be considered while accounting for leases. However, anticipated revision should not be taken into account.
- Discount rate used to determine present value of minimum lease payments of new leases may need to incorporate any risk associated with COVID-19.
- If any compensation is given/declared by the Government to the lessor for providing concession to the lessee, it should be considered whether the same needs to be accounted for appropriately as per AS 19. Whether any assistance received from government are government grants under AS 12.
- Entities will need to determine whether as a result of COVID -19, any lease arrangement has become onerous. The same should be accounted for as per AS 29.

5. Revenue

Due to COVID-19, there could be likely increase in sales returns, decrease in volume discounts, higher price discounts etc. Under Ind AS 115, these factors need to be considered in estimating

the amount of revenue to recognised, i.e., measurement of variable consideration.

Ind AS 115 also requires disclosure of information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue. Therefore, entities may have to consider disclosure about the impact of COVID-19 on entities revenue.

Entities to whom AS is applicable, may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of COVID-19. AS 9, Revenue Recognition requires entities to disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

6. Provisions, Contingent Liabilities and Contingent Assets

Entities to whom Ind AS is applicable

Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

- Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. As a result of COVID -19, some contracts may

become onerous for reasons such as increase in cost of material/labour, etc. Management should consider whether any of its contracts have become onerous. The same should be accounted for as per Ind AS 37. Ind AS 37 also requires assets dedicated to a contract to be tested for impairment before a liability for an onerous contract is recognised.

Additionally, there could be losses from imposition of penalty due to delay in supply of goods, which may need to be considered under the guidance of Ind AS 115, Revenue from Contracts with Customers.

If the management is unable to assess whether some of the executory contracts are onerous due to inadequacy of information, the same should be disclosed. Management should disclose that it has assessed whether executory contracts are onerous due to the adverse impact of COVID -19. If, the management is unable to assess whether some of the executory contracts have become onerous due to inadequacy of information, the same should be disclosed.

- Restructuring costs - The Standard provides that a provision for restructuring costs is recognised only when the general recognition criteria for provisions are met and when there is a detailed formal plan for

the restructuring and there is evidence that the entity has started to implement a restructuring plan, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan.

- (iii) Insurance claims - Entities may have insurance policies that cover loss of profits due to business disruptions due to events like COVID-19. Entities claims on insurance companies can be recognised in accordance with Ind AS 37 only if the recovery is virtually certain i.e. the insurance entities have accepted the claims and the insurance entity will meet its obligations.
- (iv) Ind AS 37 requires a provision to be recognised only
 - where an entity has a present obligation
 - it is probable that an outflow of resources is required to settle the obligation; and
 - a reliable estimate can be made.

Due to COVID-19, there is a need for exercising judgement in making provisions for losses and claims. A provision may be accounted for only to the extent that there is a present obligation for which the outflow of economic benefits is probable and can be reliably estimated.

Ind AS 37 does not permit provisions for future operating costs or future business recovery costs. However, Ind AS 37 requires that an entity should disclose the nature of

the obligation and the expected timing of the outflow of economic benefits.

Entities to whom AS is applicable

AS 29 Provisions, Contingent Liabilities and Contingent Assets

Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. As a result of COVID -19, some contracts may become onerous for reasons such as the imposition of penalty due to delay in supply of goods or increase in cost of material, labour, etc. Management should

consider whether any of its contracts have become onerous. The same should be accounted for as per AS 29. Management should disclose that it has assessed whether executory contracts are onerous due to adverse impact of COVID -19. If, the management is unable to assess whether some of the executory contracts have become onerous due to the

inadequacy of information, the same should be disclosed.

7. Modifications or Termination of Contracts or Arrangements

It may also be noted that the entities may modify or terminate certain contracts which may be within the scope of other Ind ASs or ASs or Guidance notes highlighted below. Entities are advised to consider the specific requirements of these standards and guidance note to account for these modifications or terminations.

| Entities to Whom Ind AS is applicable | Entities to Whom AS is applicable |
|---|--|
| Ind AS 19, Employee Benefits | AS 15 Employee Benefits (revised 2005) |
| Ind AS 102, Share-based Payments | Guidance Note on Accounting for Employee Share Based Payments |
| Ind AS 109, Financial Instruments and Ind AS 32, Financial Instruments - Presentation | Guidance Note on Accounting for Derivative Contracts (Issued 2015) |
| Ind AS 104, Insurance Contracts For insurance companies this is routine; events like earthquake, huge floods, war situations, etc. | |
| Ind AS 115, Revenue from Contracts with Customers | AS 7 Construction Contracts (revised 2002), AS 9 (Revenue Recognition) and Guidance Note on Accounting for Real Estate Transactions (revised 2012) |

8. Going Concern Assessment

Entities to whom Ind AS is applicable

Ind AS 1 Presentation of Financial Statements Ind AS 10 Events after the Reporting Period

The Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern. The impact of COVID-19 after the reporting date should also be considered and if, management after the reporting date either intends to liquidate the entity or to cease trading, or has No realistic alternative but to do so, the financial statements should not be prepared on going concern basis. Necessary disclosures as per Ind AS 1 shall also be made, such as material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern.

Entities to whom AS is applicable

AS 1 Disclosure of Accounting Policies

The Financial statements are normally prepared on the assumption that an entity is a

going concern and will continue in operation for the foreseeable future. Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern. The impact of COVID-19 after the balance sheet date should also be considered in assessing whether going concern assumption is appropriate or not. Events occurring after the balance sheet date may indicate that the enterprise ceases to be a going concern. It may be necessary for the management to evaluate whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.

9. Income Taxes

Entities to whom Ind AS is applicable Ind AS 12 Income Taxes

COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g., asset impairment). Entities with deferred tax assets should reassess forecasted profits and the recoverability of deferred tax assets in accordance with Ind AS 12, Income Taxes, considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.

Management might also consider whether the impact of the COVID-19 affects its plans to distribute profits

from subsidiaries and whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with Ind AS 1.

Entities to whom AS is applicable

AS 22 Accounting for Taxes on Income

COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional timing differences due to various factors. Entities with deferred tax assets should reassess forecast profits and the recoverability of deferred tax assets in accordance with AS 22, Accounting for Taxes on Income, considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.

10. Consolidated Financial Statements

Entities to whom Ind AS is applicable

Ind AS 110 Consolidated Financial Statements

Ind AS 110 prescribes that the financial statements of parent and subsidiaries used in the preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case,

the difference between the reporting dates should not be more than three months.

Entities to whom AS is applicable

AS 21 Consolidated Financial Statements (revised 2016)

AS 21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than six months.

11. Property Plant and Equipment (PPE)

Ind AS 16 and AS 10 require that useful life and residual life of PPE needs revision in annual basis. Due to COVID-19, PPE can remain under-utilised or not utilised for a period of time. It may be noted that the standards require depreciation charge even if the PPE remains idle. Further, COVID-19 impact may have affected the expected useful life and residual life of PPE.

The management may review the residual value and the useful life of an asset due to COVID-19 and, if expectations differ from previous estimates, it is appropriate to account for the change(s) as an accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors and AS 5, Net Profit or Loss for the

Period, Prior Period Items and Changes in Accounting Policies.

12. Presentation of Financial Statements

Ind AS 1 Presentation of Financial Statements

- (i) Breach of loan covenants (including classification of liabilities into current and non-current)

Due to COVID-19 there may be instances of breach of loan covenants which may trigger the liability becoming due for payment and liability becoming current. However, as per paragraph 74 of Ind AS 1, such a liability shall not be classified as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

- (ii) Sources of estimation uncertainty under Ind AS 1 Paragraph 125 of Ind AS 1, Presentation of Financial Statements, requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. COVID-19 may have

created many uncertainties about the likely future scenarios which may affect the estimations of amounts recognised in the balance sheet as of reporting date. Entities shall be guided by the prescriptions in paragraphs 125 to 133 of Ind AS 1.

- (iii) Comparative information

Ind AS 1 requires presentation of minimum comparative information. Framework for the preparation and presentation of financial statements under Ind AS considers comparability as an important qualitative characteristic of financial statements. The Framework requires that users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance and also compare it with financial statements of other entities. COVID-19 may have affected the financial performance and financial position of entities. Therefore, preparers may consider making adequate disclosures and explanatory notes regarding the impact of COVID-19 on its financial position, performance and cash flows.

13. Borrowing Costs

Ind AS 23 Borrowing Costs and AS 16 Borrowing Costs

Above standards require that the capitalisation of interest is

suspended when development of an asset is suspended. The management may consider this aspect while evaluating the impact of COVID-19.

Part II

14. Post Balance Events (Ind AS 10 and AS 4)

COVID-19 outbreak incidence surfaced in December 2019 and the condition has continued to evolve throughout aGer 31 December 2019. According to Ind AS 10, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, Contingencies and Events Occurring after Balance Sheet Date, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

However, adjustments to assets and liabilities are

not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID-19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity.

15. Interim Financial Reporting (Ind AS 34 and AS 25)

(Currently, this section may be applicable to a limited set of entities)

The recognition and measurement guidance applicable to annual financial statements equally applies to interim financial statements. There are typically no recognition or measurement exceptions for interim reporting, although management might have to consider whether the impact of the COVID-19 is a discrete event for the purposes of

calculating the expected effective tax rate.

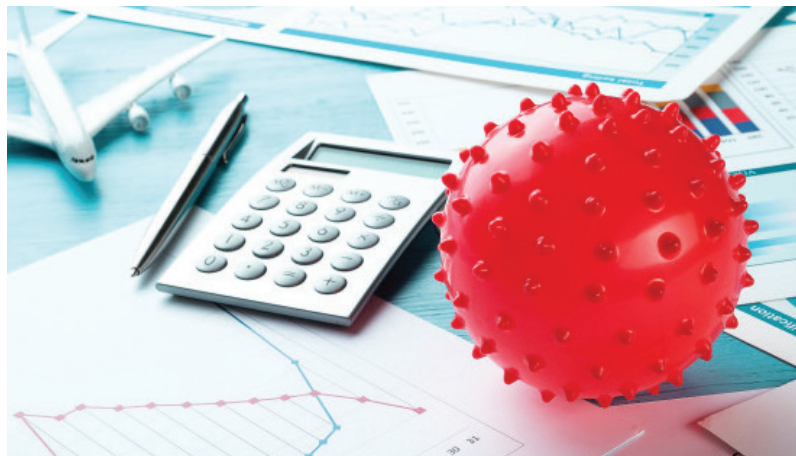
Ind AS 34, Interim Financial Reporting, states that there might be greater use of estimates in interim financial statements, but it requires that the information is reliable and that all relevant information is disclosed. Ind AS 34/AS 25 Interim financial information usually updates the information in the annual financial statements. However, Ind AS 34/AS 25 requires that an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. This implies that additional disclosure should be given to reflect the financial impact of the COVID-19 and the measures taken to contain it. This disclosure should be entity specific and should reflect each entity's circumstances. Where significant, the disclosures required by paragraph 15B in Ind AS 34 should be included. Further, the preparers may consider making suitable disclosures in the Management Discussion and Analysis section of the Annual Report about the effect of Coronavirus (COVID-19) on the overall risks to the businesses in which the entity is engaged. ■

Impact of Novel Coronavirus (COVID-19) on Audit of Financial Statements for the Financial Year ending March 31, 2020

Background

The global pandemic COVID-19 has already had a significant impact on global trade and economy with consequential impact on global and Indian financial markets. This may also have accounting, disclosure, internal control and auditing implications for many entities. There is a great deal of uncertainty as to how the COVID-19 situation will continue to evolve and the scenario is rapidly changing. The uncertainty arises primarily from interruptions in production, supply chain disruptions, unavailability of personnel, closure of facilities / offices due to the rapid outbreak of COVID-19, decline in demand, liquidity, business continuity issues, etc. The resultant outbreak though started outside of India impacts entities in India as well.

Given there are increasing restrictions on travel, meetings and access to client locations, auditors would be facing practical difficulties in carrying out audits. These underlying situations, however, must not undermine the delivery of high quality audits. Audits should continue to be planned and performed in compliance with the auditing standards. To enable the auditors to perform audits additional time may be required and alternate audit



procedures may need to be performed in order to obtain sufficient appropriate audit evidence.

This document discusses key Advisory to auditors related to conditions that may arise as a result of COVID-19. Auditors must carefully evaluate unique circumstances prevailing in their audits and assess risk accordingly when applying the concepts in this Advisory in their audits.

Principles of Specific Standards on Auditing used in this Advisory

Areas which require special attention of auditors in current scenario are cited below along with reference of relevant Standards on Auditing (SAs):

1. Identifying and Assessing the Risk of Material Misstatements and Materiality in Planning and Performing an Audit (SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment & SA 320, Materiality in Planning and Performing an Audit)
2. Assessing Financial Impact and their Reasonable Estimation (SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures)
3. Valuation of Inventory on a date other than date of financial statements i.e. 31st March 2020 (SA 501, Audit Evidence - Specific Considerations for Selected Items)
4. Audit of Consolidated Financial Statements where Components/component auditors are located in

severely affected places (SA 600, Using the Work of Another Auditor)

5. Subsequent Events or Events after Reporting date (SA 560, Subsequent Events)
6. Going Concern [SA 570(Revised), Going Concern]
7. Evaluation of Work of Management's Expert (SA 500, Audit Evidence)
8. Written Representations (SA 580, Written Representations)
9. Auditor's Opinion, [SA 700(Revised)], Forming an Opinion and Reporting on Financial Statements, SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report, SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
10. Reporting on Key Audit Matters (SA 701, Communicating Key Audit Matters in the Independent Auditor's Report)
11. The Auditor's Responsibilities Relating to Other Information [SA 720(Revised)]
12. Internal Control Considerations
13. External Confirmations (SA 505, External Confirmations)
14. Risk of Fraud (SA 240, The Auditor's Responsibilities Relating to Fraud in An Audit of Financial Statements) 23

1. Identifying and Assessing the Risk of Material Misstatements and Materiality in Planning and Performing an Audit

The outbreak of COVID-19 can have a number of potential issues for entities, particularly entities that operate in geographies that are significantly exposed to the outbreak. In addition there could also be impact on those entities whose vendors/ bankers/ suppliers/ service providers are in geographies that are exposed. There is already a broader economic impact of the outbreak on global and Indian financial markets and the outbreak will also pose increasing risks and potentially have accounting implications for all entities with exposure to broader economic downturn and decline in financial markets.

Due to the above conditions, entities and auditors would have to evaluate additional risks arising from the following areas:

- a. Operational disruption resulting in any changes to the business model arising from significant drop in demand, reduced customer base, disruption in supply chain, employee's absence or work from home, geographical implications of group operations, public lock down etc.
- b. Contractual non-compliance resulting in contractual breaches, additional security requirements or stressed asset valuations.
- c. Liquidity and working capital issues given

the reduced/ impaired ability to service debt or replenish working capital requirements due to possible lower cash flows.

- d. Asset valuations – downward asset valuations may trigger legal and compliance issues or lead to liquidity challenge.

In applying SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment, the auditor should consider the implications of the above matters when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks.

The auditor should also discuss with TCWG and management whether the impact of the COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the emerging business risks. The auditor should also consider if disclosures are required in the financial statements about the key assumptions made in reaching this conclusion.

If the auditor has revised the risk assessment as a result, audit materiality may also need to be revised as the audit progresses. Reference may be made to SA 320 - Materiality in Planning and Performing an Audit. Paragraphs 12 and 13 of SA 320 are reproduced below:

“Revision as the Audit Progresses

12. The auditor shall revise materiality for the financial statements as a whole

(and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A13)

13. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.”

2. Assessing Financial Impact and their Reasonable Estimation

The financial statements have various items which would have been affected by the outbreak of COVID-19, a detailed list of them has been mentioned in the Accounting Advisory.

In addition to the detailed list of items of financial statements mentioned in the aforesaid Advisory, specific accounting issues could arise in the following areas:

- a. Impairment of Goodwill, Property Plant and Equipment, Intangible Assets and Valuation & impairment of receivables, loans and advances.

- b. Valuation of defined benefit plans and obligations – due to significant changes in employee strength or de-valuation of underlying plan assets.
- c. Stock compensation performance conditions and obligations.
- d. Contractual penalties.
- e. Employment termination benefits.
- f. Insurance recoveries related to business interruptions.
- g. Onerous contract provisions.
- h. Allowance for expected credit losses.

The above items are likely to have significant accounting estimates to be made by the management. Significant assumptions including projected cash flows, used in these accounting estimates may be affected by the impact of COVID-19. Hence, the auditor should use procedures as prescribed by SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures to check whether (a) the accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and (b) related disclosures in the financial statements are adequate.

The above procedures include how management has assessed the effect of estimation uncertainty or the risk assessment and audit evidence supporting these accounting estimates and related disclosures that may be affected

by the impact of COVID-19 on the business of the entity and the economic environment.

3. Valuation of Inventory on a date other than date of financial statements i.e. 31st March 2020

Due to government-imposed shutdowns or due to unavailability of the client personnel, it may not be practicable for most of the business entities to conduct physical verification of inventory as on the date of the financial statements i.e. 31st March, 2020. The auditor must plan procedures depending on the underlying circumstances wherein the inventory count date could be advanced prior to the year- end or deferred to a date after the year-end.

The auditor would need to comply with the procedures given in Paragraphs 5 and 7 read with Paragraphs A9 to A14 of SA 501 cited below:

“5. If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, in addition to the procedures required by paragraph 4, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded. (Ref: Para. A9-A11)

Physical Inventory Counting Conducted Other than At the Date of the Financial Statements (Ref: Para. 5)

A9. For practical reasons, the physical inventory counting may be conducted at a date, or dates, other than the date of

the financial statements. This may be done irrespective of whether management determines inventory quantities by an annual physical inventory counting or maintains a perpetual inventory system. In either case, the effectiveness of the design, implementation and maintenance of controls over changes in inventory determines whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for audit purposes. SA 330 establishes requirements and provides guidance on substantive procedures performed at an interim date.

A10. Where a perpetual inventory system is maintained, management may perform physical counts or other tests to ascertain the reliability of inventory quantity information included in the entity's perpetual inventory records. In some cases, management or the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand; this may indicate that the controls over changes in inventory are not operating effectively.

A11. Relevant matters for consideration when designing audit procedures to obtain audit evidence about whether changes in inventory amounts between the count date, or dates, and the final inventory records are properly recorded include:

- Whether the perpetual inventory records are properly adjusted.
- Reliability of the entity's perpetual inventory records.

- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records.

7. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705(Revised). (Ref: Para. A12-A14)

Attendance at Physical Inventory Counting Is Impracticable (Ref: Para. 7)

A12. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not

sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

A13. In some cases where attendance is impracticable, alternative audit procedures, for example inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

A14. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing

alternative audit procedures. In such cases, SA 705(Revised) requires the auditor to modify the opinion in the auditor's



report as a result of the scope limitation.”

4. Audit of Consolidated Financial Statements where Components/ Component auditors are located in severely affected places

As per the Accounting Advisory the following must be followed by the management in preparation of financial statements:

“Entities to whom Ind AS is applicable Ind AS 110 Consolidated Financial Statements Ind AS 110 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than three months.

Entities to whom Ind AS is not applicable

AS 21 Consolidated Financial Statements (revised 2016)

AS 21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than six months.”

In either of the above instances, if the financial information/ financial statements of the components are unavailable, for the year ended March 31, 2020, the maximum difference

between the reporting dates cannot exceed the above limits.

The Roles and Responsibilities of the Auditor with regards to Consolidated Financial Statements are as follows:

(a) Paragraph 49 of Guidance Note on Audit of Consolidated Financial Statements, issued by ICAI states as under:

“49. In a case where the parent’s auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should consider the requirements of SA 600.”

(b) As per SA 600, Using the Work of Another Auditor the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor’s purposes, in the context of the specific assignment and also should consider the significant findings of the other auditor. While doing so, the principal auditor should consider how the impact of COVID-19 including travel bans, temporary suspension of business operations, government mandated leaves, etc., may affect risk assessments, materiality and the ability to obtain sufficient appropriate audit evidence in respect of components. If principal auditor is unable to obtain

adequate information or reporting from the component auditors, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit. (Refer Paragraph 30 22 of SA 600)

(c) In the current scenario, the alternative means or methods to obtain sufficient appropriate audit evidence by the principal auditor from component auditor are as follows:

- Can data be shared cross-border, to allow for principal auditor for review? Could files be loaded into a cloud-based portal and a login provided to the principal auditor? Local laws may restrict cross-border data sharing. If in doubt, advice should be sought on any local legal restrictions.
- Can video calls and/or screen sharing soGware be used to discuss the work with the component auditor?
- Can the component auditor be asked to complete a detailed questionnaire or clearance on the work they have performed?
- Consider the outcome of any prior visits, including visits during planning or at an interim stage
- What work of component auditor was previously reviewed?

- Consider the past work of the component auditor – have there been significant errors or issues, or has work been performed to a high standard?
- Can a more detailed memorandum be provided to the component auditor on what work should be done for purpose of group reporting?
- What work can be done centrally by the Principal auditor's team?

If finance systems are integrated, data may be accessible for review by Principal Auditor. Management may be able to provide information directly to the Principal auditor to allow for testing.

Each individual engagement will need to be assessed on a case by case basis to determine what may be appropriate.

5. Subsequent Events or Events after Reporting date

As per the Accounting Advisory the following needs to be considered by the management in the preparation of financial statements:

“According to Ind AS 10, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to

the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, Contingencies and Events Occurring After Balance Sheet Date, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID -19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID -19 on the financial position and financial performance of the entity.”

The Responsibilities of the auditor for the subsequent events i.e. events between the date of financial

statements and the date of auditor's report as per SA 560 are as follows:

“Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report

6. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)

7. The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the

nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7-A8)

- a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have

occurred which might affect the financial statements. (Ref: Para. A9)

- c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)
- d) Reading the entity's latest subsequent interim financial statements, if any. 33
8. When, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements."

6. Going Concern

COVID-19 is resulting in significant operational disruption and presents an existential threat for many businesses. Entities and audit teams need to consider the implications on the assessment of going concern and viability in the financial report and whether these circumstances will result in prolonged operational disruption which will significantly erode the financial position of the entity or otherwise result in failure.

This is critically important for the going concern assessment. Auditors will need to consider whether the threat to liquidity

as a result of supply/demand disruption presents a material uncertainty to the going concern status for the 12 months look forward period. SA 570(Revised) also requires auditors to consider events that may cast significant doubt on the entity's ability to continue as a going concern beyond the period of management's assessment.

Audit teams should robustly assess the going concern and viability risks relating to COVID-19 threat in compliance with SA 570(Revised). This includes evaluating whether there is adequate support for the assumptions underlying management's assessment and the consistency of these assumptions across the entity's business activities.

As per paragraph 5 of SA 570(Revised), Going Concern

The Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following

34 factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required

to take into account all available information.

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

The auditor's responsibilities relating to going concern are mentioned in Paragraphs 6 & 7 of SA 570(Revised), Going Concern which are cited below:

"Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

6. However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern."

There could be several situations arising from the ongoing COVID-19 outbreak that could have an impact on the assumption relating to going concern. For some entities, the impact could be severe and may leave management with no realistic alternative but to liquidate or cease operations. There could also be entities which may have to scale down their operations while impact may not be significant for other entities.

It is the responsibility of management to make the assessment as to whether the entity is a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. The assessment will be specific to the entity's circumstances.

In the current scenario, while making this assessment, management would generally be expected to prepare detailed forecasts which, will require regular updation till the financial statements are authorised for issue. These forecasts should capture potential scenarios and management's plans.

Management should consider the impact of COVID-19 on customers, suppliers and employees. For example, could the entity continue to operate if employees are not able to physically present, and how reduced cash flows impact its working capital requirements. Management should also consider whether the insurance 36 policies taken by the entity cover the losses arising from the COVID -19.

The auditor will only be able to form a conclusion relating to going concern once management has made its own assessment. The auditor should inquire of management and TCWG as to what information is available about the future, and determine whether this has been appropriately considered as part of management's assessment. The auditor should apply similar considerations to those of management, as discussed above, in assessing the appropriateness of the going concern assumption. This should, for example, include a detailed and robust review of up to date forecasts, cash flows, sensitivity analyses and reviews of COVID-19 contingency plans and impact assessments conducted by the management.

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists.

Given the level of uncertainty and speed of increasing impact of COVID-19, audit teams need to critically consider the current position at the point of sign off as part of the subsequent events review right up to the point of signing the auditor's report, and may need further evidence and information by management, including updating financial models.

If the entity is disclosing in their subsequent events disclosures that an estimate of impact cannot be made due to the evolving situation, this may result in a material uncertainty on going concern within the audit report.

7. Evaluation of Work of Management's Expert

Since, lot of estimation is involved regarding the impact on the financial statements and assessment of going concern in the current circumstances, management may take the assistance of a management's expert (an expert in field other than accounting and auditing) to make such estimates or assessments.

As per paragraph 8 of SA 500-Audit Evidence, "When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent

necessary, having regard to the significance of that expert's work for the auditor's purposes; (Ref: Para. A34- A36)

- a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43)
- b) Obtain an understanding of the work of that expert; and (Ref: Para. A44- A47)
- c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A48)"

8. Written Representations

As per SA 580, the auditor should obtain written representations from the management regarding the various estimates and assessments made by the management. The written representations should be exhaustive, containing the occurrence, method of measurement, completeness of transactions recorded and the disclosure of financial impacts in the financial statements. Auditors need to assess whether any specific representations may be required to be obtained from the Management in relation to Managements' assessment of impact from the ongoing outbreak of COVID-19 on the financial statements for the year ending March 31, 2020 as well as for the reasonable foreseeable future.

9. Auditor's Opinion

The overall objectives of an auditor as per SA 200-Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with

Standards on Auditing, are as follows:

- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Auditor should form an opinion on the financial statements considering the principles enunciated in SA 700(Revised), SA 705(Revised), SA 706 (Revised). Since in the current scenario there are high probabilities of going concern being affected, existence of material uncertainties relating to going concern, the principles enunciated in SA 570(Revised) also need to be considered particularly paragraphs 21 to 24 which prescribe manner of reporting in different situations. The auditor needs to carefully assess the situation applying professional judgement and professional skepticism and report accordingly.

Some illustrative Situations where the Auditor may need to express a modified opinion due to COVID-19 are cited below:

- i. The auditor is unable to obtain sufficient appropriate

audit evidence relating to material component audited by the other auditor as per SA 600 due to COVID-19 pandemic.

- ii. The financial impact arising out of the COVID-19 outbreak are not accounted or reported or disclosed as per the prescribed Accounting Standards, in the financial statements.
- iii. If the auditor is unable to obtain sufficient appropriate audit evidence relating to the impact of COVID-19 in the financial statements and is of opinion that there are misstatements that are material to the financial statements.
- iv. The auditor has communicated misstatements to the management and those charged with governance relating to COVID-19 as per SA 450, Evaluation of Misstatements Identified During the Audit and the management or TCWG refuses to correct such misstatements, that are individually or in aggregate, material to the financial statements.

10. Reporting on Key Audit Matters

SA 701 – Communicating Key Audit Matters in the Independent Auditor's Report deals with the auditor's responsibility to communicate key audit matters in the auditor's report. Key audit matters are those matters that, in the auditor's professional judgement, were of most

significance in the audit of the financial statements of the current period. Key audit matters are selected from the matters communicated with those charged with governance.

The auditor would need to comply with the procedures given in Paragraphs 9 (read with Paragraphs A18 to A26) of SA 701 cited below:

“9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315. (Ref: Para. A19–A22)
- b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting

estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)

- c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)”

The auditor should evaluate whether the impact of the disruption caused because of COVID-19 to the operations of the entity, consequential impact on the financial statements would be a key audit matter and if determined so, the auditor would need to report the same alongwith how the matter was addressed in the audit.

11. The Auditor's Responsibilities Relating to Other Information (SA 720 (Revised))

This SA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the

audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.

Entities would need to provide additional disclosure as part of the financial statements/ annual report w.r.t. the following areas:-

- a. Risk assessment – Entities may elaborate on existing reported risks w.r.t. calamities or add new ones relating to COVID-19.
- b. Management discussion and analysis – Entities may include management's discussion and analysis of any material current and potential future impact on their operations, financial condition and liquidity arising out of the entity's exposure to COVID-19 risks.



- c. Notes to the financial statements – Specific disclosures under the subsequent events accounting standards and any other specific account specific disclosures.

The auditor is required to read any other information disclosed in the annual report and consider whether the same is consistent with the financial statements and the auditor's knowledge obtained in the audit. 4

12. Internal Control Considerations

In case of companies, where the auditors have to issue a Report on the Internal Financial Controls over Financial reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013, because of the impact of COVID-19, there could be

additional considerations that need to be considered as below:

- a. Companies may need to implement new internal controls or modify existing internal controls over financial reporting.
- b. Evaluate whether any of the controls is not operating effectively on account of absence of concerned person due to illness/ quarantine/ working from home/isolation/travel inaccessibility.
- c. Identify alternate controls.
- d. Company's ability to close financial reporting process in time.

- e. Company's ability to design and implement controls related to selection and application of Generally Accepted Accounting Principles (GAAP) for accounting and disclosure issues arising from COVID-19.

13. External Confirmations

SA 330, The Auditor's Responses to Assessed Risks requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk. To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. SA 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.

SA 240 indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement, whether due to fraud at the assertion level. 42

SA 500 indicates that corroborating information

obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from the representations made by the management

SA 505, External Confirmations provides guidance regarding the process of seeking external confirmations and evaluating the results of the process. Due to the impact of COVID-19 it is more likely that this key audit procedure which provides significant independent audit evidence may be ineffective due to the inadequate responses or non-responses to the confirmation request sent out.

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests

If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (Ref: Paragraphs 11-12 of SA 505 reproduced below)

11. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. (Ref: Para A17) Non-Responses

12. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para A18- A19 below)

A18. Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances – examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.
- For accounts payable balances – examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with SA 315. For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with SA 240.

14. Risk of Fraud

Paragraph 5 of SA 240 states that “An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent

limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.”

As stated in Paragraph 12 of SA 240 “the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance.

The impact of COVID-19 on businesses could be very significant and could put pressures on management to meet performance targets or market expectations. This raises the risk of the likelihood of fraud in the financial statements to a higher level which requires the auditor to exercise a much higher degree of skepticism and carry out extended audit procedures to eliminate the possibility of fraud or material error in the financial statements.

44In carrying out the audit for the financial year ending March 31, 2020 auditors must be particularly mindful of the heightened risk of fraud and comply with the guidance provided by SA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”.

Conclusion

The impact of COVID-19 on the economy, financial markets and entities in particular continues to evolve.

The role of auditors at times like this is under increased scrutiny as the auditors have a public interest obligation to complete the audit work in accordance with professional standards and ethics requirements. Under the current circumstances, auditors must recognise that the manner in which they conducted the audits in the past may need significant modification to address the challenges and uncertainties arising out of the impact of COVID-19. Auditors should exercise a very high degree of skepticism and be prepared to call out where the Company’s narrative that the Board presents is not specific enough and does not “tell the whole story” of the various scenarios and level of uncertainty specific to the Company’s operations. Irrespective of the challenges and uncertainties, there should not be any dilution or non-compliance with the auditing standards in carrying out the audits. ■

COVID-19: Audit approach and key considerations

Background

With the recent rapid development of Coronavirus [COVID-19], many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures.

These measures have significantly disrupted the activities of industries such as tourism, hospitality, transportation, retail, entertainment, manufacturing and the financial sector. These circumstances present Companies and Auditors with significant challenges particularly for the financial year ended March 31, 2020. The significant issues that may crop up for the businesses include impairment assessment resulting from financial losses, inventory valuation, disruption in supply chain management, volatility in valuations, recoverability of receivables, changes in risk assessment, covenant compliance and the impact on its 'going-concern'.

During periods of heightened uncertainty and market volatility, users will look for information in the financial statements as well as broader corporate reporting to better understand the effects these conditions may be having on the entity's financial performance and to understand the actions taken by management to respond to potential risks.

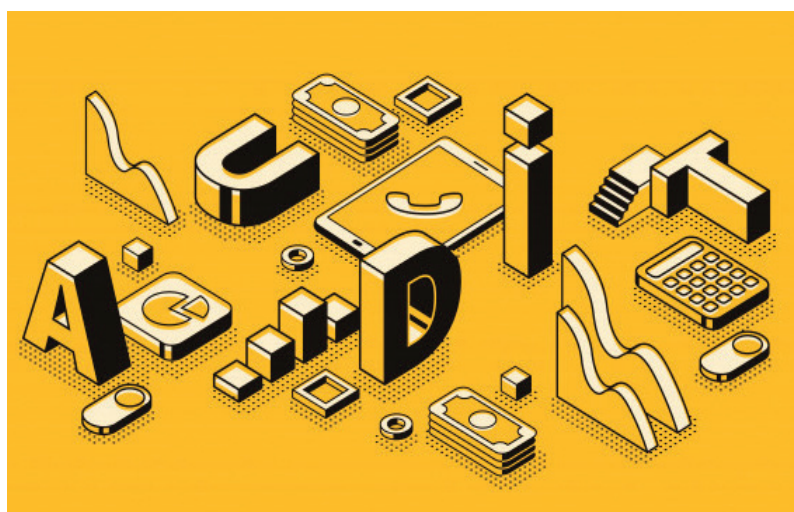


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This article discusses audit approach and certain key considerations to be made by the Auditor while assessing the impact of the COVID-19. The current situation is evolving at an unprecedented rate and these considerations will have to be revisited basis new developments. It is challenging at this juncture, to predict its duration, full extent and impact on the businesses.

The issues discussed in this article are by no means exhaustive and their applicability depends on the facts and circumstances of each entity.

Responsibilities of Those Charged with Governance (TCWG)

Against the backdrop of the COVID-19, it is critical that the TCWG and the board of directors understand the scope and extent of their statutory and fiduciary duties. As per SA 260(Revised)¹, it is the responsibility of TCWG to oversee the strategic direction of the entity and obligations related to the accountability of the entity.

- They should actively monitor the changing nature of the threat, anticipating and scenario

¹Communication with Those Charged with Governance

testing how the spread of the COVID-19 is likely to affect their business and its stakeholders for example assessing the business continuity risk, in case supply chain is disrupted for any critical raw material, evaluating shortage of workforce and its impact etc.

- The impact of COVID-19 should be identified at an early stage of the financial reporting with the help of appropriate risk assessment procedures and actively communicated to relevant stakeholders, including the management, to assess and identify situations and requiring immediate actions and auditors, to enable them to plan the audit accordingly.
- Consider creating a special committee to monitor and assess the impacts of the COVID-19 and provide oversight to the company and its management.
- Ensure that monitoring and reporting protocols are in place to gather and provide the board with relevant and up-to-date information for all possible impacted areas including: inventory management, IT systems and cybersecurity, logistics, legal compliances, employee health and safety, cash flow management, credit capacity, customer outlooks, supply chains and such other areas that may be applicable to a particular business and industry. Any identified deficiencies in reporting protocols should

be addressed immediately.

- Seek expert advice and input as to how COVID-19 is impacting the company and what measures can be implemented

Audit Plans

Audit plans – both internal and external – may need to be revisited in the light of the uncertainty resulting from the COVID-19. In this context, the auditor must consider the following challenges:

- Whether they have focused on the right audit risks?
- How have the changes to the economic environment been factored into the audit plan and are the planned responses to risks and procedures still appropriate?
- What impact does the increased uncertainty and market volatility have on the scope of the audit?
- Consider whether the audit should be deploying more specialist expertise in the light of the impact on impairment, valuations, inventories, trade receivables and revenue and financial instruments?
- An entity's ability to actually present numbers that are robust and supportable.
- Availability of client staff to provide necessary explanation and supporting evidence.
- Ability of audit teams to visit client sites to conduct audit work.
- Ability to confirm reliability/authenticity

of scanned documents provided to enable remote auditing ; lack of access to original documents ; over-reliance on secondary sources of data.

- Ability to obtain sufficient appropriate audit evidence, including for example, obtaining external confirmation, attending physical stock counts etc.

With the above background, the following audit approach and considerations should be evaluated by the auditor:

1. Obtaining an understanding of the impact and evaluating reporting timelines

- The COVID-19 may disrupt the business operations of entities and the financial reporting process. Auditors should proactively discuss with management, and TCWG, including the audit committee, and the respective component auditors in the case of group audits to understand whether there is an impact on the client's reporting timetable and the audit processes along with the magnitude of the same. The auditor will need to assess the same, basis the nature and type of entity.
- Continuous and timely communication will ensure that the audit timetable is realistic and achievable.
- Consider if the entity needs to discuss any anticipated filing delays with regulators or other relevant authorities. It is noted that SEBI vide Circular No.

