VOLUME 69 | NO. 4 | PAGES-124 | OCTOBER 2020 | ₹100

# THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

## DISRUPTIVE TECHNOLOGY

## RESHAPING PROFESSION

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# Disruptive Technology - Reshaping Profession

What makes mankind a superior race is its ability to consistently evolve and innovate. Our unstoppable drive to break the shackles of the acceptable ordinary and strive for the unforeseen extraordinary has helped us attain an unprecedented level of advancement. In this fast-paced modern age we live in, one such advancement is the technological progress that the common man had once only dreamt of. Technology is an omnipotent tool that has changed the way of living, today. Things have reached at unprecedented level with mechanical robots and robotic software processes assisting and in some cases replacing human workers in industry. The common perception that robots threaten manual work has become redundant as robotic processes have started encompassing white-collar jobs.

Today, technology has reached next level and set to change profession. Automation of nuanced tasks and effortless computerisation of complicated estimations is going to expedite the process of development, consequently enhancing our future. Ergo all professions today, have embraced and embodied the applications of hi-tech scientific know-how due to its multidimensional utility and wide-spread acceptance and the accounting profession is not lagging behind.

Chartered accountants with their deep understanding of systems have not only imbibed technology in their routine functions but have taken it to new pedestal in the area of accounting and finance. As technology has evolved, the Accountants have been using it to improve what they do and deliver more value to businesses. Technology has helped to radically improve the quality of business and investment decisions. In the coming decades, intelligent systems will take over more and more decision-making tasks from humans. Profession has initiated steps to use artificial intelligence, robotics, and blockchain to automate several traditional core accounting tasks to help business and industry. The profession is at a critical moment from where it is set to acquire a totally different structure. The accountants need to first understand these new dimensions and then excel to maintain their supremacy in the financial world. The Institute of Chartered Accountants of India is sensitive to these developments and is conducting a series of events to upskill its members.

With change as the only constant, dynamicity is the industrial mantra for success. Equipping oneself with the latest knowledge of data science and business analytics ensures not just individual growth but exponential expansion of a field. After all, technology is an all-encompassing and inter-disciplinary instrument that brings new dimensions to the professional world of accounting and finance. As a new age professional accountants are making the most out of the opportunities technology offers, through data analytics tools and new skill sets, for combating the risks in industrial landscape. For the auditing professionals, data analytics is a quintessential tool to improve audit quality. Data Analytics facilitates auditors to more effectively audit the large amounts of data. Using data analytics, auditors can easily identify patterns and connections to pinpoint high-risk areas for further audit testing. With the tools available the auditors can extract and manipulate mammoth data available to analyse it to analyse and form opinions on significant matters.

With the technological revolution, the ICAI is simultaneously updating its existing standards, guidance notes and other publications but also releasing new ones. At present a number of exposure draft on standard on forensic accounting and investigation (FAIS) have been released for members to provide their comments. These are FAIS 110 - Understanding the Nature of Engagement; FAIS-120 - Understanding Fraud Risk-120; FAIS-130 - Laws and Regulations; FAIS-140 - Applying Hypotheses; FAIS-220 - Engagement Acceptance & Appointment and FAIS-230 - Using the Work of an Expert. Members are encouraged to go through them and provide their valuable and practical inputs.

Technology has penetrated the finance world, thus making possible some of the most remarkable breakthroughs as well as an all-round and incredible progress. As long as this wheel of digital advancement keeps moving, anything and everything is achievable and success is indisputable.

**-Editorial Board** ICAI: Partner in Nation Building

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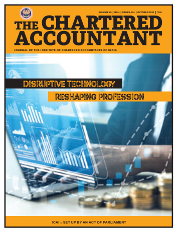


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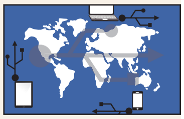










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**EDITORIAL SUPPORT, DESIGN & ADVERTISEMENTS**

SAP Print Solutions Private Limited.
28A, Lakshmi Industrial Estate, S.N. Path, Lower Parel (W),
Mumbai - 400 013 Tel : 022 - 40741000

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Printed and published by Mr. Rakesh Kumar Sehgal on behalf of The Institute of Chartered Accountants of India (ICAI)

Editor – CA. Atul Kumar Gupta

Published at The Institute of Chartered Accountants of India, I. P. Marg, New Delhi - 110002 and printed at SAP Print Solutions Private Limited, Plot No-3 and Plot No-30 Sector II, The Vasai Taluka Industrial Co-op Estate Ltd., Gauraipada, Vasai (E), District : Palghar - 401208



TOTAL CIRCULATION : Nil

Total No. of Pages: 124 including Covers

Inside images and Graphics: www.freepik.com, www.shutterstock.com

E-Journal circulation (Soft copy): 3,19,646

# From the President

CA. Atul Kumar Gupta
President, ICAI

Dear Professional Colleagues,

Our Institute since its very inception, has been immensely passionate about its purpose to propagate progress and has persistently recognised the developments happening around and pursued contemporary reformation and dynamic improvement. It assiduously aspires to attain the absolute best for all its members and is diligently dedicated to their constant improvement and growth. As opposed to being a silent bystander to change, ICAI stands tall as a facilitator and crusader of affirmative action and thereby letting consequent growth and development flow.



The Indian Accountancy Profession has always provided thought leadership to the generations and in a proactive and progressive manner recognised the technological evolution very early. More than five decades back the then ICAI President and past Governor of Madhya Pradesh CA. Rameshwar Thakur noted technological development and said, in the year 1967 – *"A great change the Accounting profession in India has to reckon with is the advent of computer age at the international level. Some of the industrial units even in our country have started utilising the services of these devices. The electronic data processing system has almost revolutionised the traditional accounting and auditing functions. The change being swift, has caused a sense of alarm and it is realised that unless the present day and future Accountants get themselves equipped with the knowledge of working of the computers, they would be relegated to the background. As such we have to provide necessary facilities to our members to enable them to meet the new requirements."*

Today, the accounting profession is not relegated to the background, rather has acquired indomitable position. Built on the foundation of tenacity and hard-work, accountancy profession in India has always endeavoured to inspire faith and foster confidence among those within its tutelage by standing tall as a strong regulator and simultaneously a potent educator. Imbibing technology in the internal systems and hand-holding members to acquire new skills has always been a priority whether yesterday or today. The then ICAI President CA. Y.M. Kale said in the year 1996 – *"Helping members maintain their professional competitiveness often involves improving their capacity to make effective use of modern technology. In promoting the technical advancement and relevance of accountancy as the language of business, familiarity with computers is now indispensable."*

The Institute, over the years, has garnered paramount respect for meeting business environment changes with decisive action and discerning reaction. Renowned for imbibing technology swiftly and smoothly, ICAI is perseveringly working today to upskill members in Big Data, Artificial Intelligence, Robotic Process Automation and other aspects of technology. By sowing the seeds for a more efficient and effective technology enabled profession, it strives to change the face of the world of accounting and auditing for the better. Even today, many of our members are adept in the most complex aspects of technology and make noteworthy contribution to the business and industry. The nuances of technology are complex and intriguing, and it needs a highly analytical and well trained mind to understand and work in such environment.

## Era of Disruption - Technology Empowered Professional Accountant

It is beyond any doubt that technological skills are required by professional accountants in view of its all pervasive impact. A couple of decades back when computers and electronic data processing were making inroads in the business, many were sceptical about their use and potential. At that time nobody could have imagined modern day concepts, tools and technologies. Things have largely changed today as technology has replaced many complex manual processes in life and business. Robots have made inroads and their use is not restricted to manufacturing sector, but has become integral part of many non-manufacturing processes. It is unbelievable that robotics is making great inroads in medical and legal professions. These developments may render many skills possessed by professional accountants as obsolete. With rapid changes, it is very difficult to predict how future will shape-up, but it is certain that accountants need to equip themselves in the newer skills to remain relevant and useful in future. Importantly, professional accountants need to acquire knowledge and skills in the following areas:

- **Artificial Intelligence:** Artificial Intelligence is replicating human intelligence in machines impacting the profession in a big way. The tools of Artificial Intelligence are being used to provide online accounting services, conduct real time audits and provide financial services.
- **Robotic Process Automation:** Robotic Process Automation by simulating human actions are helping in automating repetitive tasks taking place as a part of business processes. The area has immense potential in the finance and accounting functions that involve repetitive activities.
- **Blockchain Technology:** For professional accountants, Blockchains are highly secured distributed ledged systems that are extremely hard to falsify. Information is stored in series of blocks, each of which contain digital information to identify the sender, recipient with time stamp and full history of the transactions involved. Blockchains are secured as creating a false record would need modification in every subsequent block, which generally requires everyone using the blockchain to agree to the fraudulent entry – a scenario very difficult to accomplish.
- **Big Data and Analytics:** As organisations become digital, more data is generated and shared between organisations, their business partners and customers. Today, businesses consider information as a valuable commodity and its availability in large amounts can help in learning and making changes that can bring success. At the same time, most organisations possessing too much data are not able to cope with it and use it effectively. Data Analytics is a professional opportunity for accountants to use their skills in descriptive, predictive and prescriptive analytics to help organisations to identify newer opportunities of growth.
- **Financial technology (Fintech) Services:** New technology seeks to improve and automate delivery and use of financial services. Chartered Accountants can help business organisations to better manage their financial processes by utilising computer based algorithms. Fintech is used in a big way in banking sector and has now perpetrated to almost all commercial and not for profit organisations whether engaged in manufacturing or providing services.
- **Cloud Accounting:** Storing data on remote servers so that it can be easily accessed from anywhere has loosened geographical restrictions. Once data is entered in the cloud, it can be retrieved and used anywhere in the world – whether in office or home or while travelling. Cloud Computing is evolving and its percolating to even medium and small businesses.
- **Cyber Risk Management:** With the growth of technology, organisations face many security challenges on a routine basis. Accountancy professionals, by equipping themselves with technological knowledge can act as technology consultants to help businessmen in realigning their business to mitigate risk, improve data integrity and better their cybersecurity position. They can provide services as consultants in the areas of cyber risk management that is gaining prominence on account of increased use of mobile technology, cloud computing and social media.
- **Forensic Evidence:** The domain of computer forensics can assist auditors to collect and use digital evidence. Forensic analysis can be used for information retrieval to reconstruct series of events that have actually taken place. The importance of forensic accounting and fraud detection has increased manifold considering rising incidents of cyber crimes and frauds. Present and future professionals need to be adept in utilising accounting, auditing, data mining and investigative skills to detect fraud or mistakes.

# From the President

FROM THE PRESIDENT

## New Age Accounting Profession

In last couple of decades the fast paced economic reforms coupled with technological advancement created a need for unswerving staunch accountants who are committed to the profession, industry, society and the economy. The present challenging times have further strengthened well established position of Chartered Accountants as harbinger of change. With their deep understanding of complex and intriguing financial concepts, proximity to the businesses of all kinds and sizes, the professional accountants can and should play instrumental role in making India truly *Aatmanirbhar*.

To be future ready, professional accountants should learn and equip themselves in new age technology skills, acquire strategic managerial skills besides continuing their prowess in accountancy, finance, taxation and business laws. ICAI already has curriculum that is benchmarked to the best in the world with unique blend of rigorous training and theoretical education. While maintaining our supremacy, we need to continuously evolve and undertake innovative actions. In this regard, we should keep following aspects in mind:

- **Study information about the current and future opportunities:** While we are having strong membership base of 3,25,000 plus, the emerging Indian economy needs more accountants to practice and work in industry. Rational planning requires realistic projections of the future demand of accounting professionals.
- **Attract entrants with high potential into the profession:** It is important to promote the utility of accounting profession in the society to generate interest of the students with high potential. While general perception about Chartered Accountants in the country is positive, it can be further build to enhance perceptions about the need and the career opportunities it offers.
- Provide quality education and training: ICAI from time to time changes its scheme to provide quality education and training. The education for the aspiring professional accountants as well existing members should keep them abreast of current knowledge in the core and related areas of competence. There is need to familiarise them with the new and emergent areas related to professional development.
- **Increased liaison between profession and academics:** With the dynamic changes in the system, processes, laws and technology there is emergent need for both practitioners and academia to cohesively and creatively foster a culture of innovation with the goal of improving the quality of accounting education in the country. Universities and colleges can work in tandem with the Institute so that basic accounting knowledge is gained by all. The subject faculty are the key driver of change in curricula and pedagogy. Quality of future can't be ascertained and improved without having capable faculty. In this regard training of faculty members with unambiguous recognition and reward structures can improve the quality of accounting education in the Institute and in the country.
- **Encouraging Accounting Research:** To build learned and future ready profession there is need for more research in the areas related to accountancy profession. As on date, 105 Indian Universities, 7 IIMs and 2 IITs (Madras & Bombay), total 114 institutions in the country have recognised Chartered Accountancy qualification for the specific purpose of registration to Ph.D. programme. Going forward, flexibility and exploration of new research is quintessential to maintain the quality of delivery of accounting education in future. There is need for more effective research where more professionals join to identify grey areas and charter mechanism to iron out creases.

## Assessment / Refresher Course Scheme for the students who have not taken membership or not restored their membership even after lapse for three consecutive years

The Council at its 392nd meeting held on 22nd April, 2020 approved the proposal for introducing an Assessment/Refresher Course Scheme for the students who have not taken membership of the Institute for more than 3 years after qualifying the Final Examination as well as for ex-members who have not applied for restoration of membership for more than three years after removal of name due to non-payment of Membership fee or any other reason. Based on the decision of the Council, the draft amendments in the Chartered Accountants Regulations, 1988 were submitted to the Central

# From the President

Government for its consideration and approval. The Central Government has accorded its in-principle approval to the proposed amendments and has asked the Institute to notify them in the Gazette of India for public comments and re-submit the proposal for final approval of the Ministry after considering the comments received by the Council of the Institute. A copy of the Gazette Notification has been hosted on the website of the Institute at *https://www.icai.org/resource/61210gazette-notification-dated14092020.pdf*. A copy of notification and the explanatory note is also included in this journal. While there is still time in the final changes in the regulations and their implementation, it is suggested that the members/students who have cleared their final examination may restore/take membership of the Institute at the earliest.