SEBI/HO/CFD/CMD1/CIR/P/2020/38 dated March 19, 2020 has provided relaxations from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [SEBI (LODR), 2015] due to the COVID -19. It *inter-alia* provides that filing under Regulation 33 of the SEBI (LODR), 2015 relating to Financial Result has been relaxed for the quarter and financial year ended March 31, 2020 by 45 days and 1 month respectively. https://www.sebi.gov.in/legal/circulars/mar-2020/relaxation-from-compliance-with-certain-provisions-of-the-sebi-listing-obligations-and-disclosure-requirements-regulations-2015-due-to-the-covid-19-virus-pandemic_46360.html

The SEC & PCAOB are also closely monitoring the impact of the coronavirus on investors and capital markets and have issued statements in respect of revised filing timelines and impact on financial reporting.

1. *The SEC has provided conditional regulatory relief and assistance for companies affected by the Coronavirus Disease 2019 (COVID-19) To address potential compliance issues, the Commission has issued an order that, subject to certain conditions, provides publicly traded companies with an additional 45 days to file certain disclosure reports that would otherwise have been due between*

March 1 and April 30, 2020. Among other conditions, companies must convey through a current report a summary of why the relief is needed in their particular circumstances. <https://www.sec.gov/news/press-release/2020-53>

2. *Extract of the Statement on Continued Dialogue with Audit Firm Representatives on Audit Quality in China and Other Emerging Markets; Coronavirus — Reporting Considerations and Potential Relief issued by SEC & PCAOB jointly*
“... Effects of the Coronavirus on Financial Reporting

In a January 30, 2020 statement, Chairman Clayton noted that the Commission staff would monitor, and to the extent appropriate, provide guidance and other assistance to issuers and other market participants regarding disclosures related to the current and potential effects of the coronavirus. That statement noted that actual effects may be difficult to assess or predict with meaningful precision both generally and on an industry- and issuer-specific bases.

As discussed above, U.S.-listed companies (including companies based in the U.S., companies based in China and companies based outside of the U.S. but not based in China) may have significant operations in China and other jurisdictions that may be affected by the

coronavirus. In addition, companies that do not themselves have operations in China or other potentially affected jurisdictions may depend on companies that do have operations in those jurisdictions, including, for example, as suppliers, distributors and/or customers.

In our recent dialogue with the senior leaders of the largest U.S. audit firms, we also discussed this potential exposure of companies to the effects of the coronavirus and the impact that exposure could have on financial disclosures and audit quality, including, for example, audit firm access to information and company personnel. This remains a dynamic situation where the effects on any particular company may be difficult to assess or predict, because actual effects may depend on factors beyond the control and knowledge of issuers. However, how issuers plan and respond to the events as they unfold can be material to an investment decision, and we urge issuers to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements.

Specifically, we emphasized: (1) the need to consider potential disclosure of subsequent events in the notes to the financial

statements in accordance with guidance included in Accounting Standards Codification 855, Subsequent Events and our general policy to grant appropriate relief from filing deadlines in situations where, in light of circumstances beyond the control of the issuer, filings cannot be completed on time with appropriate review and attention.....”

<https://www.sec.gov/news/public-statement/statement-audit-quality-china-2020-02-19>

2. Assessing risk and exercising professional skepticism

- Auditors may need to identify and reassess the risks of material misstatement of the financial statements as the information on which the initial risk assessment was based may have changed. Auditors should exercise professional skepticism when considering this assessment.
- This will have the potential to materially affect the operations of the client or its financial statements. Accordingly, the auditors should evaluate the impact and modify planned audit procedures accordingly in line with SA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*
- In the present circumstances, it is important that auditor's do not view risk assessment

to be solely a planning activity and that the risks of material misstatement of the entity's FSLIs and related disclosures are reassessed, at the assertion level, even as they near completion of the audit.

- Thus, the auditors will need to remain agile in considering and reconsidering, throughout the audit, the risk assessment at the financial statement and FSLI assertion level and make any necessary updates to the risk assessment.
- Following may need to be evaluated:
 - The assessment by TCWG and management as to whether risks from COVID-19 could be material, including whether users reasonably expect COVID-19 to impact the entity.
 - Any new risk that was not assessed during the planning phase;
 - Any risk assessed during planning stage that now becomes a significant risk and any additional work to address the significant risk

Some of the common areas where risks may need to be reassessed include, but are not limited to include Goodwill and intangible asset impairment, Valuation of accounts receivable (loss allowance for expected credit losses), Property, plant and equipment impairment,

Inventory obsolescence/waste, Debt covenant compliance, Contractual penalty clause liabilities. It is likely that the nature and extent of our audit procedures will need to be updated to address new and reassessed risks.

The FRC has also issued advice to companies & auditors on Coronavirus risk disclosures. Extract of the same is reproduced below.

We encourage companies to consider carefully what disclosures they might need to include in their year-end accounts relating to these events. The extent of the risk and the degree to which it might crystallise depends on companies' specific business circumstances. These could include, for example, extensive operations or manufacturing in China, with consequential staff shortages and production delays. Other entities might not have a presence in the country but might have significant trading links or global supply chains that are dependent on Chinese manufactured goods being exported to the UK or elsewhere.

Companies should consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. As well as possible inclusion within a company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment

tests and to assess whether leases have become onerous. ...”

<https://www.frc.org.uk/getattachment/34d2e9a7-b73e-41b6-a9ae-5f0a7a69dbc4/Coronavirus-draft-para-17-Feb.pdf>

3. Internal Control

If the entity's personnel are working remotely, in many circumstances this will mean that the design and operation of internal controls will either need to change or will no longer be as effective. Similar to risk assessment, these changes may occur at any stage during the audit period or during any phase of the audit. The planned audit response will likely require revision to obtain more substantive audit evidence since we cannot rely on the controls for audit evidence in the later part of the audit period which is impacted by the COVID-19. If the level of expected controls reliance changes, it is important to document this and any other resulting changes to the planned audit response.

4. Obtaining sufficient and appropriate audit evidence

Due to the travel restrictions, auditors may have difficulties in accessing client premises to perform procedures (e.g. client's warehouse may be closed or auditors may not be able to travel and observe client's inventory counts) and/or may not be able to obtain the anticipated audit evidence (e.g. significant delay in the provision of audit confirmations).

Despite the potential delay or difficulties in accessing client premises or information,

auditors will still need to obtain sufficient appropriate audit evidence in accordance with SA 500 to enable them to draw reasonable conclusions on which to base the auditor's opinions and to comply with the auditing standards to ensure the quality of the audit is maintained. If it is not possible to do so, the auditor will have to consider modifying the opinion in the auditor's report in accordance with SA 705(Revised).

In this regard, the auditor may consider the following:

- **Conducting inventory stock count is impracticable** - SA 501² requires auditor to observe some physical inventory counts on an alternative date if the attendance of physical counting cannot be performed at the year-end date or perform alternative audit procedures where attendance of physical inventory counts is impracticable. If it is not feasible to conduct the stock count on the reporting date and there is large time gap between the reporting date and date of inventory count, it will become challenging for the auditor to conduct roll-back procedures to identify inventory existing as on March 31, 2020.
- The auditor will need to consider whether the systems, processes and controls over inventories that will be maintained by the entity until the date of the next inventory count would be sufficiently effective to allow them to perform the observation of inventory at a later date and perform tests of activity and controls in the roll-back period.
- In the event that the auditor is not able to obtain sufficient and appropriate evidence regarding the existence and condition of inventory, the auditor will have to evaluate reporting implications.
- **Non receipt/delay of confirmations** - Consider performing alternative audit procedures when significant delay in the provision of audit confirmations, in line with SA 505³; The auditor may consider obtaining scanned copies of replies where possible for advance checking and documentation on the audit file. However this should not be a substitute for obtaining original copies.
- **Authenticity of documents** - As with any heightened risk, the nature and extent of procedures performed to verify authenticity of documents (scanned versions of third-party documents/received vide secondary sources etc.) needs to increase.
- Consider any **scope limitation** that may lead to a modified audit opinion
- **Remote access** – As part of disaster management to meet this urgent and severe health exigency, all Companies/LLPs are strongly advised by MCA to put in place

²Audit Evidence - Specific Considerations for Selected Items

³External Confirmations

Auditing

- an immediate plan to implement the “Work from home” policy as a temporary measure till March 31, 2020 and conduct meeting through video conference/ electronic/telephonic/ computerized means. The Companies/LLPs are also required to confirm their readiness to deal with the COVID-19 via the web form named CAR (Company Affirmation of Readiness towards COVID-19):
- When connecting with clients there are a number of options (Google meet/ webex/Skype for business/ Zoom) that are available through your PC or your mobile device that allow you to talk securely and share screen images. If client has access to supporting documents, obtain scanned copies of documents for advance checking and population of work papers.
 - Verification of scanned copies back to original documents will be required prior to signing our audit opinion, among other items this includes original copies of supporting evidence received for tests of detail, control testing, and journal entry testing.
 - Ensure clear communication with the client and prioritise the follow up procedures required.

Obtaining audit evidence via remote access

| Illustrative list of requirements for key areas | Approach |
|--|--|
| <ol style="list-style-type: none"> Financial Statements, with all Notes and Cash flow Statement; Trial Balance; Variation analysis Property, plant and equipment: Fixed Assets register showing full particulars, including quantitative details and location of fixed assets; List of additions/deletions to fixed assets during the year ; CWIP listing ; Physical Verification Report Investment movement schedule; Details of gain / loss on disposal ; Impairment working Inventory ageing report, Quantitative reconciliation of finished goods, raw materials, Details of Goods in Transit as on March 31 along with subsequent clearance, Cost vs NRV comparison, Details of Inventory written off during the year along with approvals Accounts receivable : Customer wise aged accounts receivables listing, Details of provision for doubtful debts as on March 31 and Party wise movement in provision, List of debtors written off during the year, detailed listing of subsequent collections Cash and cash equivalents : Certificate / physical verification working paper for cash / cheques in hand as on March 31 , Bank matrix and Bank reconciliation as on March 31 with subsequent clearance dates for all reconciling items, Movement and Details of Bank Guarantee/Fixed deposits for additions and refund during the year | Can be received remotely through email or other secure network. |
| <ol style="list-style-type: none"> Samples to be received for vendor invoices, capex approvals, evidence supporting capitalisation dates - installation certificates, useful lives in case of PPE ;agreements and share certificates in case of investments, dispatch / delivery documents for inventory, loan agreements | Scanned copies may initially be obtained via e-mail, however original documents, as applicable, need to be seen prior to sign-off. |

| | |
|---|---|
| <p>8. Confirmation requests for Investments, Accounts receivable, Cash and cash equivalents, Borrowings, Accounts payable</p> | <p>Prepare the confirmation requests for circularisation remotely.</p> <p>Thereafter, organise a visit to the client/send by courier, to get all the confirmation requests signed by the authorised representative and then courier the same from our office, under our control. This envisages travel / physical interaction, which should be planned well in advance to avoid multiple visits. Every effort should be made to reduce the number of physical interactions.</p> |
|---|---|

1. The SEC Staff provided guidance to Promote Continued Shareholder Engagement, Including at Virtual Annual Meetings, for Companies and Funds Affected by the Coronavirus Disease 2019 (COVID-19).

It states that the spread of COVID-19 has affected the ability to hold these in-person meetings due to health, transportation, and other logistical issues. In light of these difficulties, the staff guidance provides regulatory flexibility to companies seeking to change the date and location of the meetings and use new technologies, such as "virtual" shareholder meetings that avoid the need for in-person shareholder attendance, while at the same time ensuring that shareholders and other market participants are informed of any changes.

Under the guidance, the affected parties can announce in filings made with the SEC the changes in the meeting date or location or the use of "virtual" meetings without incurring the cost of additional physical mailing of proxy materials. The guidance also encourages companies to provide shareholder proponents with alternative means, such as by telephone, to present their proposals at the annual meetings in light of the difficulties that shareholder proponents face due

to COVID-19. <https://www.sec.gov/news/press-release/2020-62>

2. Notice regarding Board meetings under the Companies Act, 2013 issued by MCA

Reg: Board meetings under the Companies Act, 2013: Considering the need to take precautionary steps to overcome the outbreak of the coronavirus (Covid-19), the Government has in-principle decided to relax the requirement of holding Board meetings with physical presence of directors under section 173 (2) r/w read with rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 for approval of the annual financial statements, Board's report, etc. Such meetings may till 30th June, 2020 be held through video conferencing or other audio visual means by duly ensuring compliance of rule 3 of the said rules. The necessary changes in the rules in this regard are expected to be notified soon. http://www.mca.gov.in/Ministry/pdf/Meeting_18032020.pdf

5. Impairments and valuations

- Valuations, measurements and recoverable amount calculations that use market inputs should reflect market data at the balance sheet date. If valuation techniques and estimates are applied, cash flow models for impairment testing will likely require a wider

range of outcomes than usual to reflect a broad spectrum of possible scenarios.

The consequences of the COVID-19 may have a potential adverse impact on cashflows and trigger an impairment test. Annual tests of goodwill and indefinite lived intangibles carried out earlier in the period might need updating for year-end reporting and cash flow forecasts should reflect the potential impact of the uncertainty on account of the COVID-19. Volatile share prices might drive market capitalization below net asset value and trigger an impairment test.

The auditor should consider the following:

- Increased risk and uncertainty should be factored into the impairment test. Budgets and forecasts from an earlier date and used to determine the recoverable amount will need to be revised to reflect the economic conditions at the balance sheet date. An expected cash flow approach (multiple probability-weighted scenarios) might be more appropriate to estimate the recoverable amount

than a traditional approach (single predicted outcome) to capture the increased risk and uncertainty.

- Ensure whether the discount rate requires any adjustment on account of various factors like country risk etc.
- Future cash flows are estimated in the currency in which they arise using a discount rate in that currency. Any additional volatility in the exchange rates could change the recoverable amount calculations.
- Reliable forecasts to calculate value in use or fair value less costs to dispose over the next few years, and in particular the terminal year, will likely be subject to significant uncertainty that might not be resolved in the near future.
- The assumptions made should reflect market participant assumptions and the outcome should reflect the expected present value of the future cash flows

6. Subsidiaries, associates and joint ventures measured at fair value

The fair values of investment entities, associates and joint ventures measured at fair value might be affected by equity market volatility. The starting point for valuations of listed companies are the market prices as at the reporting date for the number of shares held.

The auditor should ensure that entities have disclosed changes in business or economic circumstances that affect the fair value of investment entities or investments in associates and joint ventures carried at fair value under Ind AS 109.

7. Valuation of Financial instruments

The volatility of prices on various markets has increased since the COVID-19. This affects the fair value measurement either directly - if fair value is determined based on market prices (for example, in case of shares or debt securities traded on an active market) or indirectly - if the valuation technique is based on inputs that are derived from volatile markets.

In this case, the auditor might need to involve an expert to evaluate the inputs and assumptions used in valuation.

8. Inventory valuation

The current economic conditions might make it necessary to write-down inventories to net realisable value.

These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.

In particular, entities with property under development classified as inventory could be impacted by a fall in property prices. In some industries, like Consumer electronics, Pharmaceutical & Medicines the prices will be volatile owing to disruption in supply. The auditor should ensure that the market conditions have been factored in, while valuing the inventory.

9. Property, Plant and Equipment

The property, plant and equipment might be under-utilised or not utilised for a period or the capital projects may be suspended. The auditor will need to assess

- Whether depreciation continues to be charged while

an asset is temporarily idle in accordance with Ind AS 16

- Whether there are any impairment indicators.

10. Debt

Companies may need to seek additional financing or amend the terms of existing debt agreements due to lost revenue, uninsured losses, or losses for which insurance recoveries have not yet been received. In that case, a company may seek to amend the terms of an existing debt agreement with its lenders to temporarily or permanently increase borrowing capacity, change the interest rate, or modify other contractual terms of the agreement.

The auditor will need to analyse such modifications to determine whether they represent a troubled debt restructuring, a debt modification or potentially a debt extinguishment, each of which has separate accounting implications.

11. Revenue recognition

An entity's sales and revenue might decline as a result of the reduced economic activity. It could also affect the assumptions made by management in measuring the revenue from goods or services already delivered and in particular on the measurement of variable consideration. For example, reduced demand could lead to an increase in expected returns, additional price concessions, reduced volume discounts, penalties for late delivery or a reduction in the prices that can be obtained by a customer.

The auditor will have to evaluate the changed circumstances and terms with customers to identify the possible impact on revenue to be recognized.

12. Provisions, Employee benefits and share-based payments

The relevant standards require estimates of provisions to be updated at each balance sheet date based on expectations and market conditions.

The auditor should review existing provisions, including employee benefits and cash-settled share-based payments should be to ensure management has evaluated and updated:

- Requirement for additional provision
- Discount rates for market movements;
- Expected cash flows for changes in assumptions, including the impact of exchange rate volatility and possible changes in inflation expectations.
- Plan assets for defined-benefit pensions to reflect fair value at the balance sheet date.
- The expectations for the outcome of performance conditions on share-based payments
- The fair values of liabilities with respect to cash settled share-based payment plans may change

The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations - AASB-AUASB JOINT FAQ MARCH 2020

“QB2: How to audit the financial effect of COVID-19?”

The direct financial impacts are likely to involve accounting estimates prepared by management. Significant assumptions including projected cash flows, used in these accounting estimates may be affected by the COVID-19 event.

If your audit client has significant amounts of direct financial impacts that contain estimation uncertainty, the risk assessment and audit evidence supporting these accounting estimates and related disclosures may be affected by the COVID-19 event. Refer to ASA 540 Auditing Accounting Estimates and Related Disclosures for requirements...”

https://www.auasb.gov.au/admin/file/content102/c3/AASB19009_COVID19_FA.pdf

13. Group audits with significant components in affected territories (Mainland China, Italy, US etc.)

Consequent to the imposition of travel restrictions, as well as preventive and containment measures, in response to the COVID-19, certain component auditors are facing difficulties in commencing and completing their audits on schedule.

Consequently, the group auditors are unable to obtain necessary information from component auditors as per agreed timelines.

In this regard, following may need to be considered by the Group auditor:

- Communicate with component auditors as soon as practicable to discuss potential impacts arising from the COVID-19 and finalise revised timelines.
- Advise them on the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them in line with SA 600;
- Consider any increased risk and requirement to revise the risk assessment, audit strategy and plan;
- Can video calls and/or screen sharing software be used to

communicate and discuss matters with the component auditor?

- Can the component auditor be asked to complete a detailed COVID assessment questionnaire/checklist on the work they have performed?
- It needs to be noted that each individual engagement will need to be assessed on a case by case basis to determine what may be appropriate.

14. Evaluate contracts with Suppliers and Customers

Suppliers to contracts may seek to delay and/or avoid performance (or liability for non-performance) of their contractual obligations and/or terminate contracts.

Further, companies may not be able to perform their obligations under their customer agreements because of their supplier's non-performance and may in turn seek to delay and/or avoid performance (or liability for nonperformance) of their contractual obligations and/or terminate contracts.

Parties may also request for renegotiation of price or other key contractual provisions (e.g. volume of materials exported from or imported into affected areas due to shifts in supply and demand)

In this case, auditors should identify such contracts and the impact of the same on the financial statements.

15. Going concern assessment

The COVID-19 has caused a significant impact on the economic conditions for some entities by interrupting supply chains and increasing uncertainty on asset valuation, cash flows and / or projected financial information of the entity. This

may affect the assessment of the entity's ability to continue as a going concern.

When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern. In line with SA 570 (Revised), the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions.

However, in this regard, following may be considered

- Evaluate management's assessment of the entity's ability to continue as a going concern and consider whether management's assessment includes all relevant information which auditors are aware of as a result of the audit; management's assessment should be performed up to the date of the issuance of the financial statements.
- Following questions may enable the assessment

- Does the Company have operations, personnel, third-party service providers, customers, manufacturers or suppliers in areas significantly impacted by the coronavirus?
- Does the Company have large inventory and supply reserves to continue business operations in the event of a supply chain disruption?
- Is alternative product sourcing available if the Company cannot access our usual supply source?
- Are adequate sources of funding available? To what extent are they affected?
- Will employee quarantine significantly impact productivity and output?
- Will the Company be in violation of customer or vendor agreements if stock levels drop below established thresholds or we cannot meet minimum commitments or other contractual obligations?
- Have the Company updated its forecasts to reflect new assumptions such as reduced customer demand or higher supply chain costs? Do the revised forecasts suggest that the Company will not be able to continue as a going concern?
- Does the insurance

sufficiently cover business disruptions for the Company?

- Consider inquiring from the management as to its knowledge of the events or conditions beyond the period of management's assessment, which is at least but not limited to twelve months from the end of the reporting period;
- Maintain professional skepticism and objectively challenge management's plans and significant assumptions on events or conditions affecting the entity and its environment, including uncertainties associated with the COVID-19;
- Evaluate the adequacy of the disclosures related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

As was considered by auditors in the case of Brexit, in case the auditor has decided that the Going Concern assumption of the management is appropriate, the auditor may wish to highlight that since, not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the impact and duration of the COVID-19 are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

16. Tailoring the disclosures

The auditor should ensure that the management has provided

detailed and entity specific disclosure of the COVID-19 related risks in the accounts to explain the judgements taken, assumptions made and the impact on the entity's operations. The entities should disclose information about the specific and direct challenges to their business model and operations, as distinct from information about broader economic uncertainties.

17. Implications on the auditor's report

In addition to the above areas, auditors will be required to consider the implications for the auditor's report.

- Revisit the Key Audit Matters to be disclosed in the auditor's report and see if any need to be updated to reflect new responses [SA 701, Communicating Key audit matters in the Independent Auditor's Report]
- Depending on the circumstances, consider whether to include a separate section "Material Uncertainty Related to Going Concern" in the auditor's report [SA 570(Revised) Going Concern]
- Depending on the resolution of accounting and auditing matters or insufficient audit evidence due to the impact of COVID-19, consider whether to express a modified opinion in accordance with SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report;
- It is management's responsibility to make appropriate adjustments to the financial statements and include necessary disclosures, such as disclosures of subsequent events, risks and uncertainties, and how events and circumstances may impact future operating results, cash flows and financial position. Other disclosures may include business risk factors and management's discussion and analysis of results, liquidity, and capital resources. For those entities that are materially affected and auditor has concluded that the disclosures management has made in the financial statements are not considered adequate or appropriate in the circumstances, consider impact on the audit report.
- Other information that accompanies the financial statements may include additional discussion of risks associated with the COVID-19, consider whether there is a material inconsistency between this other information and the financial statements and report in accordance with SA 720 (Revised), The Auditor's Responsibilities Relating to Other Information.
- Reporting on the CARO will also have to be assessed accordingly.

Conclusion

While the full impact of the COVID-19 on businesses is not clear at the moment, and it is

likely to spread in the coming days, this is an issue which is seemingly becoming critical by the hour and accordingly, the auditor should ensure prompt communication with management and TCWG with respect to significant matters like difficulties encountered during the audit, potential delays in the auditor's reporting and expected modifications to the auditor's report.

SA 200 provides that to obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

The auditor will be required to form an opinion on whether the financial statements for the year ended March 31, 2020 are prepared, in all material respects, in accordance with the applicable financial reporting framework. This requires an independent examination of evidence which may be challenging, as currently the auditors may be largely relying on remote access to the scanned documents, reliance on secondary sources, alternate procedures and roll back procedures (including physical verification of inventory) etc. In the above scenario, the Accounting & Auditing Advisory on Impact of Corona Virus on Financial Reporting and the Auditors Consideration issued by ICAI will also help members in assessing the impact and reporting implications of the COVID-19. ■

Auditing in Turbulent Regulatory and Economic Environment of 2020

In the aftermath of recent debacle of India's large banking companies and financial institutions coupled with corporate wrongdoings, auditors have been put under stringent scrutiny by regulators. The Ministry of Corporate Affairs (MCA) has recently issued a consultation paper titled as "Consultation Paper to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability" which was subsequently followed by notification of new Companies (Auditors Report) Order, 2020 ("CARO 2020"). Further, with the recent economic slowdown being witnessed due to outbreak of Novel Corona virus "Covid-19", auditors are likely to face significant challenges in discharging their duties while issuing their opinion on the financial statements for the financial year 2019-20 prepared by corporates, especially with regard to the use of going concern assumption, impairment of assets, fair value measurement, etc. Read on...



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Enhancing Audit Independence and Accountability

MCA Consultation paper aims to examine the existing provisions of law and make suitable amendments therein to enhance audit independence and accountability. The consultation paper may be considered as a precursor to reforms that would lead to overhaul of the current auditing practices. The consultation paper seeks comments on wide range of issues that affect auditor's independence and includes proposal of appointment of auditors through empanelment process by National Financial Reporting Authority (NFRA),

proposal to restrict non-audit services, fixation or limitation in number of audits by a firm, fixation or limitation in number of partners in a firm.

Further, the consultation paper also raises the issue of whether the auditor of holding company must also review the working papers of the auditors of subsidiary companies and comment on accounts of such subsidiary companies.

The consultation paper also seeks suggestions whether auditor should give opinion on probability of default of each rated debt-instrument including both short-term and long-term debt. It also proposes a Composite Audit

Quality Index and seeks parameters- both qualitative and quantitative along with the type of companies for which it should be mandated.

Following the issue of consultation paper, many large audit firms have suo- moto decided to stop rendering non-audit services to their listed clients. While majority of matters covered in the consultation paper are already addressed under Standards on auditing and other guidance (viz. fee recommendations, professional ethics and code of conduct, peer review process etc.) issued by the Institute of Chartered Accountants of India (ICAI), however, with the issue of recent consultation paper, it is evident that the Central Government expects auditors to carry out an enhanced risk assessment process in accepting and continuing audits and other engagements, improvise the current audit practices through modifying or devising alternate audit procedures along with adopting new audit techniques or tools to be able to evaluate and report on the new reporting requirements in addition to being more diligent, objective and independent in discharge of their attest function.

COVID-19

The outbreak of novel coronavirus or Covid-19 is widespread across the entire globe due to which many entities have/ had to limit or suspend their business operations as per the respective country's government policies and orders along with travel restrictions and quarantine

measures. This situation has caused widespread disruptions across all businesses, with deepest impact in certain sectors like transportation, airlines, tourism, hospitality, retail, entertainment, manufacturing and financial sectors. In the already slowing down Indian economy, Covid-19 has hit the supply chain of raw materials especially for companies which were significantly dependent on China and European countries. Since as of now, it cannot be predicted with surety the period this pandemic would last, the resultant impact on businesses cannot be anticipated appropriately. With the forthcoming financial year closure activities coupled with onset of audit reporting season for professionals, auditors would need to exercise extra caution and diligence in their approach to measure and account for the effects of Covid-19 on the financial statements of different companies operating in varied sectors.

The major area of concern would be the use of going concern assumption in preparation of the financial statements. A company, with a history of profitable operations, whose operations are suspended for a considerable period due to outbreak of Covid-19, would need to take into consideration the current adverse situation and expected profitability along with potential sources of finance and ability to meet its future liabilities before satisfying itself that going concern assumption is appropriate for preparing its

“The major area of concern would be the use of going concern assumption in preparation of the financial statements”

financial statements. Auditors would also need to evaluate such assessment considering the uncertainty involved due to the outbreak and its potential impact on the sector that the company operates in.

The challenge also arises in auditing the financial assets and liabilities especially with regard to estimates and assumptions used by the management in fair value measurement of such assets and liabilities. The impact of Covid-19 outbreak on such assumptions and estimates would mandatorily have to be taken into consideration by the auditors. Another area for consideration would be testing of impairment of assets. An asset is considered to be impaired when an entity is not able to recover its carrying value. Auditors would need to use their professional judgement whether Covid-19 outbreak should be considered as an indicator of impairment. Similar precaution would need to be taken while auditing the accounting estimates relating to expected credit losses and in judging whether certain receivables would need to be recognised as bad debts/ doubtful of recovery.

Thus, auditors would need to exercise their professional judgement in determining the extent of disclosures that may be necessary in

the financial statements on account of impact of Covid-19 outbreak with respect to going concern assumption, fair value assessment and impairment testing and further, an assessment shall be paramount whether such event is required to be reported in their audit report as part of Key Audit Matter or an Emphasis of Matter.

CARO, 2020

The MCA notified Companies (Auditor's Report) Order, 2020 (CARO, 2020) on February 25, 2020 that supersedes CARO, 2016. CARO, 2020, inter alia, requires auditors to comment on the company's ability to meet its future liabilities and on the reconciliation between the monthly/quarterly statements filed by a company with its lenders viz. bank or financial institution and the company's books of account. Further, auditors have also been entrusted to consider and report on whistle-blower complaints received by the company in addition to reporting on instances of fraud by or on the company and commenting on cash losses incurred by the company during the year and immediately preceding year in addition to the requirement from the incoming auditors in cases of change to take into consideration the issues, objections or concerns raised by the outgoing auditors before issuing their audit opinion.

While CARO, 2020 was initially

planned to be made applicable for audit reports to be issued by auditors for financial years commencing on or after April 1, 2019, however, the MCA on March 24, 2020, as a special measure in view of Covid 19 outbreak has deferred the applicability of CARO, 2020 to financial years commencing on or after April 1, 2020. While the deferment of CARO, 2020 beyond the already turbulent financial year 2019-20 has given much needed relief to both companies as well as their auditors, however, the new reporting requirements have set the regulators' expectations from auditors as watchdogs to go beyond the generally accepted audit procedures and principles and has obligated them to adapt and adopt new tools for information gathering and data analysis and simultaneously, requiring them to bring in the elements of forensic audit.

Key Takeaways

NFRA's audit quality reports, CARO, 2020 and MCA's consultation paper are intended to improve the audit quality and independence with a step towards zero-tolerance to non-compliances. The rules are more stringent than ever with greater responsibility on auditors while discharging their attest function. While there is a need to overhaul the audit procedures and adoption of new audit techniques and modification of existing auditing principles and procedures, auditors need to evaluate and assess deeply and thoroughly the related

“While CARO, 2020 was initially planned to be made applicable for audit reports to be issued by auditors for financial years commencing on or after April 1, 2019, however, the MCA on March 24, 2020, as a special measure in view of Covid 19 outbreak has deferred the applicability of CARO, 2020 to financial years commencing on or after April 1, 2020”

engagement and audit risks and develop new procedures for information gathering and quality audit. Furthermore, the Covid-19 outbreak has posed a new challenge in application of accounting assumptions and audit assertions, requiring auditors acting as aircraft pilots to be thorough in their audit procedures so as to vade safely through the turbulent regulatory and economic environment to be able to assess and report impact of all applicable events on the financial statements with the objective to manoeuvre safely into a sound, healthy and stable economy with an endeavour to meet the expectations of all the varied users of financial statements and simultaneously, accomplishing the ICAI motto of, “*Ya Aeshu Suptaeshu Jagruti*”, which translates to-'A person who is awake in those that sleep'. ■

“Better Communication in Financial Reporting: IASB’s Exposure Draft on General Presentation and Disclosures”

The International Accounting Standards Board (the IASB)¹ proposes major changes to primary financial statements. On 17th December 2019, IASB issued an Exposure Draft titled as ‘General Presentation and Disclosures’. As per the proposals set out in the Exposure Draft, existing IAS 1, Presentation of Financial Statements will be replaced with a new standard with substantial number of changes. This article contains some material from publicly available presentations and documents of IASB.

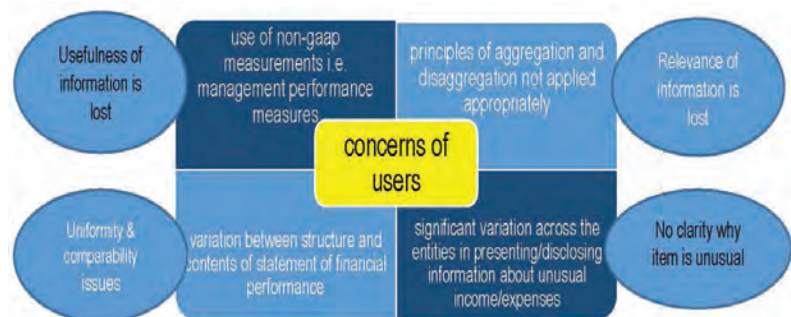


Background and History:

General Purpose Financial Statements are important to different users in different ways. Users use the financial statements of any entity to assess its financial performance and financial position, its solvency, earning capacity, growth prospects etc. in order to make various decisions. In this context, it is imperative that information is communicated appropriately through financial reports.

However, in the absence of a specified format of financial statements, users have to see figure below in page with the way the information is presented currently by the entities in the financial statements:

Many users use operating profit in their analysis; for assessing margins and for forecasting future cash flows. Companies present operating profit (and variants) as a subtotal, however it is calculated inconsistently



Contributed by Technical Directorate - ICAI

¹ IASB is an independent standard setting body of IFRS Foundation, responsible for developing a single set of high-quality globally accepted Accounting Standards, known as IFRS Standards.

Accounting

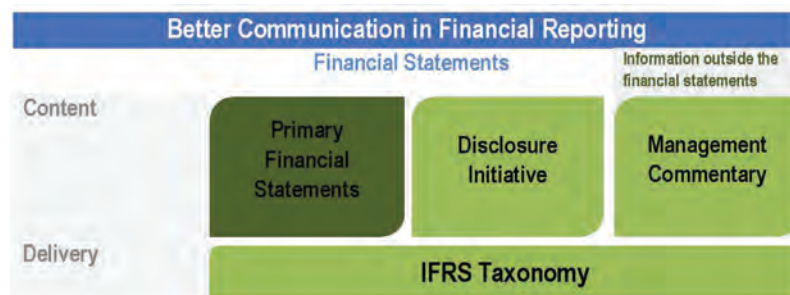
across companies as illustrated below:

| Company X | Company Y |
|---|---|
| Revenue | Revenue |
| Net interest on defined benefit liabilities | Share of profit of associates and JVs |
| Income from investment in financial assets | |
| Operating profit | Operating Profit |
| Share of profit of associates and JVs | Income from investment in financial assets |
| | Net interest on defined benefit liabilities |
| Profit | Profit |

In India, the situation is different i.e. standard format of Statement of profit and loss prescribed under Schedule III of Companies Act, 2013 does not have a sub-total called 'Operating Profit' but many users and preparers use Operating Profit for their analysis and for investors, by designing their own definition and criteria of Operating Profit.

Keeping in view the above, IASB's 2011–2012 Agenda Consultation stressed the importance of having a clear, effective, coherent and comprehensive but concise package of disclosure requirements. Based on the feedback from stakeholders during this Agenda Consultation, it had started a broad-based initiative to explore how disclosures in IFRS financial reporting

can be improved and this initiative had a number of implementation and research projects. Subsequently, in response to the stakeholder's feedback during on 2015 Agenda Consultation, IASB prioritised the improvements to the communications value of financial statements by bringing together a number of different projects under a central theme 'Better Communication in Financial Reporting'. Overall, spectrum of central theme is as depicted below.



Moving forward in the direction, keeping in view the users' perspective and to address the users' needs, important proposals have been announced by IASB for presentation of Financial Statements that are expected to lead to fundamental changes as to how entities will be required to present information within their

primary statements, particularly within the statement of profit or loss. The IASB undertook the project on "Primary Financial Statements" in order to improve the communication through financial reports/statements. As a part of this main project the IASB has issued an Exposure Draft on "General Presentation on Disclosure" with primary focus to further improve the reporting on performance through the statement of Profit or Loss and some limited revisions in Statement of

Cash Flows and Statement of Financial Position.

The theme of "better communication in financial reporting" entails lot of work for the IASB for next few years. As a subset of the main theme, let us understand the major milestones in the journey of the project "primary financial statements" that are as follows:

Project Timelines



Publish Exposure Draft at end of 2019

Structure of Exposure Draft: Throwing light on the key proposals




Overall objective of the project is to address the concerns of the users with regard to transparency, comparability

and performance reporting by further improving the presentational and disclosure aspects in financial statements. The Exposure Draft proposes to replace IAS 1 Presentation of Financial Statements with a new

IFRS to be titled as “General Presentation and Disclosures”.

The Following is the snapshot of new proposals in the Exposure Draft addressing the concerns of users along with the benefits expected from the same:

Key proposals in the ED & expected benefits

| What users said  | Key proposals  | Expected benefits of proposals  |
|---|--|--|
| Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance | 1 Introduce defined subtotals in the statement of profit or loss | Additional relevant information and a P&L structure that is more comparable between entities |
| Level of disaggregation does not always provide the information they need | 2 Strengthen requirements for disaggregating information | Additional relevant information and material information not being obscured |
| Non-GAAP measures can provide useful information, but transparency and discipline need to be improved | 3 Require companies to disclose information about management performance measures in the notes. | Transparency & discipline in use of such measures Disclosures in a single location |
| Classification and presentation options make it more difficult to compare entities | 4 Introduce targeted improvements to the statement of cash flows | Improved comparability between entities |

In additional to the new proposal as depicted in the above picture requirements have also been brought forward from IAS 1 (with few changes in wording). The new proposals and requirements from the IAS 1 have been combined in the Exposure Draft in order to provide the requirements in a cohesive manner.

The Exposure Draft entails various new additions/ amendments to existing ones with reference to application of new proposals as discussed above. A snapshot of the same is given below:

Tectonic shift in the presentation theme of Statement of Financial Performance

- Proposals advocate a tectonic shift in the way in which the various items of income or expense are presented and segregated in the Statement of Financial Performance and introduce three useful sub-totals, namely:
 - ✓ Operating profit
 - ✓ Operating profit and share of profit or loss of integral associates and Joint Ventures

✓ Profit before financing and income tax.

- Income and expense items are further segregated into three broad categories viz. operating, financing and investing activities. A key rationale is to align the performance presentation to the users needs and approach of analyzing performance of entities.
- Following diagram gives a broad summary of guidance as provided in the ED for classifying the income and expenses into above-mentioned broad categories:

Accounting

Operating

- Includes information about income and expenses from an entity's main business activities.
- Default category – income and expenses would be classified in the operating category unless they are classified in the other categories.

Investing

- Includes items such as fair value changes on investment property and financial assets (other than cash and cash equivalents).
- Aims to capture income and expenses from investments that investors typically seek to analyse separately from an entity's operations.

Financing

- Includes income and expenses from cash and cash equivalents, income and expenses on liabilities arising from financing activities and interest income and expenses on other liabilities, such as the unwinding of a discount on pension liabilities.
- Would help investors compare companies' performance independently of the effects of companies' financing decisions.
- The IASB seems to have found it better from standard-setting perspective to define specifically financing and investing activities and consider the operating activities as residual category.
- Based on the proposals in Exposure Draft, the format of statement of financial performance of an entity is illustrated as follows:
- A latitude has been retained for presentation of additional subtotals by the entities, other than the three required subtotals, provided that these subtotals fit with the structure of the statement of profit or loss proposed by the IASB and that they meet the requirements of IAS 1 regarding the additional subtotals (i.e. the same is relevant to an understanding of the entity's financial performance).

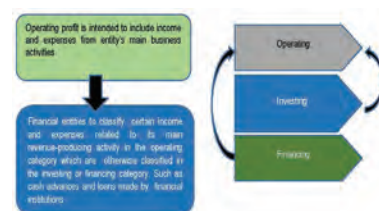
Exception to the proposed new norms: Financial Institutions

IASB recognised the fact, that while uniformity across entities is required but 'one size fits all' approach has its own demerits. Accordingly, it has provided suitable exceptions in above mentioned classification norms in case of entities whose predominant activity is financing activity, such as banking entities, for classification of income and expense as operating activities, for those which would normally form part of financing activities in case of other entities.

Application of amendments proposed in Statement of Financial performance to financial entities is depicted as below:

Proposed new income statement

| Example income statement | | Proposed category | What is included |
|--|------|-------------------------------|--|
| Revenue | 20XX | Operating | Information about income and expenses from a company's main business activities All income and expenses recognised in profit or loss unless they are classified in other categories |
| Operating expenses (analysed by nature or by function as appropriate) | (X) | | |
| Operating profit | X | | |
| Share of profit or loss of integral associates and joint ventures | X | 'Integral' associates and JVs | Share of profit or loss and related income and expenses of integral associates and joint ventures. Integral associates and joint ventures are equity-accounted associates and joint ventures that are integral to the main business activities of the company and hence do not generate a return individually and largely independently of the other assets of the company |
| Operating profit and income and expenses from integral associates and joint ventures | X | | |
| Share of profit or loss of non-integral associates and joint ventures | X | Investing | Information about returns from investments that are generated individually and largely independently of other resources held by a company |
| Income from investments | X | | |
| Profit or loss before financing and income tax | X | Financing | Information about income and expenses from assets and liabilities related to a company's financing |
| Interest revenue from cash and cash equivalents | X | | |
| Expenses from financing activities | (X) | | |
| Profit before tax | X | | |
| Income tax | (X) | | |
| Profit for the year | X | | |



| Proposed income statement for financial entities | |
|---|------|
| | 20XX |
| Interest revenue calculated using the effective interest method | X |
| Interest expense | (X) |
| Net interest income | X |
| Fee and commission income | X |
| Fee and commission expenses | (X) |
| Net fee and commission income | X |
| Net trading income | X |
| Net investment income | X |
| Credit impairment losses | (X) |
| Employee benefits | (X) |
| Operating Profit | X |
| Share of profit or loss of integral associates and joint ventures | |
| Operating profit and income and expenses from integral associates and joint ventures | X |
| Share of profit or loss of non-integral associates and joint ventures | |
| Profit before tax | X |
| Income tax expense | (X) |
| Profit for the year | X |

Management Performance Measures: IASB's proposal not to define EBITDA

The IASB is proposing not to define Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) because it could not identify a single underpinning concept—there is no consensus among users about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice.

Proposal with regard to Improved Disaggregation:

- Since this Exposure Draft aims to improve the communication of financial information in the financial statements, it is critical to understand the role, objective of the primary financial statements and notes so as to exercise appropriate judgment in deciding the information to be provided under these heads. Accordingly, the Exposure Draft explains the role and objective of primary financial statements and notes:

| | |
|---|---|
| Roles of the primary financial statements and the notes | <ul style="list-style-type: none"> Role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows. Role of the notes is to: <ul style="list-style-type: none"> ✓ provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and ✓ supplement the primary financial statements with other information that is necessary to meet the objective of financial statements. |
| Required line items | <p>New required line items would include:</p> <ul style="list-style-type: none"> Goodwill (statement of financial position) Separate line items for integral and non-integral associates and joint ventures (statement of profit or loss, cash flows and financial position) Income or expenses from financing activities |

- Some additional clarification and guidance on the principle of aggregation

and disaggregation has been proposed in the ED as follows:

Accounting

| | |
|---|--|
| Principles for aggregation & disaggregation | <ul style="list-style-type: none"> Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic Separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes |
| Grouping dissimilar immaterial items | <ul style="list-style-type: none"> Companies should use meaningful labels for groups of immaterial items, avoiding line items such as 'other expenses'. If that is not possible, companies would be required to provide information in the notes about the content of such groups of items. |

- The principle has been derived from the 'Conceptual Framework'. As per the Exposure Draft, the new principle would ensure that the obscuration of material and relevant information is avoided.
- Definitions i.e. classification, aggregation and disaggregation and guidance to apply the principle has also been provided.
- The Exposure Draft also states that sometimes there may be need to aggregate immaterial items with dissimilar characteristics under the head "others". However, to ensure that information has been faithfully represented, appropriate detail on the aggregation must be provided for the understanding of the users.

Strengthening current requirement on analysis of expenses:

| Statement of profit or loss | Notes |
|--|--|
| Use method for analysis of operating expenses (by nature or by function) that provides the most useful information | Disclose analysis by nature in the notes if analysis by function is presented in the statement of profit or loss |
| <ul style="list-style-type: none"> Not a free Choice- the IASB proposes to provide a set of indicators to help companies select a method Companies should not mix the two methods Would remove option to present analysis of expenses in the notes only | Analysis of total operating expenses- no requirement to analyse each functional line item by nature |

Unusual Income or expenses:

In order to address the concern of users with regard to unusual income or expenses, following is the proposal of the IASB on the same:

| Important considerations | Proposals in the Exposure Draft |
|--|---|
| <ul style="list-style-type: none"> limited predictive value non-persistent any item may not be unusual by type but may be unusual by amount based upon expectation about future rather than past occurrences etc | <p>Entities shall disclose in a single note:</p> <ul style="list-style-type: none"> amount narrative description line item in which the same has been included an analysis by nature, if company presents operating expenses by function in the statement of profit or loss |

Information on these income and expenses is useful in decision making and accordingly guidance on its presentation/disclosure in financial statements would add great value to the financial statements of the entities.

IFRS Standards previously required presentation of extraordinary items after tax in a separate category of the statement of profit or loss, separately from profit or

loss from ordinary activities. Later, the IASB concluded that extraordinary items do not warrant such separate presentation and prohibited presentation of extraordinary items. Applying the IASB's proposals, unusual items would not be presented in a separate category in the statement of profit or loss. Instead, unusual items would be presented together with 'usual' income and expenses

in their respective categories in the statement(s) of financial performance, according to their nature, function or other characteristics. Unusual items would be separately identified and explained in the notes.

Management performance measures:

Management performance measures are subtotals of income or expenses that are:

Used in public communications outside financial statements

Complement totals or subtotals specified by IFRS Standards

Communicate to the users of financial statements management's view of an aspect of an entity's financial performance.

PROPOSED DISCLOSURES:

- explain why the measures provide useful information
- how the same are calculated and
- reconciliation of the same to the most comparable profit subtotal specified by IFRS Standards

Keeping in view the concerns of the users the IASB has made an attempt to define the disclosures in this regard in the Exposure Draft in such a way that the same ensures transparency and clarity on management's view, consistent from one period to another, easy to reconcile with the related measures specified by IFRSs.

Changes proposed in statement of cash flows:

Exposure Draft is proposing limited changes to the Statement of Cash Flows. Exposure Draft proposes to require an entity to use the operating profit or loss subtotal as the starting point

for the indirect method of reporting cash flows from operating activities. Exposure Draft also proposes to reduce the presentation alternatives currently permitted by IAS 7 and to require that, in the

statement of cash flows, an entity classifies interest and dividend cash flows. (See figure below in the page)

It may be noted that Ind AS 7 has already carved-out from IAS 7 the options available in this area.

| Proposals | | | |
|--|------------------------|-------------------|--|
| Single starting point for the indirect reconciliation: Operating profit | | | |
| Removal of classification options for interest and dividends | | | |
| Cash flow item | IAS 7 classification | Proposed approach | |
| | | Most entities | Entities with particular business activities incl. banks |
| Interest paid | Operating or financing | Financing | Depends on the classification of the related income and expenses in the statement of profit or loss (mostly operating) |
| Interest received | Operating or investing | Investing | |
| Dividends received | Operating or investing | Investing | |
| Dividends paid | Operating or financing | Financing | Financing |

What is the Impact on Indian Companies?

Companies may see significant changes in their income statements, with new subtotals and/or aligning their self-defined subtotals with the new definitions in the proposals. The impact on companies may vary depending on current presentation practice under Ind AS, which may have been influenced by previous GAAP or other regulatory requirements.

There could be some major challenges also. The most significant areas of change wrt existing presentation and reporting practices, relate to:

- fewer presentation options in the statement of profit or loss
- mandating certain subtotals in the statement of profit or loss
- enhancing presentation and disclosures for integral

investments in associates and joint ventures

- limiting the use of non-descriptive labels such as 'other'
- bringing the reporting of Management Performance Measures into IFRS framework
- Impact on formats prescribed by various regulators:
 - ✓ For Banking and insurance companies the formats will be amended once the date of implementation of Ind AS is finalised by the regulators of Banking and Insurance companies through the Banking Regulations Act, 1949 and Insurance Regulatory and Development Authority of India Act, 1999.
 - ✓ Formats for

Financial Results and Implementation of Ind AS prescribed by Securities and Exchange Board of India will also require a change.

- ✓ For companies (Division II (Ind AS companies) and Division III (for NBFCs) of Schedule III of Companies Act 2013 will have to be amended.
- ✓ Consequent to the amendments in the aforesaid Schedule III, form AOC4 for XBRL filing will have to be amended.

Proposed Amendments to Other IFRSs:

This would require compelling judgement. The Exposure Draft sets out a proposed new IFRS Standard and proposed amendments to other IFRS Standards.

| S.No. | IFRS Standards | Major changes |
|-------|---|---|
| 1. | IAS 7 Statement of Cash Flows | Amendments will require the following: <ul style="list-style-type: none"> ➤ operating profit as the single starting point for the indirect method for reporting cash flows from operating activities; ➤ require a split between cash flows from investments in integral and non-integral associates and joint ventures, consistent with its proposed approach for the statement of profit or loss; and ➤ remove the classification choice for interest and dividend cash flows for most companies. |
| 2. | IFRS 12 Disclosure of Interests in Other Entities | Introduce definitions of 'integral' and 'non-integral' associates and joint ventures and require separate disclosures for each. |
| 3. | IAS 33 Earnings per Share | Restrict the numerator used to calculate adjusted earnings per share to subtotals specified by IFRS Standards or a management performance measure, attributable to ordinary equity holders of the parent. |
| 4. | IAS 34 Interim Financial Reporting | Require disclosure of information about management performance measures in interim financial statements. Some of the Board's other proposals (including subtotals) would also apply to interim financial statements, without the Board needing to amend IAS 34. |

Amendments to move parts of IAS 1 into other Standards

| | | |
|----|---|---|
| 5. | IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors | Include, without amendment, requirements from IAS 1 on general features of financial statements, including the definition of material. Change the title of the Standard to 'Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors.' |
| 6. | IFRS 7 Financial Instruments: Disclosures | Include, without amendment, disclosure requirements from IAS 1 on puttable instruments classified as equity. |

What next?

- IASB's deadline for comments on the Exposure Draft is 30th June 2020.
- ASB, ICAI has also initiated steps to provide opportunity to Indian stakeholders to participate in the IFRS Standards setting process and to gather their views and comments for submission to IASB.
- The IASB will consider feedback on the Exposure Draft in developing its final requirements.
- IASB also plans to do extensive field testing of the proposals in the Exposure Draft as to what would be the impact of the new requirements and its practical application before finalizing the amendments to the IFRS Standards.
- ASB, ICAI is seeking expression of interest from Indian entities who are interested in contributing to this step of field testing, a critical component of stakeholder's consultation process.



Raising strategic issues through an Internal Audit Review

Internal Audit may serve both assurance and advisory role. At present, while the emphasis on the need for assurance is high but advisory role is also gaining ground. This advisory role also broadens the scope of Internal audit to raise business and strategic issues while doing regular reviews. However, an internal auditor must face challenges in terms of highlighting and helping resolve strategic issues. These challenges might include, auditor's own knowledge and expertise stiff resistance from business management. However, a smart auditor will be able to sail through these hurdles to not only add but create value. Read on...



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Internal Audit may serve both assurance and advisory role. At present, emphasis on level of assurance might be high but advisory role is also gaining ground. Auditors are gaining confidence in providing suggestions which are more of improvements from the current state of running the business and a better way of corporate governance rather than merely giving assurance. A pertinent issue arises, whether it's within the preview of internal audit to raise a business or strategic issue? If yes, then what are the problems auditor might encounter while raising strategic issues?

Whatever law specifies such for any specific purpose, are

the bare minimum which needs to be complied or adhered too. Roles listed for Audit committee or that of internal auditor under any law or rules, are bare minimum requirements as a part of corporate governance. The state of the audit committee and prescription of the law may differ from country to country.

Advisory role of internal audit may include review of strategy, if mandated by Board. This advisory role also broadens the scope of internal audit to raise strategic issues while doing regular reviews. By broadening the horizon of internal audit, governance get a different and fresh perspective to look at business operations.

Strategic issues are in the nature of the best tactics deployed to achieve the strategy. They may surface in terms of vision, mission, values, resources, processes, delivery of products and services or their mix, market penetration, its reach (whether in terms of geographical spread or depth) and structuring of the organisations etc. Short term occupation/ myopic indulgence with topline and bottom line may also lead to actual erosion of strategic direction and arising of various strategic issues with grave consequences for sustainability of business and corporate governance.

While identifying and raising a strategic observation during the regular internal audit review, may pose number of hurdles. These are listed below:-

A. No logical explanation by operating management:

Operating management is responsible for the operationalisation and implementation of various action plans to achieve strategy. In fact, they might not be fully aware of the true strategic intent, leave aside rationale/reasons for adoption of strategy. When auditor confronts operating management with strategic observations or alternatives, one might hear explanations or responses such as, "this is management/ board decision." Even if details are available, operating management may be hesitant to share due to ambiguity

attached with such details. Such details if shared, will give rise to further prodding from auditor. Hence, such details get cloaked under the cover of secrecy, either unintentionally or deliberately.

B. Stiff resistance from business owners:

Responsibility for strategy formulation and direction rest with top leadership of the organisations with approval of board of directors. It is long term in nature, and with consequent rigidity. This rigidity is due to various factors such as efforts required, allocation of resources, time and uncertainty attached with other alternatives. Usually there is resistance to change, once committed. These reasons lead to refusal of any weakness in the current strategy and resistance to accept alternatives suggested to strategic direction/ path chosen, giving rise to a strategic issue.

C. High in importance and difficulty in quantification:

Such issues noted, will have high importance due to their strategic nature and wide spread impact. For the information auditor has to depend upon auditee, who might supply this with filtration and biases. These issues are future centric, so difficult in quantification in terms of anticipated cost and benefits of suggested alternative. This will pose difficulty in convincing top leadership about the workability and superiority of the recommendations and proposals.

D. Ego – I am right syndrome:

Top leadership/ management of the organisations have carried business successfully over a period of time. They might have implemented few decisions right or wrong despite stiff resistance from counterparts and board of directors. These circumstances, over a period of time, tend to reinforce over commitment/ bulldogging oppositions and developing I am right /ego in the executives at the helms of the affair. The presence of such a mindset, hinders from finding the hard truth highlighting any weakness in their current strategy. This poses another issue for auditor to deal with while coming up with any strategic alternative or suggestion.

E. Lack of auditor's knowledge and experience:

Most of their career, auditors are trained to work on assurance assignment. They look and work mostly on control issues, which are visible and easy to convince and address. Most of the issues which deviate from above criteria are snubbed off as management prerogatives or management decisions or policy decision. Strategic issues are offshoots of these management prerogatives or management decisions or policy decision. Due to this, auditors learn to look other way round. Courage to take up such issues could also be one of the reasons, they might lie unattended.

F. Availability/ access to data and information:

Strategy formulation is tedious and long drawn process. It involves lot of data digging and information prodding from different sources including proprietary one, involving high cost. Having access to these resources is difficult for auditors. Internet might provide dated and limited data/information. Convincing for a strategic issue based on limited information is almost next to impossible.

G. Where to take in case of disconnect:

Main ownership of the strategy rest with top leadership. Board is entrusted with oversight responsibility. Audit committee role is restricted to minimum specified in company's act to the maximum of any delegation by board. Audit committee is responsible for the review of Internal auditor's work, may review strategic issues raised in a report but as oversight responsibility for strategy rest with board or any separate special committee constituted by board, it might not be able to act in a decisive way as is the case with various controls issues highlighted. On the other hand, board has a mentoring role with limited ability to influence in case of strong and proven leadership team. Such situation board acts as more of a rubber stamp, clearing decision of the top leadership rather challenging them. Due to above, issues may get parked in cold storage without being addressed unless until first being sold off to those

responsible for implementing the same.

H. Political repercussions:

Politics is ubiquitous in every organisation whether someone accepts it or not. Usually the political repercussion of the decision at the top are far more serious for them than at the lower echelons of the hierarchy. Any strategic issue may hand over lever in the hands of political opponents to grab upon the opportunity to pull down or resettle the throne with changed power equations. It goes without saying, auditors need to stay away from becoming tools of political exploitation between warring factions of organisational power politics. This further complicates situation for the auditors raising strategic issues since it runs the danger of taking sides.

I. Uncertain outcomes:

Even if, strategic issue gets recognized and acknowledged by leadership team, arriving at agreed action plan is another uphill task. When recommendations for the normal control issues are drafted, its patently clear as to the outcomes that are expected for both auditee and auditor. However, in case of strategic issues outcome of recommendations is uncertain. Under such situation, it becomes hard for both auditee and auditor to get committed to the solution in terms of agreeable recommendations, which departs from current course of action. Maturity is required on the part of all

players to arrive at consensus in terms of solution.

J. Will to challenge:

Strategy is driven by highest level in the organization. If auditor decides to challenge any part of strategy, he must counter those highest level in the organisation. With these leaders, auditor might be seeing his future within organization. To put forward his perspective and not getting sold off to the current solution by leadership, auditor needs deep inner will to challenge current status quo.

Strategic direction is of great importance to the very existence of the organisations. Auditor needs to consider all objective and subjective evidence available before formulating strategic issue. If any strategic issue noticed during a review, overlooking the issue and not reporting would amount to dereliction of moral duty on the part of an auditor. However, auditor needs to be smart enough to sail through any hurdles specified above with his experience and acumen. In the end auditor must remember ultimate responsibility for running business and overall strategy rest with top business leadership and board. Auditor can only expect the time and mind share of leadership and board on such issues. If this is forthcoming, the auditor will act as motivation and he should feel happy and satisfied of having discharged his duties of highlighting risk inherent in current strategy discord. ■

Internal Audit: Risk and Tech Paradigm

Internal Audit (IA) provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives. IA is an independent management function, which involves a vital appraisal of the functioning of an entity with a view to suggest improvements and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management, internal control system, processes and procedures.

Read on...

If quantum of assurance could be reliably measured then it could be evidenced that IA function provides the maximum quantum of assurance given its significant value addition for management and statutory auditors. Successful IA encompasses management audit, operations audit, regulatory audit and systems audit in addition to its focus on audit of monetary transactions. It is a constructive feedback exercise for improving record to report process by reducing errors, oversights and frauds. The successful Internal Auditor is thus both a watch dog and a blood hound depending on



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the focus scenario and problem statement.

As per Section 138 of the Companies Act 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014, the following class of companies shall be required to appoint an Internal Auditor or a firm of Internal Auditors, viz.,:-

- (a) Every listed company;
- (b) Every unlisted public company having—
 - (i) paid up share capital of INR 50 crore or more during the preceding FY; or
 - (ii) turnover (income) of INR 200 crore or more during the preceding FY; or
 - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding INR 100 crore or more at any point of time during the preceding FY; or
- (c) Every private company having—
 - (i) turnover of INR 200 crore or more during the preceding FY ; or
 - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding INR 100 crore or more at any point of time during the preceding FY.

or public financial institutions exceeding INR 100 crore or more at any point of time during the preceding FY; or

- (iv) outstanding deposits of INR 25 crore or more at any point of time during the preceding FY; and

Auditing

Basic Principles of IA

| Basic Principle | Summary of Principle | Primary Quotient |
|---|---|------------------|
| Independence | Be free from any undue influences which force to deviate from the truth. This independence shall be both in actuality and appearance. | SQ |
| Integrity and Objectivity | Be truthful, unbiased and possess high integrity. Avoid all conflicts of interest and not seek or derive any undue personal benefit or advantage. | SQ |
| Due Professional Care | Exercise reasonable care expected of a professional to ensure successful achievement of planned objectives. | IQ |
| Confidentiality | Not to disclose information to a party outside the IA function except on a “need to know basis” or unless there is a legal or a professional responsibility to do so. | EQ |
| Skills and Competence | Have sound knowledge, strong interpersonal skills, practical experience and professional expertise required to conduct a quality audit. | IQ |
| Risk Based Audit | Identify the important audit areas through a risk assessment exercise and customise the audit activities such that the detailed audit procedures are prioritised and conducted over high risk areas, while less time is devoted to low risk areas through curtailed audit procedures. | IQ |
| Systems and Process Focus | Root cause analysis to be conducted on deviations to identify opportunities for improvement or automation and to strengthen the process and prevent a repetition of such errors. | IQ |
| Participation in Decision Making | Avoid passing any judgement or render an opinion on management decisions and avoid participation in operational decision making which may be subject of a subsequent audit. | EQ |
| Sensitive to Multiple Stakeholder Interests | Remain objective and present a balanced view where diverse interests may be conflicting in nature. | EQ |
| Quality and Continuous Improvement | Have a quality control process to ensure factual accuracy of the observations; to validate the accuracy of all findings; and continuously improve the quality of the IA process. | IQ |

Standards on IA

The Standards on IA (SIA) are a set of minimum requirements or rules based on the basic principles enshrined above that apply to all the ICAI members while performing IA of any entity. The ICAI also recommends the adoption of the SIAs by non-ICAI members who are performing IAs so as to ensure a consistent approach and quality in the discharge of their professional duties. The current law in India permits IA to be performed either by an entity's own employee or by a professional who is part

of an external agency. These SIAs apply to ICAI members in both situations, irrespective of whether the IA is conducted by them in the capacity of an employee or as a representative of an external agency.

The ICAI Council has decided that these Standards will be made mandatory in a phased manner. Accordingly the SIAs shall initially be mandatory for members performing IAs in all listed companies from the effective date of the SIA, and all other companies from one year thereafter. The mandatory

status of a SIA implies that while carrying out an IA, it shall be the duty of the members of the ICAI to ensure that they comply with the SIAs read with the Preface, Framework Governing IAs and Basic Principles of IA. If a member is unable to comply with any of the SIAs requirements, or if there is a conflict between the SIA and other mandates, such as a regulatory requirement, the IA report should draw attention to the material departures therefrom along with appropriate explanation.

Below is the listing of prevalent SIA:

| | |
|--|---|
| 100 Series: Standards on Key Concepts <ul style="list-style-type: none"> • SIA 110, Nature of Assurance • SIA 120, Internal Controls | 200 Series: Standards on IA Management <ul style="list-style-type: none"> • SIA 210, Managing the IA Function • SIA 220, Conducting Overall IA Planning • SIA 230, Objectives of IA • SIA 240, Using the Work of an Expert |
| 300–400 Series: Standards on the Conduct of Audit Assignments <ul style="list-style-type: none"> • SIA 310, Planning the IA Assignment • SIA 320, IA Evidence • SIA 330, IA Documentation • SIA 350, Review and Supervision of Audit Assignments • SIA 360, Communication with Management • SIA 370, Reporting Results • SIA 390, Monitoring and Reporting of Prior Audit Issues | Standards issued up to July 1, 2013 <ul style="list-style-type: none"> • SIA 5, Sampling • SIA 6, Analytical Procedures • SIA 7, Quality Assurance in IA • SIA 11, Consideration of Fraud in an IA • SIA 13, Enterprise Risk Management • SIA 14, IA in an Information Technology Environment • SIA 17, Consideration of Laws and Regulations in an IA • SIA 18, Related Parties |

Risk Based Audit (RBA)

As mandated by the Basic Principles and SIA, the Internal auditor is required to identify the important audit areas through a risk assessment exercise and customise the audit activities such that the detailed audit procedures are prioritised and conducted over high risk areas and issues, while less time is devoted to low risk areas through curtailed audit procedures. This approach ensures that risks under consideration are more aligned to the overall strategic and company objectives rather than narrowly focused on process objectives.

An Internal Auditor should adopt a system and process focused methodology in conducting audit procedures. This methodology is more sustainable than the one adopted to test transactions and balances as it goes beyond “error detection” to include “error prevention”. It requires a root cause analysis to be conducted on deviations to identify opportunities for systems

improvement or basic principles automation, to strengthen the process and prevent a repetition of such errors.

Deployment of Information Technology (IT) by companies is now ubiquitous and should be understood for effective IAs.

This helps the Internal auditor to move away from “people to process” and from “detection to prevention”. IT spectrum needs to be increasingly overarched in identifying and for continuous monitoring of Standard Operating Processes (SOP), Key Risk Indicators (KRI) and Red Flags.

Risk is an event which can prevent, hinder, fail to further or otherwise obstruct the enterprise in achieving its objectives. A business risk is the threat that an event or action will adversely affect an enterprise's ability to maximize stakeholder value and to achieve its business objectives. Risk can cause financial disadvantage or it can result in damage, loss of value and /or loss of an opportunity to enhance the enterprise operations or activities. Risk is the product of probability of occurrence of an event and the financial impact of such occurrence to an enterprise.

Risk may be broadly classified into Strategic, Operational, Financial and Knowledge:

Strategic Risks are associated with the long-term purpose, objectives and direction of the business.

Operational Risks are associated with the on-going, day-to-day operations of the enterprise.

Financial Risks are related specifically to the processes, techniques and instruments utilised to manage the finances of the enterprise, as well as Enterprise Risk Management those processes involved in sustaining effective financial relationships with customers and third parties.

Knowledge Risks are associated with the management and protection of knowledge and information within the enterprise.

Enterprise Risk Management (ERM)

ERM enables management to effectively deal with risk, associated uncertainty and enhancing the capacity to build value to the entity or enterprise and its stakeholders. Internal Auditor may review each of these activities and focus on the processes used by management to report and monitor the risks identified.

ERM is a structured, consistent and continuous process of measuring or assessing risk and developing strategies to manage risk within the risk appetite. It involves identification, assessment, prioritization, mitigation, planning, monitoring, assurance and implementation of risk and developing an appropriate risk response policy. Management is responsible for establishing and operating the risk management framework.

IA is a key part of the risk management lifecycle. The corporate risk function establishes the policies and procedures, and the assurance phase is accomplished by IA. The role of the Internal Auditor in relation to ERM is to provide assurance to management on the effectiveness of risk management. The scope of the Internal Auditor's work in assessing the effectiveness of the ERM would, normally, include assessing the:

- Risk maturity level;
- Adequacy of and compliance with the risk management policy and framework;
- Efficiency and effectiveness of the risk response; and
- Residual risk is to ensure that it is within the risk appetite.

The extent of Internal Auditor's role in ERM will depend on other resources available to the Board and on the risk maturity

of the organisation. The nature of Internal Auditor's responsibilities should be adequately documented and approved by those charged with governance. The Internal Auditor has to review the structure, effectiveness and maturity of an enterprise risk management system. In doing so, he should consider whether the enterprise has developed a risk management policy setting out roles and responsibilities and framing a risk management activity calendar. The Internal Auditor should review the maturity of an ERM structure by considering whether the framework so developed, inter alia:

- Protects the enterprise against surprises;
- Stabilizes volatility;
- Operates within established risk appetite;
- Protects ability of the enterprise to attend to its core business; and
- Proactively manage risks.

The Internal Auditor will normally perform an annual risk assessment of the enterprise, to develop a plan of audit engagements for the subsequent period. This plan will be reviewed at various frequencies in practice. This typically involves review of the various risk assessments performed by the enterprise, consideration of prior audits, and interviews with senior management. The risk assessment process should be of a continuous nature so as to identify not only residual or existing risks, but also emerging risks. The risk assessment should be conducted formally at least annually, but more often in complex enterprises. To serve this objective, the Internal Auditor should design the audit work plan by aligning it with the objectives and risks of the enterprise and

concentrate on those issues where assurance is sought by those charged with governance.

The risk review process to be carried out by the Internal Auditor provides the assurance that there are appropriate controls in place for the risk management activities and that the procedures are understood and followed. Effective enterprise risk management requires a monitoring structure to ensure that the risks are effectively identified and assessed and that the appropriate mitigation plans are in place.

The review process conducted by Internal Auditors will help to determine, inter alia:

- Adopted measures result in what was intended;
- Procedures adopted and information gathered for undertaking the assessment were appropriate; and
- Improved knowledge would help in reaching better decisions and identifying the lessons to improve future assessment and management of risks.

The Internal auditor should submit his report delineating the assurance rating (segregated into High, Medium or Low) as a result of the review.

Information Technology (IT) and Enterprise resource planning (ERP)

Contemporary technology could be harnessed for IA - Management by Objectives (MBO) and for being comprehensively compliant with the professional pronouncements and contractual covenants.

IT revolution has transformed the business landscape drastically by changing the manner of running and leading businesses. More lately, developments around

Artificial Intelligence (AI), Block Chain, Big Data, Internet of Things (IoT) and Cloud Computing have been moving the business paradigm to next plane and at an unprecedented pace. IA domain could leverage on these developments in a calibrated manner to reinforce its value addition to the overall business management and the global economy.

IT systems need to be deployed in such a manner to support IA delivery. IT could help the IA domain both actively and passively in facing and tiding over the challenges faced by the engagement executives and other stakeholders related to effective reporting, regulatory oversight, accountability clash between IA professionals and auditees, significance assigned to, managerial will and consequent budget allotted for the IA function alongwith overall social fabric for effective field work. SQL (Structured Query Language) and DBMS (Database Management Systems) supported functionalities could be deployed to enhance the review quality of the IA function by using various collaborative tools speeding-up the learning and the maturity level of the IA domain in the entity. Online surveys and voting led balanced scorecards could extensively be used for measuring the performance and appraisal of the IA function.

ERP is an integrated management of business processes in real time mediated by systems and technology. ERP systems incorporate best practices which in turn ease compliance with requirements such as Ind-AS, SEBI (Listing Obligations and Disclosure Requirements), ICOFR or Basel *et al.* ERP suitably accommodates RBA, ERM and myriad audit functionalities by keeping a chronological

history of every transaction (time stamping); providing a comprehensive enterprise view; bringing legitimacy and drill-down of each bit of data; and providing increased opportunities for collaboration.

Advanced IT capabilities could help IA with:

- Focussing on areas of value to the organization iterating between a top-down approach and *vice versa*;
- Engagement of stakeholders through End User Computing (EUC) *viz.*, project trackers, PERT (Programme Evaluation and Review Technique)/ CPM (Critical Path Method) charts, RACI (Responsible, Accountable, Consulted, Informed) matrices, Heat Maps and Macros (Bot's);
- Making the IA function modular, scalable and dynamic;
- Built-in remediation and email-based notifications;
- Audit plan, programme and sampling;
- Real-time reports and exception reports;
- Configurable, role based and interactive dashboard;
- Issue life cycle management (CAPA – Corrective Action / Preventive Action), multi-year planning, risk assessment;
- Enhancement of organisation learning;
- BYoD (Bring Your Own Device) implementation and synchronised remote working;
- Engaging presentations;
- Paperless task and workflow management (audit trails, evidences, documentation, audit templates, checklists and document control);

- Alignment with COBIT and COSO frameworks;
- Collaborating with DMAIC model (Define, Measure, Analyze, Improve, Control) of Six Sigma;
- Specialized engagements (data analytics, fraud investigations, project monitoring, ERP implementation, revenue assurance and due diligence).

Takeaway

Lawrence Sawyer, the “Father of Modern IA” encouraged the modern Internal Auditor to act as a counsellor to management rather than as an adversary. Sawyer also insisted on providing recognition and positive reinforcement by capturing positive observations in audit reports. He underscored the benefits of providing more balanced reporting while simultaneously building better rapports and relationships catapulting the role of Internal Auditors from being bean-counters to become missionaries for a better governed corporate world.

Modern day technology subsumes a part of IQ (Intelligence Quotient) faction of the IA function liberating the IA professionals to focus more on the SQ (Spirituality Quotient) and EQ (Emotional Quotient) components. Thus tech-supported risk based IA delivery for MSME to MNC entities speeds-up 360° transition towards the Sawyer's vision for the IA fraternity. ■

References:

- Preface to the Framework and Standards on IA; Framework Governing IAs; Basic Principles of IA; SIA (ICAI)
- Sawyer, Lawrence (2003) Sawyer's Internal Auditing 5th Edition

SPICe+ A Step in The Right Direction

SPICe+ is an integrated web form offering 10 services by 3 Central Government Ministries and Departments. (Ministry of Corporate Affairs, Ministry of Labour and Department of Revenue in the Ministry of Finance and One State Government, Maharashtra). The integrated web form is instrumental in saving many procedures, time and cost for Starting a Business in India. SPICe+ is part of various initiatives and commitment of Government of India towards Ease of Doing Business (EODB). Read on...

Ease of Doing Business

Government of India is very keenly following the benchmarks set by the Doing Business Project of the World Bank to improve the business environment in the country. India is a nation of possibilities and we want to explore and avail every opportunity to promote development led growth in the country.

Hon'ble Prime Minister Narendra Modi, in a tweet, has emphasised on the need to focus on last mile delivery, simplifying systems and procedures, which will improve both 'Ease of Doing Business' and 'Ease of Living'. He stated that we are devoting all possible efforts to further improve our 'Ease of Doing Business' rankings.



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Tax Rates

One such step taken in September, 2019 was reduction of corporate tax rates. The Centre slashed effective corporate tax to 25.17%, inclusive of all cess and surcharges, for domestic companies. Making the announcement, Hon'ble Finance Minister Nirmala Sitharaman said the new tax rate will be applicable from the current fiscal which began on April 1, 2019.

The move is a lift for PM Narendra Modi who was facing increasing pressure to relight once-stellar economy after five consecutive quarters of slowing growth that India witnessed this year, losing its status as the fastest-expanding major economy to China.

The FM said, "the new rates would be comparable with the lowest tax

rates in South Asian region and in South East Asia."

Newly enacted Section 115BAB of the Income-tax Act, 1961, offers concessional tax rate for new manufacturing companies. New domestic manufacturing companies incorporated after October 1, can pay income tax at a rate of 15% without any incentives. That means, effective tax rate for new manufacturing companies will be 17.01% inclusive of all surcharge and cess. The Finance Minister further said that companies can opt for lower tax rate after expiry of tax holidays and concessions that they are availing now.

Ministry of Corporate Affairs (MCA) Initiative

To facilitate mission of the Prime Minister of 'Ease of Doing

Business', MCA has taken a new initiative by introducing a new Web Incorporation Form 'SPICE+'. The set of Forms has been notified and deployed on the MCA Portal, replacing the existing SPICE form. The services of this New Form are applicable on New Incorporations w.e.f. 15.02.2020.

It is important to note that the new SPICE+ form shall provide all the services right from the name reservation for the Company till opening of Bank account post incorporation. This will undoubtedly bring Ease of Doing Business for New Corporate entities.

It will increase prosperity and make India a USD 5 trillion economy, PM said on Twitter.