## Submission Date for Online MEF Form for the year 2020-21 Approaching

Members may note that the last date for submission of online MEF form and declaration for the year 2020-21 is 12th October, 2020. Through MEF form, ICAI collects and distribute members' data to exploit potential opportunities and facilitate new avenues of professional development and growth. The information collected through MEF form is put forward at appropriate fora for various professional opportunities. These opportunities are not limited to Bank Audit but to tap other important opportunities as well, ICAI is collecting diverse but pertinent information from its members. In the MEF certain new fields have been added to capture varied experience of the members in different fields like Internal Audit, Indirect Tax, Forensic, International experience etc. The MEF application for the year 2020-2021 is hosted on *www.meficai.org*.

## Constructive and Positive Encouragement for a Better Future

*"Keep your thoughts positive because your thoughts become your words. Keep your words positive because your words become your behaviour. Keep your behaviour positive because your behaviour becomes your habits. Keep your habits positive because your habits become your values. Keep your values positive because your values become your destiny."* – said Mahatma Gandhi. Constructive and Positive encouragement can solidify one's resolve. The progress necessitates the grace to accept criticism and the will to channelise it towards its alleviation via consistent improvement. The society is divided into different segments with diverse opinion and dissimilar perspectives about the various policies, processes or systems. Today, we are seeing an unwanted trend of making unverified and hasty comments on the Social Media criticising actions of Government, policy makers, regulators and of anybody and everybody.

While critical review and comments keep the true essence of democracy alive, continuous criticism is the breeding ground for negativity that obstructs solution-oriented action. As a member of this esteemed Institute, you can bring the general positivity in the society by having positive approach. Remember, with the recognition we enjoy in the society, we are the key opinion makers. Our Government is taking several initiatives in these challenging times that need encouragement and support of the accounting profession. We should also encourage students to use the social media in an effective and positive manner. We should use our position to bring positivity in the society while restraining from criticising concepts and deeds without being aware of the problems and circumstances.

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The unprecedented human tragedy has had a severely adverse impact on the global economy as a whole, giving numerable reasons for the corporate world to panic as the business behemoths, giants, medium and small businesses are equally grappling with the unforseen challenges. The pace of recovery is expected to be a long and painful as business organisations struggle with the upheaval brought by the Covid-19 pandemic. Despite the chaos around Covid-19, impetus to MSME sector has emerged as a critical tool by the policy makers for both living and working. With swathes of opportunities, the accounting profession should focus on innovation on a humongous scale to leapfrog into the post Coronavirus economy. With disruption in the global supply chain, there is a silver lining for India; and it should grab the opportunity both in letter and spirit.

Best wishes. Stay Safe and Healthy.

Jai Hind, Jai ICAI.

**CA. Atul Kumar Gupta**
**President, ICAI**
New Delhi, 30th September, 2020

FROM THE PRESIDENT

# ICAI in Action

## Representations Submitted to the CBDT

ICAI continuously strives to support government in various policy matters and provides inputs to iron out challenges and instal improved systems. For such cause, in the Direct Tax Committee has made following representations to the Central Board of Direct Taxes.

- Request to consider hardship faced by assessees claiming exemption under section 54 or 54F of the Income-tax Act, 1961
- Request to resolve matters faced by assessees pertaining to processing of ITR Forms by the CPC, Bengaluru
- Request to take timely steps and/or make suitable changes for deferment of implementation of amendment by Finance Act, 2020 to the provisions of Section 206C(1G)/(1H) and section 194-O of the Income-tax Act, 1961 which in law are becoming applicable from 01.10.2020
- Request to consider hardship faced by assessees claiming exemption under section 54 or 54F of the Income-tax Act, 1961: A representation no. ICAI/DTC/2020-21/Rep–17 dated 29th August 2020 was submitted to the CBDT requesting to consider hardship faced by assessees claiming exemption under section 54 or 54F of the Income-tax Act, 1961 who have already purchased a house property before selling their existing house property especially before the start of first Lockdown in the country due to Covid-19.

## Suggestions for Decriminalisation of Certain Offences under the laws

- ICAI President, Chairman and Vice-Chairman, GST & Indirect Taxes Committee attended the meeting of the Group formed by CBIC (Central Board of Indirect Taxes and Customs) for undertaking comprehensive review of GST Laws with focus on decriminalising certain offences and wider use of compounding provisions with the objectives of improving ease of living, improving business sentiments and reducing litigation on 4th September, 2020 through video conferences and suggestions were submitted on the matter.

## Relief Measures Introduced in Insolvency Resolution Process

The outbreak of Covid-19 pandemic and the subsequent restrictions due to lockdowns have severely affected the wellbeing of economies across the world. In such a scenario the Indian Government is working to create conducive business environment and increase ease of doing business. During these challenging times, to safeguard the people, business and other stakeholders, preemptive actions are inter alia being undertaken in the country in the insolvency resolution space by Hon'ble Courts, Ministry of Corporate Affairs, IBBI and RBI to provide assistance and relief. In this regard, the Committee on Insolvency & Bankruptcy Code of ICAI has taken the initiative to bring out this Booklet which provides information on such relief measures introduced in Insolvency Resolution Process in the country due to the outbreak of the pandemic. Members may avail a copy of the booklet hosted at https://resource.cdn.icai.org/61063cibc49704.pdf.

## Exposure Draft - Guidance Note on Accrual Basis of Accounting

Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. "Accrual" is one of the fundamental accounting assumptions. Framework for the Preparation and Presentation of Financial Statements under Accounting Standards (AS) consider the 'Accrual Basis' as a fundamental accounting assumption for the preparation and presentation of general-purpose financial statements. For the corporate entities, Section 128 of Companies Act 2013 prescribes for maintenance of books of account on accrual basis and according to the double entry system of accounting. For all other entities, the concept of accrual is prescribed in 'Preface to the Statements of Accounting Standards' wherein the ICAI held that Accounting Standards shall apply in respect of commercial, industrial or business activities of any enterprise. In this regard, the Research Committee of the ICAI has released an Exposure Draft of the 'Guidance Note on Accrual Basis of Accounting'. Members may go through the document and offer their comments. A copy of the exposure draft is available at https://resource.cdn.icai.org/61222research49803.pdf.

## Exposure Draft of Forensic Accounting and Investigation Standards

The Digital Accounting Assurance Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the following exposure drafts of Forensic Accounting and Investigation Standards (FAIS):

- FAIS-110 : Understanding the Nature of Engagement (Click here to download)
- FAIS-120 : Understanding Fraud Risk-120 (Click here to download)

- FAIS-130 : Laws and Regulations (Click here to download)
- FAIS-140 : Applying Hypotheses (Click here to download)
- FAIS-220 : Engagement Acceptance & Appointment (Click here to download)
- FAIS-230 : Using the Work of an Expert (Click here to download)

Last Date for submitting comments is October 18, 2020. Links of the Exposure drafts are available at https://www.icai.org/post/invitation-comments-ed-fais.

## Import Substituting Industrialisation in India

The Government of India had launched "Make in India" campaign to boost local manufacturing targeting increased output from the present level of about 16% of the gross domestic product (GDP) to 25% by 2022. Expansion and growth in the manufacturing sector leads to self-sufficiency in many products and creates employment opportunities as well. The ICAI has been continuously undertaking several initiatives to support the Government as well as all related stakeholders in respect of various new economic issues, initiatives and reforms as a partner in nation building. The Research Committee of ICAI in this direction has come up with the publication Handbook on Potential for 'NEO Import Substituting Industrialization in India'-ISI (Covid-19), to provide guidance in respect of potential for Import Substitution Industries in India. A copy of the publication is available at https://resource.cdn.icai.org/60969research49635.pdf.

## Extending helping hand to Students

On account of Pandemic and resultant Lockdown students are facing a lot of difficulty in attending Practical Training. To ease out the difficulties ICAI has taken a number of steps that have been shared with the students on ICAI website from time to time. Members may inform the following student friendly initiatives to the students associated with them:

***Opening up of ICAI exam centre overseas***

Under the aegis of the MoU signed with BIBF, Bahrain and KAAA, Kuwait; ICAI has opened its Examination Center in these countries to allow students enrolled locally to write ICAI Exam. In addition, it has also opened an exam centre in Uganda with the help of ICAI Uganda (Kampala) Chapter of ICAI.

***Release of Frequently Asked Questions (FAQs) regarding Practical Training***

Practical training is an integral part of CA Curriculum that helps students to hone up and prepare to become future ready. Frequently Asked Questions (FAQs) regarding Practical Training have been released to explain how the period of absence arising out of lockdown shall be counted as leave or being in articleship for the students who are already registered and undergoing Practical Training. Further, the eligibility to appear in Intermediate, Final examinations for such students will not be affected due to short fall in required service period/extension of articleship. The details are available in form of FAQs hosted at https://www.icai.org/post/faqs-regarding-practical-training.

***MCS Course and Advanced IT Course***

In view of the ongoing pandemic and subsequent suspension of IT and Soft Skills Classes all across the country, it has been decided that the students of May 2021 Final course exam can undergo MCS and Advanced IT Course through Virtual Mode to be conducted by the respective regional and branch offices of ICAI, as a one time measure. Announcement in this regard with detailed guidelines for students undergoing MCS/Advanced IT courses is available at the link https://www.icai.org/post/completion-mcs-course-advanced-it-course-virtual-mode.

Further, the students who have passed Final exam on or before November 2018 and were already registered in www.icaionlineregistration.org for physical mode training and have partially completed/not started the training in physical mode, can complete the remaining days of training in virtual mode which will be organized by branches and Regional Councils. Such students are not required to pay the fees again. The announcement is available at the link https://www.icai.org/post/completion-mcs-course-advit-course-vm.

In addition the students who have qualified in November 2018 Final Exam and prior to that can undergo Advanced IT course through virtual mode using facility https://virtualmcs.icai.org/. Visit https://www.icai.org/post/complete-undergo-advanced-it-course-through-virtual-mode for the announcement.

***Advanced Integrated Course on Information Technology and Soft Skills (Advanced ICITSS) -Adv. Information Technology Test – Home Based Mode***

It has been decided to conduct Advanced ICITSS - Adv. IT Test – Home Based Mode for candidates who have successfully undergone the Advanced ICITSS – Advanced IT course on or before 20th September, 2020. The home based test are being held from the candidates preferred location using own laptop/PC with webcam and a good internet connection. For announcement, please visit https://resource.cdn.icai.org/61056exam49676.pdf.

# Know Your Ethics


*On New Code of Ethics*

**Q. Which edition of Code of Ethics is applicable as on date?**

**A.** The 12$^{th}$ edition of Code of Ethics is applicable w.e.f 1$^{st}$ July, 2020. It supersedes the 11$^{th}$ edition issued in 2009, which was applicable till 30$^{th}$ June, 2020.

The revised edition of Code of Ethics is in three Volumes:-

Volume- I: Issued in 2019, it forms the revised counterpart of Part-A of 11$^{th}$ edition of Code of Ethics. It is converged with the provisions of International Ethics Standards Board for Accountants (IESBA) Code of Ethics, 2018 edition.

It may be accessed at https://www.icai.org/resource/55133CodeofEthics-2019.pdf

Volume-II: Issued in 2020, it forms the revised counterpart of Part-B of 11$^{th}$ edition of Code of Ethics. It contains the domestic provisions governing the chartered accountants.

It may be accessed at https://www.icai.org/resource/60018code-of-ethics-2020vol2.pdf

Volume-III: Also issued in 2020, it is the Case Laws Referencer.

It may be accessed at https://www.icai.org/resource/59111esb48239.pdf

**Q. Are all parts of Code of Ethics applicable now?**

**A.** In terms of the decision taken by the Council at its 393$^{rd}$ Meeting held on 30$^{th}$ June to 1$^{st}$ July, 2020, due to the prevailing situation due to Covid-19, the following provisions of Volume-I of Code of Ethics, 2020 have been deferred till further notification :-

1. Responding to Non-Compliance of Laws and Regulations(NOCLAR)

   [Sections 260 and 360]

2. Fees - Relative Size

   [Paragraphs 410.3 to R410.6]

3. Taxation Services to Audit Clients

   [Subsection 604]

With the exception of aforesaid provisions, all other provisions of revised Code of Ethics are applicable w.e.f 1$^{st}$ July, 2020.

**Q. How are the provisions of Volume-I of Code of Ethics enforceable?**

**A.** The Part-A of 11$^{th}$ edition of Code of Ethics was issued as Guideline of the Council in 2009. Accordingly, non-compliance of same would amount to professional misconduct in terms of the provisions of Clause (1) of Part-II of Second Schedule to The Chartered Accountants Act, 1949. The Volume-I of revised Code of Ethics

***Follow us on:*** www.esb.icai.org | esb@icai.in | @BoardEthical has also being brought as Guideline of the Council.

**Q. What are the drafting changes in Volume-I of the revised Code of Ethics which the members should be aware of?**

**A.** In the earlier edition, 'should' was used with respect of various provisions requiring compliances by the chartered accountants. The Volume-I of revised Code of Ethics uses the word 'shall' requiring mandatory compliance. Further, the Sections in the Code are structured as under :-

a) Introduction – sets out the subject matter addressed within the Section, and introduces the requirements and application material

b) Requirements –Denoted by "R" - establish general and specific obligations with respect to the subject matter addressed.

c) Application material – Denoted by "A" - provides context, explanations, suggestions for actions, or matters to consider, illustrations and other guidance to assist in complying with the requirements.

Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

**Q. What are the major structural changes in Volume-II of revised Code of Ethics?**

**A.** The major structural changes in Volume-II of Code of Ethics are :-

a) Comprises of statutory provisions and applicable commentary, while disciplinary case laws, earlier appearing along with the commentary, have been shifted to Volume-III of Code of Ethics

b) Numbering of paragraphs and sub-titles

c) New Appendices incorporated in addition to the earlier ones

**Q. What are the broad substantive changes in Volume-II of Code of Ethics?**

**A.** The broad substantive changes in Volume-II of Code of Ethics are as under:-

a) Changes due to Chartered Accountants (Amendment) Act, 2011, amendment in Chartered Accountants Regulations, 1988 and changes in Council Guidelines.

b) Changes in Auditing and Accounting Standards

c) Changes due to changes brought vide Companies Act, 2013, so far as they are relevant for Chartered Accountants Act, 1949

d) Changes due to provisions of Volume-I of revised Code of Ethics

e) New decisions, clarifications and interpretations pertaining to the clauses of two schedules

f) Changes in Advertisement Guidelines & Council General Guidelines

g) Amendment in Guidelines for Management Consultancy & Other services

h) Addressing new situations and new modes of communication with the previous auditor in commentary to Clause (8) of Part-I of First Schedule

i) Addressing new situations in commentary to Clauses (6) and (7) of Part-I of First Schedule pertaining to advertisement and solicitation.

j) Additional guidance under the Clause (4) of Part-I of Second Schedule pertaining to substantial interest

k) Broadening of the Terms and Reference of Ethical Standards Board, and enabling filing of complaints of unjustified removal of auditors vide email

**Q. How is the Volume-III of Code of Ethics useful for members ?**

**A.** The Volume-III of Code of Ethics i.e. Case Laws Referencer brings out subject-wise disciplinary cases that a member in practice or service must have in mind while performing his duties. There is improved guidance on number of issues e.g. under "Other Misconduct" lot of new instances have been incorporated and updated. ■■■

# Accounting Treatment of Expenditure Incurred for Rejuvenation of Petrochemical Plant

## A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') is a central public sector undertaking under the administrative control of Department of Fertilizers, Government of India. The Company is engaged in manufacture and marketing of fertilizers and petrochemicals; engineering design & consultancy services; and fabrication & erection of equipments.

2. The Company had closed down one of its plants known as caprolactam plant in the year 2012 due to uneconomic realisation on sale of caprolactam. The plant related to the production of caprolactam had been in shutdown condition for the last 7 years. This plant used to contribute Rs. 400 to Rs. 500 crore to the top line of the Company.

3. The querist has informed that being a petrochemical plant which is hazardous in nature, its re-start requires substantial capital investment. The assets of the plant are already substantially depreciated and no reassessment of life or value were conducted in the year 2013 consequent to changes in the method of accounting notified as per Companies Act, 2013/accounting standards. Consequent to the commissioning of LNG terminal at Kochi in the year 2013 and subsequent softening of prices of LNG globally, the profitability perspective of caprolactam production has changed drastically. Under this juncture, the Company reviewed the financial viability of caprolactam operations and it was decided to rejuvenate the caprolactam plant to generate reasonable value addition/contribution on restart of caprolactam production.

4. Accordingly, the Company decided to proceed with the activities for rejuvenation of the caprolactam plant and restart of its operations. The rejuvenation process and consequent restart of operations involved substantial investment and expenditure, including replacement/purchase of major equipments like gas scrubbing tower, SO2 line, KHI boiler internal & water wall, etc. and other expenditures like additional fuel, power and labour. The Company incurred a total expenditure of Rs. 18.24 crore during the financial year 2019-20, for the above. These additional investments provided an additional life to the plant for about 10 to 15 years. The Company has obtained opinion from its technical team on the remaining useful life of the plant, after the rejuvenation process. If the expenditure was not incurred, the plant would not have had any useful life and would have to be retired/scrapped.

5. The querist has provided the break-up of the expenditure incurred as follows:

| | | |
|---|---|---|
| i. Machinery including spares | : | 2.55 crore |
| ii. Fuel & Power | : | 13.73 crore |
| iii. Labour | : | 1.96 crore |

6. The Company is following cost model of accounting for its property, plant and equipment. The Company's accounting policy on property, plant and equipment is as follows:

   "All Property, Plant and Equipment are stated at acquisition cost less accumulated depreciation / amortisation and cumulative impairment."

7. The Company's accounting policy on depreciation is as follows:

   i. Depreciation is charged on fixed assets based on the useful life of assets, prescribed under the Schedule II to the Companies Act, 2013. The Company has adopted straight line method of depreciation for all the categories of assets, acquired on or after 1st April, 2014.

   ii. Effective from 1st April, 2014, the Company has reassessed the useful life of its existing fixed assets (considering component approach wherever necessary) and has charged depreciation over the remaining useful lives, after retaining residual value, in accordance with the transitional provisions contained in the Schedule II to the Companies Act, 2013.

iii. Residual value of 5% has been retained for all the Fixed Assets, which is in line with the provisions of the Schedule II.

8. The querist has stated that as per Indian Accounting Standard (Ind AS) 16, 'Property Plant and Equipment', the cost of an item of property, plant and equipment shall be recognised as an asset if it is probable that *future economic benefits* associated with the item will flow to the entity; and the cost of the item can be *measured reliably*. For the expenditure incurred for rejuvenation of caprolactam plant, the additional cost incurred has brought in future economic benefits and the cost can be measured reliably and therefore, the Company intends to capitalise the expenditure incurred for the modernisation of caprolactam plant. Incurrence of an expenditure of Rs. 18.24 crore, has resulted in conversion of a non-operative plant to the operating level, having a residual life of 10 to 15 years. Otherwise, according to the querist, the financial statements of the Company would not show a true and fair view of its operating results for the financial year 2019-20. (Emphasis supplied by the querist.)

9. The querist has provided following details regarding the nature and specific purpose(s) for which fuel and power expenditure (as mentioned above) is required to be incurred and the reasons/justifications for treating such expenditure as initial cost of the plant and capitalising this expenditure:

"The caprolactam plant of the Company has served its normal life and has been in shut down condition for the last six years. But it has not been written off/ scrapped in the books of account. Considering the present economic scenario, the Company has decided to rejuvenate / revive the plant by incurring additional expenditure including expenditure for fuel and power. By incurring these additional expenditure, the plant can be used for productive purpose for some more years. Trial run of various sub-systems of the Plant was done separately to ascertain the remaining fruitful life/ and its capability. These expenditures are onetime and the benefit of the same will be available throughout the useful life of the plant.

As explained above, unlike fertilizer plants, caprolactam is a petrochemical complex comprising of critical equipments handling highly hazardous and combustible chemicals (organic & inorganic) which have to be properly installed and tested to ensure safety in operation. The situation become more complicated when the plant is kept idle for more than six years. Restarting a complex Petrochemical plant after a long down time requires more care and additional precautions to ensure safety in operation.

Here the first priority of the Company was to ensure the technical viability and safety of operation of the plant after a long down time. All the equipments in the complex were inspected and necessary renewals were done wherever required. Considering the complexity of the system, it was decided to do the trial runs in stages. All the equipments and instruments were tested and calibrated. For the test runs for ensuring safety & integrity of the plants, energy is needed by way of electricity and steam. Rotating equipments need electrical energy whereas equipment like distillation columns need steam energy in order to ensure all the required process & safety parameters during test run.

Being a critical petrochemical complex, the plant is designed to operate with captive power, for its safety and continuity. This captive power is generated through turbo generators, consuming regasified liquefied natural gas (RLNG). The Company has been conducting the process of such rejuvenating tests of various equipments during 2019-20 and accordingly power and fuel were consumed during this period. This test run is essential for ensuring the safety and integrity of the plants before planning the restart of the complex on a continuous scale.

In this connection, it may also be noted that even during the commissioning of a new petrochemical plant also, power and fuel consumption for such type of installation had to be incurred prior to capitalisation. This being a peculiar requirement in complex petrochemical plants, testing and ensuring the safety parameters is an unavoidable part of capital cost for setting up and commissioning. At this juncture, the querist has also invited attention of the Committee to paragraph 17 of Ind AS 16, Property, Plant and Equipment, wherein it is clearly specified that cost of testing to ensure proper functioning of the asset has to be a part of capital cost.

This expenditure is in the nature of expenditure incurred to have another lease of life of the equipment. The original equipment has served its major part of its economic life, there is a possibility of having another lease of life. Parallel could be drawn in power sector, where the life extension programme of power plant is prevailing, wherein a residual life study is conducted towards the end of normal economic life and based on the recommendation, additional capital expenditure is incurred by way of major repairs, renewals and replacement of major spares. The residual cost of the plant embedded with additional capital expenditure forms a new asset with revised life. Power regulator, Central Electricity Regulatory Commission (CERC) is also recognising this as capital expenditure with a revised normative life lesser than that of earlier one.

At times, a plant build-up for normative capacity, may be running at lower capacity owing to the market requirement. Sometimes, when market improves, the plants' capacity may be ramped up by incurring some cost. These types of ramp-up and rampdown are seasonal and expenditure incurred on ramp-up are treated as revenue. In the Company's caprolactam plant, the expenditure incurred may not be equated to such ramping up, which may be frequent, where as in caprolactam, it is not regular; only once in its life time.

The existing petrochemical plants are already in unserviceable condition. The renewals and other expenditure for rejuvenating the plant would provide an additional life of 10 to 15 years. According to the querist, considering the residual life of the original plant, the expenditure incurred by way of test run and associated capital expenditure have to be capitalised and need to be written off over the period of expected useful life of the plant."

## B. Query

10. In the light of the above, the opinion of the Expert Advisory Committee has been sought on the following issues:

    i. How the expenditure incurred for modernisation of a closed plant so as to make it productive and to increase the expected life time to 10 to 15 years, can be accounted?

    ii. Whether the expenditure incurred on rejuvenation / modernisation of the caprolactam plant, as detailed above, can be capitalised or to be treated as revenue expenditure.

    iii. Whether the total amount incurred amounting to Rs. 18.24 crores can be written off over the remaining useful life of the asset as assessed by the technical team and in line with the accounting policy of the Company.

## C. Points considered by the Committee

11. The Committee notes that the basic issue raised in the query relates to the accounting treatment of the expenditure (comprising of

machinery including spares, fuel & power and labour) incurred for modernisation/ rejuvenation of a closed plant to make it productive and increase the expected life. 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 any other expenditure incurred by the Company in relation to the plant, consideration of materiality, impairment of the closed plant, applicability of the requirements of Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations' in respect of closed plant, etc. Further, the Committee presumes from the Facts of the Case that fuel and power cost is not in nature of raw material cost which would have resulted in production of finished goods. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.

12. In the context of the issue raised, the Committee notes the following requirements of Indian Accounting Standard (Ind AS) 16:

***"Property, plant and equipment are tangible items that:***

**(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**

**(b) are expected to be used during more than one period."**

**"7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:**

**(a) it is probable that future economic benefits associated with the item will flow to the entity; and**

**(b) the cost of the item can be measured reliably.**

8 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory."

"10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets."

"12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72).

14 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed."

**"Elements of cost**

16 The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in Ind AS 19, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees."

**"Depreciation**

**43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."**

**"Depreciable amount and depreciation period**

**50 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

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

"57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets."

**"Depreciation method**

**60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**

**61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed**

**pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8."**

**"Derecognition**

**67 The carrying amount of an item of property, plant and equipment shall be derecognised:**

**(a) on disposal; or**

**(b) when no future economic benefits are expected from its use or disposal.**

**68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 116, *Leases*, requires otherwise on a sale and leaseback). Gains shall not be classified as revenue."**

13. At the outset, the Committee notes from the facts provided by the querist that the Company was not required to perform regular major inspections for faults and consequently no costs for such major inspections/ testing was recognised in the carrying amount of the property, plant and equipment (PPE) and consequently, it is presumed that component accounting in respect of such major inspection cost was not necessary. The Committee does not opine in regard to whether in the Facts of the Case, component accounting is necessary or not.

14. The Committee notes from the Facts of the Case that the Company had closed down one of its plants known as caprolactam plant in the year 2012 due to uneconomic realisation on sale of caprolactam. Assets of the existing caprolactam plant are already substantially depreciated and if the expenditure was not incurred, the plant did not have any useful life and would have been retired/scrapped. The plant has been in shut down condition for the last six years, but was not written off/ scrapped in the books of account. From this, the Committee notes that no future economic benefits were expected to be available from the use of the plant without the incurring of the expenditure as stated by the querist.

In this context, the Committee notes from the above-reproduced requirements of Ind AS 16 that recognition principle as laid down in the Standard do not distinguish between costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. In both cases, any and all expenditure has to meet the recognition principle, and be expensed in profit or loss if it does not.

The Committee further notes that Ind AS 16, however, distinguishes between servicing and major expenditure. Paragraph 12 of Ind AS 16 requires that expenditure on repairs and maintenance, including replacement costs of small parts and cost of day-to-day servicing of the items is charged to profit or loss as and when incurred. The Committee presumes from the facts of the case that the expenditure incurred by the Company does not include expenditure of the nature described in paragraph 12 of Ind AS 16.

The Committee further notes from paragraph 13 of Ind AS 16 that when the conditions of recognition as per paragraph 7 of Ind AS 16 are met, an entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred and the carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of Ind AS 16.

Accordingly, in the extant case, all major subsequent expenditure incurred including the cost of replacing various assets of the caprolactam plant should be capitalised provided it is probable that the future economic benefits will flow to the Company and the cost of the asset to the Company can be measured reliably. As mentioned by the querist, the assets of the caprolactam plant are already substantially depreciated. Therefore, the Committee believes that an entity will generally choose to incur additional expenditure on an asset when it expects that expenditure to generate net future economic benefits.