SPICE+

SPICE+ is an integrated Web form offering 10 services by 3 Central Govt Ministries & Departments. (Ministry of Corporate Affairs, Ministry of Labour & Department of Revenue in the Ministry of Finance and One State Government (Maharashtra). This will facilitate saving as many procedures, time and cost for Starting a Business in India. SPICE+ is part of initiatives

and commitment of Government of India towards Ease of Doing Business (EODB).

The new SPICE+ form provides all the services right from the name reservation for the Company till opening of Bank account post incorporation.

The form is an Integrated Web Form to be filed on MCA Portal.

SPICE+ Form has two Parts viz. (i) Part A – for name reservation and (ii) Part B: offers multiple facilities including incorporation, DIN, PAN, TAN, GSTIN till opening of bank account.

Users may either choose to submit Part-A for reserving a name first and thereafter, submit Part B for incorporation and other services or file Part A and B together at one go for incorporating a new company and availing the bouquet of services as above.

Salient Features

The Following are features of both the parts of SPICE+ Forms:

(i) Part A: for Name reservation for new companies

The MCA states that user has to enter the name he wants to reserve, for incorporation of a new company. Users are requested to ensure that the proposed name selected does not contain any word which is prohibited under Section 4(2) & (3) of the Companies Act, 2013 read with Rule 8 of the Companies (Incorporation) Rules, 2014. Users are also requested to read and understand Rule 8 of the Companies (Incorporation) Rules, 2014 in respect of any proposed name before applying for the same.

For Name Search: <http://www.mca.gov.in/mcafoportal/showCheckCompanyName.do>

MCA has taken a new initiative by introducing a new Web Incorporation Form 'SPICE+'. The set of Forms has been notified and deployed on the MCA Portal, replacing the existing SPICE form.

Stakeholders are requested to also check the Trademark search to ensure that the proposed name is not in violation of provisions of Section 4(2) of the Companies Act, 2013, failing which it is liable to be rejected.

For Trade Mark Search: <http://www.ipindia.nic.in/index.htm>.

This Part A can also be used for changing the name of an existing company

The approved name and related incorporation details as submitted in Part A, would be automatically Pre-filled in all linked forms also viz., AGILE-PRO, eMoA, eAoA, URC-1, INC-9 (as applicable).

(ii) Part B: for offering multiple incorporation services

- a) Incorporation
- b) DIN allotment
- c) Mandatory issue of PAN and TAN
- d) Mandatory issue of EPFO registration
- e) Mandatory issue of ESIC registration
- f) Mandatory issue of Profession Tax registration (Maharashtra)
- g) Mandatory Opening of Bank Account for the Company and
- h) Allotment of GSTIN (if so applied for)

This is a web-based form and the form should be filed through a

Newly enacted Section 115BAB of the Income-tax Act, 1961, offers concessional tax rate for new manufacturing companies. New domestic manufacturing companies incorporated after October 1, can pay income tax at a rate of 15 per cent without any incentives.

Corporate Governance

Front office dashboard along with other applicable linked forms. The new web form facilitates On-screen filing and real time data validation for seamless incorporation of a company. Information once entered can be saved and modified in the Form. After the SPICe+ is filled with all relevant details, the Form should thereafter have to be converted into pdf format, this is possible with just a click of the mouse button for affixing DSCs.

Declaration by all Subscribers and first Directors in INC-9 gets auto-generated in pdf format and would have to be submitted only in Electronic form in all cases, except where:

- (i) Total number of subscribers and/or directors is greater than 20 and/or
- (ii) Any such subscribers and/or directors have neither DIN nor PAN.

All Check form and Pre-scrutiny validations happens on webform itself. Only exception is DSC validation. Changes/modifications to SPICe+ can also be done by editing the same web form application which has been saved, generating the updated pdf affixing DSCs and uploading the same. Such alterations are possible even after generating PDF and affixing DSCs.

DSC validation and other validations will happen at Upload Level.

Resubmission of applications for company name reservation and/or incorporation shall also be handled through the application number/Name applied for link on the new dashboard. A hyperlink will be available for the SRN/application number, so as to enable easy resubmission, wherever required.

Fees

A consolidated challan gets generated at the time of filing SPICe+ (INC-32) which shall contain applicable fee towards:

Form Fee
MoA
AoA
PAN
TAN

Companies getting incorporated through SPICe+ with an Authorised Capital up to INR 15,00,000 would continue to enjoy 'Zero Filing Fee' concession.

Additional Features

On approval of SPICe+ forms, the Certificate of Incorporation (CoI) is issued with PAN and TAN, as allotted by the Income Tax Department. An electronic mail with Certificate of Incorporation (CoI) as an attachment along with PAN and TAN is also sent to the user. Further PAN card shall be issued by the Income Tax Department.

From 15 February 2020, registration for EPFO and ESIC is mandatory for all new companies incorporated since then. No EPFO & ESIC registration nos. shall be separately issued by the respective agencies.

Since this date registration for Profession Tax is also mandatory for all new companies

Companies getting incorporated through SPICe+ with an Authorised Capital up to INR 15,00,000 would continue to enjoy 'Zero Filing Fee' concession.

The newly introduced SPICe+ initiative takes the corporate filings to the next gen and makes company incorporation simple as 1-2-3!

incorporated in the State of Maharashtra.

All new companies incorporated through SPICe+ (i.e. since 15th February, 2020) are mandatorily required to apply for opening the new company's Bank account through the AGILE-PRO linked web form.

Grievances Redressal

It is possible that one may face technical problems like, form upload, pre-scrutiny errors, DSC related, payment related queries, please raise a ticket on www.mca.gov.in/myservices, Resolution of the issue will be made. For interaction on such issues, one may also call up Corporate Seva Kendra at 0124-4832500 after 48 hours if ticket is not resolved. In case of resubmission / rejection remarks, contact should be to 0124-4832500 by selecting option 1 for CRC. For escalation one should send a mail to crc.escalation@mca.gov.in.

Next Gen

The newly introduced SPICe+ initiative takes the corporate filings to the next gen and makes company incorporation simple as 1-2-3! This initiative provides an express way for promoters desirous of setting up manufacturing and other set up in India. Road to realisation of USD 5 Trillion economy is made seamless by this initiative. Corporate world, for this reason, has welcomed it. ■

Transfer Pricing Documentation: How far can the FAR go?

It has been almost two decades since the Transfer Pricing (TP) provisions were introduced in the Indian tax landscape. Being a fairly new law for India Inc, it has taken its due course to mature and evolve gradually. The Indian TP Regulations (ITPR) have also matched the pace of international guidance by introducing the additional compliance requirements, such as Master File and Country-by-Country-Reporting (CbCR) as prescribed by the Organisation for Economic Cooperation and Development (OECD) under its Action Plan 13 of the Base Erosion and Profit Shifting (BEPS) project. However, one would agree that the TP documentation / study report still remains a vital and most critical repository of documentation when one looks at the entire scheme of intercompany pricing arrangements of a Multi-National Enterprise (MNE). Needless to say, functional analysis is the backbone of any TP documentation outlining the Functions performed, Assets employed, and Risks assumed (FAR analysis) by each of the parties associated with a particular international transaction within the MNE.

Recent guidance by OECD

Apart from the Action Plan 13, which introduced the Three-Tiered TP documentation, i.e. CbCR, Master File and Local File (country-specific



TP documentation), it is worthy to note that the OECD came up with a substantial guidance in the form of Action Points 8 to 10 on the TP matters, with the stated objective of “aligning the TP outcomes with value creation”. To achieve this objective, the OECD prescribed a guidance to identify the “substance over form”.

Specifically Work under Action Plan 9 of OECD’s BEPS has focused and ensured the following:

- Devising mechanism to iron out the differences in the contractual allocation of risks and resulting allocation of profits to those risks which in fact may not correspond with the activities actually carried out by the parties,
- Reallocation of profits in cases where risks are contractually assumed by parties who cannot in fact exercise meaningful and specifically defined control over such risks or do not have the financial capacity to assume such risks, and
- Contractual allocation of risks is respected only when they are



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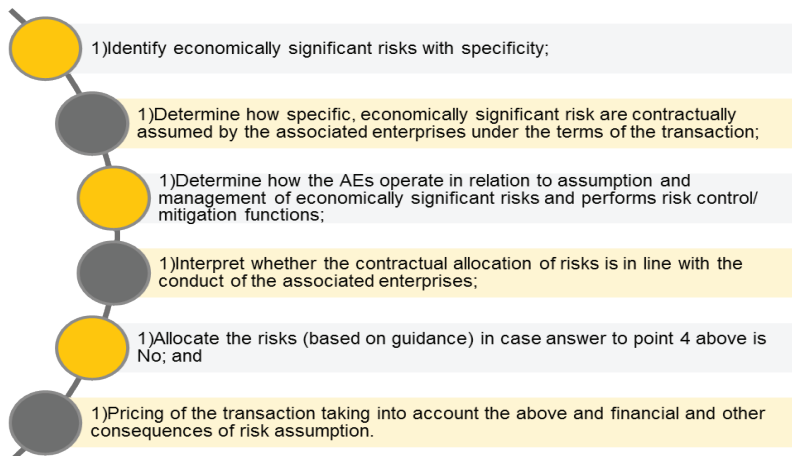
supported by actual decision making.

The OECD guidance emphasizes on the importance of substance over form while conducting the FAR analysis of the intercompany transactions. The analysis should ideally focus on what the parties actually do and the capabilities they provide. Such activities and capabilities should include decision making, including decisions about business strategy and risks. In addition to this, the legal rights and obligations of each party while performing functions would be relevant. While one party may provide a large number of functions relative to that of the other party to the transaction, *it is the economic significance of those functions in terms of their frequency, nature and value to the respective parties to the transactions that is important.*

The OECD guidance has also provided impetus on analysing risks while accurately delineating the actual transaction. The OECD has provided a 6-step approach which can be summarised as follows¹:

¹ Para 1.60 of the BEPS Action Plan report on Action Points 8-10

International Taxation



Inference from the OECD guidance

Basis reading of the above, it can be observed that focus has now been placed more on the *Risk Controlling² Functions (RCF)* rather than the actual performing of the functions. When we talk about 'Control over risk', the same primarily involves the following:

- Capability to make decisions, that is to say – Take on/ lay off/ decline a risk bearing opportunity, together with the actual performance of that decision-making function; and
- Capability to make decisions on whether and how to respond to the risks associated with the opportunity, together with the actual performance of that decision-making function.

The OECD also introduced a concept of DEMPE³ controlling functions to identify the entity which should be entitled to the residual results from the ownership of Intangibles.

Impact of the OECD guidance on FAR

Thus, it would be now more and more important to identify the contractual arrangement between the parties, map the actual conduct with the contractual arrangement, identify the gaps and then conclude on the characterisation of the entity, thus, deepening and widening the scope of fact finding, i.e. FAR analysis. While this is not really a new requirement, but to ensure the correct capturing of substance and identify the entity(/entities) performing risk controlling

functions, the entity (/entities) controlling the DEPME functions and the entity (/entities) creating value for the Group as a whole, one would agree that the *FAR has really gone so much far* that it would warrant additional efforts to reach to the essence of the arrangement by correctly capturing the “substance over form”.

Accordingly, the preparators of the TP documentation may need to work with additional tools and with additional efforts to capture the FAR that, by far may not have been captured to such crystal-clear details.

| Responsible | Accountable | Consulted | Informed |
|--|--|---|---|
| Entity who performs a function/ undertakes an activity | Entity who is ultimately accountable and has the say i.e. Yes/ No/ Veto; | Entity that needs to feedback/ contribute to the function/ activity | Entity that needs to know of the decision or action |

RACI framework/ analysis

One of the interesting tools used in project management is the responsibility assignment matrix which describes the participation by various roles in completing tasks or deliverables for a project or business process. It is used for clarifying and defining roles and responsibilities in cross-functional or departmental projects and processes⁴. This responsibility matrix is also referred to as a RACI chart, where RACI is an acronym derived from the four key responsibilities most typically used: Responsible, Accountable, Consulted, and Informed. The following chart explains the responsibility matrix under the RACI chart in more details:

The **Annexure I** to this article provides an illustration of actual mapping of the functions under the RACI charts.

It would be worthy to note that the entities entrusted with responsibility and accountability roles would be the entities performing the RCF, whereas, the entities which are consulted or informed are more involved in the process, without any RCF responsibility. Such micro analysis of functions and identification of the correct shade of function / responsibility may assist in correctly identifying the “substance over form” and assist in bring the FAR with the clarity that by-far may not have been possible.

Potential consequences of not having an appropriate FAR analysis in place

With the ink still drying on many legislative changes prompted by the BEPS, an even more fundamental revisit of the FAR analysis is inevitable. Considering the changing global landscape around transfer pricing and Indian Revenue Authorities (IRA) looking at more consistent approach with the global approach with regards to TP documentation, it is more important

than ever to embrace the required change and shift to a FAR 2.0, i.e. a detailed FAR analysis based on the RACI / similar charts to bring out the “substance over form”.

The IRA have started deliberating on some of the key guidelines of the OECD Action Plans (viz DEMPE functions for evaluation of intangibles) and accordingly, could deep dive into substance of the functions rather than a simple scrutiny of intercompany agreements and FAR analysis typically submitted by the tax payer. Further, considering the fact that Masterfile would also include FAR analysis for major group transactions, it is important to have consistent FAR for the similar

² Including the managing and / or risk mitigating functions

³ Development, Enhancement, Maintenance, Protection and Exploitation

⁴ https://en.wikipedia.org/wiki/Responsibility_assignment_matrix

transactions across jurisdictions which should be commensurate with the Masterfile.

GAAR provisions

The General Anti Avoidance Rules, (Section 95 of the Income-tax Act, 1961) echo the OECD guidance placed above in principle and prescribe that an arrangement entered into by an assessee may be declared to be an impermissible avoidance arrangement and consequence in relation to tax arising therefrom may be determined subject to the provisions of Chapter X-A. Some of the situations mentioned are as follows:

- The substance or effect of the arrangement as a whole, is inconsistent with, or differs significantly from, the form of its individual steps or a part;
- Location of an asset of a transaction which is without any substantial commercial purpose, other than obtaining a tax benefit.

The emphasis given by the revenue authorities while laying out the above rules is to identify such transactions which lack substance over form.

Accordingly, it is need of the hour to streamline the FAR analysis with the actual conduct of parties failing which the entire intercompany arrangement of the tax payer could be considered as a means to avoid tax and the same could result in disregarding of the transaction.

Concluding thoughts and suggested way forward to reach the FAR 2.0:

The taxpayers would need to take care of the following aspects going forward while preparing a TP documentation more importantly while putting together FAR 2.0 analysis:

- Delineating transactions with due consideration of actual substance over form;
- More emphasis to be given on identifying parties performing RCE, rather than looking at the contractual allocation of functions/ risks;
- Actual conduct of parties and responsibility in relation to each of the activities involved in the international transaction should be taken into consideration – This can be aptly done by RACI charts;

- Recharacterisation of parties – taxpayers may be required to consider changing and aligning business structures based on value creation – to achieve group synergies;
- For complex international transactions, new models such as Variable Royalty / Cost Contribution Arrangements or unconventional benchmarking methodologies such as Profit Split Methods / Residual Profit

Split Method could be the need of the hour;

- From a certainty perspective, it is always advisable to apply for Unilateral Advance Pricing Agreements ('UAPAs') / Bilateral APAs ('BAPAs') upfront and deliberate in detail with tax authorities in relation to the roles and responsibilities of each party involved in the transaction. ■

Annexure I: Illustrative example of use of RACI chart for mapping the FAR analysis:

The RACI analysis could be drawn out in a following manner for a typical captive software development service provider who is engaged in rendering low end software development services to its associated enterprise:

| Functions | Responsible | Accountable | Consulted | Informed |
|--|---------------|-------------|-----------|----------|
| Strategic management/ decision making | F Co | F Co | - | - |
| Marketing/Business development | F Co | F Co | I Co | I Co |
| Research and development | F Co | F Co | - | - |
| Budgeting | F Co | F Co | I Co | I Co |
| Conceptualization and design of the product/ service | F Co | F Co | I Co | I Co |
| Functional specification and requirement analysis | F Co | F Co | I Co | I Co |
| Coding | I Co | F Co | F Co | F Co |
| Testing and delivery | I Co | F Co | F Co | F Co |
| Project management and supervision | I Co and F Co | F Co | - | - |
| Quality of services | I Co and F Co | F Co | - | - |
| Documentation | I Co | F Co | F Co | F Co |
| Employee trainings | I Co and F Co | F Co | I Co | I Co |
| Corporate function | F Co | F Co | - | - |
| HR functions | F Co | F Co | I Co | I Co |
| Payroll function | F Co | F Co | I Co | I Co |

I Co – Indian captive software development service provider

F Co – Foreign company receiving services from I Co

From the above analysis it is relatively clear that for most of the functions F Co is responsible apart from coding, testing, documentation and trainings which are typically performed by a captive service provider, i.e. I Co. However, as far as the accountability of the functions is concerned, the same is borne by F Co for all the functions.

Accordingly, F Co performs all the risk controlling functions whereas I Co does not perform any risk controlling function. Considering the same, to say that I Co should earn a routine mark-up for the costs incurred by it and the residual profits from the overall value chain should be retained by F Co would be appropriate from a transfer pricing perspective.

Further, in case there is a situation wherein multiple risk controlling functions are performed by both the entities involved in the transaction, weights could be assigned for each function based on the contribution of each function to the entire value chain.

Entitlement of ITC under GST- Doctrine of 'Look At' vs. 'Look Through'¹

A doubt lingers as to whether a registered person should look to the immediate use of inward supply received or he needs to pursue further and examine the purpose of inward supply i.e., end use to decide upon entitlement of Input Tax Credit (ITC) on the said inward supply. Let us take an example of procurement of goods/services for installation of solar power plant, which is for captive consumption for manufacture of goods. The article attempts to aid the registered person in selection of approach to be adopted for examination of Input Tax Credit under GST law. Read on ...



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If doctrine of 'look at' is applied, then immediate use of solar power plant is for generation of electricity- an exempted supply and therefore ineligible for credit in terms of Rule 42(1) (c) /Rule 43(1)(a) of CGST Rules, 2017. If doctrine of 'look through' is applied, then purpose of generation of power is for captive consumption in manufacture of goods and entitlement to input tax credit will depend on taxability of goods manufactured using the power generated.

'Look through' – Approach:

Relevant provisions of CGST Act, 2017 dealing with Input Tax Credit are extracted below for ease of reference:

Section 16

16. (1) Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in Section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business.

Section 17 (1) & 17 (2)

17. (1) Where the goods or services or both are used by the registered person partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of the input

¹ Expressions & doctrine borrowed (inspired) from landmark decision of Hon'ble Supreme Court in case of Vodafone International Holdings B.V. in Civil Appeal no.733 of 2012

tax as is attributable to the purposes of his business.

(2) Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

(Emphasis supplied)

As can be seen from emphasised portions, both sections look to the purpose and use of the inward supply to the business of the registered person, hence a 'look through' approach of how the inward supplies are put into use i.e. end use is more aligned and suited.

Examination of the 'use' & 'purpose' is to be done from the stand point of the 'registered person'. Useful reference can be made to decision of Hon'ble Chhattisgarh High Court² wherein the appellant was manufacturer of iron and steel products. For carrying out the manufacturing operations, they manufactured coking coal as intermediary product and as the coke comes into existence in bigger size, it was put through coke cutter, during which process - coke fines (coke dust) emerged. While deciding the issue on entitlement of input tax credit, the Hon'ble Court gave due emphasis to the business of the manufacturer as can be seen from the extract below:-

"the Learned Commissioner had not at any point of time concluded that the coke fines themselves is a product intended by the manufacturer to be available as commodity for its commercial and trade dealings", hence the business of the registered person will be pertinent to appreciate whether the product produced by them is one of intermediate nature or in itself a finished product. Appreciation of what constitute business for each registered person will therefore be vital in examining whether the same is in the course or furtherance of business of registered person.

From the above, it looks straightforward that only 'look through' is relevant and may even cause doubt to readers as to what is the doubt said to be lingering in the commencement of the article.

'Look at' – Approach:

Let's take another set of examples

1. Outdoor catering services received at a customer meet event.
2. Beauty treatment services received by film artist.

If 'look through' is employed then the above said inward supplies are towards furtherance of business. Whereas if 'look at' is employed, then there is receipt of outdoor catering, beauty treatment which are blocked in terms of section 17(5)(b) of CGST Act, 2017.

The purpose is given a go-by and the nature of expense and immediate use is taken for consideration for examination

of input tax credit in case of blocked credits. Section 17(5) is non-obstante clause & it is driven by 'look at' approach and the purpose will be of relevance only when the clauses indicate so. Various clauses under section 17(5) relaxes the restriction of credit, when said inward supply is used for providing outward supply of same category.

In nutshell, it is 'look through' approach which is relevant with a rider that in cases of inward supplies hit by restrictions contained under section 17(5) 'look at' approach becomes relevant, except when restrictive clauses gives a carve out. Blocked credits are policy matter of the Government, hence intentionally the purpose have been given a go-by in the legislation.

Is there any doubt on the approach to be adopted?

Even the Hon'ble High Court of Orissa in the case of M/s. Safari Retreats Private Limited was not free from the doubt on the appropriate approach. With due respect, 'look through' approach employed by Hon'ble court is questionable for the following reasons:-

In nutshell, it is 'look through' approach which is relevant with a rider that in cases of inward supplies hit by restrictions contained under section 17(5) 'look at' approach becomes relevant, except when restrictive clauses gives a carve out.

² *Jayaswal neco industries Ltd. Reported at 2018 (14) GSTL 20 (Chhattisgarh)*

Firstly, Hon'ble Court was dealing with an inward supply covered by Section 17(5)(d) – a blocked credit and furthermore the clause specifically restrained from looking to the purpose – input tax credit shall not be available even when such goods or services or both are used in the course or furtherance of business.³

“(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.”

Secondly, the expression “his own account” in the clause was equated to “own purpose” which may not be true intent of the clause. It will be more aligned if the expression is understood in contradistinction with construction of immovable property on account (of others) i.e. for sale vs construction on his own account. It is a case of construction and lease/renting, hence construction cannot be attributed to account of others.

Thirdly, Section 17(5)(c) allows credit only when it is used for further supply of works contract services, can Section 17(5)(d) – which is nothing but modified form of similar inward supply for construction of immovable property provide more relief?

‘Look at’ approach will be relevant in respect of blocked credits. Special Leave Petition (SLP) has been filed against the above said decision before Hon'ble Supreme Court.

To simply put negative list of credits - go by heads of expense in Section 17(5) and positive list of credits require test of end use of inward supply.

Sanctity of look through under GST law:

What is sanctity of ‘look through’ approach for ITC determination under GST law?

1. Para 9 of C.B.I.C. circular⁴:

***Issue:** A registered person uses coal for the captive generation of electricity which is further used for the manufacture of goods (say aluminium) which are exported under Bond/Letter of Undertaking without payment of duty. Refund claim is filed for accumulated Input Tax Credit of compensation cess paid on coal. Can the said refund claim be rejected on the ground that coal is used for the generation of electricity which is an intermediate product and not the final product which is exported and since electricity is exempt from GST, the ITC of the tax paid on coal for generation of electricity is not available?*

***Clarification:** There is no distinction between intermediate goods or services and final goods or services under GST. Inputs have been clearly defined to include any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business. Since coal is an input used in the production of aluminium, albeit indirectly through the captive generation of electricity, which is directly connected with the business of the registered person, input tax credit in relation to the same cannot be denied.*

2. Advance Authority Ruling of Karnataka⁵ Cited Advance

‘Look at’ approach will be relevant in respect of blocked credits. Special Leave Petition (SLP) has been filed against the above said decision before Hon'ble Supreme Court.

Authority Ruling of Karnataka is one of its kind in the sense that even when applicant viewed activity of generation of electricity as separate supply (delinking it from manufacture of final product albeit captively consumed) and thereby stated they are effecting exempt supply, the authority stepped in and provided correct guidance as under:

“The second activity of production of electric energy is a supply to self as the electricity produced is captively used. In fact the production of electricity in a solar power plant geographically separated from the manufacturing site is an intermediate process in the manufacture of cement akin to the use of generator sets within the factory premises to produce electricity for consumption in the manufacturing process. The operation of generator sets within the factory would not constitute a separate supply. Similarly the operation of the solar power plant shall not constitute a separate supply warranting the application of Section 17(1) and /or 17(2). Needless to say that this shall apply only in the case where the entire electricity generated is consumed captively and no part of the energy produced is sold or discharged into the grid and not taken out at their manufacturing site.”

3. Para F(d) of Flyer no.19 dated 01.01.2018 - Goods or services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business;

4. CBIC No.79/53/2018-GST dated 31.12.2018 though primary dealt with refund related issues – also brought clarity on what constitute inputs in para 9(b), 12 & 13

5. AAR Karnataka in the case of M/s. Shri Keshav Cement and Infra Limited (26/2019 dated 12.09.2019)

There are also occasions where the said approach has not been adopted, like in the case of M/s. JSW Energy Limited (JEL)⁶, wherein order of AAAR stated that applicant had not gone before AAR on issue of admissibility of input tax credit and restricted itself to issue of job-work. In the facts of the case M/s. JSW Steel Limited (JSL) (principal) sends coal to M/s. JEL (job-worker) who would manufacture electricity and return to M/s. JSL, which will be used by M/s. JSL for manufacture of steel.

Electricity generated is intermediate product, whereas authorities did not adopt 'look through' approach and stated that coal is input for M/s. JEL for production of electricity and not input for M/s. JSL for manufacture of coal. It also doubted arrangement existing for return of electricity by JEL to JSL and therefore held that arrangement does not qualify requirements of job-work under section 143 of CGST Act, 2017. Matter was carried by applicant to Hon'ble High Court of Bombay, wherein it was held that Court cannot go into merits of the case as the statute has not provided for appeal mechanism but considering the fact that decision of AAAR is based on various new grounds raised against the appellant, it remanded matter for reconsideration on merits.

Though issue is on job-work, primary thrust is on whether coal is an input for manufacture of Steel? There are various rulings of Hon'ble Apex court on fuel being cenvatable for manufacture of final product, useful reference

can be made to decision in case of Solaris Chem Tech Limited⁷

Instead of the generation of intermediate product being done by registered person – it is given on job-work basis to job-worker, who will generate power (based on inputs provided by principal) and return to principal for manufacture of steel. This reminds us of an important decision of Hon'ble Supreme court in the case of Tata Oil Mills⁸ dealing with exemption under Excise Act -granted when soap was made using rice bran oil. The assessee manufactured soap from rice bran fatty acid, which is an extract from rice bran oil processed in the assessee's factory at different place. The exemption was denied on the ground that soap was not manufactured in the factory from rice bran oil. The Court took a purposive construction and allowed the exemption. Though not on similar issue, taking cue from the decision it can be said that 'electricity' will continue to remain intermediate product and generation at different place or through job-worker should not result in different tax incidence.

Limits of 'look through'?

Next question arises as to how far, we should look through? Whilst we understand that for examination of credit one should not stop at intermediate stage, the question arises at which point the look through should cease. This brings us to the interesting decisions available in the context of input tax credit when by-product & waste emerge during process of manufacture.

A. Central Excise law:

Guiding principle on the decision

in excise law has been that one cannot use lesser quantum of the inputs to manufacture the same quantity of final product and prevent emergence of by-product /waste.

Hon'ble Supreme Court⁹ in the context of by-product firmly held that emergence of by-product is technological necessity and hence no part of input can be said to be used in production of by-product.

Hon'ble High Court of Madras¹⁰ in the context of attribution of inputs to wastes (press mud and spent wash) emerging during the manufacture of sugar, made a significant finding in para 15 of the order that *".. the commencement of journey of those cenvated inputs used either in or in relation to the manufacture of final products ends with the emergence of those final products along with inevitable wastes. Their usage cannot be traced beyond the first degree."*

What transpires from above is that said inputs are eligible in entirety for input tax credit as specific inputs and they do not become common credits.

Issues mainly arose on the fact that those products were non-excisable goods¹¹ and accordingly did not garner any Revenue to exchequer while credits were fully allowed on inputs. Hence various amendments in law in the form of legal fiction of deemed marketability of the goods, amendment to Cenvat Credit Rules, 2004¹² to include non-excisable goods cleared for consideration within ambit of 'exempted goods' for Rule 6 of CCR, 2004 were done.

⁶ The Maharashtra Appellate Authority got Advance Ruling for Goods and Service Tax in the case of M/s. JSW Energy Limited – order dated 02.07.2018.

⁷ Collector of Central Excise vs Solaris ChemTech Ltd reported at 2007 (214) ELT -481 (SC)

⁸ Tata Oil Mills Company Limited vs Collector of Central Excise dated 14.08.1989 in Civil Appeal Nos.1304 -1305 of 1987

⁹ Union of India vs Hindustan Zinc Limited reported at 2014 (303) ELT 321 (SC)

¹⁰ Commissioner of Central Excise vs EID parry reported at 2013 (293) ELT 10 (Mad)

¹¹ Union of India vs DSCL Sugar Ltd reported at 2015 (322) ELT 769 (SC)

¹² Notification no.6/2015-C.E. dated 01.03.2015, Circular no. 1027/15/2016 DT. 25.04.2016

B. Sales Tax/VAT

While we have seen a series of decisions in excise, the sales tax also had its spate of decisions on allowing input tax credit, reference can be made to decision of Hon'ble Supreme Court¹³ wherein it was held that as long as inputs are used in manufacture of taxable goods for sale, generation of waste/sludge in the process does not detract the fact that inputs namely 'sulphuric acid' in case of refinery and 'cotton' in case of cotton mills were used in the manufacture of taxable goods for sale. It also held that concurrent use for manufacture of another item of goods which may or may not be taxable is immaterial.

C. Way forward under GST

Thus, we can see input tax credit stands allowed in entirety under erstwhile tax laws. If the position continues under GST law, then such inputs will qualify for ITC as T₄ – Rule 42 (1)(f) of CGST Rules, 2017. If not the same will become part of C₂ – common credit (Rule 42 (1)(h) of CGST Rules, 2017).

Issue stands clearly answered by Hon'ble Supreme Court decision¹⁴ setting aside the decision of Hon'ble High Court of Karnataka.

In the facts of the said case, Oil is extracted from the Sun-flower Oil cake and de-oiled Sun flower cake (by-product) is the residue. The by-product is exempted under KVAT Act. Hon'ble High Court held that dealer was eligible for input tax credit on purchase of sunflower oil cake on the ground that dealer did not set up any industrial unit for the purpose of manufacturing de-oiled cake and the entire raw-material named as Sunflower Cake purchased is for the manufacture of Sunflower Oil.

Hon'ble Supreme court set aside order of High Court, on the

ground that ITC was allowed in the Karnataka VAT Act based on sale of taxable goods and is not relatable to manufacture (decision in context of Bombay General Sales Tax Act referred in foot note no. 13 referred to manufacture of taxable goods for sale, whereas KVAT Section 17 & Rule 131 only referred to sale of goods, no link to manufacture), hence ITC to be determined based on sale of goods. As sunflower Oil (taxable goods) and de-oiled Sunflower cake (exempt goods) both was sold, credit has to be attributed to the extent of taxable goods.

As emphasis under GST law (particularly Section 17 of CGST Act, 2017, Rule 42 & Rule 43 of CGST Rules, 2017) is on supply effected, hence what is relevant is supply made and such inputs will become common credit i.e. C₂.

Is 'look-through' limitless?

The above makes it clear that 'look through' is not confined but it needs to be tread cautiously. It is not that any & every conceivable link between inward supply & in the course or furtherance of business is entitled for ITC.

Decision of Iberdrola Real Estate Investments (Case C-132/16) under European Union VAT law are exceptional; where input tax deduction was permitted on services received and used in the renovation of waste water infrastructure. The said service was rendered to the municipality at free of cost but still ITC was allowed on the ground that there was sufficient link between service received and economic activities of taxpayer (holiday village project – taxpayer was involved in the leasing business and will

What it brings to fore is the caution that 'look through' approach is not to be viewed as an ITC enabler for cases having casual link between 'inward supply' and 'course or furtherance of business', it is only a defence when there is sufficient link.

connect his sewerage to waste water pumping system after renovation). Even there the opinion of Advocate General indicated that it was mere casual link – not sufficient for input tax deduction and also indicated that there could be possibility of being granted permit by municipality to Iberdrola - in which case there will be supply from municipality to Iberdrola. In the absence of facts, AG did not further venture to determine whether at all permission is a service and is there a cross supply etc.. What it brings to fore is the caution that 'look through' approach is not to be viewed as an ITC enabler for cases having casual link between 'inward supply' and 'course or furtherance of business', it is only a defence when there is sufficient link.

Conclusion:

Tersely, registered person can reasonably adopt 'look through' approach in determining the input tax credit under GST law with an exception for negative list of credits [Section 17(5)] - wherein 'look at' approach needs to be employed. ■

¹³ Commissioner of Sales Tax vs Bharat Petroleum Corporation Limited & Phulgaon Cotton Mills Limited reported at 1992 85 STC 220 SC

¹⁴ The State of Karnataka vs M.K. Agro Tech.(P) Ltd. in Civil Appeal no.15049-15069 of 2017 dated 22.09.2017

Co-origination in Lending: The Way Forward

In recent past with Asset Liability Management (ALM) and Liquidity crisis hovering over NBFCs, Co-origination in lending also called Co-lending is next big wave for lending market. By explanation, Co-lending is when Banks and NBFCs come together to disburse loans. It is a win-win situation for Banks and NBFCs, wherein Banks can disburse substantial funds and NBFCs can leverage their penetration and reach to the unbanked geographical areas of the country. Banks have challenge in reaching the last mile customer in rural areas and this gap is potentially filled by NBFCs, as they have their foot prints in the interior parts of rural India. Risk assessment play vital role in such arrangements of Co-lending as it needs to be crafted jointly to meet the compliance requirements of Banks and NBFCs. Let us dive deep into various dynamics of Co-lending. Read on...



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Key Challenges faced today

Current situation and challenges faced by NBFCs and Banks in the lending space

inevitable Co-lending is next big step in collaboration between Banks and NBFCs. It is a partnership which symbolises productive transformation of

| Banks | NBFCs | Customers |
|------------------------------|---------------------|------------------------------|
| Customer Reach | Access to Funds | No access to loans |
| Evolving Customer Demands | Cost of Funds | Higher Interest rates |
| Rise in competition & stress | High risk to reward | Lend from unorganized sector |

Table 1

Table 1 above, represents challenge encountered by Banks, NBFCs and Customers in today's finance market wherein aspirations are growing at individual and corporate levels.

With above challenges being

weakness into potential area of growth which benefits the end customers. Currently, NBFC struggling with access to funds and Banks sitting on liquidity, makes a perfect match for both the entities to join hands and leverage this opportunity. With credit squash for NBFCs Co-

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lending comes as a big prospect to grow linearly.

Considering the end customers for whom access to loans was a big challenge will be able to fulfil their personal needs and dreams.

Key characteristics of the Co-lending arrangement for Banks and NBFCs:

- **Team Structure:** Banks and NBFCs need to identify alliance team to deal with Co-lending operations. This will include drafting of policy, procedures and agreements to ensure complete compliance as per RBI guidelines. The team needs to have experts from business, credit, risk, operations, legal and collections to ensure that all the dynamics of loan cycle are covered. Both Banks and NBFCs need to mindfully craft the team composition to reap the benefits of Co-lending considering this as a long term partnership.
- **Sourcing:** End customer sourcing will be the key aspect which will be taken care by NBFCs due to their sheer geographical reach. Having said that NBFCs carry the weight of sourcing right type of customers from credit and risk management point of view. Now with internet availability across India, sourcing customer through digital channel will lead to smooth process flow and quick disbursement of loans.

- **Underwriting:** Banks and NBFCs should independently access the risks and prices their part of exposure. Fintech companies play a vital role in determining credit assessment for the end customer who are specially new to credit and availing loans for the first time. Since these type of customers have no credit bureau data, assessing their risk profile should be thought innovatively and leveraging technology through fintech players.
- **Operations:** Defining pre-sanction and post-sanction documentation as part of co-lending arrangements for end customer is important to avoid ambiguity and compliance issues. Banks and NBFCs should comply with RBI requirements from documentation perspective during the loan journey of the customer. Banks and NBFCs should jointly draft operational manual so that there is complete transparency between both the entities.
- **Collections:** NBFCs expertise can be utilised for collection operations. Technology solutions like

Fintech companies play a vital role in determining credit assessment for the end customer who are specially new to credit and availing loans for the first time.

early warning signals can be embedded to have proactive actions towards potential customers who will default. Banks and NBFCs need to independently maintain NPA (Non-Performing Assets) provisioning in their respective books of accounts.

Essential Features of Co-origination model between Banks and NBFCs

Sharing of Risk and Rewards:

Minimum 20% of the credit risk by way of direct exposure shall be on NBFC's books till maturity and the balance will be on bank's books. The NBFC shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-originating bank or any other group company of the partner bank.

Interest Rate: NBFC would have the flexibility to price their part of the exposure, while bank shall price its part of the exposure in a manner found fit as per their respective risk appetite/

assessment of the borrower and the RBI regulations issued from time to time. An indicative illustration for arriving at the single blended/ weighted average rate is detailed in Annex1.

However, notwithstanding the charging of a single blended/ weighted average rate of interest from the borrower, the repayment/recovery of interest shall be shared between the bank and the NBFC in proportion to their share of credit and interest.

Know Your Customer (KYC):

The co-originating lenders shall adhere to applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-

Banking Regulation (DNBR) and may also be guided by Para 14 of Master Directions on

KYC, issued by DBR.

Loan Sanction: The NBFC shall recommend to the Bank proposals as found relevant for joint

lending. The lenders shall be entitled to independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both the Bank and the NBFC shall be parties as lenders to the loan agreement with the customer.

Common Account: The Bank and the NBFC shall open an escrow type common account for pooling respective loan contributions for disbursement as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. Regarding loan balances, the NBFC/ Bank shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information with the Bank/ NBFC.

Monitoring & Recovery:

Both lenders shall create the

The NBFC shall recommend to the Bank proposals as found relevant for joint lending.

framework for day to day monitoring and recovery of the loan, as mutually agreed upon.

Security and Charge Creation:

The lenders shall arrange for creation of security and charge as per mutually agreeable terms.

Provisioning/Reporting

Requirement: Each of the lenders shall follow its independent

provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the lenders shall carry out their

respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending.

Assignment/ Change in Loan

Limits: Any assignment of loans by any of the lenders can be

done only with the mutual consent of both the lenders. Further, any change in loan limit of the co-originated facility can be done only with the mutual consent of both the lenders.

Grievance Redressal: It shall be the responsibility of the NBFC to explain to end borrower regarding the difference

between products offered through the co-origination model as

compared to its own products. The front-ending lender will be primarily responsible for

providing the required customer service and grievance redressal to the borrower. However,

any complaint registered by a borrower with the NBFC and/or bank shall also be shared with

the bank/ NBFC and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs.

Business Continuity Plan:

Both the bank and the NBFC shall formulate a business continuity

plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-origination agreement.

Annex 1 - Indicative Illustration for calculation of Blended/ Weighted Average Interest Rate

Scenario 1: Fixed interest rates

Customers are offered fixed interest rate throughout life of loan.

| | Example 1 | | Example 2 | |
|---|-----------|---------|-----------|---------|
| Blended interest rate calculations | Bank | NBFC | Bank | NBFC |
| Benchmark Interest Rate | 8% | 9% | 8% | 9% |
| Spread | 2% | 3% | 2% | 3% |
| Interest rate to consumer | 10% (A) | 12% (B) | 10% (A) | 12% (B) |
| Loan contribution ratio | 80% (C) | 20% (D) | 70% (C) | 30% (D) |
| Blended interest rate (A*C)+(B*D)= E | 10.40% | | 10.60% | |

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Scenario 2: Floating interest rates

| | Example 1 | | Example 2 | |
|--|-----------|---------|-----------|---------|
| Change in Weighted Average interest rate | Bank | NBFC | Bank | NBFC |
| Benchmark Interest Rate | 8% (A) | 9% (B) | 8% (A) | 9% (B) |
| Loan contribution ratio | 80% (C) | 20% (D) | 70% (C) | 30% (D) |
| Weighted Average Benchmark Interest Rate ($X = A \cdot C + B \cdot D$) | 8.20% | | | 8.30% |
| Spread | 2% (E) | 3% (F) | 2% (E) | 3% (F) |
| Weighted Average Spread ($Y = E \cdot C + F \cdot D$) | 2.20% | | | 2.30% |
| Weighted Average interest rate offered to customer at the time of disbursement ($X + Y$) | 10.40% | | | 10.60% |
| Change in Benchmark Rate | 0% (F) | +1% (G) | 0% (F) | +1% (G) |
| Revised Weighted Average Benchmark Interest Rate $X' = [(A+F) \cdot C + (B+G) \cdot D]$ | 8.40 | | | 8.60 |
| New Weighted Interest Rate ($X' + Y$) | 10.60% | | | 10.90% |

Other Charges

Any other applicable charges will be decided mutually between co-originating lenders and communicated to the customer.

Note: The above illustration is only indicative in nature and is not mandatory. However, irrespective of the methodology employed by the lenders to arrive at the blended interest rate, it is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFC is passed on to the ultimate beneficiary.

With both Bank and NBFC eyeing potential growth &

survival opportunity, Co-lending partnerships are here to stay

Potential advantages to different parties involved in co-lending



Below is the key advantage for Co-lending for Banks and NBFCs:

- Increase customer reach
- Tap new customer segments
- Lower cost of customer acquisition
- Provide competitive credit to priority sector and meet regulatory requirements
- Access to latest technologies
- Create customized offerings
- Utilize NBFC's expertise in sourcing & recovery
- Lower interest rates
- Easy access to loans
- Promote financial inclusion in the society
- Customized loans which are fit for purpose
- Get rid of the liquidity crunch
- Increase AUM without funding related challenges
- Survive the NBFC crisis
- Shared risks throughout the loan lifecycle
- Meeting priority sector lending target given by RBI

Role of Technology – Enabling Operations, Improving Customer Experience in Co-lending

It is very important to understand technology changes which needs to be adopted by Banks and NBFCs to make this arrangement a big success. The complex nature of arrangements suggested by Co-lending guidelines makes Banks, NBFCs and technology solutions

providers to come up with innovative software solutions for smooth operational process to be governed.

Furthermore, in this digital era financial service industry is undergoing major innovative disruption in the areas such as multi payment modes, eKYC, chat bots, predictive analysis due to data analytics, real time credit scoring etc.

Digital Customer experience:

It is important that end customer encounters seamless digital workflow to process his loan application. Providing omni channel customer experience is one of the imperative aspects in today's digital era. Getting the data validated from source system e.g. PAN number from NSDL, GST details from GSTIN, Bank statement analysis through fintech services providers will mitigate risk and give smooth experience to end customer who is need of loan.

Integration between core systems:

This simply means that there needs to be robust middle ware engine which should be able to integrate data between Banks and NBFCs. Since Co-lending will be usually a retail loan with high volume the integration layer should be adequately sized. Use of robust centralized middleware systems to enable communications and information sharing between bank and NBFCs would be imperative part of the whole eco-system. The integration layer should be flexible enough

to make the changes for integration with any third-party system considering the frequent changes financial industry is going through.

Data Maintenance:

The data base used to manage customer data needs to be secured as per the latest security guidelines suggested by RBI from time to time. Cyber security impacts the business and could have very high reputational risk for both Banks and NBFCs. Since there is confidential customer data it is vital that data maintenance is done adequately to avoid data breaches. Data maintenance review should be jointly conducted by Banks and NBFCs as regular intervals and it should not be annual activity just for tick in the box.

Escrow Management:

Enablement of Escrow account management with automated reporting to build trust between the Banks and NBFCs. Both the entities would like to have online reconciliation mechanism with zero items pending to be unreconciled.

Regulatory and Internal reporting:

MIS to senior management of Banks and NBFCs is vital for them to make strategic decisions on how the portfolio is behaving, what are the customer behaviour trends

Cyber security impacts the business and could have very high reputational risk for both Banks and NBFCs.

shaping up, geographical insight of portfolio behaviour and other tactical areas which will facilitate them to take decisions as part of their day to day business activities. Implementation of reporting tools which ensure meeting regulatory requirements and timely production & consolidation of financial statements and reports by adopting data policies, procedures and standards in the most efficient method.

Bureau reporting:

Technology system should be robust enough to ensure correctness of bureau reporting as per the data requirement standard of credit bureaus. If the mandatory data required by bureau is not captured in source system, there is high chances of rejection of data by bureau which is not an efficient way to design any technology solutions.

Co-lending as forthcoming model – Beginning of new partnership between Banks and NBFCs

MSME (Micro small and medium enterprises) and SME (Small and medium enterprises) sector always had challenge of access to fund to meet their business requirements but with challenges comes opportunities. Co-lending is a partnership model wherein Banks and NBFCs will jointly collaborate to meet the funding requirements of MSME and SME. Most of these tier 3 and tier 4 entrepreneurs do not

have a formal document which will facilitate Banks and NBFCs to do their income assessment. This pushes fintech companies to come up with innovative credit assessment model for “New to Credit” (NTC) customers which can be leveraged by Banks and NBFCs as part of their co-lending model. This initiative by RBI will enhance the credit flow to productive sectors which will drive consumption demand and set the wheel of Indian economy rolling at a faster speed. The liability side of balance sheet for banks was executed by government through JAN DHAN YOJNA wherein rural population were guided to open bank accounts. Co-lending will take care of asset side of balance sheet for Banks and NBFCs to tap the market which has huge potential to grow exponentially for next two decades.

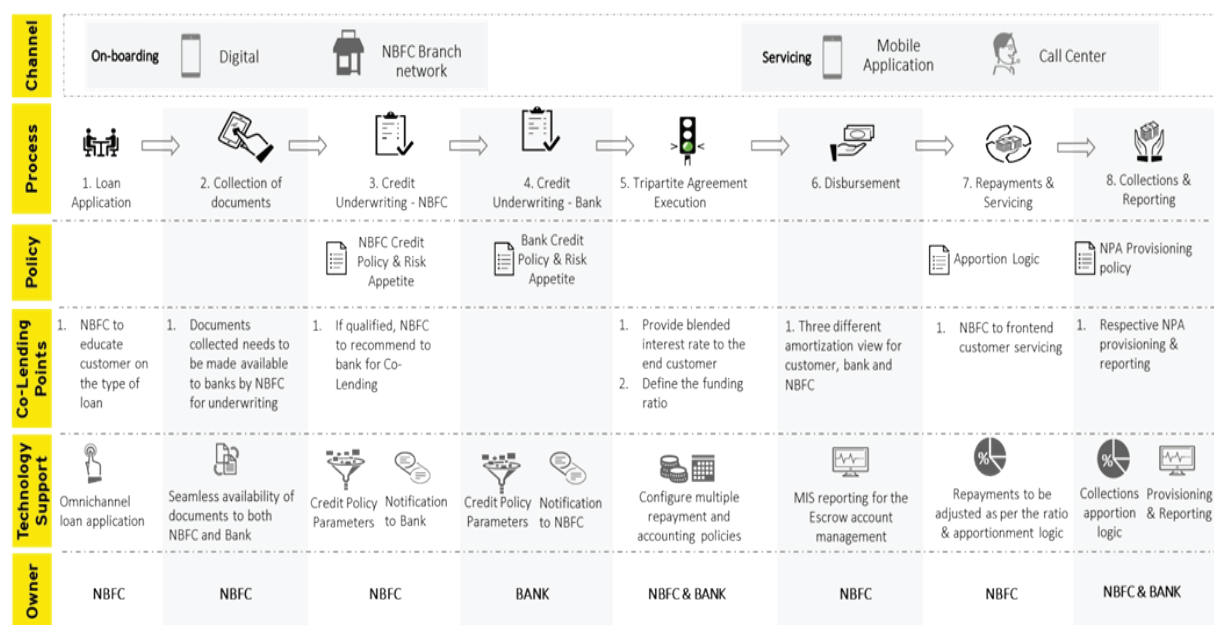
The Co-lending guidelines introduced by RBI has challenged the existing traditional model of lending market. It has opened avenues for Banks, NBFCs and Technology service providers on how to work in a collaborative method so that each entity reap the advantage and shares the risk associated.

Banks and NBFCs will have to enter in tri-partite agreement with each borrower and will have to open escrow account to scree movement of funds as part of this partnership/ collaboration. Both the entities will be required to do significant ground work before the flight takes off. The credit assessment parameters would be required to mutually agreed upon to ensure efficient risk assessment of the customer.

This model will reach the pinnacle in next two to four years with more and more innovations coming within the model itself. It is rightly said that “Change is the only constant” and Co-lending is one of the key changes in the lending model which is going to stay for long term.

The Co-lending guidelines introduced by RBI have challenged the existing traditional model of lending market and has opened avenues for Banks, NBFCs and Technology service providers on how to work in a collaborative method so that each entity reap the advantage and shares the risk associated.

Illustrative flow diagram for Co-lending process:



Source:

RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19

Different Facets of Peer-to-Peer

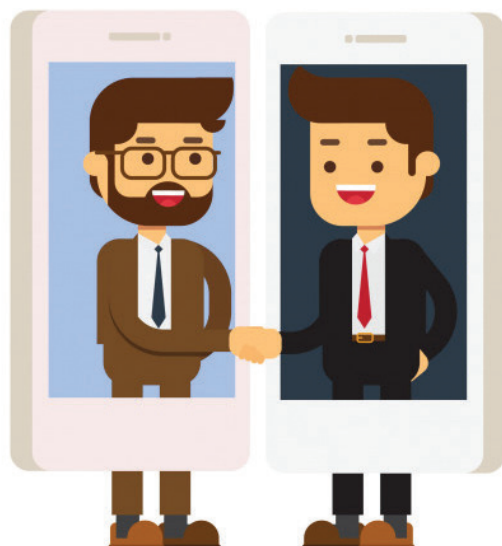
The financial system has evolved in sync with the evolution of human society. From the primitive man with scarce resources, limited demands and barter system in use, there being no requirement of money, to the introduction of monetary medium of exchange.

With the introduction of money, the traditional financial system of taking loans from moneylenders came into practice thereby introducing banks and other financial institutions in the economy. traditional system of taking loans from money lenders came into practice thereby introducing banks and other financial institutions in the economy. A new type of digital financial system, FinTech, has also emerged. Among the various models of FinTech, one is Peer-to-Peer (P2P). This model provides a platform for the underserved section of the society and high net worth individuals in facilitating loans by the latter section of the society to the former. The article describes how the model works, in a useful way; its limitations, recent developments and also how regulation can bring improvements in the existing model. Recently, some undisclosed amount has been raised by P2P, the same has also been discussed in the article. Read on to know more...



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Introduction

FinTech is the abbreviation used for the term Financial Technology. It refers to collaboration between financial companies and technology that has transformed financial receipts and payments transaction system. Such collaboration has led to many innovations in the financial sector and various models have been developed to further availability of loans; be it for a business or for an individual. One such model is Peer-to-Peer (P2P) lending and borrowing system.

A bank is different from a P2P company. The latter are matchmakers, i.e., they match borrower with lenders on a purely fee based model. P2P companies offer online

platforms that match lenders and borrowers to facilitate unsecured short-term loans. The interest rate levied is higher than what is offered by the banks and other financial institutions. The interest rate is decided mutually (depending on the level of risk) by borrower and lender. Generally, a borrower has to pay a minimum of 11% per annum interest rate and the maximum rate can reach 36% per annum depending on the creditworthiness of the borrower. While the interest rate earned by the moneylender comes approximately to 48%, the interest amount for both the parties is processed through P2P Company.

Brief History of P2P

P2P lending started in 2006 when Prosper Marketplace and Lending Club brought a niche business to enable investors with surplus funds to lend capital as loans to millions of borrowers with low creditworthiness, who were finding it difficult to get loans from the traditional banks. On the one hand, lenders started earning higher yields than market rate and on the other hand, borrowers were happy to get loans despite their average credit score. Thus, this alternative investment platform is mutually beneficial to both parties and presents new avenues for growth. The P2P lending industry has grown year after year and has turned into a multi-billion dollar industry. The easy lending and borrowing speed up the process of development and expansion of industries, which also contributes in increasing the number of jobs.

Benefits

P2P does the work of scientifically matching the requirements of lender with the profile of the borrower to facilitate easy approval of loans at negotiable interest rates. Investment through P2P platforms is safe, although it does involve a certain amount of risk, but that can be reduced through diversification. On a P2P platform, lenders can invest in different loans. With its varied benefits and flexibility, P2P has taken the financing sector to the next level.

P2P is especially beneficial to small scale industries (SSI) and individuals as it aids in

Along with easy loans, P2P provides all critical information through charts and tables and also allows tracking of applications.

timely loans, which are not easy to obtain in traditional banking system due to lack of security. Along with easy loans, P2P provides all critical information through charts and tables and also allows tracking of applications. Such access to information keeps customers satisfied as they stay informed about the latest developments in their cases. Since P2Ps are the match makers, no capital adequacy is required. Hence, many new start-ups have also come into this arena. P2P provides all facilities online without any intermediaries, thus eliminating tedious paper obligation, which consequently mean a reduction in processing charges.

By opening up an alternative avenue, P2P offers helping hand to those in need. Unable to avail traditional borrowing facilities, the underserved section of the society can avail loans and fuel small businesses.

The revenue of P2P platforms depends on the volume of loan originated. They do their best to maximise lendings, and in process, at times, ignore proper evaluation of credit scores of the borrowers. They lend money determining the creditworthiness of the borrowers at their own discretion, being indifferent to the possibilities and consequences of financial defaults.

Default and Risks

Lending varies from time to time, unprofitable businesses sustain themselves by taking advantages of the times when the loans are cheap, but there are periods when the interest rates are high and credit becomes expensive. P2P is not free from failures. Investors face the risk of losing their capital if their portfolio borrowers fail to pay installments. As many P2P platforms provide no guarantee, there is a risk of losing large sums of money if borrowers default. To take an example, the default rate at one of the Indian P2P company is 1.94 %. A high default rate can make the customers distrustful of the system, which is a major obstacle to the growth of the P2P platform. In the United Kingdom, Zopa, a P2P in UK had 4% default rate in 2016 - a volume comparable to what experienced during 2008 financial crisis, when 4.16% of the company's loan book defaulted. Zopa had revised up its estimate for the 2017 loan book from 4.52% to over 5% and 3.32% for 2018.¹

According to a U.S. business-focused, English-language

P2P is not free from failures. Investors face the risk of losing their capital if their portfolio borrowers fail to pay installments. As many P2P platforms provide no guarantee, there is a risk of losing large sums of money if borrowers default.

¹. Financial Times 22-03-2019, "Peer to Peer Pressure does the risks: outweigh the rewards" by Nicholes and Kate

international daily, 'high rate of defaults hit P2P lending sector' in February 2017. Investors in the P2P lending sector have seen their returns suffer due to high rate of borrower defaults among start-ups. But this happened in 2017, now position has changed drastically.

Sometimes, P2P platforms are steered by young entrepreneurs who may lack knowledge in banking and finance and the experience to fully vet buyers and sellers. This makes it possible for a fraudster, looking for an opportunity to launder money, to enter the market. Also, as all transactions take place online, the P2P organisation may not be able to see when their customers seem unusually nervous. In absence of in person cues, P2P platform may look for suspicious transaction patterns, for example people filter their illegal profits by breaking them into small loan amounts (also called smurfing) so that the loan amount remains below the required amount (maximum amount required by regulatory authorities), for example, in India, each investor can invest only up to ₹ 10 Lakh (\$15,350) across all P2P platforms and the amount invested with a single borrower cannot exceed ₹ 50,000. For example, if an investor invests ₹ 50,000 in different borrowers at the same P2P platform and also in different platforms in the same week, such an activity could be considered highly suspicious.

Similarly, a borrower can con an online lender. For instance, cases have been observed in China where a borrower created

Though the P2P industry handles transactions worth millions of dollars every day, there is still lack of transparency and regulations and undisclosed sources of funding.

a profile on P2P platform using fake identity and applied for loan. Many individuals misuse the P2P platforms to convert their illegal money into legal income. There have also been cases of issuing to unscrupulous individuals.

As a financial technology, P2P is gaining attention all over the world, but it also seems to be becoming an attraction avenue for money laundering and data breaches. Due to increase in digitalisation, confidentiality of data is exposed to increased levels of risk. Through just an app, it is easy for P2P to collect a much wider set of data than its traditional counter parts do operating through retail branches and online banking.

Though the P2P industry handles transactions worth millions of dollars every day, there is still lack of transparency and regulations and undisclosed sources of funding. There are no specific rules governing the processing fees charged by P2P for their services. In Indonesia, a borrower received only Rp 650,000 out of the total loan of Rp 1 Million. The rest was absorbed in the administration fees of the P2P. This happened because some unregistered firms have unexpected clauses and rules. In the above example,

the borrower debt soared to Rp 25 Million. Several installments were paid, but in case of a missed payment, the borrower was threatened by the P2P. Similar treatment from the company was reported by four other borrowers. Thus, sometimes due to lack of clarity and unreliable partners, these easy to access loans can prove to be unsafe.

Raising of Undisclosed Amounts

It has been observed that over the last few years, some of the P2Ps have often raised undisclosed amount from a named source or alternatively, they have raised a particular amount from an undisclosed source. "Paisa Dukan", an Indian P2P lending platform, raised undisclosed amount from "JITO Incubation & Innovation Foundation (JIIF) in July 2019. In April, 2019, London based Welendus P2P lending platform raised an undisclosed amount. (India web 2, "London based Lending Welendus to enter India as it raises Fresh Capital, April 18, 2019). Of course, funds raised are said to be used for future expansion into India.

Although, the purpose of raising undisclosed amount is said to support financing, hiring experienced key personnel or to strengthen its technology besides adding unique loan offerings for their investors. However, this claim does not answer the question that why does the amount raised is kept confidential creating situation of lack of transparency regarding the embezzlement of money.

Although there is no doubt that the P2P lending market

has shown a high potential for growth, yet several P2P businesses were forced to shut down - either due to high default rates or fraud or due to misuse of funds. In the beginning of P2P lending in US, Prosper and Lending Club were also shut down. There was a big collapse of China's P2P market due to huge default rates and frauds. According to Shanghai based researcher Yingcan Group, more than 400 P2Ps lending platforms collapsed between June 2018 and August 2018. Till 2015, about 4000 P2P platforms were active in China, and the P2P business was estimated at \$130 billion. One of the top players was Ezubao that was established in 2014 and rose to a worth of about RMB 50 billion. It offered high returns of 9-15% with no limits on maximum amount or duration of deposit. Trouble started with Ezubao investment scheme, which turned out to be a Ponzi scheme and duped more than nine lakhs investors. This created a chaos in the market and led to similar defaults in China. In May 2019, Bondmason, a UK based P2P, shut down its business due to its inability to comply with regulatory and client acquisition costs. Quakle, another UK based P2P, collapsed within a year of its launch (in 2014) due to nearabout 100% default rate. Loan Meet, an Indian P2P founded in 2016, decided to shut down its operations in 2019. Although Loan Meet raised an undisclosed amount from Chinese and Indian investors, it was unable to raise subsequent funds. Puddle, a US P2P start-up founded in 2012,

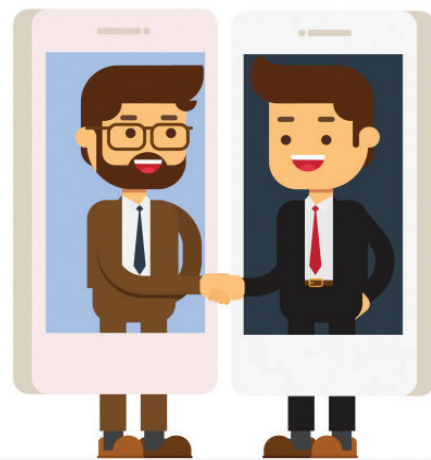
announced its shutdown in 2018 as its founders realised that their business was unsustainable.

Regulations

Until few years back, P2Ps were not subject to any regulatory authorities, which meant that some platforms were free to follow their own policies. Several P2P practices were found undesirable and that creates mistrust among investors and borrowers. Most of the P2P participants wanted government to introduce some regulations over P2P platforms and take steps to minimise default rates. A regulatory body could protect parties against risk and maintain a fair yet competitive market to encourage lending to small businesses.

Every borrower and investor who is registered with P2P platform should be verified using several criteria, including social, personal, and financial and the sources from where the investment is coming from.

The regulation of P2P platforms has evolved significantly word wide over the last few years. It has had beneficial effects on the P2P industry. For instance, in China, taking lessons from the past, regulation has become increasingly strict since 2015 and the People's Bank of China (PBOC) has issued guidelines. Because of the new strict rules the number of P2P platforms has decreased by one-third since 2015 (Economist 2017). However, many platforms have welcomed these rules, which they believe will help



P2P become a more profitable and reliable sector. The role of P2P platforms in the US and China is reflected to the role of information intermediary, and therefore the platforms in these countries rely on banks to originate the loans.

Till October 2017, P2P companies were not regulated in India. Learning from failure of unregulated P2P lending firms in China, Reserve Bank Of India (RBI) invited suggestions from all the P2P platforms for regulations to be introduced in order to streamline the sector. On the basis of suggestions, RBI launched regulations and made it compulsory for all the P2P platforms to register themselves as Non Banking Financial Companies. As per the guidelines issued by RBI, the lending and borrowing amount is to be maintained under a cap on the platforms. Similarly, a borrower cannot borrow more than 10 lakhs across all P2P platforms. Also, at any given point of time, an investor cannot lend more than ₹ 50,000 to the same borrower across all P2P platforms. Maturity period has been restricted to

Similarly, a borrower cannot borrow more than 10 Lakhs across all P2P platforms. Also, at any given point of time, an investor cannot lend more than ₹ 50,000 to the same borrower across all P2P platforms.

36 months. Funds transfers between lenders and borrowers will take place through escrow account mechanism. To register as a P2P with RBI, the applicant should have minimum net owned funds of Rupees 20 Million. This will ensure that platforms have enough “Economic skin” in the game. Although P2P firms did feel the sting of conservativeness from the regulators, but keeping in mind the 2008 crisis, it is felt that precaution is justified.

As on 31st August 2019, 19 P2P firms have registered with the RBI. According to report by global accounting firm, over the next four years, the estimated worth of the P2P market in India would be around \$ 4-5 Billion.

Different countries have taken a different approach towards regulations and as a result, the characteristics of the markets that have emerged also vary. At present, it is partially or fully regulated in many countries such as USA, UK, Japan, China and India.

A survey of the US lending platforms founded that 37% of investors believed regulations to be excessive, while only 63%

wanted more regulations (CCAF 2017). To some extent, in US, the relative lack of funding to SMEs from P2P is a result of the regulations in that country. Stringent regulation have discouraged new participants to enter the market and providing a healthy competition to established platforms.

In the UK, maintaining provision funds by P2P has become a common policy in the lending industry. However, when platforms guarantee returns on investments either way, it takes away the lender's incentive to differentiate between different risks categories. Still, the P2P in the UK has successfully met the funding requirements of SMEs.

China's lending platforms, in contrast to those in the US, believes that the existing regulations are insufficient. In a survey of China's P2P business lending platforms in March 2016, 68% called for increased regulations (Cambridge Centre for Alternative Finance 2016).

Sometimes P2P is subject to two different regulations, which creates conflict. In Japan, a P2P platform, Minnano Credit, collected 4,500 Million yen from investors to fund SMEs. However, these funds were actually extended to a single SME unit associated with Minnano credit. This fact was hidden from the investors by exploiting ambiguities in the disclosure regulation.

In the absence of regulations, P2P platforms across different countries have been known to

carry out unethical practices. In some countries such as China, P2P platforms have engaged in fraudulent practices.

Thus regulations, if implemented in the right spirit, will enhance the creditworthiness of both lenders and borrowers at P2P platforms. The sources for funds are the investors, and the investors will offer more funds if they trust the platform. The regulations help the P2P platforms to maintain that trust among investors and ensure a regular supply of funds. Along with the regulations, trust could further be strengthened by having a good number of experienced members on the team having expertise in banking or finance to effectively run the platform. Tax exemption on interest will also contribute towards expanding the P2P lending business models.

Conclusion

Overall, P2P has proved to be a successful alternate business model. With strict credit policies by the appropriate authorities and other initiatives, it is estimated that the model will see a remarkable annual growth rate (CAGR) during 2019-2025, and would be worth Billions by 2025. Further, simplification of the processes and incorporation of advanced technologies, such as blockchain and smart contracts will enhance transparency in the system can lead to an even steeper growth of the market. ■

Non-Compliance with Laws and Regulations - Significant Requirement under the Revised Code of Ethics

"Whether or not your values are operational is crucially determined by whether or not there are consequences for non-compliance." David Maister

Responding to Non-Compliance with Laws and Regulations (NOCLAR) is an integral aspect covered in the Revised Code of Ethics. While tendering professional service to a client or performing professional activities for an employer, a professional accountant may face an instance of NOCLAR or suspected NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer.

Identifying such a situation can often be a complex and challenging one for the professional accountant, the onus lies on the professional accountant to respond to such a situation, the International Ethics Standards Board for Accountants (IESBA) has, accordingly, incorporated the feature of NOCLAR to guide the professional accountant in tackling the situation and deciding how best to serve the public interest in these circumstances.

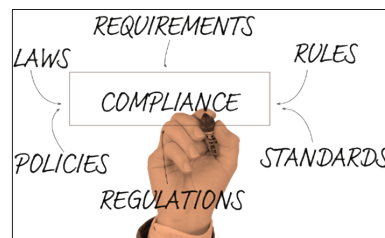
CA. Karuna Bhansali

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Non-compliance with laws and regulations ("non-compliance") comprises of acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by:

- a client/professional accountant's employing organisation;
- those charged with governance of a client or employing organisation;
- management of a client/employing organisation; or
- other individuals working for or under the direction of a client/employing organisation.



However, NOCLAR under Revised Code of Ethics (hereinafter referred as The Revised Code) does not address the personal misconduct unrelated to the business activities of the client/employing organisation and non-compliance by parties other than listed out in the definition of NOCLAR.

The Revised Code has incorporated NOCLAR and

* Contributed with guidance from CA. Vandana Nagpal, member of the Institute.

most importantly covered guidance for the members as to how to deal with the non-compliances. The existing Code of Ethics is silent with respect to guidance for the members on NOCLAR.

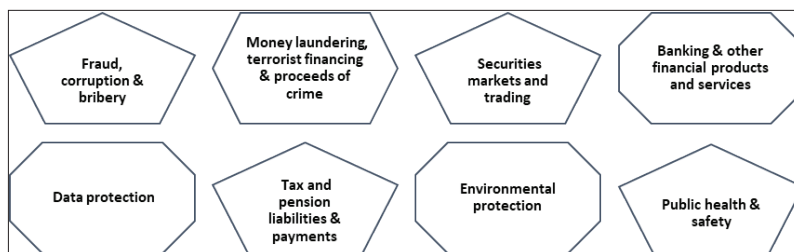
The Revised Code has discussed, in depth the manner, in which the professional accountant will address the NOCLAR, alert the client about the NOCLAR and take further steps to respond to NOCLAR.

The Revised Code has put thrust on Public Interest in the fundamental principles and NOCLAR as well. Professional accountants whether in service or in practice, are required to act in the public interest and are also required to comply with relevant laws and regulations. Moreover, members are required to follow the principles of integrity and confidentiality. However, complying with the principle of confidentiality would not be in the public interest when an accountant's client or employer is involved in significant illegal activities.

The Revised Code ensures that the professional accountant responds to NOCLAR in a timely manner so that adverse



Examples of laws and regulations which section 260/360 addresses include those that deal with:



consequences of the same on stakeholders and the general public are rectified, remediated or mitigated to the extent possible. In other words, measures specified in the Revised Code are preventive in nature.

Revised Code contains two detailed sections on NOCLAR for professional accountants in service and in practice for listed entities.

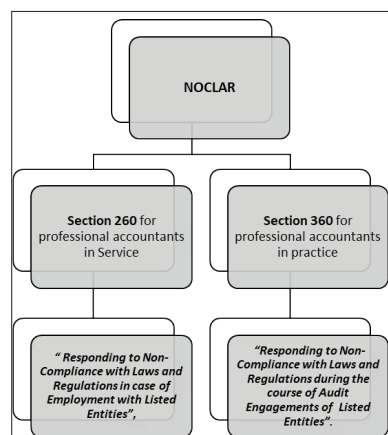
Professional accountants while providing services to a client or carrying out professional activities for an employer in listed entities, come across various acts or suspected acts of non-compliance with laws and regulations (NOCLAR).

Such non-compliances may result in levying of fines, giving rise to litigation or imposition of other penalties /outcomes for the clients or employing organization which may potentially materially affect its financial statements. These non-compliances can also potentially lead to substantial harm to stakeholders such as investors, creditors, employees or the general public. Such substantial harm can result in serious adverse consequences to the parties concerned in financial or non-financial.

Example of such non-

compliances are given below:

- A listed company incurs huge significant financial losses due to perpetration of fraud in the company.
- Hazard to the health of the employees or public due to non-compliance with environmental laws and regulations, for example, in chemical / textile industry.
- Management of listed entity indulging in money laundering looks for avenues with weak banking controls for converting illegal money into the banking system. Any excess credit in the bank accounts that does not belong to the customer or is parked for a temporary period should raise suspicion of such activities. Such listed entity indulging in money laundering activity looks for avenues to enter into 'benami' (could be called 'proxy' name lending) transactions. Companies with extensive cash handling and inadequate identification process of source of money or about the remitter are susceptible to money laundering activities.
- Non establishment of vigil mechanism as required



under regulations 22, 46 and Part C of Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

- Non deposition of statutory dues such as PF/Gratuity/Advanced Tax/GST, etc.

While encountering such non-compliances or suspected non-compliances, the accountant shall obtain an understanding of legal or regulatory provisions governing such non-compliances or suspected non-compliances, and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

Let us take an example of ABC Listed entity, which has submitted the financial statements for the year ended 31-3-2020 for audit. The audit assistant observes the same and brings to the notice of the Professional Accountant that the company's records show the following:

The Company has material uncertain position related to the regulated matters and direct and indirect tax matters under dispute.

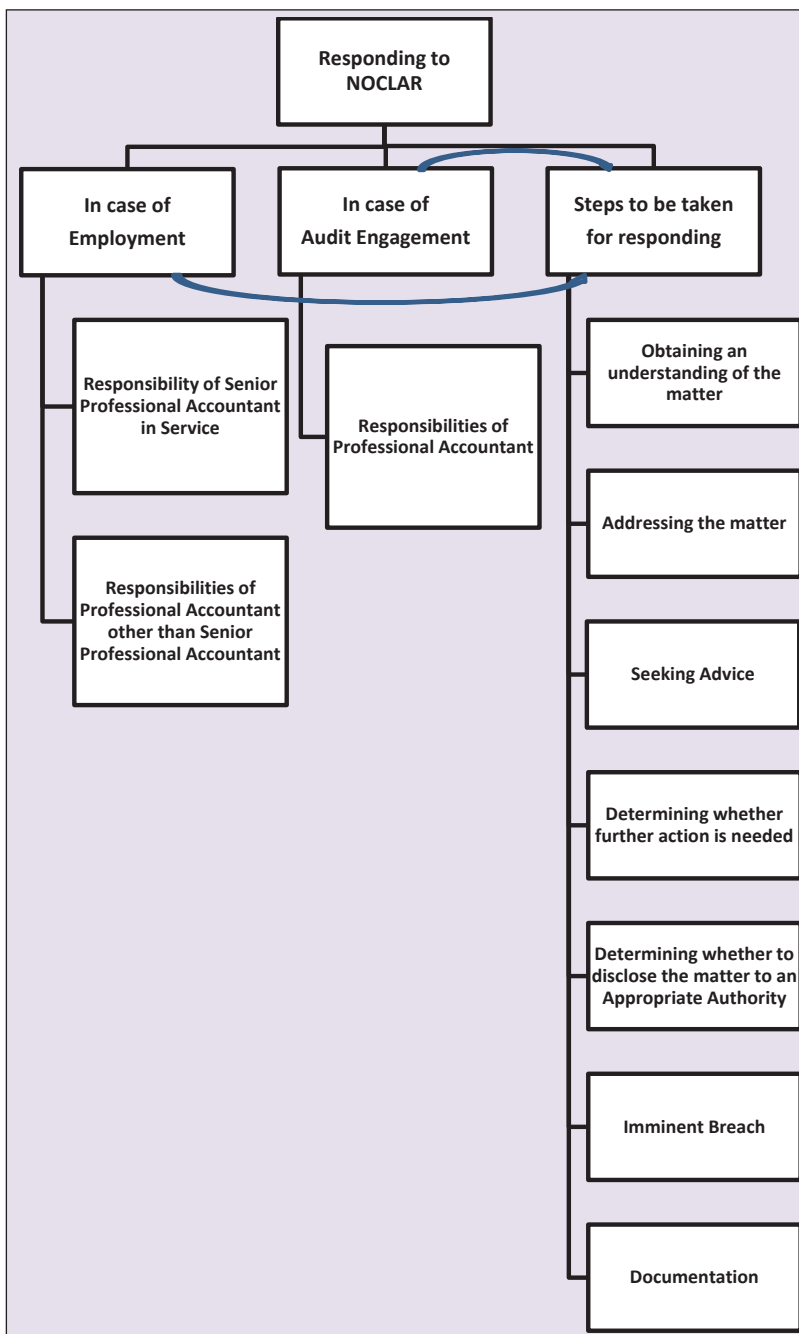
-Customs duty rupees 105 lakhs - Demand notice received on 17-8-18 but no action has been taken to pay or appeal.