Further at the same time, the carrying amount of those assets that are replaced should be derecognised as per the derecognition provisions of Ind AS 16. However, if there are any expenditure on regular repairs and maintenance as afore-mentioned, the same should not be capitalised. Further, from the above-reproduced paragraphs 16 and 17 of Ind AS 16 dealing with the items of costs that can be capitalised as part of an item of PPE, the Committee is of the view that in the extant case, while rejuvenation/ modernisation of the plant, only those costs that are directly attributable to bringing the various asset(s)/ plant to the location and condition necessary for it/them to be capable of operating in the manner intended by management should only be capitalised as part of the cost of asset(s)/plant, such as, cost of site preparation, installation, trial/ test runs, etc. Thus, as far as the costs relating to labour and power and fuel are concerned in the extant case, same can be capitalised only if these are directly attributable to bringing the various asset(s)/plant to the location and condition necessary for it/them to be capable of operating in the manner intended by management. In this context, the Committee notes from the Facts of the Case that the fuel and power was consumed for both trial/test runs of new equipments as well for ascertaining the serviceability of existing sub-systems of the plant. The Committee is of the view that any fuel and power consumed for ascertaining the serviceability of existing plant and equipment or costs incurred to arrive at a decision whether to modernise/ rejuvenate the caprolactam plant should not be capitalised as this expenditure is not required for bringing the plant to an operating condition.

15. Further, the amount added or capitalised to the plant should be depreciated over the useful life of the asset/plant in accordance with the principles enunciated in above-reproduced paragraphs 43, 50, 51, 60 and 61 of Ind AS 16. In this context, the Committee also notes that considering the background of shutting down the plant due to uneconomic price realisation, this factor should be considered while determining the useful life of the petrochemical plant.

## D. Opinion

16. On the basis of the above and subject to paragraphs 11 and 13 above, the Committee is of the following opinion on the issues raised in paragraph 10 above:

i. and ii. As discussed in paragraph 14 above, all major subsequent expenditure incurred including cost of replacing various assets of the caprolactam plant should be capitalised provided it is probable that the future economic benefits will flow to the Company and the cost of the asset to the Company can be measured reliably, as per the requirements of paragraph 7 of Ind AS 16. Further at the same time, the carrying amount of those assets that are replaced should be derecognised as per the derecognition provisions (paragraphs 67 and 68) of Ind AS 16. However, if there are any expenditure on regular repairs and maintenance as afore-mentioned, the same should not be capitalised. Further, as far as the costs relating to labour and power and fuel are concerned in the extant case, same can be capitalised only if these are directly attributable to bringing the various asset(s)/ plant to the location and condition necessary for it/them to be capable of operating in the manner intended by management. Thus, any fuel and power consumed for checking the serviceability of existing plant and equipment should not be caiptalised as this expenditure is not required for bringing the plant to an operating condition.

iii. As discussed in paragraph 15 above, depreciation should be provided in accordance with the principles enunciated in paragraphs 43, 50, 51, 60 and 61 of Ind AS 16.

| | |
|---|---|
| 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 May 23, 2020. The Opinion must, therefore, be read in the light of any amendments and/ or other developments subsequent to the issuance of Opinion by the Committee. |
| 3. | The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty 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. |

# Technological Disruption Reshaping Audit

***Artificial Intelligence, Blockchain, Cloud Computing, Cyber Security, Data Analytics, Internet of Everything, Robotic Process Automation are the new buzz words in today's times and are the new ABCDEs of this era. With investments and valuations in these emerging technologies (broadly referred to as Industry 4.0), skyrocketing, companies across the globe are striving hard to develop sustainable use cases to see how they can solve everyday challenges using these. At the same time, as auditors we need to be aware of how these technologies are entering in the domain of finance. The future of Finance is technology driven, and this "Fin-Tech Era" requires accountants and auditors to upgrade their understanding of these technologies and to use them in their profession, or even perhaps audit these technologies. Read on...***

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In April 2019, the Association of Chartered Certified Accountants (ACCA) surveyed members and affiliates about their understanding of terms such as artificial intelligence (AI), machine learning (ML), natural language processing (NLP), data analytics and robotic process automation (RPA). On average for any given term, *62% of respondents had not heard of it, or had heard the term but did not know what it was or* had only a basic understanding. On average, only 13% of respondents claimed a 'high' or 'expert level' of understanding of these terms. There is a need for greater awareness of what these technologies are and their implication for the audit profession. Not just this, the Future of Jobs Report, 2018 by the World Economic Forum estimates that the "existing" roles of auditors and accountants are going to decline in the coming years unless they upskill themselves with the knowledge of new and emerging technologies.

Be that as it may, one also needs to keep in mind that the post COVID-19, is an era of digitisation and adoption of these emerging technologies. We are witnessing an aggressive penetration of technology and automation in our homes,

offices, and personal life, and COVID-19 has only accelerated this adoption. In fact, many of the companies thank COVID-19 for bringing the digitisation drive in their businesses. Our offices are no exception to this. Starting with Work from Home Solutions, Remote accounting and audit, increased usage of cloud-based applications for our everyday tasks, strengthening Cyber Security framework, COVID-19 has done the initial push of technology adoption and maturity at our offices.
At the same time, we need to understand that this is just a beginning. Perhaps a trailer!
We need to take this further to slowly progress and adapt to the emerging technologies so that we as a profession are "Future-Ready" and "Relevant" in the days to come.

## Disruptive Technologies impacting Audit:

What are these disruptive technologies and why are they impacting our profession? Why is that we need to invest time in understanding them today, to be relevant tomorrow? Let us spend some time to understand these:

### *Artificial Intelligence (AI)*

Artificial intelligence (AI) is an advanced computer system that can simulate human capabilities, based on predetermined set of rules. Some of the activities include Speech recognition, Learning, Planning, Problem solving etc. It is often described as 'an evolving technology' that is equipping computer systems with something akin to human intelligence. From an audit standpoint, it enables automatic analysis of entire population of data to assess risks, identify patterns or exceptions and non-conformities. Further it can help profile data based on specific patterns such as rounding-off of payments, cluster analysis, outlier analysis, sentiment analysis etc. At the same time auditors are freed from mundane tasks and can focus their time on deploying their skills, training, and judgement with respect to the nature, timing, and extent of procedures.

On the other end, AI in bookkeeping is helping to automatically analyse the transaction and record in the respective ledger. Other interesting use cases include AI-assisted transfer pricing benchmarking, Bots for reviewing contracts to check compliance with Accounting Standards (say Operating Lease vs Financial Lease), tools to profile risk etc. One such tool is Botkeeper which can automate accounting power by Machine Learning. Similarly, iManage can review 1000s of contracts and extract specific requirements using AI. Home grown company, Zoho's ZIA is an AI assisted tool which can bring in automated analysis of data and acts as a second pair of eyes. Not to forget, Microsoft Excel's "Ideas" uses AI to bring in interesting, automated insights.

### *Machine Learning (ML)*

A major challenge to the audit profession is to analyse more in limited time and yet keep up the quality of audit. The rapid growth in the volume of financial transactions and increasing sources of digital data give accountants a better possibility to form conclusions that can be generalised beyond the sample. Machine Learning coupled with Deep Learning has the added advantage to automatically "learn" from client's data to identify interesting and innovative patterns. An example could be if a fraud or a suspicious behaviour is noted in a client or an industry, the same 'model' can be replicated and tested in another client automatically. Further, ML uses advanced statistical analyses to generate predictions or make decisions from the analysis of a large historical dataset. A classic example would be credit scoring decisions for loans. The accounting software company Xero has implemented ML to make coding decisions for invoices. ML 'predictions' can be both backward and forward-looking. It has clear applications in risk management and the detection of fraud and inaccuracy by comparing historical data sets with current data, which can help with risk assessment.

### *Robotic Process Automation (RPA)*

RPA is often mistakenly thought of as a form of AI, but these 'robots' are software routines that are more like very sophisticated Excel spreadsheet macros. RPA is a software that can be easily programmed or instructed by end users to perform high-volume, repeatable, rules-based tasks in a world of discrete yet interdependent systems. RPA is commonly used where the process is entirely standardised based on pre-defined rules and the system can execute them automatically. An example of the same could be where the output of one financial process needs to be input into another, or where multiple sources of information need to be consulted etc. Such work is repetitive, mundane, time consuming and, when done by individuals, are prone to error. Examples include processing or verifying monthly GST Returns, periodic accounting, data entry by viewing physical documents, vouching of transactions, matching the ledgers to the financial statements based on the chart of accounts defined etc. The so called 'robot', which is a software program by itself, mimics the actions of a person. Because it mimics a process rather than analysing data, RPA itself is not AI. RPA offers many benefits as these robots work non-stop and are faster, more accurate and scalable.

### *Data Analytics*

Analytical tools and functions have long been applied to the financial data derived from accounting and operational systems. Most of us are already using data analytics as part of our audit processes to test the transactions. This has helped us to gradually move from traditional sampling techniques to more sophisticated techniques such as stratified sampling which can create various stratum based on predefined conditions. Using Analytics one can make the analysis of the historical data more insightful. Rather than sampling transactions data to test a snapshot of activities, we can now analyse all transactions processed, allowing us to identify anomalies and drill down on the items that show the greatest potential of being high risk. While "Analytics" have always been applied on data, mostly in the traditional approach, say to summarise, classify etc, the modern analytical tools are equipped with abilities to analyse larger sets of data and perform a variety of functions like Relative Size Factor (RSF), Benford's Law, Fuzzy Match, automated "compute and compare" etc. These tools can be in the form of Excel Add-Ins like eCAAT, Fuzzy Match, Kutools or in the form of independent software like SoftCAAT, IDEA, ACL, Zoho Analytics whose adoption have begun extensively.

### *Drone, Internet of Things and Sensor Technologies*

IoT, is a system of interrelated computing devices, mechanical and digital machines, that are provided with unique identifiers (UIDs) and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction. This sensor driven technologies have noticed increasing demand across the globe. From an audit angle, these can help transmit real time information, tracking inventory and assets, optimising efficiencies etc. Technologies such as the drone can help gathering evidence to support assertions and perform audit much faster and in real time. This could be used for physical verification of inventory or large warehouses, assessing the mines and quarries, audit of huge acres of lands, etc.

### *Distributed Ledger Technology (DLT)*

DLT, a family of technologies that includes blockchain, is of great interest to both auditors and businesses. Imagine each transaction, is already "validated" prior to posting into the ledger, by way of a consensus mechanism from an external party, say a Vendor, a Bank, or the Customer. Does that not increase the confidence on the ledger and the system? To bring an additional level of security and integrity, these transactions are encrypted, and in read-only format, in an "append-only database". That is blockchain for you. Block chain refers to the transparent, thrustless, and publicly accessible ledger that allows us to securely transfer the ownership of units of value using public key encryption which is backed by a consensus algorithm. The technology uses decentralized consensus to maintain the network, which means it is not centrally controlled by a bank, corporation, or government. In fact, the larger the network grows and becomes increasingly decentralized, the more secure it becomes. This technology aims to solve the trust deficiency between intermediaries and ensure only a single source of truth exists. In fact to a certain extent, Blockchain brings in a concept of "Triple Ledger Accounting" where a third component is added to the debit and credit system which brings the books together and helps in linking two separate double entries which can be potentially be viewed for external auditing purposes as well. While businesses find blockchain can enhance performance in areas where inefficiencies exist due to trust deficits, the auditors find the need for this to become the universal bookkeeping service, thereby removing the need to reconcile multiple databases of records and providing a perfect audit trail. A key principle of this technology is immutability which can help auditors to test audit assertions such as occurrence and cut-off with absolute certainty.

### *Smart Contracts*

Although DLT has mainly come to prominence for its use in underpinning cryptocurrencies such as Bitcoin, it has many use cases in smart contracts. A smart contract is self-executing contract, the terms of which are written into code which, exists in a blockchain network and therefore shares the same characteristics of blockchain such as immutability, append only database etc. An example of this could be auto triggering of payments to farmers by an insurance company on the government declaring a drought. This could be further modified / enhanced by enabling sensors in the soil at different locations which transmit information to the insurance company on the soil dryness, lack of moisture, the time for which there was no watering etc. There are increasing use cases noted in Fin-Tech domains and in distributed finance (Di-Fi). This will bring in a change in perspective, where the audit of smart contracts themselves will soon be a requirement, as much as an audit of core banking operations is necessary.

## Are these technologies free of Risks?

While these technologies are maturing by the day, with innovative and interesting use cases, we need to keep the risks and the controls in place while deploying technology. As auditors, it is important to understand these technologies and their impact on objectives of the organisation.

*SA 315 - Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment*, requires auditor to identify and assess the risk of material misstatement through understanding the entity and its environment. This is not just restricted to the business and legal structure, but also to understand the Information System and related business processes. COSO's Internal Control Framework requires an organisation to specify objectives with sufficient clarity to enable the identification and assessment of risks relating to the objectives (Principle 6) and to select and develop general control activities over technology to support the achievement of objectives (Principle 11).

## Risk Assessment and Audit

While emerging technologies can bring great benefits, they also come with a varied set of substantial risks. The core strength of our profession is in the assessment of risks and controls. Few of the areas where auditors should focus are as below:

1. Gain a holistic understanding of changes in the industry and the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
2. Clearly understand the problem statement in hand and see how the underlying technology helps to achieve the desired result. One needs to remember that these Technologies are one of the means of solving the challenge and not the ONLY means to solve.
3. Focus on the "top-down" approach to identify significant accounts and disclosures and their relevant assertions during the risk assessment process.
4. Auditors, as appropriate, should consider risks resulting from the implementation of new technologies and how those risks may differ from those that arise from more traditional, legacy systems.