-Non-current assets in respect of withholding tax and other includes CENVAT recoverable amounting to rupees 209 lakhs which are pending adjudication.

Rupees 23 lakhs of employee contribution and rupees 19.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that rupees 14 lakhs only has been deposited with ESIC department during the year ended 31st March, 2019.

It has also come to the notice that child labour is employed by the company.

Being an auditor of ABC Listed Entity, the onus lies on the Professional Accountant to take



timely steps (NOCLAR in case of Audit Engagement is covered in section 360 of Revised Code). While taking timely steps, the accountant shall take into account the nature of the matter and assess the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Steps to be taken by the Professional Accountant are:

I. Obtaining an Understanding of the Matter:

After gaining knowledge about the non-compliance or suspected non-compliance, the foremost responsibility which vests on the statutory auditor of ABC Listed entity is to obtain an understanding of the matter and circumstances.

In such circumstances, the statutory auditor is expected to apply his knowledge and expertise and exercise professional judgement.

After assessing the nature and significance of matter, the auditor might consult with others within the firm, a network firm or the Institute or with legal counsel on a confidential basis.

The professional accountant shall **discuss the matter with the appropriate level of management and, where appropriate, those charged with governance** so as to reach to an understanding of the facts and circumstances with respect to the matters and its consequences. Discussion may lead to investigation of the matter by management or those charged with governance.

It is pertinent at this juncture to decide about appropriate level to

be approached. Appropriate level of management with whom to discuss the matter is a question of professional judgement.

Generally, **appropriate level of management is at least one level above the individual or individuals involved or potentially involved in the matter**. However, **in case of group**, appropriate level might be **management at an entity that controls the client**.

The professional accountant may decide to discuss the matter with internal auditor in accordance with the circumstances.

In case the professional accountant has reason to believe that management is involved in the NOCLAR, in that situation he shall discuss the matter with those charged with governance.

The statutory auditor in aforesaid example has to follow the steps as mentioned above requiring to obtain an understanding of the matter and circumstances like:

- For tax disputes, to obtain details of completed tax assessments, orders passed, demands raised and to check whether any appeal has been filed challenging the order from the management.
- Involvement of internal experts to challenge the management's underlying assumptions in estimating the tax provisions and the possible outcome of the disputes.
- Consideration of legal precedence and other rulings in evaluating management's position on uncertain tax status.
- For child labour, to seek details from HR and legal department

of ABC Entity about such employment.

- To enquire from the management about non-deposit of full amount of employee state insurance contribution to ESIC Department, evaluate the management's valuation method used and accuracy.

Further, the auditor is required to discuss the nature and circumstances of the matter regarding such non-compliances, assess likelihood of collusion and potential consequences of the matter with management/appropriate authority to investigate the matter and take appropriate action.

An act constitutes non-compliance or not is ultimately a matter to be determined by a court or other appropriate adjudicative body.

II. Addressing the Matter:

While discussing with management/those charged with governance about NOCLAR, next important step is to ensure that appropriate and timely action has been taken to rectify, remediate or mitigate the consequences of NOCLAR.

The professional accountant shall also see whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. In case, they do not understand their legal or regulatory responsibilities, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice.

Professional accountant shall comply with applicable:

- laws and regulations including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- requirements under auditing standards, including those relating to
 - ❖ identifying and responding to non-compliance, including fraud,
 - ❖ communicating with those charged with governance
 - ❖ considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

For example, reporting of fraud under section 143 (12) of the Companies Act, 2013. As per sub-section (12) of section 143 of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

In the aforesaid example, the auditor of ABC Listed entity after obtaining understanding of the matter and circumstances, is required to ensure that whether ABC Listed entity has taken appropriate step to rectify/ remediate the disputes regarding statutory dues or non- deposit of full amount of ESIC and mitigate the violation of the Child Labour (Prohibition and Regulation) Act, 1986.

In case the management does not take appropriate action the auditor should determine the need for further action.

IV Determining Whether Further Action Is Needed

The next step to be taken by professional accountant is to assess the appropriateness of the response of management/ those charged with governance. Thereafter, in the light of the response received from the management, the professional accountant is also required to decide whether there is need for **further action to be taken in public interest.**

While determining the need for further action, in the given example of ABC Listed entity, the professional accountant will take into account the following factors:

- applicable legal and regulatory framework.
- pervasiveness of the matter throughout the client.
- After discussing with management or those charged with governance, whether the professional accountant continues to have confidence in the integrity of management /those charged with governance.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

- Whether a reasonable informed third party would be likely to conclude that accountant has acted appropriately in the public interest.

Assuming that management of ABC Listed Entity was aware of such non-compliances causing the professional accountant to have no longer confidence in the integrity of management/ those charged with governance, statutory auditor should exercise professional judgement in deciding the need for further action.

The professional accountant might take further actions, namely:

- ❖ **Disclosing the matter to an appropriate authority as specified under respective law.**
- ❖ **Withdrawing from the engagement and the professional relationship where permitted by law or regulation.**

The facts and other information to be provided are those that, in the predecessor accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the audit appointment.

Seeking Advice: As assessment of the matter might involve complex analysis and judgements, the professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with the Institute.

For example, the auditor is required to report certain matters of non-compliance to

the Reserve Bank of India as per the requirements of Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1988, issued by the Reserve Bank of India. Also, some laws or regulations require the auditor to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.

V Determining Whether to Disclose the Matter to an Appropriate Authority

After obtaining an understanding of the matter, addressing the matter and determination of need for further action in public interest, the professional accountant is to determine whether to disclose the matter to an appropriate authority or not. The purpose of disclosure to appropriate authority is to enable them to cause the matter to be investigated and determine the action to be taken in public interest. However, disclosure of the matter to an appropriate authority if precluded would be contrary to law or regulation.

Example of situation where the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purpose of securing large contracts).
- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or

pose a systemic risk to the financial markets.

- It is likely that the entity would sell products that are harmful to public health or safety.

Disclosing the matter to an appropriate authority as specified under respective law. **For example, Ministry of Labour and Employment in case of a breach of the Child Labour (Prohibition and Regulation) Act, 1986; Further, the appropriate authority would be the Institute in case of complaint of professional misconduct against a professional accountant, whether in public practice or in service, Securities and Exchange Board of India (SEBI) in the case of fraudulent financial reporting or an environmental protection agency e.g. Environment Pollution (Prevention & Control) Authority for National Capital Region of Delhi in the case of a breach of environmental laws and regulations.**

In the aforesaid example, the professional accountant decided to disclose the violation and non-compliances in ABC Listed entity in his audit report to

an appropriate authority, that disclosure is permitted pursuant to confidentiality fundamental principle of the Code. However, the accountant is required to act in good faith and exercise caution when making statements and assertions while disclosing the matter.

VI Imminent Breach

In exceptional circumstances, where the professional accountant consider that such breach would cause considerable harm to investors, creditors, employees or the general public, in such circumstances, the professional accountant should consider the appropriateness of discussing the matter with management / those charged with governance. The professional accountant is required to exercise professional judgement and decide to disclose the matter in order to prevent or mitigate the consequences of such imminent breach to an appropriate authority.

VII Documentation

Standards on Auditing 230, Audit Documentation require a professional accountant performing an audit of financial statements to:

| | | |
|--|--|---|
| <p>Prepare documentation sufficient to enable an understanding of significant matters:</p> <ul style="list-style-type: none"> ♦ arising during the audit, ♦ the conclusions reached, and ♦ significant professional judgments made in reaching those conclusions; | <p>Document discussions of significant matters including the nature of the significant matters discussed:</p> <ul style="list-style-type: none"> • with management, • those charged with governance, and • others, and when and with whom the discussions took place; and | <p>Document identified or suspected non-compliance, and the results of discussion with:</p> <ul style="list-style-type: none"> • management and, • where applicable, those charged with governance and • other parties outside the entity. |
|--|--|---|

The Revised Code over and above require the professional accountant to follow the additional documents requirements as under:

- How management / those charged with governance have responded to the matter.
- The course of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the responsibility of public interest has been fulfilled.

Responsibility of Professional Accountant in case of Employment:

In the same example assume that the professional accountant working in the same listed entity as employee and considering the **ABC Listed entity as employing organization, responsibility of professional accountant will be different.**

In such a situation, the professional accountant has to consider as to whether there are established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, **for example, an ethics policy or internal whistle-blowing mechanism.** Such protocols and procedures might allow matters to be reported anonymously through designated channels.

The responsibilities of professional accountant is further divided in two categories:



A Professional accountant while employment has to follow certain steps:

- **Obtaining an understanding of the matter**
- **Addressing the matter**
- **Determining whether further action is needed**
- **Seeking Advice**
- **Determining whether to disclose the matter to an Appropriate Authority**
- **Imminent Breach**
- **Documentation**

Senior professional accountants in service ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources.

Conclusion:

Unique feature of the accountancy profession is acceptance of its responsibility towards the public interest. Ethics are as old as human civilisation and the foundation stone of the Chartered Accountancy Profession. It is nothing but the laws or rules of acceptable behaviour. Therefore, professional accountants whether in service or in practice are required to comply with Ethical standards. This denotes that adhering to Ethics must step up

and that resources must be guided into standards' implementation.

The revised code besides having flawless language, new vibrant structure and guide for the professional accountant, comprises of significant developments, such as more robust framework for addressing a breach of the requirements of the Code, enhanced description of inducements with a view to respond to continuing concerns about bribery and corruption, stronger independence provisions concerning long association of personnel (including partner rotation) with audit clients, detailed independence requirements included for assurance engagements, auditor rotation requirements included under various local regulations and **responding to NOCLAR**, etc.

Towards the end it is reiterated that a Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also to protect and promote the public interest, stimulate greater accountability within organisation, proceed with strengthening reputation of the profession by ensuring the compliance with Revised Code including while responding to NOCLAR and stand-in the public interest.

Dr. Stavros Thomadakis, Chairman of the International Ethics Standards Board for Accountants (IESBA) has very aptly stated as under:

"Again, the accountant has to exercise judgement. But imagine the reverse situation where an accountant turns a blind eye and does nothing about NOCLAR. He or she will live with the risk of consequences down the road. And there have been many cases where in big corporate scandals, the authorities, courts or investors have gone against not only the management when NOCLAR takes place, but also the auditors and accountants." ■

Emerging Opportunities for CA's in Digital India Era

Government is in the business of providing Service to its citizens. Progressive governments have taken note of the inherent challenges in Service Delivery and have wholeheartedly adopted Digital as the means to ensure seamless service delivery. The world today is facing many problems such as pollution, water scarcity, climate change on account of globalisation and urbanisation. Many of such challenges can be tackled with smart infrastructure like energy efficient buildings, electric vehicles, waste management, better usage of resources and use of technology. Using Digital methods service delivery can be target and better results can be achieved.

Introduction to Digital Economy

Everyone wants to go digital. The first step is truly understanding what that means.

The term digital can have different meanings. In fact, technology has brought diverse perspective to society. For policy makers and business it may

act as tool for governance and managing things. For certain industry, it may provide tool for better production and quality enhancement. For others, it may connote a tool for better service delivery. The diversity may challenge the manner in which service are delivered by big and small organisation, even by government. Singapore is a great example of services being provided to citizens digitally. Digital in our view is defined as technologies which carry the following attributes:

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service delivery. The diversity may challenge the manner in which service are delivered by big and small organisation, even by government. Singapore is a great example of services being provided to citizens digitally. Digital in our view is defined as technologies which carry the following attributes:

- Relevance
- Smart Analytics
- Context Based Interaction
- Innovation
- Customer Experience
- Automation
- Artificial Intelligence

Digital Journey is all using data to make smarter and faster decisions, democratising decision making to next levels, and developing much more interactive, immersive and iterative ways of service delivery for Governments. Thinking in this way shouldn't be limited to

Industry-Specific

just a handful of functions. It should be holistically infused creatively partnering with external companies to outsource necessary capabilities. A case in point of Indian Govt. would be the Passport Seva Kendra (It is a phenomenal success story of a truly digital experience)

Some Key Indian Government Digital Initiatives

A digital mind-set institutionalises cross-functional collaboration, flattens hierarchies, and builds environments to incubate new ideas.

documents and certificates digitally to eliminate use of physical document. Citizens of India can sign up to create a DigiLocker account to avail dedicated cloud storage space that is linked to their Aadhaar (UIDAI) number. Documents can be kept safely in the locker and can also be delivered directly as the Organisations registered with DigitalLocker can push electronic copies directly into digital lockers of citizens. These documents can cover driving license, Voter ID, School certificates, and so on. e-Sampark is a mechanism to connect with citizens

a proactive tool for sharing informational and public service messages. The platform not only provide seamless communication between the government and citizens, but also maintains a database of contacts of the nodal officers, representatives and citizens.

Booming Opportunities for Professionals

Let's look at some key areas of interest relevant for Chartered Accountants where Government of India has done digitisation or what government can do in future and hence what new opportunities it would lead to our community

Organisations registered with DigitalLocker can push electronic copies directly into digital lockers of citizens. These documents can cover driving license, Voter ID, School certificates, and so on.

| | | |
|-------------------|-------------------------------|---------------------------------------|
| Aadhar | UPI (BHIM) | CERT-IN |
| Digilocker | DBT (Direct Benefit Transfer) | EPFO |
| eSampark | eVisa | GSTN |
| IRCTC Connect | Jeevan Pramaan | NSM (National Supercomputing Mission) |
| Aaple Sarkar (MH) | | |

Digilocker, cloud storage of important documents

DigiLocker is a platform for issuance and verification of

The government through e-Sampark platform connects directly with the citizens by running mailers, SMS messages and outbound dialing. It is

Legal

| Current State | Future State (How can Government drive transformation using digital) |
|--|---|
| <p>This area has moved with slow pace in terms of Digitisation, Though the cases are now online and orders are also registered online but still, it has a lot of potential.</p> <p>A positive development which has happened is data base of all case laws are available online that can be used for various purposes.</p> | <p>Blockchain can be used to:</p> <p>Issue of notices over email instead of physical delivery and acknowledged online on the network.</p> <p>Written arguments to be filed online and served simultaneously online through the network.</p> <p>An AI based engine can suggest auto judgements to the judge based on past case laws relevant to the case being handled. Finally, the lawyers would still put their arguments and judge would also make his judgement, but it can expedite the process.</p> <p>Chatbots can be used to answer simple questions on Notary, applicable sections or act and the court numbers.</p> <p>Robotic process automation can automate mundane work like scanning, filing, authorisation, creating petitions and notary, etc.</p> |

Chartered accountants in future can get into more value added and high-end services for their clients if these digital initiatives are done. They will end up having effective arguments or refining laws especially in the areas of cyber-crimes instead of mundane work of filing or creating petitions.

Stock Exchanges

| Current State | Future State (<i>How can Government drive transformation using digital</i>) |
|--|--|
| <p>These are into more advanced stage of automation than Legal with Online terminals for trading, Information available on mobile and usage of automation for trade settlement.</p> <p>Document storage is also completely digitised with DEMAT and online KYC, etc.</p> | <p>Real time settlement with what most stock exchanges are aiming for in future.</p> <p>With Blockchain, this is very much possible where one party sells on the network, the other party acknowledges, Bank transfers the funds and Depository transfers the securities on the same network (Canada stock exchange recently did a pilot but failed due to unavailability of National Digital currency).</p> <p>The key to have this is National Digital currency because funds have to be transferred in Digital format on a network.</p> |
| Chartered Accountants can add a lot of value here in terms of risk management, governance and continuous audit of the transaction on the network. | |

Banking

| Current State | Future State (<i>How can Government drive transformation using digital</i>) |
|--|---|
| <p>With mobile enabled payments, Online banking, Online KYC, Aadhar led payments, BHIM UPI and Chatbots helping to open bank accounts this is one of the most advanced industry where Govt. including RBI has heavily invested in digitisation.</p> <p>NPCI has been setting new benchmarks with initiatives like BHIM, etc.</p> | <p>With talks of Digital currency and Aadhar led payments, the existence of bank branches may be questioned in the long run. Eventually, there will be democratisation of payment ecosystem where any petrol pump attendant or grocer will be able to shell out cash for a very small fee thereby freeing up supply/demand constraints using technology.</p> <p>With the power of conversational interfaces, payments and receipts would soon be automatically recorded in bank accounts with API protocols. The clearance mechanism with RBI would also be automated using the same.</p> <p>Data mining and Data selling through aggregators approved by RBI (like CAMS) would be the new business opportunity for banks.</p> <p>The money transfer business would soon be completely automated with the concepts of blockchain and transfer on the network.</p> |

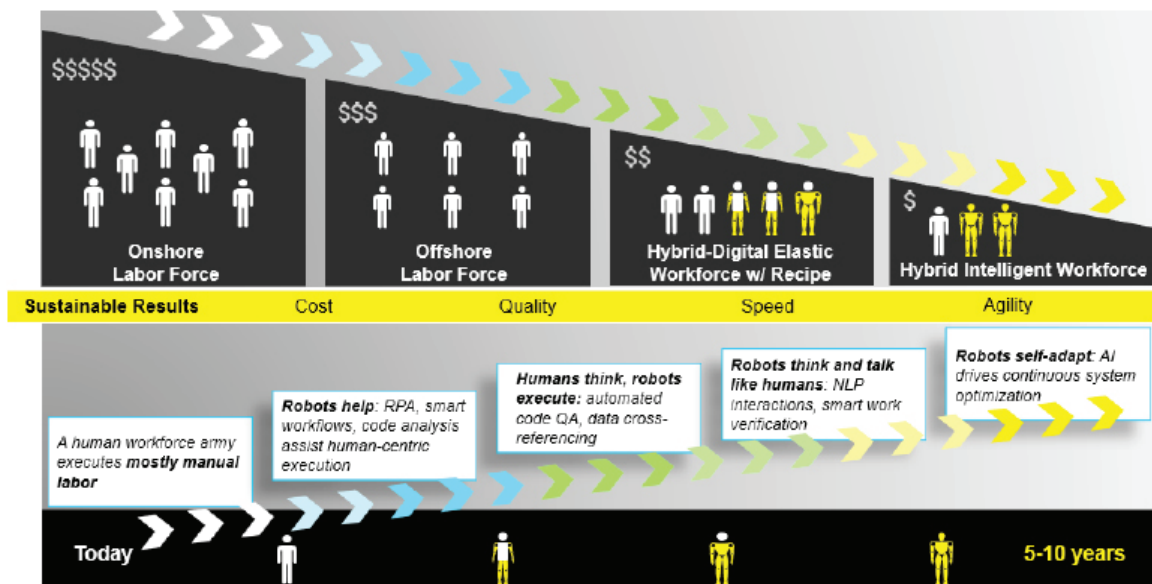
Industry-Specific

Systems audit, Risk management, algorithm audits would be the key new areas where Chartered Accountants would continue to add value to this industry. Audit of Data, Data governance and ownership would be another new area to look into specific to this industry.

Taxation

| Current State | Future State (How can Government drive transformation using digital) |
|---|---|
| <p>This is another one of the most advanced area where Govt, has brought automation. Whether its Direct tax or Indirect tax, the digitisation and transformation in this area has been phenomenal.</p> <p>With 26AS, online return filing and faster refunds – Govt, has been setting new benchmarks.</p> <p>With GST, the online matching and e-way bill generation has brought in lot of controls and streamlined input credit mechanism and now e-Invoicing would be the next game changer to bring in further controls and real time return filing.</p> | <p>An important thing to observe is PAN No. is common between direct and indirect tax. The vendor is also common in both areas who has developed the logics in application.</p> <p>Big Data technology will be a big game changer that will be used by Govt. to analyse behavior patterns of employees with a common key like PAN number in both areas and enhance tax compliance. Big Data project for assessing tax payers using AI is now the focus of the Government.</p> <p>Govt. during assessments would combine references of Direct and indirect tax returns data using technology to improve tax compliance.</p> <p>Analytics and AI will be heavily used to check trends on tax payments, detect anomalies, expedite tribunal matters.</p> |
| <p>Chartered Accountants will have to start playing role of data analysts and data scientists by proactively analysing the data patterns in both areas of taxes and ensure tax planning for corporates / their clients and help better tax compliance for Government.</p> <p>In fact, all different areas like SEZ, STPI, GST, corporate taxes, Export incentives etc can be linked on the cloud by chartered accountants to ensure proper planning is done for clients to ensure all tax compliances.</p> | |

Automation is transforming our industry at a staggering pace



Chartered Accountants will have to start playing role of data analysts and data scientists by proactively analysing the data patterns in both areas of taxes and ensure tax planning for corporates / their clients and help better tax compliance for government.

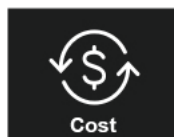
Role of CAs in Govt. Initiatives would Change forever from being 'Auditor' to a 'Trusted Advisor'

Considering the automation mentioned above in next 5 to 10 years, the role of Auditors will have to become that of a trusted advisor by contributing more to business insights for their clients and contributing to Government to amend/ bring in new laws as per the changing needs.



While the intent of Government is very clear to continue to invest in Digital technologies, Chartered Accountants in practice need to scale up since Digital world would open up new

Role of Automation in Government



Run the Government efficiently; costs keep escalating, Budgets keep shrinking. Nothing left for transformation



Leaders keep having great ideas, but it takes years to realize these innovations. Automation & AI can fast track that



Track and trace digital footprint. IT and other departments can deal with hundreds of cases using AI instead of manpower



Reputational impact and Regulatory changes around data security should use automation to help reduce impact

opportunities as mentioned below for professional colleagues :

- Digital Transformation – Readiness Assessment.
- Cyber security audit especially Banking and Insurance.
- Internal audits using Advanced Data Analytics platform to provide business insights/ anomalies.
- Revenue leakage / Automated Contract Management audits (with ecommerce / discount campaign).

Are we as Chartered Accountants ready to embrace the change, since it is not so much about the future of Government, but it is all about Government of future which will be completely eGovernment.

Trail effectiveness – Block Chain.

- Testing of new launches – Certified by auditors.
- Data sets / Architecture and Algorithm setup for Big Data and Robotics.
- Data governance and ownership audits.

Thus to conclude, automation and digitisation will play a big role in coming years and Govt. of India is well poised to take the next leap.

Are we as Chartered Accountants ready to embrace the change, since it is not so much about the future of Government, but it is all about Government of future which will be completely eGovernment. ■

ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

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

1. Accountancy

Determinants of Accounting comparability around the world by Jonathan Ross and Linna Shi. *Asian Review of Accounting*, Vol.28/01, 2020, pp.69-88.

2. Auditing

Product market competition and audit fees: Evidence from an emerging market by Hanwen Chen and Liquan Xing. *Asian Review of Accounting*, Vol.28/01, 2020, pp.89-109.

3. Economics

FDI Spillovers on technical efficiency of Indian manufacturing Firms : A Stochastic frontier approach by Manoj Pant and Sanghita Mondal. *Economic & Political Weekly*, Vol.55/07, February, 15, 2020, pp.42-49.

Persistent fiscal deficits and political economy transactions in India : An Empirical investigation by Amarendu Nandy and Abhishek Sur. *Economic & Political Weekly*, Vol.55/08, February 22, 2020, pp.34-41.

4. Law

Corporate governance and non-disclosure of material information: An insight into the Wadia case by Krati Rajoria. *Company Law Journal*, Vol.1/2, February 2020, pp.33-40.

Understanding Citizenship amendment Act by Rahul Tripathi. *Discussant*, Vol.7/4, 2019, pp.7-9.

5. Management

CEO age and analysts forecast properties by Imran Haider and Nigar Sultana. *Asian Review of Accounting*, Vol.28/01, 2020, pp.1-23

Market structure and competition in the Indian microfinance sector by Nitin Navin and Pankaj Sinha. *Vikalpa*, Vol.44/04, 2019, pp.167-181,

Short-term management earnings forecasts and earnings management through real activities manipulation by Bing Luo. *Asian Review of Accounting*, Vol.28/01, 2020, pp.110-138.

6. Taxation and Finance

Optional scheme for Tax payments for individuals, HUFs and Societies by Ketan Vajani. *The Chamber's Journal*, Vol.8/5, February 2020, pp.11-17.

Taxation of the digital economy: A roadmap to the OECD's work by Vasiliki Agianni. *A Plus*, Vol.15/11, 2019, pp.40.

Union Budget 2020- Amendments in GST and other recent development in GST law by Rajkamal Shah. *The Chamber's Journal*, Vol.8/5, February 2020, pp.103-110. ■

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; kmray@icai.in.

Towards Better Financial Reporting

The Institute of Chartered Accountants of India (ICAI) is concerned about the impact of Coronavirus disease (known as COVID-19) on the health of people worldwide as well as on the state of economy and commerce of the world in general and on India specifically. COVID-19 first reported to World Health Organisation (WHO) in December 2019 has been rapidly spreading to many other countries and has been declared as global pandemic. COVID-19 has not only affected the health of people across the globe and it has also caused severe disturbances in global economic environment which has consequential impact on financial statements and reporting.

With the closure of fiscal year on March 31, 2020, the ICAI felt appropriate attention: to advise the preparers of financial statements to ensure that the potential impact of COVID-19 is suitably considered in preparing and reporting their financial statements. Accordingly, ICAI has issued an Accounting and Auditing Advisory (the same can be assessed at ICAI website) covering following specific requirements pertaining to Accounting Standards that may need special attention:

- Inventory Measurement
- Impairment of Non-Financial Assets
- Financial Instruments
- Leases
- Revenue
- Provisions, Contingent Liabilities and Contingent Assets
- Modifications or termination of Contracts or Arrangements
- Going Concern Assessment
- Income Taxes
- Consolidated Financial Statements
- Property, Plant and Equipment
- Presentation of Financial Statements
- Borrowing Costs
- Post Balance Events
- Interim Financial Reporting

However, the above stated requirements are only for drawing attention of preparers to some of the important requirements of Standards and this is not meant to be exhaustive and may differ based

on specific facts, circumstances and business of respective preparers.

It may also be appropriate to draw attention of stakeholders that keeping in view the spread of COVID 19 in India and decision of the Government of India to treat it as a notified disaster, the Ministry of Corporate Affairs in a circular dated March 23, 2020, clarified that spending of corporate social responsibility (CSR) fund for Covid-19 is eligible for CSR activity.

Developments at IFRS Foundation & IASB

Amendments to IFRS 17 Insurance Contracts – the IASB decided on new effective date for IFRS 17

The International Accounting Standards Board (IASB) has tentatively decided to confirm most of the proposals in the Exposure Draft Amendments to IFRS 17 issued in June 2019, with some changes to address feedback on those proposals. The IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020. The IASB tentatively decided that IFRS 17 incorporating the amendments will be effective from 1 January 2023. The IASB also tentatively decided to extend the fixed expiry date of the exemption for some insurers from applying IFRS 9 to 1st January 2023.

Discussion Paper and comment letters – Business Combinations – Disclosures, Goodwill and Impairment

The IASB has published a Discussion Paper on possible improvements to the information companies report about acquisitions of businesses to help investors assess how successful those acquisitions have been. The IASB is also seeking feedback on how companies should account for goodwill arising from such transactions. The comment letter period is open until 15 September 2020. The Discussion paper can be assessed at <https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf>

IFRS Foundation publishes IFRS Taxonomy 2020 and IFRS Taxonomy formula linkbase 2020

The IFRS Foundation has published the IFRS Taxonomy 2020. The IFRS Taxonomy enables electronic reporting of financial information prepared in accordance with IFRS Standards. Preparers can use the IFRS Taxonomy to tag disclosures, making them easily accessible to investors who prefer to

Contributed by Accounting Standards Board of ICAI. Comments can be sent to asb@icai.in. (Refer https://www.icai.org/post.html?post_id=14058 for Ind AS–IFRS Standards Convergence Status)

Ind AS Alert

receive financial information electronically. The IFRS Taxonomy 2020 is based on IFRS Standards as at 1 January 2020, including those issued but not yet effective.

The IFRS Taxonomy 2020 incorporates changes resulting from IFRS Taxonomy 2019—Update 1 Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). This update includes new elements to enable users of financial statements reported electronically to understand how the uncertainty arising from interest rate benchmark reform affects an entity's hedging relationships.

The IFRS Taxonomy formula linkbase 2020 accompanies the IFRS Taxonomy 2020 and can help to validate disclosures reported using the IFRS Taxonomy and the XBRL technical format. For example, it can help preparers to avoid reporting negative values for IFRS Taxonomy elements where positive values are expected. The linkbase has been updated from the IFRS Taxonomy formula linkbase 2019, mainly to reflect changes in the IFRS Taxonomy 2020 content.

Comments on documents issued by IFRS Interpretations Committee

IFRS Interpretations Committee (IFRS IC) discussed the following matters and tentatively decided not to add it to its standard-setting agenda. The IFRS IC invited comments by May 13, 2020, on the tentative

agenda decision for consideration at its future meeting:

- (a) Sale and Leaseback with Variable Payments (IFRS 16) - can be assessed at <https://www.ifrs.org/projects/work-plan/sale-and-leaseback-with-variable-payments/comment-letters-projects/tentative-agenda-decision-and-comment-letters-sale-and-leaseback-with-variable-payments-ifrs-16/>
- (b) Deferred Tax Related to an Investment in a Subsidiary (IAS 12) - can be assessed at <https://www.ifrs.org/projects/work-plan/deferred-tax-related-to-an-investment-in-a-subsiary-ias-12/comment-letters-projects/tad-deferred-tax-related-to-a-subsiarys-undistributed-profits/>

Lease Liability in a Sale and Leaseback

The IFRS IC discussed a question submitted to it about a sale and leaseback transaction with variable payments that do not depend on an index or rate. The IFRS IC has tentatively concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine, at the date of the transaction, the accounting for such a sale and leaseback transaction. Nonetheless, the IFRS IC decided that it would be beneficial for the IASB to amend IFRS 16 to specify how the seller-lessee applies IFRS 16's subsequent measurement requirements to the lease liability that arises in such a sale and leaseback transaction. The IASB will consider the IFRS IC recommendation at a future meeting. ■



No Extension of Financial Year, Clarifies Government

The government through a notification, clarified that it has not changed the beginning of its financial year from April 1 to July 1 - as is being claimed by some social media posts. The beginning of the fiscal year (2020-21) would begin normally on April 1. The governments clarification comes after a Gazette notification, which pertained to a change in dates for collection of stamp duties, was doing the rounds in some circles. The demand to extend the financial year was in light of the shutdown that was put in place to combat the Covid-19 outbreak.

(Source: www.economictimes.com)

New Tax Regime and Other Tax Changes

Even though the government has extended various tax-related deadlines (such as filing of income tax return for FY 2018-19, tax-saving for FY 2019-20, linking of PAN with Aadhaar etc.) certain new tax-related rules will come into effect from April 1. The government via a press release dated March 30, 2020, has clarified that there is no extension of the financial year.

(Source: www.hindustantimes.com)

Finance Ministry Asks Banks to Ensure Adequate Cash to Meet Cash Demand Post Salary Transfers

With salary day drawing near, the finance ministry has asked public sector banks to ensure enough cash to meet the heightened demand across the country amid the 21-day lockdown triggered by the coronavirus outbreak. Bank branches have been asked to remain open for facilitating withdrawal of money to be credited through direct benefit transfer to accounts of farmers, old-age person, widow and disabled under the Pradhan Mantri Garib Kalyan Yojana. Banks are expecting a huge number of footfalls due to expected disbursement in *Jhan Dhan* accounts, women beneficiaries, pension accounts and PM Kisan beneficiaries, among others, in the days to come. Besides there will be heavy rush for the cash withdrawal starting April 1 as salaries will hit bank accounts. Keeping the rush in mind, sources said the Department of Financial Services (DFS), Ministry of Finance, has instructed banks to keep adequate cash as well as ATMs functional to meet demand of people. It has also asked banks to ensure opening of as many branches as possible. At the same time, DFS has written a letter to chief secretaries of all states to ensure easy movement of bank staff, RBI staff, staff of cash logistics companies, ATM maintenance personnel and cash vans, among others. In view of restriction the DFS requested chief

secretaries of states to issue necessary instructions to state administration and police to ensure safe movement of these people. The department has also instructed the RBI, Indian Banks' Association (IBA) and National Payments Corporation of India (NPCI) to take all necessary steps in coordination with banks and vendors to ensure that all digital payment modes are functional in an uninterrupted manner.

(Source: <https://www.business-standard.com>)

Shortfall Likely in Direct Tax Mop-up

Collection of direct tax for the just-concluded fiscal 2020 is expected at ₹ 10.1 lakh crore, well short of the government's most recent estimate of ₹ 11.7 lakh crore, officials in the know said. The near-14% shortfall, or about ₹ 1.6 lakh crore, from revised target set in the budget presented on February 1 is partly because of the ongoing lockdown, which is going to weigh on collections for the final fiscal quarter. The government had collected ₹ 10.34 lakh crore in direct taxes in fiscal 2019. Though collections for the last couple of days of the financial year ended March 31st are yet to be accounted for, the total would still be well short of the revised target. The government had in the February budget presentation lowered the direct-tax collection target for the year from the initially set ₹ 13.35 lakh crore to ₹ 11.7 lakh crore. Collection of corporate tax was projected at ₹ 6.1 lakh crore in the revised estimates against ₹ 7.6 lakh crore budgeted earlier. The revised target for personal income tax was ₹ 5.56 lakh crore against the initial ₹ 5.69 lakh crore.

(Source: www.economictimes.com)

Income Tax Due For Fy19? Pay Interest at Just 0.75% Per Month Before this Date

Amidst the Coronavirus crisis, in order to provide some relief to the taxpayers and income tax filers, the government had come out with certain measures aimed at them. The last date for filing the income tax return (ITR) for the financial year 2018-19 has been extended to June 30, 2020, from the existing date of March 31, 2020. The Finance Minister, Nirmala Sitharaman held a press conference 24 March 2020 announced various relief measures taken by the government on statutory and regulatory compliance matters in view of the outbreak of COVID19.

(Source: www.financialexpress.com)

National Update

Defaulters Must Settle Dues Within 15 Days of Agreeing on Amount Under VSVS: CBDT

India's direct taxes body has clarified that defaulters need to settle their tax dues within 15 days from the time the disputed amount is mutually agreed upon, under its dispute settlement mechanism that has now been extended till June 30.

Not only that, after they are issued what is known as Form 3 for payment of arrears, taxpayers will also have to inform tax authorities that they have paid up, the Central Board of Direct Taxes said in a set of frequently asked questions.

The *Vivaad Se Vishwas* scheme is a no interest - no penalty window that was supposed to end on March 31 but has since been extended in light of lockdowns and disruptions due to the Covid-19 outbreak. Earlier, there was confusion over whether the duration to settle the dues was 15 days or one month. The latest FAQ has put to rest speculation over the window of settlement.

(Source: www.economictimes.com)

CBDT Likely to Soon Notify Tax Compliance Relaxations

The Central Board of Direct Taxes (CBDT) is likely to soon notify the compliance relaxations including three-month window till June 30 to carry investments in savings instruments under income tax. "Notification will be issued by March 31," a senior government official told ET. Finance minister Nirmala Sitharaman had last week announced several relaxations in compliances including under the income tax. The government had last week extended the due dates for issue of notice, intimation, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents and time limit for completion of proceedings by the authority and any compliance by the taxpayer to June 30, 2020.

(Source: www.economictimes.com)

Bank Merger

As six Indian public sector banks (PSBs), some of which have been in existence for over a century, ceased to exist on April 1 after their amalgamation with bigger PSBs, old-timers are looking back at the halcyon days of these institutions wistfully. This is probably for the first time in the history of Indian banking that half a dozen banks have met their end on the same day.

Mega amalgamation is a move that was announced by Union Finance Minister Nirmala Sitharaman

last year. Besides Syndicate Bank, Allahabad Bank, Corporation Bank, United Bank of India, Oriental Bank of Commerce and Andhra Bank too were merged on April 1. According to this plan, Punjab National Bank (PNB) absorbed Oriental Bank of Commerce and United Bank, creating the second-largest bank after State Bank of India (SBI). Similarly, Syndicate Bank merged with Canara Bank, and Union Bank of India absorbed both Andhra Bank and Corporation Bank. Also, Indian Bank took over Allahabad Bank.

The Narendra Modi-government hopes that these mergers will bring size and scale to the Indian banking sector. But, there are questions on whether these goals will be achieved in reality. Right now, Indian banks are neck-deep in non-performing assets (NPAs). Total gross NPAs have grown close to Rs 9 lakh crore and analysts expect more pain to come on account of a slowed economy and COVID-19 economic fall-out.

Nonetheless, each of these PSU banks is steeped in a long, fascinating past. The oldest in the lot is Allahabad Bank which was set up in 1865 by foreigners. The idea was to serve local businesses. At that point, the concept of organised markets and businesses borrowing from banks were still in the initial phase. Allahabad Bank has a strong base in the Eastern region along with Uco Bank and United Bank of India. Eastern India was traditionally under-banked compared with south and western India.

(<https://www.moneycontrol.com/>)

Revenue to Fall Over 10%, Profit Over 5%: India Inc

Most Indian companies have said revenue and profits will be impacted significantly in the aftermath of Covid-19, according to an industry poll. The cross-industry poll of company chiefs revealed that a majority of firms expect revenues to decline by over 10 per cent and net profits by over 5 per cent in the last quarter of the previous fiscal year and the first quarter of the ongoing one, data from the poll of nearly 200 company top executives conducted by the Confederation of Indian Industry (CII) showed.

The consensus for the decline in these figures in the final quarter of the previous financial year was at about half of all firms, while it grew to nearly two-thirds of all firms for the first quarter of the ongoing fiscal year. For firms involved in production, warehousing and distribution of essential goods and manpower came up as the two major hurdles. About 80 per cent of firms had inventory lying idle, and over 40 per cent expect their stocks to last beyond a month once the lockdown ends.

(<https://economictimes.com/>)

March 2020 IFRS for SMEs Update published

The March 2020 IFRS for SMEs Update is available. It includes news about SMEIG Q&A 35.1 on transition to the *IFRS for SMEs* Standard; an update on the second Comprehensive Review of the *IFRS for SMEs* Standard; an update on the SME Implementation Group (SMEIG); and a reminder of online resources.

(Source: <https://www.ifrs.org/>)

The Coronavirus and the IFRS Foundation's Work

The IFRS Foundation shares global concerns about the impact of the coronavirus (covid-19) pandemic and is monitoring developments guided by statements from public health authorities. The Foundation recognises that this is a difficult time for its stakeholders and is supporting them by reconsidering the timelines, providing supporting application, through ongoing calendar updates and by being contactable. Despite the challenges arising from the coronavirus pandemic, the International Accounting Standards Board (Board) and its technical staff continue to advance time-sensitive projects, such as the projects on IBOR reform and amendments to IFRS 17 *Insurance Contracts*, in accordance with the original project plans. Recognising the importance of giving the stakeholders enough time to respond effectively to the Foundation's work. To support the consistent and robust application of IFRS 9 *Financial Instruments* during this period of enhanced economic uncertainty arising from the coronavirus pandemic, the Foundation published educational materials. It replaced regular meetings with virtual meetings where possible. Provided digital access to public meetings and regular updates on specific meeting arrangements and these are reflected in the meetings calendar. The Foundation closed its London office on 16 March 2020. Board members and staff are working from home.

(Source: <https://www.ifrs.org/>)

Application of IFRS 9 in the Light of the Coronavirus Uncertainty

A document, *IFRS 9 and covid-19—accounting for expected credit losses*, responding to questions regarding the application of IFRS 9 *Financial Instruments* during this period of enhanced

economic uncertainty arising from the covid-19 pandemic was published recently. The document is prepared for educational purposes, highlighting requirements within the Standard that are relevant for companies considering how the pandemic affects their accounting for expected credit losses (ECL). It does not change, remove nor add to, the requirements in IFRS 9 *Financial Instruments*. It is intended to support the consistent and robust application of IFRS 9, which was developed in response to requests by the G20 and others to provide more forward-looking information about loan losses than the predecessor Standard and to give transparent and timely information about changes in credit risk. The document acknowledges that estimating ECL on financial instruments is challenging in the current circumstances and highlights the importance of companies using all reasonable and supportable information available—historic, current and forward-looking to the extent possible—when determining whether lifetime losses should be recognised on loans and in measuring ECL. It reinforces that IFRS 9 does not provide bright lines nor a mechanistic approach in accounting for ECLs. Accordingly, companies may need to adjust their approaches to forecasting and determining when lifetime losses should be recognised to reflect the current environment. The IFRS Foundation and the International Accounting Standards Board continue to work in close cooperation with regulators and others regarding the application of IFRS 9, and the document encourages companies to consider guidance provided by prudential and securities regulators.

(Source: <https://www.ifrs.org/>)

Effective date for IFRS 17 and the expiry of the temporary exemption from IFRS 9 will be delayed by another year

The International Accounting Standards Board (IASB) has decided that the effective date for IFRS 17 and the expiry of the temporary exemption from IFRS 9 will be delayed by another year. The amendments are now expected to be issued in June. This is a welcome decision, especially when technical policy decisions are still to be agreed or there are plans for significant technology transformation to build finance and actuarial functions fit for the future. There is a spectrum of IFRS 17 programmes underway, all with different

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budgets and objectives. For a start, the focus ranges from cost minimisation (i.e. how can we deliver IFRS 17 compliance using existing technologies and processes without breaking the bank) to benefits (i.e. how can we align IFRS 17 with other finance transformation initiatives or strategic technology plans). The progress of the clients towards IFRS 17 implementation also ranges from those that have not started to those that have a working solution. The message is to use the additional year in the most effective way possible and leave enough time for contingency, testing and transition. Revisit business case, programme plan, and deliver by the effective date in 2023.

FASB Proposes Improvements to Accounting for Contributed Nonfinancial Assets by Not For-Profit Organisations

The Financial Accounting Standards Board (FASB) recently issued a proposed Accounting Standards Update (ASU) intended to improve transparency around how not-for-profit organisations present and disclose contributed nonfinancial assets, also known as gifts-in-kind. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and/or recognised contributed services. The proposed ASU would require a not-for-profit organisation to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It would also require a not-for-profit to disclose:

- a. Contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets, and
 - b. For each category of contributed nonfinancial assets received, as identified in (a): (i) Qualitative information about whether the contributed nonfinancial assets were or are intended to be either monetized or utilized during the reporting period and future periods. If utilised, a description of the programs or other activities in which those assets were or are intended to be used.
- (ii) A description of any donor restrictions associated with the contributed nonfinancial assets.

- (iii) The valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant, in accordance with the requirements in Topic 820, Fair Value Measurement.

Stakeholders are encouraged to review and provide input on the proposed ASU by April 10, 2020. The proposed ASU, including a “FASB in Focus” overview and information about how to submit comments, is available at www.fasb.org

(Source: www.fasb.org)

IFAC Released the Second Installment of “Exploring the IESBA Code”

IFAC recently released the second instalment of its Exploring the IESBA Code educational series: The Conceptual Framework – Step 1, Identifying Threats. Exploring the IESBA Code is a twelve-month series providing an in-depth look at the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). Each installment focuses on a specific aspect of the Code using real-world situations in a manner that is relatable and practical. Readers will gain a better understanding of the thought process behind more complicated areas of the Code through storytelling and expert analysis from professionals involved in developing the standards. The first installment of the Series looked at the five Fundamental Principles of ethics, which establish the standard of behavior expected of all professional accountants. Compliance with these principles enable accountants to meet their responsibility to act in the public interest. This second installment highlights key aspects of the Code’s Conceptual Framework, which is an approach that all professional accountants are required to apply to comply with the five principles. The installment focuses on identifying threats and will be supplemented by two subsequent installments that will deal with evaluating and addressing threats. A professional accountant can often come across complex or challenging situations that are not black and white. These challenging situations require ethical considerations, some of which are expressly dealt with in the Code. The unique and informational series was developed by IFAC in collaboration with the International Ethics Standards Board for Accountants (IESBA) to help explain how the Code assists in navigating some of these challenges. To read and download this and future installments, visit the IFAC website.

(Source: <https://www.ifac.org>)

Legal Decisions



Income Tax

LD/68/148, [ITAT Pune: ITA 1799/Pun/2017], Smt. Ranjana S. Nargolkar Vs. The Income Tax Officer, 13/02/2020

Penalty under section 271B confirmed on assessee, a medical professional, for failure to get books of accounts audited for AY 2003-04. Assessee contended that she was doing business and not profession, which argument was rejected by the ITAT. ITAT stated that running a nursing home by assessee is a part of the medical profession and is just a different way of conducting the medical profession and the same does not make it a business so as to apply the turnover criteria of business for applicability of audit. ITAT ruled in favour of Revenue

LD/68/149, [Madras High Court: WP 12500/2010], Sanmac Motor Finance Ltd. Vs. The Chief Commissioner of Income Tax, 10/02/2020

Interest under section 234A/B/C ordered to be waived partially by the Madras High Court in case of assessee which was under winding up process by order of Court. As per High Court, the assessee was legally incapacitated from making any payments as it was ordered to be wound up and thus it was under a legal disability. CBDT notification of 2006 had not factored a situation like the present case for allowing waiver of interest and therefore the CCIT had rejected assessee's application since he had no such power to grant waiver. High Court however in exercise of its power under Article 226 directed to waive the interest for the period between date of order for winding up and date of approving scheme of reconstruction, i.e. between June 2001 to October 2006.

LD/68/150, [Madras High Court: WP 1732/2020], Salem Sree Ramavilas Chit Company Private Ltd. Vs. The Dy. Commissioner of Income Tax, 04/02/2020

Assessment order wherein addition was made

under section 69A for AY 2017-18 on account of cash deposited during demonetisation period has been set aside by the High Court. High Court noted that amounts collected, deposited and closing balances were not at variance with the amounts for corresponding months in the year preceding year 2015. High Court remarked that assessment procedure conducted through e-proceedings can lead to erroneous assessment if officers are not able to understand the transactions and statement of accounts of an assessee without a personal hearing. Assessment proceeding under the changed scenario, i.e. ,electronic assessment, would require proper determination of facts by proper exchange and flow of correspondence between the assessee and the AO. High Court remitted the case back for fresh order by AO.

LD/68/151, [ITAT Bangalore: ITA 1248/Bang/2016], The Dy. Commissioner of Income Tax Vs. Narayan Mandyam Veerabhudhi, 16/02/2020

ITAT held that amount received against extinguishment of right for specific performance of agreement of sale constitutes capital gains and Section 54F benefit is permitted against the same to the assessee; Assessee had entered into an agreement for sale which was subject to certain conditions and had received compensation due to non-performance of agreement; The assessee had acquired right for specific performance and subsequent money received for giving up the said right constituted capital gains; Exemption claim under section 54F of the assessee allowed by the ITAT.

LD/68/152, [Madras High Court: W.P. 18314/2018], K. Nirai Mathi Azhagan Vs. The Union of India, 03/01/2020

Constitutional validity of Section 234F upheld by Madras High Court; High Court opined that the legislative intent of this provision is not to arbitrarily burden the assessee by realising something extra but to call upon the assessee to share the burden of extra exercise due to delay on his part; To complete the assessment within the period of limitation and in order to ensure that

the acts of an assessee in discharging his entire tax liability bear fruits, a regulatory mechanism in the form of Sec.234 F has been inserted in the statute book and the same cannot be termed as illogical; Nothing has been submitted by the assessee which shows how the Section is manifestly arbitrary for it to be struck down; Assessee's argument that a 'quid pro quo' is a necessary element for such levy of a fee under section 234F, was rejected by the High Court.

Transfer Pricing

**LD/68/153, [ITAT Pune: ITA 1810/PUN/2019],
TDK Electronics AG Vs. The Asst.
Commissioner of Income Tax, 26/02/2020**

Assessee filed objections before the DRP in January 2019, with a one day delay, which delay was not condoned by the DRP; DRP directed to dismiss assessee's objection stating it as time barred vide its direction dated September 2019; The AO passed final assessment order in October 2019 under section 144C(13); ITAT observed that as per Section 144C(3)(b), AO was required to complete the assessment on the basis of draft assessment order if no objections are received within the period specified, which was not followed by the AO; AO completed the assessment under a wrong provision, i.e. under a wrong subsection of Section 144C and ITAT thus held that the final assessment order of October 2019 was time barred and '*ex consequenti null and void*'.

**LD/68/154, [ITAT Mumbai: ITA 5228/
Mum./2016], The Income Tax Officer Vs.
General Mills India P. Ltd., 14/02/2020**

Mumbai ITAT allowed economic adjustment on account of excess expenditure on account of Advertising and Marketing. Ratio of such expense to operating income was 21% in case of assessee whereas it was 0.87% in case of comparables; ITAT observed that TPO had allowed 50% of adjustment claimed for past AY 2007-08 and also for another AY 12-13, the CIT(A) had granted similar relief, which was not challenged by the Revenue. ITAT held that such expense could not be termed as international transaction in absence of agreement with the AEs. ITAT noted that such expenditure

was incurred with an intention to increase the sale and that the assessee was the sole beneficiary of the expenditure.

**LD/68/155, [ITAT Delhi: ITA 909/Del/2016],
Nokia Solutions and Networks India Pvt. Ltd.
Vs. The Dy. Commissioner of Income Tax,
27/02/2020**

For AY 11-12 and AY 12-13, Delhi ITAT noted that cost of marketing team should be bifurcated based on revenue of AE from its operations in India vis a vis revenue generated by the assessee from its sales to third party vendors. ITAT stated that provision of telecom support services and warranty support services have to be clubbed together and holds that the discussion for warranty support services shall apply to telecom technical support services mutatis mutandis. Advance Pricing Agreement of assessee with CBDT shall also apply to consecutive four rollback years commencing from the financial year 2009-10 to 2012-13. TP adjustment regarding provision of marketing support services, telecom technical services and warranty support services was deleted by ITAT.



GST

**LD/68/156, [2020 - TIOL -554- HC], M/s
Phoenix Rubbers vs. The Commercial
Tax Officer 03/02/2020**

For cancellation of registration under section 29(2) (C) of the CGST Act, the requirement of continuous default of failure to file 6 months return should exist, both on the day of issuing the notice of cancellation as well as on the date of passing the order. If before passing the said order the assessee files few returns so as to bring down the said default below 6 months, the order cancelling registration cannot be said to be within the purview of Section 29(2)(c) of the CGST Act and is liable to be set aside.

**LD/68/157, [2020-TIOL-486-HC-KERALA-
GST], SUTHERLAND MORTGAGE SERVICES
INC Vs. THE PRINCIPAL COMMISSIONER
OFFICE OF THE PRINCIPAL COMMISSIONER
OF CUSTOMS CENTRAL GST AND CENTRAL
EXCISE AND ORS 03/02/2020**

In cases involving determination of question as to

whether there is liability to pay tax on goods and services in India, the Authority of Advance Ruling can decide issues concerning place of supply since the scope of Section 97(2)(e) is wide enough to include among other things the issue relating to determination of place of supply.

CUSTOMS

LD/68/158; [Bombay High Court: Customs Appeal No 42 of 2019], Commissioner of Customs Vs. Lynx Express Private Limited, 27/01/2020

Air Courier Cell and Intelligence Unit had issued a show cause notice after substantial quantity of gold concealed in various packages was seized; Revenue had suspended the license of the assessee to act as an Authorised Courier, which was set aside by CESTAT; Assessee made a representation to the Chief Commissioner under Regulation 14(2) which was rejected and so two appeals were filed by assessee before CESTAT, one against the order in original and one against rejection of representation; While CESTAT entertained the appeal against the Order-In-Original, assessee had withdrawn the appeal challenging the rejection of representation; High Court rejected Revenue's argument that CESTAT shouldn't have entertained appeal against order in original; High Court noted that what is provided in Regulation 14(2) is a representation and ultimately the remedy of appeal is available under the Customs Act, 1962 and rejection or otherwise of such representation will not take away the jurisdiction of the Tribunal to entertain the appeal from Order-In-Original.

LD/68/159, [Madras High Court: W.P. 24244 of 2013], Nana Desi Ainnurruvar Vs. The Commissioner of Customs (Appeals), 19/12/2020

As per Section 117, penalty is to be imposed where there is failure to comply or where there is a violation in law. Assessee had failed to file the relevant bank realisation certificate / extensions from Reserve Bank of India in time and Revenue was justified in issuing the notice

for penalty. However High Court acknowledged that exporters do face difficulties in realization of export proceeds and that imposition of such penalty may result in denial of export incentive indirectly in several cases. High Court therefore held that penalty under section 117 of Customs Act is not to be imposed for all cases where there is a delay in producing bank realisation certificate and considering that this was not a fit case for imposition of penalty as there is a realisation of the export proceeds.

EXCISE

LD/68/160, [2020-TIOL-404-CESTAT-MAD], M/s Lotte India Corporation Ltd. Vs. The Commissioner of GST and Central Excise (A), 29-01-2020

The expression "Total Cenvat Credit" used in sub-rule 3A of Rule 6 of CENVAT Credit Rules, represents the total Cenvat credit of "common" inputs/ input services only. The rule cannot be interpreted in a manner to disallow the Cenvat credit of those input services which are used exclusively in the manufacture of dutiable goods or providing taxable output services. The amendment to the said rule by Notification No. 13/2016-C.E. (N.T.) , dated 1-3-2016 is made to set right the anomaly in the said rule and is therefore clarificatory in nature.

Service Tax

LD/68/161, [2020 - TIOL - 469 - CESTAT - Mad.], M/s NSK ABC Bearings Ltd vs. The Commissioner of Central Excise, 03/02/2020

Deputation of employees by the foreign company to its group company in India would not amount to provision of manpower supply service if such employees are on the payroll of Indian company and are being paid salary from the Indian company after deducting salary-TDS. The mere fact that part of the salary of such employees is also paid by the foreign company in their home country will not change the character of services provided by such employees. The amount

reimbursed to the said foreign company towards salary paid to the employee in their home country would not be regarded as consideration for manpower supply services. Tribunal also set aside demand in respect of payment made by Indian company to the foreign company towards its share of reimbursement on account of cost allocation of computer infrastructure related services incurred by the said foreign company by availing services of the foreign vendor as there was no evidence to suggest that foreign company has provided any such services to the Indian company. The tribunal also held that travelling expenses reimbursed to the foreign professional would not be included in the gross amount charged for the purpose of levying service tax under reverse charge mechanism.

LD/68/162, [Madras High Court: CMA 3379 of 2019], M/s Bright Marketing Company Vs. Commissioner of Central Excise and Service Tax, 03/02/2020

Assessee filed the returns and paid the short-levied service tax along with interest before issuance of Show cause notice on the basis of the Audit Objection; CESTAT order imposed a reduced penalty at the rate of 25%. High Court noted that section 73(3) provides for a remedy to the assessee to correct his error of short-levy of service tax either suo-motu or on the basis of tax ascertained by a Central Excise Officer before service of notice under section 73(1) and section 78 applies only when there is a failure on assessee's part to pay service tax for reasons like fraud. High Court held that unless the penalty under section 78 of the Act itself is leviable, there is no question of any reduction of the quantum of penalty to 25%.

Disciplinary Case



Issuance of certificate by Respondent as to registration of "X" as NBFC with RBI, without verifying the records -- Respondent is guilty of Professional misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants ACT, 1949.

Held:

The Disciplinary Committee noted that the Respondent had issued report on the basis of information provided by the Directors and on the basis of information available on MCA website.

In such circumstances, the Respondent ought to have disclosed the fact that he had issued the Certificate on the basis of representation by the Directors and had not physically verified/checked with the Certificate of incorporation, as the same has been misplaced/ lost by the Company. On the contrary, the Respondent mentioned that the Company is entitled to hold the Certificate of registration in terms of asset / income pattern as on 20th May, 1998. The Committee further noted that mere establishment of the fact that the Company was being registered with ROC as NBFC is not valid ground to conclude that the Respondent was not negligent when in fact he was required to verify and establish from the certificate issued by the RBI in this respect that the Company was actually registered with RBI as a NBFC which he has failed to do. In light of the above, the Committee held that the Respondent is guilty of professional misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants (Amendment) Act, 2006.

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT, CBIC-GST, FEMA and MCA issued 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. Feedback and suggestions on this column can be submitted at eboard@icai.in



A. CBDT

I. NOTIFICATIONS

1. Government notifies agreement between the India and Brunei Darussalam for the exchange of information and assistance in collection with respect to taxes - Notification No. 14/2020, dated 04-03-2020

In exercise of the powers conferred by Section 90(1), the Central Government has vide this notification specified that all the provisions of this Agreement shall have effect in the Union of India.

2. Amendment of rule 17C to include investment made by National Payments Corporation of India in its subsidiary companies - Notification No. 15/2020, dated 05-03-2020

This Notification has inserted clause (va) in Rule 17C to include, within its scope, investment made by a person, authorised under Section 4 of the Payment and Settlement Systems Act, 2007, in the equity share capital or bonds or debentures of a company —

- (A) which is engaged in operations of retail payments system or digital payments settlement or similar activities in India and abroad and is approved by the Reserve Bank of India for this purpose; **and**
- (B) in which at least fifty-one per cent of equity shares are held by National Payments Corporation of India.

3. Central Government notifies specified securities for the purposes of Section 47(viiab) (d) - Notification No. 16/2020, dated 05-03-2020

The following securities have been specified vide this notification for the purpose of sub-clause (d) of Section 47(viiab):

- (i) foreign currency denominated bond;
- (ii) unit of a Mutual Fund;

(iii) unit of a business trust;

(iv) foreign currency denominated equity share of a company;

(v) unit of Alternative Investment Fund,

which are listed on a recognised stock exchange located in any International Financial Services Centre in accordance with the regulations made by the SEBI under the Securities and Exchange Board of India Act 1992 or the International Financial Services Centres Authority under the International Financial Services Centres Authority Act 2019, as the case may be.

4. Non-resident operating in accordance with SEBI Circular dated 04.01.2017 to be deemed as FII under section 115AD - Notification No. 17/2020, dated 13-03-2020

The Central Government has, vide this notification, specified that a non-resident being an Eligible Foreign Investor which operates in accordance with the Securities and Exchange Board of India, circular IMD/HO/FPIC/CIR/P/2017/003 dated 04.01.2017, shall be deemed as Foreign Institutional Investor for the purposes of transactions in securities made on a recognised stock exchange located in any International Financial Services Centre, where the consideration for such transaction is paid or payable in foreign currency.

II. CIRCULARS

1. Condonation of delay under section 119(2)(b) in filing of Return of Income for A.Y 2016-17, 2017-18, and 2018-19 and Form No. 9A and Form No. 10 - Circular No. 06/2020, dated 19-02-2020

The CBDT, vide this Circular, has decided that where the application for condonation of delay in filing Form 9A and Form 10 has been filed, and the Return of Income has been filed on or before 31st March of the respective AYs i.e. Assessment Years 2016-17, 2017-18 and 2018-19,

¹ Matter on Direct Taxes, Indirect Taxes, MCA Updates is contributed by Direct Taxes Committee, GST & Indirect Taxes Committee and Corporate Laws & Corporate Governance Committee of ICAI respectively. FEMA updates by CA. Manoj Shah, CA Hinesh Doshi and CA. Sudha G. Bhushan)

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the CIT(Exemptions) are authorised under section 119(2)(b), to admit such belated applications for condonation of delay in filing Return of Income and decide on merit.

2. Clarifications on provisions of the Direct Tax Vivad se Vishwas Bill, 2020 - Circular No. 07/2020, dated 04-03-2020

The CBDT has clarified the issues in the form of answers to frequently asked questions (FAQs) vide this Circular. The FAQs contain clarifications on scope/eligibility, calculation of disputed tax, procedure related to payment of disputed tax and consequential benefits to the declarant.

B. CBIC-GST



1. GST

Advisory on Opting-in Composition Scheme for 2020-21 by filing FORM GST CMP-02

An advisory was issued by the Central Government through a [update no. 356 dated 18th February, 2020](#) at its website gst.gov.in whereby the procedure for opting composition scheme has been clarified including how to opt, return/payment, eligible as well as not eligible taxpayers, etc.

Changes in Rate of GST on supply of lottery

The Central Government vide [Notification No.01/2020-Central Tax \(Rate\) dated 21st February, 2020](#) and [Notification No.01/2020-Integrated Tax \(Rate\) dated 21st February, 2020](#) has notified the **uniform rate of GST on supply of Lottery w.e.f. 1st March 2020 as 28 %** instead of the earlier differential rates of 12% on State run and & 28 % on State authorised lottery.

Amendment in the CGST Rules, 2017 to prescribe the value of Lottery

The Central Government vide [Notification No.08/2020-Central Tax ,dated 2nd March, 2020](#) has prescribed the uniform valuation of both State run and State authorized lottery which were valued differently earlier. The value shall be 100/128 of the face value of ticket or of the price as notified in the Official Gazette by the Organising State, whichever is higher.

Due dates for filing of return in FORM GSTR-3B in a staggered manner

The Central Government vide [Notification No.](#)

[07/2020 – Central Tax, dated 03rd February, 2020](#) provides the due dates of filing Form GSTR 3B, for the month of February, 2020, as 20th or 22nd or 24th of the next month depending upon the turnover of the previous year as well the State of GST registration.

2. CUSTOM

Transportation of goods (Through Foreign Territory) Regulations, 2020

The Central Government vide [Notification No. 16/2020-Customs \(N.T.\) dated 21st February, 2020](#) has made the Transportation of Goods (Through Foreign Territory), Regulations, 2020 which provide for:

- i) movement of goods from one part of India to another through Bangladesh under the ACMP (Agreement on the Use of Chattogram and Mongla Ports) and the PI WTT (People's Republic of Bangladesh and the Republic of India);
- ii) movement of goods from one part of India to another through land route which lies partly over the territory of a foreign country.

Further, CBIC vide [Circular No. 14/2020-Customs dated 21st February, 2020](#) has also clarified the procedure for each movement in detail.

Schemes for Rebate of State and Central Taxes and Levies (RoSCTL) and Additional Ad-hoc Incentive for export of garments and made-ups

CBIC vide [Circular No. 13/2020-Customs dated 19th February, 2020](#) has elaborated on the schemes for Rebate of State and Central Taxes and Levies (RoSCTL) and Additional Ad-hoc Incentive for export of garments and made-ups.

Implementation of automated clearance on All-India basis

CBIC vide [Circular No. 15/2020-Customs dated 28th February, 2020](#) has extended the facility of automated clearance of Bills of Entry to all customs formations where the Customs EDI system is operational, with effect from 5th March, 2020.



C. FEMA

Review of FDI Policy in Insurance Sector

[Press Note No. 1 \(2020Series\) dated 21/02/2020 issued by DIPP](#)

The Government of India has reviewed extant FDI Policy on Insurance Sector and made amendments in Consolidated FDI Policy of 2017. FDI in Insurance companies is allowed up to 49% under automatic. With regards to Intermediaries or Insurance Intermediaries 100% FDI is allowed under automatic route.

Para 5.2.22 of FDI Policy is amended as under:

| Sector/ Activity | % Equity/ FDI Cap | Entry Route |
|--|----------------------|----------------|
| 5.2.22.1 Insurance Company | 49% | Automatic |
| 5.2.22.2 Insurance intermediaries including insurance brokers, reinsurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors and such other entities as may be notified by Insurance Regulatory and Development Authority (IRDA) from time to time. | 100% | Automatic |

The foreign investment in insurance sector shall be subject to following conditions-

- Total foreign holding, including portfolio investments in Insurance Company shall not exceed 49%.
- The foreign investment up to 49% under the automatic route is subject to approval/ verification by the IRDA.
- The foreign investment in this sector shall be subject to compliance with the provisions of the Insurance Act, 1938 and companies receiving FDI are required to obtain necessary licence/ approval from the IRDA for undertaking insurance and related activities.
- Ownership and control at all the times shall remain in the hands of resident Indian entities as determined by the Department of Financial Services/ IRDA as per rules regulations issued by them from time to time.

(e) Foreign Portfolio Investment in an Indian Insurance Company shall be governed by the provisions contained in sub-regulation (2), (2A), (3) and (8) of Regulation 5 of FEMA Regulations, 2000 and provisions of Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014.

(f) Any increase in foreign investment in an Indian Insurance Company shall be in accordance with the pricing guidelines specified by RBI under FEMA Regulations.

(g) The foreign equity investment cap of 100 percent shall apply on the same terms as above to insurance brokers, reinsurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors and such other entities as may be notified by IRDA from time to time.

However, the condition of Indian owned and controlled, as specified in Clause (d) above, shall not be applicable to Intermediaries and Insurance Intermediaries and composition of the Board of Directors and key management persons shall be as specified by concerned regulators from time to time.

(h) The foreign Direct Investment proposals shall be allowed under the automatic route subject to verification by the Authority and the foreign investment in intermediaries or insurance intermediaries shall be governed by the same terms as provided under rules 7 and 8 of the Indian Insurance Companies (Foreign Investment) Rules, 2015 as amended from time to time.

However, where an entity like a Bank, whose primary business is outside the insurance area, is allowed by the IRDA to function as an insurance intermediary, the foreign equity investment caps applicable in that sector shall continue to apply, subject to the condition that the revenues of such entities from their primary (i.e., non-insurance related) business must remain above 50 percent of their total revenues in any financial year.

(i) The insurance intermediary having majority foreign shareholding shall undertake the following:

- Be incorporated as a limited company under Companies Act, 2013;

- ii) At least one from among the Chairman of the Board of Directors or the Chief Executive Officer or the Principal Officer or Managing Director of the Insurance intermediary shall be resident Indian citizen;
- iii) Shall take prior permission of the authority for repatriating dividend;
- iv) Shall bring in the latest technological, managerial and other skills;
- v) Shall not make payments to the foreign group or promoter or subsidiary or interconnected or associate entities beyond what is necessary or permitted by the authority;
- vi) Shall make disclosures in the formats to be specified by the authority of all payments made to its group or promoter or subsidiary or interconnected or associate entities;
- vii) Composition of the Board of Directors and key management persons shall be as specified by the concerned regulator;
- (j) The provisions of paragraphs (i)(b) and (d) of Annexure 9 relating to "Banking - Private Sector" shall be applicable in respect of bank promoted insurance companies.
- (k) Terms 'Control', 'Equity Share Capital', 'Foreign Direct Investment' (FDI), 'Foreign Investors', 'Foreign Portfolio Investors', 'Indian Insurance Company', 'Indian Company', 'Indian Control of an Indian Insurance Company', 'Indian Ownership', 'Non-Resident Entity', 'Public Financial Institution', 'Resident Indian Citizen', 'Total Foreign Investment' will have the same meaning as provided in Notification No. G.S.R 115(E), dated 19th February 2015 issued by Department of Financial Services and Regulations issued by Insurance Regulatory and Development Authority of India from time to time.

This will take effect from date of FEMA Notification.

(Comments: Government has liberalized FDI Policy in Insurance sector and this will enable foreign Insurance Intermediaries and Insurance Brokerage Companies to invest in Indian Companies).

Analysis of Compounding Orders

Foreign Currency Accounts by person resident in India – FEMA Notification No. 10

Maneesh Pharmaceuticals Limited - CA No. 4965/2019 dated 30/12/2019

Contraventions Compounded:

Use of Foreign Currency Account (FCA) for receiving exports proceeds resulted in contravention of Regulation 3 of Notification No.10.

Compounding Fee levied – Rs. 30,07,724/-

Facts of Order and Comments

The company had availed External Commercial Borrowings in 2008 and had opened FCA in Singapore for parking ECB proceeds. The FCA was maintained even after repayment of ECB.

In 2012, the company use this FCA for receiving advance against exports from one of its buyers.

In terms of Regulation 3 of FEMA Notification No. 10, save as otherwise provided in the Act, rules or regulations, no person resident in India shall open or hold or maintain a Foreign Currency Account. On application to RBI, FCA can be opened subject to conditions as may be necessary.

Thus, opening of FCA by an Indian company is not permitted unless it is allowed. The company had opened FCA for parking ECB proceeds and after repayment of ECB the same must have been closed down. However instead of closing FCA, company used the same for receiving export proceeds resulting in contravention of Regulation 3 of FEMA Notification No. 10.

Foreign Direct Investment – FEMA Notification No. 20R

A. Qatar Aviation Services India Private Limited - CA No. NDL 498/2019 dated 13/12/2019

Contraventions Compounded:

Issue of shares to person resident outside India prior to receipt of consideration – contravention of Para 2(2) of Schedule 1 of FEMA Notification No. 20R

Compounding Fee levied – Rs. 68,617/-

Facts of Order and Comments

The company had issued shares to its non-resident shareholders prior to date of receipt of actual consideration. Shares were issued on 4th April 2019 and amount towards subscription for share capital was received on 16th April 2019.

As per Para 2(2) of Schedule 1 of FEMA Notification No. 20R, capital instruments shall be issued to person resident outside India within 60 days from date of receipt of consideration.

Therefore, share application money has to be received prior to allotment of shares. In no case shares can be issued before receiving amount for share application money.

B. Pearson India Education Services Pvt. Ltd. - CA No. 960/2019 dated 10/01/2020

Contraventions Compounded:

Delay in reporting of downstream investment to Secretariat for Industrial Assistance (SIA), DIPP.

Compounding Fee Levied – Rs. 70/-

Facts of Order and Comments

Pearson India Education was subsidiary of Singapore based Company. In March 2019, it acquired two shares of another Indian company. The company had filed form DI for reporting of downstream in August 2019 however, reporting to SIA, DIPP was done in August 2019.

As per Regulation 13.1(11) of FEMA Notification No. 20R, an Indian company making downstream in another Indian company has to notify to SIA, DIPP within 30 days of such investment (whether or not capital instruments are allotted) and also file Form DI within 30 days from date of allotment.

Thus, it is obligation of Indian company making downstream investment to notify SIA, DIPP about such investment within 30 days. This reporting is to be done whether or not capital instruments are allotted. A separate reporting in Form DI is to be made within 30 days of allotment of capital instruments.

Non-reporting of downstream investment to SIA, DIPP is regarded as contravention.

Overseas Direct Investment – FEMA Notification No. 120

A. Vulcan Industrial Engineering Company Limited - CA No. 4984/2019 dated 23/01/2020

Contraventions Compounded:

Delay in submission of Form ODI for capitalisation of pre-incorporation expenses and other remittances – contravention of Reg 6(2)(vi) of FEMA Notification No. 120.

Delay in reporting of changes in capital structure – contravention of Reg 13 of FEMA Notification No. 120.

Delay in submission of Annual Performance Reports (APRs) – contravention of Reg 15(iii) of FEMA Notification No. 120 in reporting of changes in capital structure – contravention of Reg 13 of FEMA Notification No. 120.

Compounding Fee Levied – Rs. 1,61,208/-

Facts of Order and Comments

The company had made an ODI in JV Company in March 2014. In June 2014 it capitalised in books of JV, pre-incorporation expenses of AUD 15,000 which were initially remitted and later 10 remittances were made towards equity. The company made delay in submission of Form ODI for all the transactions.

Two of resident Indians had remitted amount in JV for equity capital resulting to change in capital structure. This post investment change in capital structure was reported with delay.

Also, APRs for 2014-2018 were submitted late.

All of above three are contraventions of FEMA Notification No. 120.

As per Reg 6(2)(vi) an Indian Party has to submit Part I of Form ODI with AD Bank for every overseas investment transaction. Since there was delay in filing of Form ODI for reporting of capitalization of pre-incorporation expenses and other remittances the same resulted in contravention of Reg 6(2)(vi).

In terms of Reg 13, detail of any alteration or change in capital structure of JV/WOS is to be reported within 30 days of such change. Any delay is treated as contravention.

And as per Reg 15(iii), Indian Party making ODI is obliged to file APR in Part III of Form ODI with AD Bank in respect of each JV/WOS on or before specified date. APRs for 2014 to 2018 were filed late leading to contravention.

B. Gemini Power Hydraulics Private Limited - CA No. 5013/2019 dated 16/01/2020

Contraventions Compounded:

Delay in repatriation of disinvestment proceeds beyond stipulated period of 90 days – contravention of Reg 16(2) of FEMA Notification No. 120.

Compounding Fee Levied – Rs. 1,42,571/-

Facts of Order and Comments

The company had set up a WOS in Singapore in 2008. The WOS was closed down and disinvestment was made in September 2017. The disinvestment proceeds were repatriated back in January 2018 i.e. beyond period of 90 days thereby contravening Reg 16(2) of FEMA Notification No. 120.

As per Regulation 16(2) of FEMA Notification No. 120, sales proceeds of shares/securities shall be repatriated to India immediately on receipt thereof and in any case not later than 90 days from date of sale and documentary evidence to this must be submitted to RBI through AD Bank.

Thus, receiving sales/disinvestment proceeds beyond period of 90 days results in contravention.

D. MCA

Companies (Registration Office and Fees) Amendment Rules, 2020

The Ministry of Corporate Affairs has amended the Companies (Registration Office and Fees) Amendment Rules, 2014, wherein, in place of Form GNL-2, new forms shall be substituted.

Details are available at: http://www.mca.gov.in/Ministry/pdf/rule_19022020.pdf

Companies (Incorporation) Amendment Rules, 2020

The Ministry of Corporate Affairs has notified the Companies (Incorporation) Amendment Rules, 2020 where the application for reservation of name shall be made through the web service available at MCA website by using web service SPICe+ (Simplified Proforma for Incorporating Company Electronically Plus: INC-32), the application for incorporation of a company shall be accompanied by e-form AGILE-PRO with effect from February 23, 2020 containing an application for registration of the following GSTIN, EPFO, ESIC, Profession Tax registration, Opening of bank account and for forms RUN, e-forms INC-32 (SPICe), INC-35 (AGILE) and form INC-9 have been substituted with e-forms SPICe+ and AGILE-PRO and RUN

(Reserve Unique Name) for change of name only.

The Notification shall come into effect from **February 23, 2020**.