An example could be configuration of transactions on a blockchain or smart contract.

5. Auditors should consider whether specialized skills are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls, and where ever applicable, they should utilise the expertise of those possessing these skills.

## Disruption creates opportunity:

Digital disruption is a strategic opportunity for all of us to adapt and grow, however not without risk. With the growth of automation, we will see some traditional revenue streams dry up as these services become increasingly commoditized by companies. Perhaps people might say I have a bot who does my bookkeeping! We need to work out what the newer business models are. Those to take willing to take the risk in this transitional phase, will be rewarded with fantastic opportunities to serve. These new technologies also present opportunities for organisations to reskill the workforce and its resources. This transition provides us with direction and an opportunity to step up to interesting and new challenges.

## How can CAs gear up for this challenge?

Some of the new technologies offered today have potential to greatly improve our current offerings and the way we audit. Considering the stakes involved, it is important that we get it right. The following could be of help.

1) ***Identify a need*** – Necessity is the mother of invention. Do not implement new technologies for the sake of being cutting edge. Evaluate your audit procedures, and identify areas that could be improved with technology. It could be as simple as writing a Macro in Excel to automate a process or go as complex as defining a Machine Learning algorithm to model data. One should also focus on the procedures or processes that seems to concern the most as auditor and where the audit risk is high.

2) ***Explore and research*** – In the digital age information is just a click away. Identify products or solutions to cater to your specific requirements. This step can be fun and exciting, but it can also be overwhelming. Keep your larger goals in mind to help you stay on the right path.

3) ***Test before you commit*** – Once you have identified a technology or product you are interested in, request a demonstration or the trial version of the product. Getting the right people on board and excited about possible technology updates early, will pay dividends in the long run. Once you have access to the technology, create a pilot program. Put the technology to the test in your real-world environment.

4) ***Develop standard procedures*** – This ensures the entire staff uses and understands technology. It should also address the need or the challenge you identified in the first step of this process. This will lead to additional efficiencies, but more importantly, it will help create a culture of change and innovation with staff. This could come in handy when introducing other new technologies.

5) ***Measure the results*** – The true test in confirming whether a new technology has been successfully implemented is whether it produces tangible results. Determine the results you want or need to see, and define your benchmarks. This could be as simple as reducing a certain number of hours from each audit. But considering you will be spending a known amount of money on the new technology; does it reduce your audit costs by a greater amount? Periodically compare actual numbers to your benchmarks to get a view of the impact.

## Concluding Thoughts!

Every era is marked by a new discovery and an innovation. Starting from the steam engine to the era of integrated circuits, industries have had substantial transformation. The next era is that of Industry 4.0, which is the connected world where Technology can solve more complex challenges and yet be affordable. As professional and auditors of the future, we need to gear up to this era and be the change agent. Understanding technology, embracing the change, and being inquisitive would make us more relevant in the days to come. ■■■

# Need for Cyber Security Post Covid-19

*Covid-19 has caused a lot of disruption which also resulted in unprecedented lockdown in various countries. Despite the lockdown, companies across the globe were able to restart their operations through technological changes and remote working. Some companies have already adopted technology and have reengineered their business processes and more will follow with time. These changes in business processes and adoption of technologies for going digital not only bring about greater efficiencies but also give rise to new forms of risks, which needs to be addressed Let us understand the new and changing cyber-risks due to this sudden digitisation in the present and post Covid-19 world, and some ways to mitigate these risks. Read on...*

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## Introduction

Covid-19 has taken the entire world by surprise and business are also not unaffected by the same. The lockdown across different countries have forced businesses to shut down their offices, and has posed a challenge of continuing operations despite closures of offices.

Businesses who have already adopted digitisation, and had their data centres, servers on cloud and were using SaaS based applications saw comparatively lesser disruption vis-a-vis those who had not gone digital.

Covid-19 has shown that the traditional ways of working are at a greater risk of disruption caused by pandemics, and that businesses cannot afford to continue working with a physical office setup at the core and they need to go digital and reengineer their processes to facilitate remote working in order to reduce if not completely eliminate the loss due to similar disruptions.

In this article, an effort is made to provide an overview on the changes in business processes which are most likely to take place post Covid-19 and its impact on Cyber Security risks and how

effectively to mitigate those risk.

## Business Processes Being Reengineered

As social distancing becomes the new normal, companies are looking at ways to adopt to remote working. Organisations have already started reengineering business processes, they are moving their data and applications from on-premise to cloud and are automating the workflows to reduce dependencies on paper documents and are trying to go digital. The current situation require organisations to assess their IT infrastructure, for digitisation and facilitation of remote working and need for advanced cyber security solutions.

Most of the organisations lacked adequate Business Continuity Plan or Incident Response Plan, specially the small and medium enterprises and those who had, did not anticipate and plan for the scale of disruption as being faced today due to Covid-19. The organisations will now be forced to understand the criticality of Business Continuity Plan and Incident Response Plan and accordingly need to make plans for. Digitisation and use of Information technology is going to be a critical part of the same.

Post Covid-19, digital transformation at companies will accelerate dramatically. We have already seen changes in education and healthcare sector with the spurt in online education and emergence of telemedicine services.

Companies are looking at the effectiveness of remote working/ work from home (WFH) concept, and are digitising their records and developing remote working capabilities to insulate its operations against any similar disruptions. Virtual meetings have become the new norm and webinars has taken the place of seminars and people are using video conferencing tools for the same. The management is continuously deliberating on the ways of reducing physical contact for completion of tasks and cloud applications are gradually replacing legacy systems.

Covid-19 is in the process of revolutionising the business process like never before, and these changes are not going to be temporary in nature rather they will be the new normal.

## Risks Associated with Remote Working and Digitisation

With more and more businesses adopting to digitisation, the potential number of targets for cyber criminals will also rise. And among these, small and medium enterprises will be the most vulnerable as they often lack the understanding of cyber security risks. SME's are reluctant to invest in cyber security measures and they think the spending to be an unnecessary expenditure, as they feel they are too small to be a target for a cyber-attack. The lack of security measures leaves them prone to cyber-attacks leading to serious business disruption along with putting financial health and reputation of organisation at stake.

In a remote working environment, physical meeting are replaced with virtual meetings and most of the interactions within team and with clients happens over messaging apps and third-party applications through personal user devices. An organisation usually secures its network against any kind of intrusion and unauthorised access, using network firewalls, intrusion detection systems, etc. However, the personal user devices usually have very limited security features installed in them and are prone to cyber security risks. Mostly used unsecured or less secured networks for connectivity raises such risks. In the absence of adequate security measures, the confidentiality of data can be breached by exploiting backdoors in un-secured applications. In such a situation it is critical that all communications and data are shared through secure communication channels only.

Remote working environment changes the way data is stored and accessed. Factors such as collaborative tools, availability of data on endpoint devices, virtual meetings, remote access of IT assets give rise to additional cyber security threats and businesses who do not have a secure remote access mechanism becomes most vulnerable.

## Need for Cyber Security

Cyber risks are dynamic and multidimensional in nature. Most of the organisations also undertake cyber risk assessment as part of their overall risk assessment strategy. However, it must be noted that as far as cyber risk is concerned it is not enough to only review cyber risks twice or thrice a year and it requires a continuous review, as against other categories of business risks.

Owing to changing threat landscape, it is imperative for an organisation to ensure that their IT assets are secure, and data is efficiently protected and managed. Cyber security measures can provide the required shield against such threats.

## Measures for Mitigating Cyber Risks

### *User Awareness Programs*

Most of us have this perception that "Cyber Security is all about use of technology". Though partially correct it's not completely true. Sensitising the people about the various ways in which cyber-crimes are committed, educating them about security policies of the company, various technological tools available to detect and prevent any security breach is equally important for any Security Policy to work effectively. The staff needs to be made aware of what precautions they need to take while dealing with sensitive data and how to avoid official data misuse.

> It is one of the oldest methods used for ensuring that data is available in a meaningful form only to those who are supposed to receive them.

### *Intrusion Detection System*

These are software applications which works as a detective control and are used for monitoring the network. Intrusion Detection System identifies an unauthorised activity or entry into the network of the organisation and can be used to detect and identify and malicious activity or attacks early.

### *Encryption*

It is one of the oldest methods used for ensuring that data is available in a meaningful form only to those who are supposed to receive them. Simply put Encryption is the method of converting plain text into cipher text. Encryption uses an algorithm to encrypt the data and recipient can decrypt the same using designated keys. A strong encryption i.e. 128 bits will ensure that even if Cyber criminals are able to capture data in encrypted form, it would me of no use to them as data in encrypted form is not readable.

128-bit encryption is one of the most secure encryption methods and is considered logically unbreakable. Most of the banks are currently using 128-bit to 256-bit encryption.

### *Multi Factor Authentication*

Owing to Social distancing and organisations encouraging their staff to work from home, people will have to remotely access their organisational network or database from their devices. Since people are not physically accessing the resources, the login credentials become the only means to track and monitor the user activity. Traditional usernames and passwords can be stolen despite having a strong and effective password policy, by keyloggers, spywares or social engineering and are also susceptible to brute force attack.

Multi factor authentication (MFA) provides an additional security layer, where cyber criminals even if they are able to obtain the user name and password, they  will not be able to breach the security layer due to want of additional credentials such as OTP or passcodes.

### *Virtual Private Networks*

> A strong encryption i.e. 128 bits will ensure that even if Cyber criminals are able to capture data in encrypted form, it would me of no use to them as data in encrypted form is not readable.

Virtual Private Network is like creating a secure tunnel using the internet to provide a secure connection between the remote user and company's private network. A virtual private network uses firewall, encryption and other security mechanisms to restrict unauthorised access to an organisations private network and facilitate secure communication/ exchange of data between the remote users and the organisations private network.

*Access Privileges*

With the reengineering of business processes and increase in the culture of remote working, companies will have no other option but to convert their physical documents into digitised form and store the same in a document repository either on their physical servers or on cloud. Under both the options, all critical, confidential and important data will be stored in the same repository, thereby creating the need to define access privileges, so as to ensure that users can view only those documents, which relates to their work profile and for which they have a permission to access.

We cannot have a situation wherein all the company data is accessible by every user.

*Password Management*

An organisation should develop a set of principles and guidelines for password management. Following points may be considered while developing a strong password policy.

> "Having a updated backup at a secure and isolated location helps in restricting the spread of the worm into the backup files thus resulting in quicker resumption of business critical operations.

- Use a combination of alphabet, numbers, and special characters
- Minimum length of password should be defined
- Expiry of passwords after a fixed duration
- Restriction on use of old passwords again
- Use of a secure Password Manager

*Backup*

Backup of user and application data is the most critical aspect of a business continuity plan and can also assist an organisation in cases of ransomware attacks. During 2017, in a worldwide cyberattack a ransomware called "WannaCry" targeted Microsoft windows based operating systems by encrypting data and demanding ransom payments in Bitcoin. As per estimates, millions of systems across 150 countries were impacted by the same. The ransomware made the files unreadable by encrypting them and severely affected the business. Having a updated backup at a secure and isolated location helps in restricting the spread of the worm into the backup files thus resulting in quicker resumption of business critical operations.

*Firewalls*

These are security systems which monitors and controls incoming and outgoing traffics as per predefined protocols which are configured therein. Firewalls are classified as either network based or host based. Network based firewalls are either software applications or hardware-based firewalls positioned on the gateway. Host based firewalls are positioned within the host and controls network traffic.

Chartered Accountants understand Cyber Security Risks and its impact on business operations. The Institute of Chartered Accountants is conducting webinars and providing e-learning platforms to help professionals gain a deeper understanding into Cyber Security area. Also, the accountancy professionals can employ cyber security professionals to provide additional security services to their Clients. There are ample ways of getting insight on these risks and security measures. It is upto us to take that initiative and prepare ourselves for the upcoming changes so that we are ready to embrace and make efficient use of these new business opportunities. ■■■

# Disruptive Technology—A Game Changer in Audit Processes

*The present-day auditors are struggling to stay up harmony of giant information, thorough administrative weights, and ever-developing customer desires, alongside other headway of innovation. The intensity of cognitive technology, and the way it will change the audit process, is stunning. The many changes occurring within the audit environment as cognitive technology evolves, joined with other innovative evolutions, for instance like AI (AI), Machine Learning (ML), Predicative Analysis, Block Chain and Robotic Process Automation (RPA) — will change the audit for all time the complete effect of those disruptive technologies isn't felt at now, however the benefits and effectiveness gains are becoming apparent. Read on …*

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With rapidly evolving inventive advancements and customer expectations regarding the audit functions in offering, some benefit included value addition, auditors must get on top of things by getting adept with technologies utilised by their customers. Simultaneously, adding proficiency to their own job cycles. The text diagrams in the article here show some key territories where technology will change the audit worldview. Understanding the capacities, openings and dangers of these troublesome innovations is basic for the eventual fate of the review calling. Disruptive Technologies are going to be the game changer in Audit Processes.

## A New Era for Audit

It's essential for audit firms to venture up to this challenge to meet the ever-changing requirements of the profession. As organisations change their activities to turn out to be more advanced, and maybe more worldwide, many will upgrade their IT frameworks with more refined technologies. Subsequently, audit experts must grasp the utilization of cutting-edge devices, for example, Data Analytics, RPA, Automation and Cognitive intelligence to oversee

processes, and more informed decision making.

Additionally, they will have to keep on updating their innovative capabilities and technologies to keep up their audit quality and fortify the pertinence of their audits into what is to come.

## Impact on Audit

There was a time, when auditors verified physically through financial data to chase down an oddity which will have made them questionable about the appropriateness of a customer's declaration. Presently, on account of inventive new technologies, the gathering of practically incredible measures of data and therefore, the use of cutting-edge examination and cognitive technologies make it possible to quickly dissect huge, more complete populaces of monetary and non-monetary information.

As we will move further in this article, we can see how these cognitive technologies can help auditors to analyse more structured and unstructured data and redesign their audit process. For instance, cognitive technology allows auditors to acquire information from non-traditional sources including online media destinations, TV, radio and the Internet, and process along with client's internal information. Thereby, improving the quality of the audits by getting a clear picture about the client's risk profile, financial reporting controls and the operating environment.

Additionally, the auditor can accumulate and analyse greater information, alongside the client's economic and non-financial documents and, using new superior analysis, threat can be examined extra precisely, and the expected threats can be mitigated. These capacities can enhance the satisfactory level of audit and extra facts can be analysed in lesser time. Also, with the assistance of visualisation equipment like Microsoft PowerBI, the auditors can plot the relationships and transactions as nicely as the irregularities of the approaches and statistics for higher understanding.

## Artificial Intelligence & Data analytics

Artificial Intelligence (AI) is now being utilised in various areas of life, transferring to driverless cars, hospitality area and portfolio management. Accounting and auditing will additionally be affected. Auditors can make their systems smarter by making use of algorithms to analyse huge data thereby optimally using synthetic intellingence at work.

AI and Machine Learning (ML) are now widely used in applications and processes across the world in every sector. The auditing profession is not an exception. These days, even auditors are utilising AI (Robots) in their professional practices for streamlining the processes involved in their work. Data categorisation can be done by using AI bots to automatically tag information into different accounts. The bots can automatically classify a set of data into different charts of accounts. For example, the repairs bill and purchase of fixed assets bill from the same vendor. Big data sets, including contracts and agreements and other routine transactions, can be scrutinised quickly and accurately, thereby helping the auditors to focus on the more problematic areas, which require human professional judgement. Auditors can perform hundred per cent audit of the client's entire general ledger data using automated tools. Also, the automated tools can perform a variety of analyses and provide an extensive list of exceptions for the auditors. Based on the validation/invalidation of the exceptions, the machine derives a pattern from the auditor's conclusions and reciprocates the same pattern in a similar situation.

The world says, "We are in the Fourth and the Last Industrial Revolution; and the new technological know-how and digitisation will take over the human race." So is the concern amongst auditors, they worry that on imposing Leading part technologies, they will be the first to have been changed with the aid of these smart machines, however in truth they must get geared up and put together to adapt to the new procedure via obtaining knowledge, placing belief in the know-how obtained and working towards a sustainable framework by means of gaining knowledge of new skills. They have to meet the expectations of assurance and make auditing efficient. And never forget that *one of the synonyms of audit is 'To Analyse'.* Analysis has usually been a sub-genre of Audit, unlikely to current scenario where it is found to be more statistically oriented.

Data analytics in audit encompass discovering and analysing patterns, identifying outliers, and extracting other useful information from data through computer-assisted techniques. Data analytics involve both exploratory and predictive modelling, as well as analysis of data with the goal of identifying trends in the underlying data and generating meaningful insights.

The use of statistics analytics in the audit can embody a huge vary of techniques. Certain easy statistics analytics can be carried out with the aid of the auditor, whilst greater complicated facts analytics can also contain the use of an inside expert [expert] in the evaluation of information (e.g., Exploratory Data Analysis (EDA) Specialist).

With the increasing volume of data in businesses today, data analytics can be used as an audit technique to understand and analyse large volumes of data in a better way. Equipped with a more in-depth knowledge of the entity's business, auditors can focus on items of greater audit interest. Data analytics may also provide insights to clients. The use of data analytics may not always result in efficiencies, but in all cases data analytics can enhance audit quality through increased effectiveness.

## Auditors and Machine learning

Machine Learning additionally improves the auditor's capability to ask the proper questions to CFO, audit committee and Directors Board. It additionally helps the auditors to enhance their information with the aid of hastening and automating the audit process, and thereby reaching greater satisfactory and efficiency.

## Blockchain Technology

Blockchain is a database that holds information and applications in closely encrypted "blocks" of character transactions as effects of executable files. The packages and codes can solely be brought and can't be edited or deleted, with every block linked to the preceding one making a 'blockchain'. The digital ledger shares and tracks records associated to contracts and transactions. The documents are permanent, verifiable and secure. In summary, blockchain is a allotted database consisting of blocks of gadgets that are timestamped, verifiable, permanent,hashed and linked to different blocks, with these properties: synchronised, unalterable, deterministic, non-cancellable and fast.

> Machine Learning additionally improves the auditor's capability to ask the proper questions to CFO, audit committee and Directors Board. It additionally helps the auditors to enhance their information with the aid of hastening and automating the audit process, and thereby reaching greater satisfactory and efficiency.

According to a white paper subsidised through the Chartered Professional Accountants of Canada, the American Institute of CPAs and the University of Waterloo Centre for Information Integrity and Information System Assurance, "With blockchain-enabled digitisation, auditors ought to installation extra automation, analytics and machine-learning capabilities, such as routinely alerting applicable parties about uncommon transactions on a close to real-time basis. Supporting documentation, such as contracts, agreements, buy orders and invoices, ought to be encrypted and securely saved or linked to a blockchain. By giving CPA auditors get entry to unalterable audit evidence, the tempo of economic reporting and auditing ought to be improved."

To use blockchain as a credible data source, an audit of the process to ensure system confidence and the integrity of the data is essential, thereby creating the need for more auditors and different skills.

Both facets of the transaction are recorded in a shared single set of books, developing a

> To use blockchain as a credible data source, an audit of the process to ensure system confidence and the integrity of the data is essential, thereby creating the need for more auditors and different skills.

triple entry machine the use of a consensus manner to validate the transaction and create a new entry to be posted in a shared ledger with a cryptographically sealed receipt with a special digital signature. The transparency blended with the non-stop updating offers real-time data to customers and will increase the faith degree in the data.

**The advantages of the technology are:**

- Transparency due to cryptography and public/ private keys.
- Resiliency due to distributed network; and
- Immutability due to algorithms that mathematically link data blocks without a third party.

The above traits make it a community of have confidence and beautify the potential to function analytics and forecasting. The blockchain method affords auditors the capacity to take a look at the total populace throughout more than one entities in a brief time and generate an exception report, as adversarial to the sampling strategies in use today. Confirmations may additionally now not be wished due to the fact of the allotted ledger verification of transactions at inception. Forgeries and changes to transactions can be detected immediately, due to the signals to all contributors in the chain. Using blockchain will enable auditors to limit time spent on redundant duties and enlarge price by way of devoting greater time to interior controls, analytics, and strategic initiatives. See Table two above for manageable new careers for auditors due to the fact of blockchain.

**What opportunities does blockchain bring to the audit process?**

- The days of sample-based testing will be obsolete since the auditors will resort to blockchain to test the whole population, thus increase the level of assurance.
- The transformation that analytics brings to transaction audit and audit risk assessment procedures may require auditors consider redefining audit objectives and use technology-driven approaches to achieve them.
- Companies facing a pending audit will not be able to reverse engineer documentation in bulk to satisfy compliance, as every action is time stamped and shared with all members of the blockchain, given that editing previous entries is not possible.
- Blockchain presents a challenge to the traditional audit approach, given there's no practical way to use point-in-time forensic analysis—the standard audit tool. Assurance in a blockchain environment derives from irrefutable transaction history and integrity. So in essence, you have a system that has full integrity, that's 100% accurate.
- Simplify and enhance transparency in core business functions such as supply chain management, auditing, tax, compliance and back-office operations
- Help reduce fraud through enhanced identity management
- Rapidly increase the volume of automated transactions and hence drive cost efficiencies in the audit environment.
- New efficiencies can help enable a culture of innovation.
- Blockchain are inherently resistant to modification of any stored data. Functionally, a blockchain can serve as an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way.
- Instead of asking clients for bank statements or sending

confirmation requests to third parties, auditors can easily verify the transactions on publicly available blockchain ledgers.

## Auditors and Blockchain

Blockchain science is built on on statistics , enabling consensus, actual time facts recording and access, retaining audit logs. It provides extremely good chance to optimise monetary reporting and audit processes. Currently, audit requires assessment of more than one control area and their supporting, substantive data and their vouchers, spreadsheet, account reconciliation, third party confirmations, journal ledgers and voucher, assessment of subledgers and path balance. All of these are supplied to auditor in a range of digital and manual formats. In a blockchain environment, the auditor is ought to thoroughly study the bloackchain nodes to have access to real-time records. This may also enable an auditor to attain records required for the audit in a consistent and routine format. Auditor in the long run on maturity of blockchain , may also think about to constantly audit corporations the use of the blockchain. This will make audit extra environment friendly and advantageous, offering possibilities to auditors to centre their attention on riskier and more complicated transactions while performing audit services in close to actual time. Skill which auditors will have to observe is expert judgement when analysing accounting estimates and different judgements made by using administration in the coaching of monetary statements. In addition, for areas that come to be automated, they will additionally want to consider and check inside controls over the information integrity of all sources of applicable monetary statistics such as clever contracts and oracles.

Chartered accountants, besides providing assurance role, can play a significant role in providing advisory on blockchain governance and strategy, risk management. They can enable review of consensus mechanism, key management, smart contract, oracle review and perform third party control review. They can play significant role in contributing to first time master data input validation, controls and analytic rules and model, laying and challenging assumption, driving reliable automations. Also, they can leverage tool for delivering their assurance role through these technologies to be more agile in leveraging controls and forward-looking on the insights they can bring to decision makers. Internal audit of some business processes could also become more "continuous" and closer to real-time. They could possibly in long run play administrator function in case of permissioned blockchain solutions which require a trusted, independent and unbiased third party to perform the functions of a central KYC before they are granted access to a blockchain. This central administrator could validate the enforcement and monitoring of the blockchain's protocols. For a permissioned blockchain, an arbitration function might be needed in the future to settle disputes among the consortium-blockchain participants. Participants on the blockchain may require this type of function to enforce contract terms where the spirit of the smart contract departs from a legal document, contractual agreement or letter.

> Chartered accountants, besides providing assurance role, can play a significant role in providing advisory on blockchain governance and strategy, risk management.

## Robotic Process Automation (RPA)

Auditing techniques have traditionally consisted of personal computer established equipment and strategies linked with guide steps. RPA takes these disparate movements into a single built-in computerised process, permitting the auditors to function at greater effeciency levels. It can automate repetitive duties in taxation, advisory and assurance areas. Some real-life initiatives encompass instruction of tax returns and reconciliations through public audit firms. Software robots can be deployed to operate rule-based features

> For a permissioned blockchain, an arbitration function might be needed in the future to settle disputes among the consortium-blockchain participants.

such as reconciliations and analytical methods in income audits. Ever growing quantities of information ('big data') makes the audit information preparation, file organisation, integration and audit assessments pretty time eating and inclined to errors.

RPA software program can interact with different utility software program and automate strategies that are structured, rule based totally and repetitive, and automate duties that span throughout extraordinary software program processes. While RPA's attainable to disrupt the standard audit procedures and audit prices are diagnosed with the aid of professionals, it is nevertheless in the preliminary ranges of adoption. It can lead to fee financial savings with the aid of growing efficiencies however combining RPA with auditors' expert skepticism wishes to be explored to grant a value-added provider to purchasers.

## Auditors and RPA

It is quite vivid that auditing BOT environment is quite different from conventional audits. Auditors must upskill themselves and to adapt to such complex environments. The day is  not far when we will see one BOT auditing another BOT, and auditors who manage to remain human will review just the exceptions.

**Besides Enabling Audit and Assurance,** CAs can additionally grant advisory on RPA software administration protecting identification of appropriate processes, their commercial enterprise instances and prioritisation. Auditors can help in vendor and method determination for prioritising determination standards and supplying a factor of view primarily based on market insights. They can also assist in PoC administration, masking determination and,  definition of case and facilitation of supplier workshops. Auditors can also assist in project shipping protecting manner analysis, Robot layout & implementation. They can also provid training on diagrams and execution of distinct tiers of RPA. Auditors, making use of RPA, can also assist in rollout administration for effectively scaling the digital workforce.

## Cyber Security

Cyber protection is the physique of technologies, techniques and practices designed to shield networks, ters, packages and records from attacks, injury or unauthorized get entry to.

Cybersecurity, computer security or IT security is the protection of computer systems from the theft and damage to their hardware, software or information, as well as from disruption or misdirection of the services they provide.

According to Forbes, the world cybersecurity market is predicted to attain one hundred seventy billion through 2020. This speedy market increase is being fuelled by means of an array of science trends, inclusive of the onslaught of initiatives with ever-evolving safety requirements, like 'bring your personal device' (BYOD) and the net of matters (IoT); the fast adoption of cloud-based functions and workloads, extending protection desires past the ordinary facts centre; and stringent records safety mandates.

Cyber security has never been simple. And because attacks evolve every day as attackers become more inventive, it is critical to properly define cyber security and identify what constitutes good cyber security. Cyber security protects the data and integrity of computing assets belonging to or connecting to an organization's network. Its purpose is to defend those assets against all threat actors throughout the entire life cycle of a cyber-attack.

Kill chains, zero-day attacks, ransomware, alert fatigue and budgetary constraints are just a few of the challenges that cyber security professionals face. Cyber security experts need a stronger understanding of these topics and many others, to be able to confront those challenges more effectively.

A complex hack may not be a CEO's fault, but it is absolutely his or her responsibility. Investors and consumers need to demand more from the executives to whom they entrust their digital lives. Cybersecurity includes controlling physical access to the hardware, as well as protecting against harm that may come via network access, data and code injection. Also, due to malpractice by operators, whether intentional or accidental, IT security is susceptible to being tricked into deviating from secure procedures through various methods.