Details are available at: http://www.mca.gov.in/Ministry/pdf/rule_22022020.pdf

Companies (Appointment and qualification of Directors) Amendment Rules, 2020

The Ministry of Corporate Affairs has notified the Companies (Appointment and Qualification of Directors) Amendment Rules, 2020 on 28th February 2020.

The amendments are made in Rule 6 related to “Creation and maintenance of databank of persons offering to become independent directors”, where

1. Every individual who has been appointed as an independent director in a company shall within a period of five months, apply online to the institute for inclusion of his name in the data bank for a period of one year or five years or his life time, and from time to time take steps till he continues to hold the office of an independent director in any company.
2. Every individual whose name is so included in the data bank shall pass an online proficiency self-assessment test conducted by the institute within a period of 1 year from the date of inclusion of his name in the databank. But the individual who served as a director or key managerial personnel for a total period of not less than 10 years in one or more of the followings shall not be required to pass the online proficiency self-assessment test.
 - (a) listed public company; or
 - (b) unlisted public company having a paid-up share capital of rupees ten crore or more; or
 - (c) body corporate listed on a recognized stock exchange:

Details are available at : https://www.mca.gov.in/Ministry/pdf/rule_28022020.pdf

Companies (Registration Offices and Fees) Second Amendment Rules 2020

The Ministry of Corporate Affairs has notified the ‘Companies (Registration Offices and Fees) Second Amendment Rules, 2020’ and amends vide Form No.GNL-2 and add the word ‘Filing

under Insolvency and Bankruptcy Code, 2016' instead of 'Form 159 of the Companies (Court) Rules, 1959- and also add after first verification column- Particulars of the person signing and submitting the form.

Details are available at: https://www.mca.gov.in/Ministry/pdf/rule1_13032020.pdf

Companies (Incorporation) second Amendment Rules, 2020

The Ministry of Corporate Affairs has issued the Companies Incorporation (Second Amendment) Rules, 2020 on 12th March, 2020 to further amend the Companies Incorporation Rules 2014.

Amendment has been made in Form INC-28 (form for filing Notice of the order of the court or any other competent authority). As per the new amendment the company shall state the section of Insolvency and Bankruptcy Code, 2016 under which order passed.

Details are available at: https://www.mca.gov.in/Ministry/pdf/rule_13032020.pdf

Clarification on prosecutions filed or internal adjudication proceedings initiated Independent Directors, non-promoters and non-KMP non-executive directors

MCA has issued clarification that the prosecution proceedings against the independent and non-executive directors shall not be initiated unless there is strong evidence of their complicity in frauds committed by the companies.

The whole time director(WTM) and the key managerial personnel (KMP) will be liable for default committed by a company. In case where there is no key managerial personnel, the director who have expressly given their consent for incurring liability in e-form GNL-3 filed with the registrar would be held liable. Also in cases where the penal provision in the Act hold a specific director or officer or any other person accountable for the default in such cases, action should be initiated only against such director.

Further details are available at : https://www.mca.gov.in/Ministry/pdf/Circular_03032020.pdf

Extension of filing NFRA-2

The Ministry of Corporate Affairs vide its circular

dated 5th March, 2020 has mentioned that the time limit for filing of Form NFRA-2, for the reporting period Financial Year 2018-19' will be 150 days from the date of deployment of this form on the website of National Financial Reporting Authority (NFRA).

Details are available at : https://www.mca.gov.in/Ministry/pdf/Circular_06032020.pdf

Relaxation of additional fees and extension of last date in filing of forms MGT-7 Annual Returns and AOC-4 (Financial Statements under the Companies Act, 2013- UT of J&K and UT of Ladakh

The Ministry of Corporate Affairs has decided to further extend the due date for filing of e-forms AOC-4, AOC-4 (CFS) AOC4 XBRL and e-form MGT-7 upto 30.06.2020, for companies having jurisdiction in the UT of J&K and UT of Ladakh without levy of additional fee.

Details are available at : https://www.mca.gov.in/Ministry/pdf/Circular_12032020.pdf

Exemptions to Government Companies under Section 462 of the Companies Act, 2013

The Central Government, in the public interest, makes the following further amendments in the notification of the Government of India, in the Ministry of Corporate Affairs, number G.S.R. 463(E), dated the 5th June, 2015, published in the Gazette of India, Extraordinary, Part-II, Section 3, Subsection (i), dated the 5th June 2015, namely:-

In the said notification, in the Table:-

(i) for serial number 1 and the entries relating thereto, the following serial numbers and entries shall be substituted, namely:-

| (1) | (2) | (3) |
|-----|--------------------------------------|--|
| "1. | Chapter I, clause (45) of Section 2. | In clause (a5), the following Explanation shall be inserted, namely:- Explanation.- For the purposes of this clause, the "paid up share capital" shall be construed as "total voting power", where shares with differential voting rights have been issued. |

Legal Update

| | | |
|-----|------------------------|--|
| 1A. | Chapter II, Section 4. | In Section 4, in sub-section (1), in clause (a), the words 'in the case of a public limited company, or the last words "Private Limited" in the case of a private limited Company shall be omitted." |
|-----|------------------------|--|

(ii) for serial number 26 and the entries relating thereto, the following serial number and entries shall be substituted, namely:-

| (1) | (2) | (3) |
|------|--|--|
| "26. | Chapter XII, first and second proviso to sub-section (1) of Section 188. | Shall not apply to – (a) a Government company in respect of contracts or arrangements entered into by it with any other Government company, or with Central Government or any State Government or any combination thereof; (b) a Government company, other than a listed company, in respect of contracts or arrangements other than those referred to in clause (a), in case such company obtains approval of the Ministry or Department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before entering into such contract or arrangement." |

Details are available at https://www.mca.gov.in/Ministry/pdf/Notification_02032020.pdf

Exemption notification dated 11.3.2020 under Section 45 of the Banking Regulation Act, 1949

A.

| S.No. | Regulation and associated filing | Filing | | Relaxation w.r.t. the quarter / financial year ending March 31, 2020 | | |
|-------|---|-------------|---|--|---------------|----------------------|
| | | Frequency | Due within | Due Date | Extended Date | Period of Relaxation |
| | Regulation 7(3) relating to compliance certificate on share transfer facility | Half yearly | One month of the end of each half of the financial year | April 30, 2020 | May 31, 2020 | 1 month |

from the application of the provisions of Section 5 and 6 of the Competition Act, 2002 in public interest for a period of five years from the date of publication.

The Central Government in exercise of the powers conferred by clause (a) of Section 54 of the Competition Act, 2002 (12 of 2003), hereby exempts a Banking Company in respect of which the Central Government has issued a notification under Section 45 of the Banking Regulation Act, 1949 (10 of 49), from the application of the provisions of Sections 5 and 6 of the Competition Act, 2002, in public interest for a period of five years from the date of publication of this notification in the Official Gazette i.e 11th March, 2020

Details are available at https://www.mca.gov.in/Ministry/pdf/BankingNotification_11032020.pdf

E. SEBI

Relaxation from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 due to the COVID -19 virus pandemic

Securities and Exchange Board of India vide its circular dated 19th March, 2020, has brought temporary relaxations in compliance requirements for listed entities.

The timelines has been extended due to the COVID 19 virus which has hit populations around the world and has resulted in many restrictions, including free movement of people, thereby hampering businesses and day to day functioning of companies. It has also been declared a 'pandemic' by the World Health Organization (WHO).

In this regard, the timelines for certain filings as required under the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR') to listed entities are extended, as follows:

| S.No. | Regulation and associated filing | Filing | | Relaxation w.r.t. the quarter / financial year ending March 31, 2020 | | |
|-------|--|--------------------|---|--|---------------|----------------------|
| | | Frequency | Due within | Due Date | Extended Date | Period of Relaxation |
| | Regulation 13(3) relating to Statement of Investor complaints | Quarterly | 21 days from the end of each quarter | April 21, 2020 | May 15, 2020 | 3 weeks (appx) |
| | Regulation 24A read with circular No CIR/CFD/CMD1/27/2019 dated February 8, 2019 relating to Secretarial Compliance report | Yearly | 60 days from the end of the financial year | May 30, 2020 | June 30, 2020 | 1 month |
| | Regulation 27(2) relating to Corporate Governance report | Quarterly | 15 days from the end of the quarter | April 15, 2020 | May 15, 2020 | 1 month |
| | Regulation 31 relating to Shareholding Pattern | Quarterly | 21 days from the end of the quarter | April 21, 2020 | May 15, 2020 | 3 weeks (appx) |
| | Regulation 33 relating to Financial Results | Quarterly / Annual | 45 days from the end of the quarter for quarterly results | May 15, 2020 | June 30, 2020 | 45 days |
| | | | 60 days from the end of Financial Year for Annual Financial Results | May 30, 2020 | June 30, 2020 | 1 month |

B.

| Regulatory provision | Relaxation |
|---|---|
| Regulation 17(2): The board of directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings | The board of directors and Audit Committee of the listed entity are exempted from observing the maximum stipulated time gap between two meetings for the meetings held or proposed to be held between the period December 1, 2019 and June 30, 2020. However the board of directors / Audit Committee shall ensure that they meet atleast four times a year, as stipulated under regulations 17(2) and 18(2)(a) of the LODR. |
| Regulation 18(2)(a): The audit committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings | |

Details are available at: <https://www.sebi.gov.in>

Corrigendum

In the report of ICAI's Annual Day published in March 2020 issue of the Journal, the readers should read the headline on page 1153 as, '*Hon'ble Lok Sabha Speaker Lauds ICAI as Transparent, Impartial and Responsible Organisation at 70th Annual Function*' Similarly, on page and 1156, the vote of thanks is to be read as, '*He thanked Shri Om Birla and stated that the speech of Hon'ble speaker, Lok Sabha is recognition of ICAI contribution to the nation and is motivation to work more*' The error is regretted.

— Editor

Postponement of Chartered Accountant Examinations, May 2020

In continuation to the important announcement dated 1st January 2020, it is hereby notified for general information that in view of the ongoing spurt of the COVID-19 pandemic and in the interest of the well-being of students, the Chartered Accountant Examinations initially scheduled from 2nd May 2020 to 18th May 2020 stand rescheduled and the said examinations shall now be held from 19th June 2020 to 4th July, 2020 as per details given below.

FOUNDATION COURSE EXAMINATION – Under NEW SCHEME

[As per syllabus contained in the scheme notified by the Council under Regulation 25 F (3) of the Chartered Accountants Regulations, 1988.]

27th, 29th June 2020, 1st & 3rd July 2020

INTERMEDIATE (IPC) COURSE EXAMINATION – Under OLD SCHEME

[As per syllabus contained in the scheme notified by the Council under Regulation 28 E (3) of the Chartered Accountants Regulations, 1988]

Group-I: 20th, 22nd, 24th & 26th June 2020

Group-II: 28th, 30th June 2020 & 2nd July 2020

INTERMEDIATE COURSE EXAMINATION – Under NEW SCHEME

[As per syllabus contained in the scheme notified by the Council under Regulation 28 G (4) of the Chartered Accountants Regulations, 1988.]

Group-I: 20th, 22nd, 24th & 26th June 2020

Group-II: 28th, 30th June 2020, 2nd & 4th July 2020

FINAL COURSE EXAMINATION - Under OLD SCHEME

[As per syllabus contained in the scheme notified by the Council under Regulation 31 (ii) of the Chartered Accountants Regulations, 1988.]

Group –I: 19th, 21st, 23rd & 25th June 2020

Group -II: 27th, 29th June 2020, 1st & 3rd July 2020

FINAL COURSE EXAMINATION - Under NEW SCHEME

[As per syllabus contained in the scheme notified by the Council under Regulation 31 (iv) of the Chartered Accountants Regulations, 1988.]

Group -I: 19th, 21st, 23rd & 25th June 2020

Group -II: 27th, 29th June 2020, 1st & 3rd July 2020

INTERNATIONAL TRADE LAWS AND WORLD TRADE ORGANISATION (ITL & WTO), Part I EXAMINATION

Group A 20th & 22nd June 2020

Group B 24th & 26th June 2020

INTERNATIONAL TAXATION – ASSESSMENT TEST (INTT – AT)

27th & 29th June 2020

It may be emphasised 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.

Candidates may note that two of the papers viz. Paper(s) 3 & 4 of Foundation Examination are of 2 hours duration. Similarly, Elective Paper - 6 of Final Examination (under New Scheme) is of 4 hours. However, all other examinations are of 3 hours duration, and the examination wise timing(s) are given below:

| Examination | Paper(s) | Exam. Timings (IST) | Duration |
|---------------------------|--------------|---------------------|----------------|
| Foundation | Paper 1 & 2 | 2 PM to 5 PM | 3 Hours |
| | Paper 3 & 4* | 2 PM to 4 PM | 2 Hours |
| Intermediate (IPC) | All Papers | 2 PM to 5 PM | 3 Hours |
| Intermediate (New Scheme) | All Papers | 2 PM to 5 PM | 3 Hours |

| | | | |
|---|-----------------------------|--------------|----------------|
| Final (Old Scheme) | All Papers | 2 PM to 5 PM | 3 Hours |
| Final (New Scheme) | Paper 1 to 5 & Paper 7 & 8. | 2 PM to 5 PM | 3 Hours |
| | Paper 6 (Elective) | 2 PM to 6 PM | 4 Hours |
| Post Qualification Course Examinations i.e. (ITL & WTO), Part I and (INTT – AT) | ALL | 2 PM to 5 PM | 3 Hours |

*In Paper 3 and 4 of Foundation Examination and all papers of Post Qualification Course Examinations there will not be any advance reading time, whereas in all other papers / exams mentioned above, an advance reading time of 15 minutes will be given from 1.45 PM (IST) to 2 PM (IST).

Foundation Course Examination is to be held along with Final Group –II Examinations on 27th, 29th June

2020, 1st & 3rd July 2020 and the Post Qualification Course Examination i.e. INTT - AT is to be held along with Final Group – II Examination on 27th & 29th June 2020, whereas ITL & WTO examination is to be held along with 4 papers, Group – I of Intermediate (IPC) / Intermediate Examinations.

Additional Secretary
(Examinations)

Classifieds

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5806 Delhi based 36 years old CA firm urgently needs- two semi qualified Audit Assistants, Preferably IPCC (Both Groups) and Article Trainees. Salary/ Stipend Conducive Work Environment. Contact: ASRN & Associates, 608 Padma Tower-1, Rajindra Place, New Delhi-110008, Mobile No. : 9810214722; 9810092542. Tel.: 011-41536539; 41536939; sunilbhatia.ca@asrn.ho@gmail.com

5807 We are a Mumbai based CA firm with 31 years standing looking to expand in Bengaluru, Ahmedabad, Chennai, Delhi and Kolkatta. We are looking for individual CAs having proprietorship firm looking for merger with us. CAs having CoP and wish to start own practice also can be considered for partnership. Please e-mail your CV at: info@yardiprabhu.com

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CMI&B of ICAI had successfully organised the 2nd Batch of residential Management Development Programme from 3rd February to 26th February, 2020 at Bengaluru for the newly qualified CA rank holders to groom and upgrade their managerial and leadership skills and concluded by the special placement programme.

127 Qualified CA Rank holders from all over the country participated in the programme

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- **Customized Course Content** specifically designed for the CAs to develop the managerial skill sets and know its various dimensions
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Conducted by: **The Institute of Chartered Accountants of India**
Manipal County | Bengaluru | 3rd to 26th February, 2020

Participants of the 2nd Batch of Management Development Programme held from 3rd to 26th February, 2020 at Bengaluru



Organized by
Committee for Members in Industry & Business (CMI&B)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

For more details about the Programme, please contact at **011-30110525/555** or e-mail **cmib@icai.in**

4 DAYS TRAINING PROGRAM ON RESEARCH METHODOLOGY

Date & Day: **7th (Sun) to 10th (Wed) June 2020**

Venue: **CoE, Jaipur**



The Institute of Chartered Accountants of India (ICAI)

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 for regulating the profession of Chartered Accountants in India. ICAI is the second largest accounting body in the whole world with a strong tradition of service to the public interest and to the Indian economy. During its more than seventy years of existence, ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for maintaining highest standards in technical, ethical areas and for sustaining stringent examination and education standards. Since 1949, the profession has grown leaps and bounds in terms of membership and student base. Starting with a handful of about 1700 members, today, the strength of Chartered Accountant fraternity has grown to over 3 lakh members. On the education front, the ICAI began with mere 259 students and today about 8 lakh active students are a part of ICAI. The Institute functions under administrative control of Ministry of Corporate Affairs, Government of India. It has its headquarters in New Delhi and 5 Regional offices in Chennai, Kanpur, Kolkata, Mumbai and New Delhi. It presently has 164 branches spread all over the country. In addition, it has also set up 34 chapters outside India and an overseas office in Dubai. The affairs of the ICAI are managed by a Council in accordance with the provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988. The Council is composed of 40 members of whom 32 are elected by the members and remaining 8 are nominated by the Central Government generally representing the Comptroller and Auditor General of India, Securities and Exchange Board of India, Ministry of Corporate Affairs, Ministry of Finance, Ministry of Commerce and other stakeholders.

About the Course

Creation and dissemination of knowledge through research is one of the core functions of the Research Committee of ICAI. Apart from generating new knowledge, training the intellectual manpower is required for all sectors of the society. Quality of manpower is the most important factor for producing good quality researches. With the passage of time, research as an activity has not received due attention. As a result, the quality of the research has projected a declining trend. This has raised a concern amongst the academic community, social thinkers and policy makers. The present course is an endeavour in this direction. ICAI has taken an initiative of organizing such kind of course on regular basis with a mission to impart research skills to the beginners and help improve the quality of Research by the existing researchers.

Research Committee

The Research Committee of the Institute of Chartered Accountants of India is one of the technical committees set up in 1955 with a view to undertake research activities to improve the quality of services rendered by the profession. The primary objective of Research Committee is to undertake research in the field of accounting and other affiliated areas with a view to enhance the value of services rendered by the profession. The Committee undertakes approved research projects on current and continuous basis in various areas which are generally published in the form of Guidance Notes, Technical Guides, Studies, Monographs, etc. on generally accepted accounting principles and practices designed to enhance the value of the services rendered by the profession.

Objectives

The Objective of this course is to pay attention to the most important dimension of Research i.e. Research Methodology. It will enable the Researchers to develop the most appropriate methodology for their Research Studies. It will provide comprehensive understanding of the Research design. It will enable the delegates for efficient academic writing skills and ethical aspects.



Pedagogy

The Course Structure is designed in a way that the learning of Research Methodology can move from Mugging up syndrome to fun-practical method; from a teaching process to an experimental process, from memorizing to brainstorming, from competitive learning to collaborative learning.

Fee

Non-Members: 15000+GST
Members: 30% discount on 15000 to members of ICAI i.e. 10500+GST (Fee includes 4 days classroom teaching, 6 days accommodation with all meals, reading material and Participation Certificate, Group Photo)

Venue

Centre of Excellence, Jaipur
ICAI Bhawan, Chosla, Tehsil Chaksu, Jaipur-302901. It offers state of art architecture and facilitates stay & training of delegates/ participants.

Duration

4 Days classroom study, participants can check in one day prior and check out one day after course, it is included in fee.

Contact

Secretariat, Research Committee.
Ph: 011-30110468
Email: research@icai.in
CoE Jaipur, Rajasthan,
Mobile: 9667555219
Email: coejaipur@icai.in

Application Procedure

Interested delegates can apply for the course by filling the online application form available on the link given :

For Members



<https://ccm.icai.org/?progid=2769>

For Non-Members



<https://ccm.icai.org/?progid=2770>

Important Dates

Last date for receiving application for the course (online)
25th May, 2020

Completion of Training
10th June, 2020

Commencement of Training
7th June, 2020

Faculties

Sessions will be delivered through our esteemed faculty members having expertise in their respective subject area.

Program Chairperson

Chairperson, Research Committee

Program Vice- Chairperson

Vice-Chairperson, Research Committee



RESEARCH COMMITTEE THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110002.

Tel: 01130110468 Email: research@icai.in

for further details visit website : www.icai.org



RESEARCH COMMITTEE
THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA
 (Set up by an Act of Parliament)

INVITATION FOR RESEARCH PAPERS

The Research Committee of the Institute of Chartered Accountants of India is one of the technical committees set up in 1955 with a view to undertake research activities to improve the quality of services rendered by the profession. The primary objective of Research Committee is to undertake research in the field of accounting and other affiliated areas with a view to enhance the value of services rendered by the profession.

It is the endeavor of the Research Committee to demonstrate the research work of its members thereby we invite research papers from our members. This call is opened round the year. Periodically, on collection of good research work, Research Committee may publish a Compendium of research work.

For help of the members a draft structure of research paper is given below:

- Introduction/overview/objectives/purpose
- Research questions / hypotheses
- Theoretical framework
- Methodology
- Brief literature review
- Findings
- Discussion
- Has the research question been answered or hypothesis proven/refuted?
- Application/implication of the study
- Potential follow-up studies
- Limitations
- Recommendations
- Conclusion

It is extremely important to note that this is merely a suggestion and should only serve as a general guideline for writers. Writers are encouraged to rename, remove or add to this structure to suit the needs of their research.

Research papers complete in all respects should be sent to the Research Committee, at the following address:

Research Committee

The Institute of Chartered Accountants of India
 ICAI Bhawan, Indraprastha Marg, New Delhi – 110002
 Tel: 01130110468, E-mail: research@icai.in

List of Officials of the Institute

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| 40. | Committee on Insolvency & Bankruptcy Code | Ms. S. Rita | 9350799929 | iblg@icai.in; rita.s@icai.in |
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ICAI in Media

ICAI in Media : Glimpses of February and March 2020

Business Standard

ICAI signs MoU with IIM Jammu for Boosting Research & Innovation

New Delhi, Feb 27, 2020




ICAI signed a Memorandum of Understanding (MoU) with IIM Jammu today on 21st February 2020. Signing of the MoU between ICAI & IIM Jammu would facilitate both institutions working together to explore areas of mutual collaboration and cooperation for offering executive training programs exclusively for the Chartered Accountants. This MoU envisions creating synergies between ICAI and IIM Jammu in research, teaching and training programs. The MoU was signed by CA. Atul Kumar Gupta, President ICAI on behalf of ICAI & Prof. B. S. Sahay, Director IIM Jammu. While signing the MoU, CA. Atul Kumar Gupta, President ICAI said "The key mantra for success in today's world is reskilling of skills with the advent of Artificial Intelligence, Blockchain, Cyber Security and Data Analytics. With the advent of IFRS and GST, our young & experienced CAs need to continuously upgrade their skillsets". Speaking at the occasion, Prof. B. S. Sahay, Director, IIM Jammu said "Learning is a continuous process and this MoU will help in exploring ways to ensure continuous learning for young and experienced Chartered Accountants of the country. ICAI, with its industry experience can also contribute towards teaching and joint research collaboration with IIM Jammu." The customized training programs for the CAs will be designed in consultation with ICAI with modules on leadership, communication skills, conflict management, negotiation skills, marketing, data analytics, team building and change management.

EducationTIMES

New Delhi- Mar 2, 2020

Students are opting for CA new course

Chartered accountants are looking beyond conventional roles to take up new jobs in financial modelling, planning strategies, risk assessment, forensic accounting, reports **Puniti Pandey**



Changing job roles in an increasingly demand for professionals in the field. Keeping that in view, the Institute of Chartered Accountants of India (ICAI) revised the CA course in 2017 offering students the liberty to pick between old and new syllabus. More number of students are now enrolling in the new syllabus that includes subjects that are in sync with the changing finance sector across the globe. Changes in subjects have been introduced in all the three levels - Foundation, Intermediate and Final. The new courses include subjects such as International Taxation, Bank Finance, Corporate Governance and Reporting, Business and Commercial Knowledge, Economics for Finance, and more. "The syllabus of the CA course was revised to inculcate competence and skills among the aspirants to increase endurance in the ever-changing digital business environment," says Atul Kumar Gupta, president, ICAI while speaking to Education Times. "The changes were introduced keeping in view the changing business and economic dynamics. The new course will help reduce and upgrade the technical competence, professional skills, values, ethics and attitudes of aspirants. CAI by introducing subjects to incorporate practices of international accountancy education bodies. It would help in accepting new roles on their quality as chartered accountants," said Gupta.

What are the new roles?
CAs in the contemporary era have to go beyond their conventional role and deliver more than just being an accountant, auditor, and financial analyst. "The professionals today are required to assist in multiple fields such as artificial intelligence, financial modelling, risk assessment and management, forensic accounting and auditing, planning strategies related to entry of overseas companies, corporate governance, treasury related consolidation, business revenue models - planning and structuring among others, to act as a complete business solution provider," says Gupta. To incorporate practices of international accountancy education bodies, the new course has also been incorporated with electives that include subjects such as Global Financial Reporting Standards (GFRS) and International taxation which transcends borders. In addition to this, students are also offered a basic level course in foreign languages such as Spanish, German, French and Japanese to enhance their communication skills of entering the international market. "By acquiring the language skills, students, with all the knowledge can bridge the communication barriers and understand the local market better," adds Gupta.

Students are catching up
In the 2019 CA final examination, 26,972 candidates from the old syllabus qualified the exam as against the new syllabus. The registrations in the new course have gradually increased over the years. In May 2018 CA final exam, around 2,289 students appeared in the Group I exam from the new syllabus, while 1,208 took the exam in Group II. The number of students in the new course further witnessed a considerable increase in the November 2018 exam where 6,192 students appeared for the exam for Group I while 3,307 appeared in the Group II. The registrations in the new course increased manifold in the 2019 exam with 26,972 appearing for the Group I and 26,972 appearing for Group II.

Pass percentage trends
The CA final exam has over the years seen a larger pass percentage of qualifications from the old course. The increase in the qualifications from the old course has been proportional to the number of students appearing for this course. However, the pass percentage of students from new course is witnessing a gradual increase as the number of aspirants are increasing in this course.

| Month | Old syllabus (appeared) | Old syllabus (passed) | New syllabus (appeared) | New syllabus (passed) |
|---------------|-------------------------|-----------------------|-------------------------|-----------------------|
| May 2018 | 36,696 | 4,195 | 2,289 | 260 |
| Group I | 37,350 | 5,075 | 3,258 | 96 |
| November 2018 | 32,633 | 9,934 | 4,191 | 554 |
| Group II | 36,655 | 8,842 | 3,307 | 194 |

| Group | Old syllabus (appeared) | Old syllabus (passed) | New syllabus (appeared) | New syllabus (passed) |
|-------------|-------------------------|-----------------------|-------------------------|-----------------------|
| Group I | 27,400 | 36,945 | 27,400 | 23,090 |
| Group II | 27,400 | 4,079 | 27,400 | 4,071 |
| Both groups | 54,800 | 41,024 | 54,800 | 27,161 |
| Group I | 27,400 | 36,945 | 27,400 | 23,090 |
| Group II | 27,400 | 4,079 | 27,400 | 4,071 |
| Both groups | 54,800 | 41,024 | 54,800 | 27,161 |

NEWS by CAREERS360

ICAI signs MoU with IIM Jammu, fee waiver and representative office among key initiatives

Team Careers360 | Mar 12, 2020

The Institute of Chartered Accountancy in India recently signed a Memorandum of Understanding with IIM Jammu. Top officials from ICAI - CA. Atul Kumar Gupta, President ICAI on behalf of ICAI & Prof. B. S. Sahay, Director IIM Jammu signed the MoU with a common objective of collaborating together to offer executive training programs exclusively for the Chartered Accountants.

The key point of interest in the MoU was 75% fee concession to the students belonging to the Union Territories of Jammu & Kashmir, Ladakh and 8 North-Eastern States. Also, another important initiative discussed in the MoU was opening of the representative office of ICAI in Union territory of Ladakh and Srinagar.

Speaking about the collaboration, Prof. B. S. Sahay, Director, IIM Jammu said "Learning is a continuous process and this MoU will help in exploring ways to ensure continuous learning for young and experienced Chartered Accountants of the country. ICAI, with its industry experience can also contribute towards teaching and joint research collaboration with IIM Jammu."

Fee waiver for students from Jammu & Kashmir, Ladakh and 8 North-Eastern State

While signing the Memorandum of Understanding it has been decided that 75% fee waiver will be given to students who will register from the newly formed UTs of Jammu & Kashmir and Ladakh. Additionally, students from the 8 North-Eastern states will also get 75% fee concession in all the levels of Chartered Accountancy i.e. CA Foundation, CA Intermediate and CA Final.

Opening of a representative office of ICAI in Union territory of Ladakh and Srinagar

Another big initiative that was given emphasis in the MoU was the opening of a new ICAI representative office in the Union Territory. The opening of the new office will be really helpful for students in the region aspiring to become the future CAs.

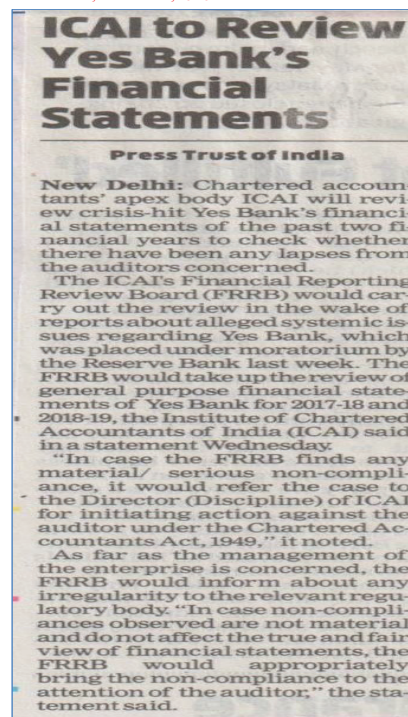
About ICAI

ICAI stands for The Institute of Chartered Accountants of India which is a statutory body set up in 1949 by an Act of Parliament to regulate the Profession of Chartered Accountancy in India.

THE ECONOMIC TIMES

ICAI to review Yes Bank's financial statements

New Delhi, March 12, 2020



Press Trust of India

New Delhi: Chartered accountants' apex body ICAI will review crisis-hit Yes Bank's financial statements of the past two financial years to check whether there have been any lapses from the auditors concerned.

The ICAI's Financial Reporting Review Board (FRRB) would carry out the review in the wake of reports about alleged systemic issues regarding Yes Bank, which was placed under moratorium by the Reserve Bank last week. The FRRB would take up the review of general purpose financial statements of Yes Bank for 2017-18 and 2018-19, the Institute of Chartered Accountants of India (ICAI) said in a statement Wednesday.

"In case the FRRB finds any material/ serious non-compliance, it would refer the case to the Director (Discipline) of ICAI for initiating action against the auditor under the Chartered Accountants Act, 1949," it noted.

As far as the management of the enterprise is concerned, the FRRB would inform about any irregularity to the relevant regulatory body. "In case non-compliance observed are not material and do not affect the true and fair view of financial statements, the FRRB would appropriately bring the non-compliance to the attention of the auditor," the statement said.

Business Standard

FM reaches out to CAs to promote Vivad se Vishwas scheme to resolve cases

Addressing CAs at an, Sitharaman said they should work hard to make the scheme successful

Press Trust of India | New Delhi, Last Updated at March 17, 2020

Finance Minister Nirmala Sitharaman on Monday reached out to the Chartered Account (CA) community to promote the Vivad se Vishwas scheme aimed at resolution of direct tax disputes.

The scheme aims to settle and see a finalisation of 483,000 direct tax cases, with revenue worth Rs 9.32 trillion locked up in them, pending at various appellate forums such as the Commissioner (Appeals), ITAT, high courts and the Supreme Court.

Addressing CAs at an event here, Sitharaman said they should work hard to make the scheme successful.

The government has a lot on its plate due to

the coronavirus outbreak and "it would be just helpful if you could move quickly in these just 15 days so that the financial year ends with decent settlement of dispute and settlement of claims", she added.

Sitharaman said March 31 is the date given to pay dues without any additional penalty, whereas between March 31 and June 30 the dues can be paid with additional penalty of 10 per cent.

Further, where arrears relate to disputed interest or penalty only, then 25 per cent of the disputed penalty or interest shall have to be paid if the payment is made by March 31, beyond which the same shall be enhanced to 30 per cent.

The scheme would remain open till June 30 this year.

She also expressed hope that the Direct Tax Vivad Se Vishwas Bill 2020 to get assent from the President on Monday.

Following the assent, the ministry will issue a notification.

THE TIMES OF INDIA

ICAI to issue advisory on dealing with coronavirus impact on auditing work

New Delhi, March 19, 2020

Advisory soon to account for corona in cos' books

Times News Network

New Delhi: The Institute of Chartered Accountants of India (ICAI) is set to issue an advisory to its members, asking them to factor in the impact of coronavirus on businesses when they audit corporate books.

"This is meant to sanitise things and will be an advisory that we plan to issue after discussions with the ministry of corporate affairs," said Atul Gupta, ICAI president.

The advisory will come at a time when several companies are complaining of their orders being impacted, especially if there are consignments for export or if they are dependent on raw material from China or other parts of the country.

But there are everyday items that may be facing the brunt of the pandemic. For instance, Gupta said, in case of perishable products, which have a shelf life of, say, three months, auditors will be advised to check the net realisable value and accordingly account for it in a company's books.

Similarly, there are several instances of delay in shipping consignments, which requires the company concerned to create a contingent liability in its books to budget for penalties or non-realisation of the sales proceeds.

"This is a unique situation that I have not encountered in my professional life. We are trying to ensure that the accounts reflect the impact," Gupta said.

While there is sufficient time to audit the books as six months are provided for allowing the exercise for financial year 2019-20 to be completed by the end of September, Gupta said, regulators such as Sebi may need to provide some relaxation if the problem persists, impacting the audit and finalisation of accounts.

NDTV

COVID-19: ICAI Allows CA Students To Change Exam Centre

The CA application form correction facility will open on March 21. Candidates can make the changes till March 23.

Education, Edited by Maitree Baral Updated: March 20, 2020

The Institute of Chartered Accountants of India (ICAI) will re-open the application window of CA May 2020 exam and allow candidates to change the exam centres, group and medium of exam. The facility will open on March 21. Candidates can make the changes till March 23. This has been decided after the institute received requests from students to change exam centres.

Application forms can be edited at icai.org.

"In view of the ongoing spurt of the COVID-19 virus and in the interest of the well-being of students who have already submitted online examination application for May 2020 Examinations, it has been decided, as a proactive measure, to reopen the online facility for seeking change of examination centre / group / medium for appearing in the Chartered Accountants Examinations scheduled in the month of May 2020," ICAI said in a notification which is available on its official website.

"Candidates are advised to take note of the above carefully and take advantage of this re-opening of on-line facility being made available appropriately," Additional Secretary, ICAI has said.

ICAI CA May exam registration was held till March 4. The exam will be held at 207 centres nationwide and also at five centres overseas—Abu Dhabi, Doha, Dubai, Kathmandu and Muscat.

ICAI CA exam will be held from May 2 to May 18. Also in view of the coronavirus outbreak, ICAI has postponed classes and programmes till April 15.

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the accounting world covering auditing, finance, laws, strategy, taxation, technology and so on. While submitting articles, please keep following aspects in mind:

- ❖ The length of articles should be about 2500 words.
- ❖ Articles should be original in nature
- ❖ An executive summary of about 100 words should accompany the article.
- ❖ Articles should not have been published or sent for publishing in any other print or electronic media.

Please send articles to Journal Section - The Chartered Accountant, The Institute of Chartered Accountants of India, ICAI Bhawan, A-29, Sector 62, NOIDA – 201309. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eboard@icai.in.

Visit https://www.icai.org/post.html?post_id=2557 for detailed guidelines and formats of declaration of originality and assignment of copyright.



The Institute of Chartered Accountants of India

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- Direct Integration with Self Service Portal for Students and Members.
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- Mark your favourite posts from their timelines to easily resume your learning where you left.
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To explore the Digital Learning Hub please visit <https://www.icai.org/elearning>



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

ICAI Bhawan, Indraprastha Marg, Post Box. No. 7100, New Delhi - 110 002
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AT LEAST 20 SECONDS**



**AVOID TOUCHING
EYES, NOSE AND
MOUTH**



**WEAR A FACE MASK OR
COVER YOUR MOUTH
WHILE SNEEZING AND
COUGHING**



**AVOID TOUCHING
“HIGH - TOUCH”
SURFACES**



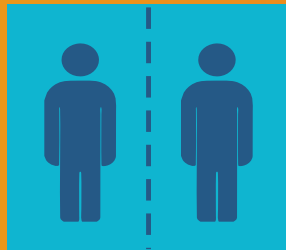
**CLEAN ALL “HIGH
TOUCH” SURFACES
DAILY**



**AVOID PUBLIC
GATHERING**



**AVOID
UNNECESSARY
TRAVEL**



**MAINTAIN 1 METRE
(3 FEET) DISTANCE
BETWEEN YOURSELF
AND OTHERS**



**AVOID SHARING
PERSONAL ITEMS
FOOD, UTENSILS ETC**



**AVOID EATING
OUTSIDE**



**MONITOR YOUR
SYMPTOMS**



**SEEK MEDICAL ADVICE
IF YOU EXPERIENCE
SYMPTOMS**