The field is of growing importance due to the increasing reliance on computer systems and the Internet, wireless networks such as Bluetooth and Wi-Fi, the growth of 'smart' devices, including smartphones, televisions and tiny devices as part of the Internet of Things.

"Also, due to malpractice by operators, whether intentional or accidental, IT security is susceptible to being tricked into deviating from secure procedures through various methods.

The most difficult challenge in cyber security is the ever-evolving nature of security risks itself. Traditionally, organisations and therefore,the government have focused most of their cyber security resources on perimeter security to guard only their most vital system components and defend against known threats.

## Auditors and Information Security

Auditors can provide services like:

- Verifying that information processes meet the security criteria, requirements or policy, standards, and procedures.
- Defining and implementing processes and techniques to ensure ongoing conformance to security policies, standards, and legal and regulatory requirements.
- Carrying out security compliance audits in accordance with an appropriate methodology, standard or framework.
- Providing impartial assessment and audit reports covering security compliance audits, investigations, and information risk management
- Providing an independent opinion on whether your organisation is meeting information assurance control objectives
- Developing audit plans and audit regimes that match your organisation's business needs and risk appetite.
- Identifying your organization's systemic trends and weaknesses in security.
- Recommending responses to audit findings and appropriate corrective actions.
- Recommending appropriate security controls
- Assessing the management of information risk across the organisation or business unit.
- Recommending efficiencies and cost-effective options to address non-compliance issues and information assurance gaps identified during the audit process
- Objectively assessing the maturity of an existing information auditing function using cross-government benchmark standards.

## Conclusion:

The disruptive technology is creating a challenge for the audit fraternity. However, simultaneously, it is also opening new opportunities for the profession which can be easily explored. ■■■

# Impact of Technological Disruption in Auditing

*The technological disruptions are bringing multiple changes in the ways we live, interact and work. The evolution in technology has created strong dependence of human beings on gadgets and technologically enabled systems, processes and machines. In the current scenario, auditors are facing challenges in providing assurance and advisory services in different domains that are using emerging technologies like analytics, artificial intelligence, robotic process automation and Internet of things. At the same time they are also faced with challenges in using these technologies to perform their own tasks in much more efficient and effective manner to meet the expectations of various stakeholders. The environment requires auditors to leverage digital assets as well as develop new skills to be change catalyst, be more innovative in their approach and possess a mix of business and technology skills. Adoption of disruptive technology will enable auditor to introduce new and enhanced auditing, advisory and risk management services to their customer. It will also enable them to be ready for next generation auditing model wherein there is, technology adoption for refining auditing procedures as well as for understand complex client landscape and meet ever increasing expectations from varied stakeholder. Read on…*

 

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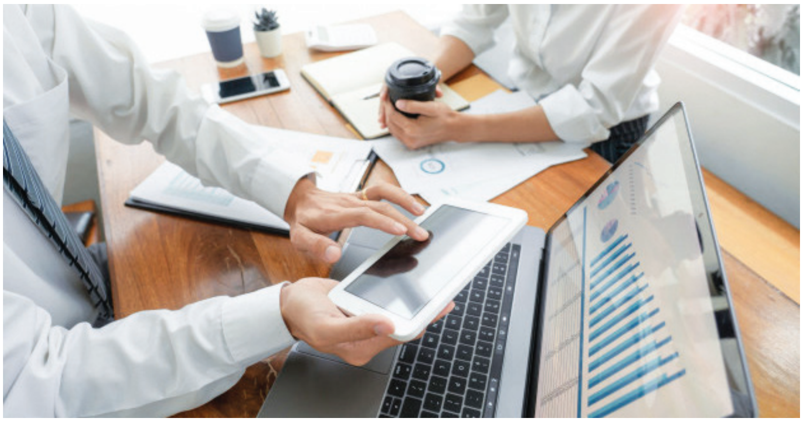
We are witnessing technology everywhere and are in an environment where there is Tsunami of data, some structured and mostly unstructured, auditors are experiencing an uphill task of increased demand to understand the risks and customise auditing procedures, accordingly.

Auditors are required to embrace the change arising from disruptions caused by the use of Artificial Intelligence (AI), Cognitive Computing, Robotics and Internet of Things in their clients' businesses. The auditors are being called upon to provide assurance, advisory services and predict risk arising from these technological disruptions. Hence, it becomes imperative for auditors that they themselves demonstrate how they adopt emerging technologies like AI, Cognitive and Robotic to counter



audit challenges posed to them by large dataset or data lakes to review. Auditors are required to be adept in use of these disruptive technologies in order to deal with the complexities which arise due to the need for enhance governance and ethics, Blackbox model of AI, rules and exception response of robotics, regularly changing global compliance requirements and cyber threats of digital transformation.

The businesses have fast forwarded the adoption of these technologies due to its obvious benefits and recent pandemic experienced by everyone across the Globe, leading to processes becoming leaner, efficient, rule-based, repeatable and machine dependent.

The role of auditor is witnessing transformational change due to rapid evolution and adoption of modern technologies. The auditor's role can be broadly categorised into 3 categories namely Assure, Advise and Anticipate.

## Assure

The assurance role is governed by various Acts and Rules. In addition to statutory requirement, as defined in SIA framework governing internal audit issued by ICAI, "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives."

Internal Audit is responsible for providing independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.

The biggest consideration for internal auditor is to arrive at high risk areas and accordingly channelise audit efforts to the risk profile. Therefore, auditor's understanding of technology architecture, governance over technological changes and comfort on design level controls are extremely relevant for formulating auditing procedures, reviewing effectiveness of controls and discharging their duty to the Audit Committee and other key stakeholders.

Analytics and AI Technology has raised the bar for the auditors and nowadays regulators as well as investors both expect an auditor to provide nearly hundred percent assurance. In fact on Data Analytic: An Information Resource for IFAC Members, IFAC has shared view, "*Together with automation, analytics enables better risk understanding across thousands of data points in P&L reporting. Data analytics can improve the co-operation with external auditors to detect patterns and trends, and identify process improvements that can increase efficiency and enhance audit quality*. The automation of large parts of audit plans using analytics can also make the internal audit function more efficient and effective." Thus raising bar and bringing technology based audit approach. Digital Competency Maturity Model 2.0 (DCCM 2.0) issued by the ICAI also highlights urgent need for digital adoption by CA firms for their upgradation.

## Advise

The Internal Auditor is very well placed to provide valuable advice to business owners while they decide to adopt, upgrade and change technologies. The

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in-depth domain knowledge and understanding by auditor about different processes could help an organisation to get advice on real time basis, while they decide on technology, strategy, governance, application configuration, operation and cyber controls. Auditors are getting new requirements for advisory. As the technology has far-reaching impact, they are expected to advise on emerging technology governance and ethics, regulations, algorithms and model risk and assumptions, automation opportunities, data quality and cyber security standards of new technology solutions.

The auditor's role, however, in advisory capacity should never be considered as they owning up controls, the responsibility of designing busines strategy, governance, processes, internal controls and systems that rests with the organisation's management.

## Anticipate

The auditor's ability to visualise what could go wrong and farsightedness provides valuable tool to the management which sets the stage for highly sophisticated technology led organisation with best-in-class control environment and governance framework.

With increasing data available, auditors are now expected to perform better risk assessment. Although data brings immense value to understanding of an auditor and for organisation, to facilitate entire business goal management and strategy execution, it has created new challenges around transparency, accuracy, security, privacy, social expectations and legal requirements. All these challenges are now being posed to auditors, and they are expected to enable organisation to perceive and respond to this vast challenge.

Auditor's knowledge should be utilised for risk learning to upgrade technology as well as to sensitise process owners about what is not permitted as per ethical guidelines and controls perspective.  However, this require auditors to significantly upgrade themselves by adopting and making use of digital technology like Data Analytics, AI and Robotics so as to understand business, perform risk analysis and provide risk response.

For auditors to perform the new age technology driven roles, they require to embrace some digital asset like RPA, Analytic, AI and dashboards.

## Digital Assets

It has been a decade since auditors have started using analytics and dashboards. Today's digital age requirements demands even more smarter use of these digital assets to meet the challenges arising out of the need for higher assurance, better advisory services and precision in risk management. Besides analytics, auditors need to adopt tools viz. GRC, RPA, AI and in course of time even IoT and Blockchain Some of illustrative areas where these tools can be leveraged are discussed here.

Robotic Process Automation (RPA) wherein BOT's algorithms can be implemented to login and download all the changes to master data on a system during a period and then reconcile it with another report downloaded from a ticketing system which captures the approvals and scanned records. A direct exception report can be created for 100% of changes where there are no approvals or where approvals are taken post implementation of changes or report reconciling difference.

Similar algorithms can also be created to check for exceptions in case of business expense approval. It does not matter whether approvals are taken in hard copy forms of through e-mails. Technology such as OCR (Optical Character Recognition) and AI may be used for this.

Further, status of default configuration control can be tested using RPA. This can fill in documentation templates for controls tested and retain document repository for further review.

RPA can also be used in testing segregation of duties/ environments controls.

Customised analytics, similarly by leveraging analytics on exception reports which are built using pre-defined rule based on specific business or audit requirements can be leverage for control testing. They can enable auditor to identify anomalies and focus their audit effort on them.

Further analytics dashboard can be created for client to provide understanding of business and perform risk assessment. This can enable auditor in understanding changes in a comprehensive manner and performing analytics based review for larger set of company's data.

Audit tool like GRC tools can also help in performing risk assessments based on the category of risk for process managed through application. Further, GRC tools have inbuilt controls, library that can be used/ customised for implementation of controls based on risks. GRC tools can help in implementing an integrated control framework. The various control requirements (e.g. SOX, PCI DSS, GDPR, etc) can be combined and rationalised into a single framework.

In current environment auditors need to mandatorily perform system and cyber audits and use adequate established cyber risk management methodologies and tools, to perform risk analysis of cyber risks. They are required to understand and review how management addresses these risks and how they respond and recover from any incident which may arise. This being essence for ensuring confidentiality, integrity,

> The newer role for auditor shall be the ability to put entire value chain together, understand linkages among different data sets/tools and visualise bigger picture of missing links in machine environment.

availability and authenticity of financial reporting. Digital assets like GRC, RPA and analytics can enable auditors to perform this responsibility in a better way and stay confident on procedures performed by them.

All of this requires auditor to regularly upskill and respond to the needs of emerging skills and capabilities.

## Emerging Skills and Capabilities

The upskilling of auditors is required for them to stay relevant and continue providing value to the organisation. Also, change of technology landscape and digitalisation results in near real time system based auditing procedures.

The skills and capabilities required for auditing include remote auditing capabilities, understanding RPA, AI, ML and other advance analytics features. The next generation auditing would be largely technology led and traditional transaction testing procedures shall be audited by machines.

The newer role for auditor shall be the ability to put entire value chain together, understand linkages among different data sets/tools and visualise bigger picture of missing links in machine environment. For example, RPA check-in procedures in hotels or airports should clearly distinguish what point customer problem would be referred to human and learn to create rules for those exception as well to further minimize human interventions.

The human intelligence would be focused towards strategy and high-end decision-making procedures, which is critical for business success and therefore, auditors should consider these aspects as high-risk and build auditing capabilities.

With digital technologies, agile auditing is gaining momentum and life span of issues and need for rectification has shorten. Therefore, auditing needs to be concluded in different sprints typically getting completed on realtime and on maximum in 2-3 weeks.

The auditor should move from observation-based reporting to insight (or foresight) based reporting which would be more relevant for business to prevent issues and stay relevant in highly competitive business environment, thereby strengthening relationship with senior executives of the company.

Today, besides finance, cyber and digital technical skill, an auditor requires adaptability, collaboration, social skills and skills for working with tools and techniques, effortlessly.

## Conclusion

The organisations digital transformation involves much more than technology adoption. Auditor in age of digital transformation require to put concerted efforts to respond and enable company on how enterprises organise, operate, and behave by aligning strategy, structures, processes, people, and technology to build a unique digital DNA.

Auditors need to review and provide feedback on unnecessary risks and harness risk to power performance by adopting a risk lens and a holistic approach as part of their efforts. They need to provide better and higher level of assurance leveraging technology like GRC, RPA, Analytic and AI. This also will require auditor to adopt digital asset and embrace and enhance requisite new edge skills to deliver what is expected from the auditor.

> They need to provide better and higher level of assurance leveraging technology like GRC, RPA, Analytic and AI. This also will require auditor to adopt digital asset and embrace and enhance requisite new edge skills to deliver what is expected from the auditor.

In next generation auditing model, technology adoption for refining auditing procedures as well as for understanding complex client landscape and meet ever increasing expectations from the auditor shall be mandatory. ■■■

# One Step Towards Artificial Intelligence

*The importance of Artificial Intelligence (AI) & Machine Learning (ML) in every sector including finance is in huge demand and increasing with every passing day. With every moment, technology is enlarging its scope with the intent to make business activities easy and creating global value as well. In return of the investments in AI & ML, we get multiple times excess in the form of permanent cost reduction, systematic resource optimization, improved efficiency & productivity and so on result into creating a global value.*

*Read on to know more on complete discussion mainly focusing on how CA professionals have extreme qualities and opportunities in current "tech-era" to build values which make differentiation among other professionals.*

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Artificial Intelligence (AI) has grown to become an intrinsic part of the world's Economy. In a broader sense, we can say that Machine Learning (ML) and Deep Learning (DL) are adjacent to Artificial Intelligence. In this ongoing "FIN-TECH" era, everyone looks forward to achieve financial synergy and build vision to accomplish the value of data on which whole globe can be dependent. ML in finance is restructuring the entire service industry in the past 2 decades. Artificial Intelligence is a technique of developing brilliant machine programs which can think much better than humans because of its diverse training input data. Machine learning is an approach to examine the machine program to constantly improve the efficiency and accuracy of such machine program. In this article the primary object is to discover opportunities with Fin-Tech methodology to grow our CA profession and contribute in nation building. The article is divided into two major categories, 'Overview of AI & ML' and 'What we can do and how we can enhance the worth worldwide?'

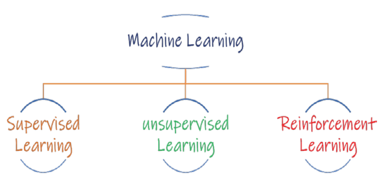
## A. Overview of Artificial Intelligence and Machine Learning

India has become a prime source destination across the world to establish both internal as well external IT infrastructure. Additionally, India is progressing to provide the best financial service with

IT collaboration. Machine Learning has been proven as a revolution in technology in the past few years. Data analytics have now become a preference for any organisation to capture market share and enhance the intrinsic value as such. Therefore, it can be easily said that both AI & ML have been creating correlation within each other and focusing on **"Learn with Logic"** concept.

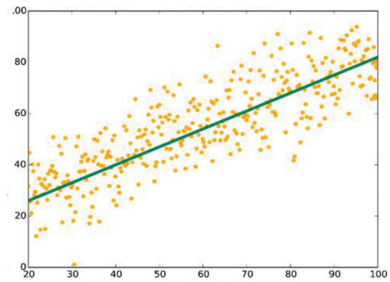
AI is about intellect with reasoning, problem solving and learning capabilities, similarly ML trains with several historical data and behaviour and has become competent to predict and forecast the result. AI & ML can efficiently perform multiple tasks at a time like data visualisation, forecasting & predictions, statistical analysis, translation, resolving puzzles, arithmetic or non-arithmetical computation in a clever manner. Machine Learning is also required to build an algorithm, depend on every incident or diverse instances which assist to train the module.

Machine learning is classified into three comprehensive categories which is depicted below:

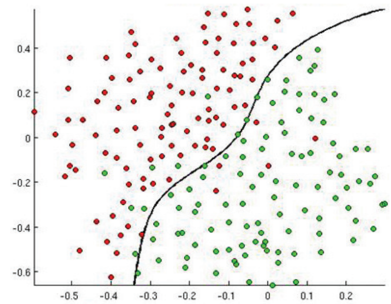



Now we are going forward to understand the concept of all these categories in phased manner:

- **Supervised Learning:** Supervised Learning is one of the most primary type learning in which Learning comes through historical events, historical data or original dataset which is ordinarily called as "**Train Data**". Supervised Learning is one of the utmost robust programming techniques which has been proven at various circumstances. In the first phase the algorithm has been trained by providing various data at large size including diverse data in a form of Train Data with help of that program can understand logic, relationship in various parameter of the data, understand the problem and continuously focus on improving results. In a Train Data, user provides multiple parameters based on which algorithm becomes effective and much more capable to predict accurate results on **"Test Data"** or on future events. The algorithm is much more capable to build prose and cause relationship between structured parameters. Supervised learning makes a machine emphatic and capable to learn with logical experience which helps to produce reliable predictions. We can hence make a favourable remark by saying, "Supervised Learning is a task driven program or task driven algorithm technique". Supervised Learning is famous to resolve regression & classification complicity.



*Regression*

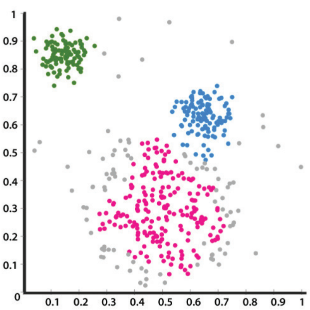


*Classification*

To review the final outcome and accuracy of test data, a user always computes result from test data and compares with original results. With the test outcome, the user can always focus on continuous improvement and making crucial changes in algorithm to enhance the accuracy and reliability of the data. Regression also can be divided into 6 extensive categories:

1. Simple Linear Regression
2. Multiple Linear Regression
3. Polynomial regression
4. Support Vector Regression
5. Decision Tree Regression
6. Random Forest Regression

- **Unsupervised Learning:** Unsupervised Learning has an additional attribute, which is learning without training data. As opposed to Supervised Learning, Unsupervised Learning is a data driven technique. In the unsupervised learning program human intervention is not




*Cluster*

much required to train the program. Machine algorithm understands the data, identifies patterns, identifies structures of data by their own explicit hidden attributes. Unsupervised Learning primarily focusses on cluster analysis which is helpful for data analysis to identify hidden relationship in various parameters to identify pattern or classification of the data. Unsupervised learning is practically not relevant for predictions or forecasting, this method is mainly useful to sequence analysis or pattern mining in the dataset. Common clustering algorithms include the following:

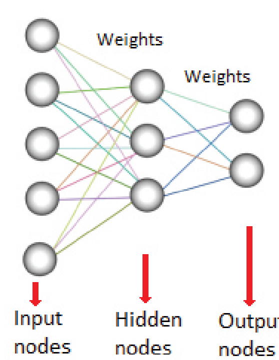
1. K-Means clustering
2. Hierarchical clustering
3. Gaussian mixture models
4. Self-organising maps
5. Hidden Markov models

- **Reinforcement Learning:** Reinforcement Learning is an approach to AI and mainly known for the distinctive quality called **"Learn by their Own"**. It means that machine algorithm or program is much capable to learn with data as similar to how human beings learn in their lives with experience. Its programs or algorithm attributes always improve by itself and learn from diverse situations with various methods. Every successful output is reinforced and every unsuccessful output again improves the logic and makes adequate changes for improving the subsequent output. In simple terms, learning would yield both positive as well negative reinforcement. In case the algorithm finds the accurate and appropriate result, the interpreter reinforces the solution by providing rewards to such algorithm program. The intention behind the reward is to improve the effectiveness or accuracy of the output.

**Deep Learning:** Machine Learning also includes Deep Learning, a specialised direction that carries the future of Artificial Intelligence and ensures the success of Machine Learning as well. Deep Learning eminent **"Neural-Networks"** is a kind of programming or algorithm that was found to look like the physical form of a human brain. Worldwide Neural networks seem to be the most effective and efficient way for Artificial Intelligence research hereafter. In Deep Learning we can build a relationship between more complex parameters in a very effective manner. In Deep Learning, input data processes within multiple layers and after that, algorithm provides logical and valuable results. Deep Learning algorithm has the ability to learn from unstructured unlabeled data and in this way, it creates a different quality with Machine Learning.

Moving forward to discuss about What actually "Neural-Network" is and How effectively it works?

As in our brain neurons are the key players to process and manage the information, similarly in Deep Learning we create an **"Artificial Neuron Network"** (ANN) to process input data and produce accurate result for complex data with the assistance of Machine Learning or algorithm. Neural-Network is a concept in which the user develops an Artificial Neuron Network with algorithm or program, thereby paving way for it to work like the human brain.




*Artificial Neuron Network*

In our brain more than 100 billion neurons are working to manage our whole-body including the mind. In Artificial Neuron Network, organic neurons have to be substituted by multiple mathematical functions. There are lots of neurons in an artificial network, each with a unique and essential function that assorts the data given to the program. This artificial neuron constructs in various layers to produce accurate results with proper interpretation and understanding of the data. This various layers in neuron are also called as nodes and assign a weight which work as filter for processing the data. All the layers are divided into 3 categories, namely Input layer output layer and hidden layers which are the integral parts. Neural Network is also categorised into three broad terms:

1. Recurrent Neural Networks
2. Convolutional Neural Network
3. Multilayer Perceptron

Right now, we are not going to discuss all the three in detail because we are much more interested to discuss about the beauty of all such networks and how it will be better in our profession and how we can create synergy in our profession.

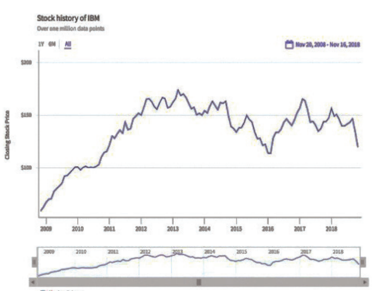
## B. How AI & ML be succeeding path for our Professionals

Artificial Intelligence (AI) & Machine Learning (ML) has become more popular due to easy availability of vast quantum of data at affordable costs. AI & ML have been reshaping the whole financial industry over the past few years. It is difficult to determine the future of financial services without AI & ML. This article is written to give more impetus on AI & ML to provide a capacity to build global value of our services and qualities thereof; how one can set his/her profession as a benchmark worldwide. This article would touch upon the importance of the said revolution in technology, understanding and preparing to bridge the gap between profession and advancement in technology.

While we are on the subject of how IT creates revolution in every segment and how revolutionary measures and techniques are followed everywhere, finance has also simultaneously been enhancing to value to match with IT to provide excellent services. No one can deny that AI & ML have created a situation of panic around the professional community and created a hype that AI & ML will drastically impact the profession, but at the same time AI & ML have opened a diverse path to make career and derive the opportunities to succeed. We need to take just one step forward to move towards IT Collaboration in Finance. In the upcoming discussion, let us analyse the road map to match an individual's profession with AI & ML era.

- When we work in Finance Planning & Analysis (FP&A), with the help of AI & ML we can analyse and define the data from scratch to extreme level for principal conclusion. We can recognise multiple correlation between different parameters of the data and can parallelly build a relationship in various inputs with data models used in AI & ML in the dataset which is primarily useful for taking strategic decisions. AI & ML have been proven as best approaches to forecast and predict a much more accurate result and output with various parameters in dataset. It helps to correlate both internal & external and micro & macro factors which are directly or indirectly relevant for analysis. With AI & ML we can identify the worth of even the smallest data in the dataset and can be able to understand the contribution in analysing whole data. Ordinarily organisation ignore those factors which directly not related to corporate decision making, but with AI/ ML tools, organisation consider all the factors even having less relevance which directly or indirectly worthful to make a strategic decision. Will take an illustration to understand in broader way how AI & ML proven as a path of success in FP&A. It is difficult to understand the human behaviour but with help of past dataset of customer's age, location, gender, their qualification, their money power and their product selection we can make a various permutation and combination to anticipate will customer be associate with us in upcoming period or customer will get separate from us. We have to make a strategic decision to understand is there any requirement to make changes/ upgradation in quality of our product and service or is their any obligation to modify price of our product and services respectively.

- Automation is one of the most common requirements in every segment and in every organisation to improve the accuracy of result, enhance the efficiency of personnel, scale up the quality of product or service, match ourselves with global standards, systematic cost reduction and optimise resource. We can build an algorithm to reduce repetitive activity with successful AI & ML module to improve productivity which is useful to enhance productivity not only in a single department but in the whole organisation.




*Time Series*

A small illustration of this automation is sending invoice directly to customers with AI & ML technique without human intervention. To determine credit worthiness or credit rating of any consumer, we can train the data with thousands of entries which includes numerous combinations in dataset through which algorithm can make maximum permutations and combinations to derive the most accurate result of test data, it is a very complex task to derive credit value of millions of persons simultaneously, and this is where AI & ML can be of great help for an organisation.

- Recognise intelligent behaviour in machines to manage portfolio and provide choice to view and analyse the return on their own fund with addition impart the recommendation to build robust portfolio with diverse segments. Professionally we can engage in financial services where the primary focus is to offer solutions to Individuals, Institutions or Corporate entities and assist them in exploiting their excessive funds to yield capital. Nowadays, the world is moving towards a robotic advisory to build a faultless service so as to keep their service as a benchmark in the respective industry. Calculation of financial statistics such as daily return, volatility, cumulative return on portfolio, optimise portfolio allocation, computation financial strength of company, time series etc. are few illustrations of Fintech services. Building thematic investment strategies and robust portfolio with study algorithm, computation of NPV, making Capital Asset Pricing Model (CAPM).
It is true that the cost of service provided through AI & ML is much cheaper than consulting as a human financial consultant. With AI & ML, it is possible to provide virtual assistance to our customers anytime and anywhere.

- Build a strong algorithm through which user can independently understand the movement in financial market. Data module or algorithm always keeps client ready to instantly respond on real time challenges. He himself can make a strategic portfolio based on present scenario and market conditions. Investor can be making a choice of selection based on various investment strategies in high-frequency trading environment which includes quantum strategy too. Predicting the future trend, movement and price based on historical trend with AI &ML or technical statics, risk of loss in financial market have also been reduced to a great extent. Professionals are playing vital role to make strategies for algorithm trading (algo-trading) which are very much prominent worldwide. We can make an advanced screening tool with various author's strategy like Value Investing, Growth Investing, CANSLIM, The Naked Traders etc. User can independently select the strategy and explore estimated future outcomes of their particular portfolio.

- AI & ML have the potential to analyse data and provide a more relevant observation at the time of Audit. Auditor can reduce their risk level at the time of audit. Auditor can check entire entries with AI & ML algorithm or programming which not required to set sample for audit to accompany with this entire verification auditor is capable to reduce **control risk** and **detection risk** at negligible level and also can make sure the **inherent risk** gets reduced as compared to pre-AI & ML era and can make a true & fair audit opinion in the report. In any organisation if all these three risk are under control or at reduced level then we can say the risk management of the particular organisations are well governed and properly managed. Directly or Indirectly it increases the confidence of all the stakeholders of such organisation. Auditor can use AI & ML as a Robotic Computer Audit Technique (RCAT). With AI & ML auditor can identify any exceptional or suspicious transaction that have taken place in the company during the audit period. At an advanced level, the auditor can verify the pattern of transaction, transaction price comparison for every scenario, quantity and price relation for every transaction to identify whether the transaction is normal or not. Auditor role is to now monitor the procedure, interpretation of data, and to ensure effectiveness and efficiency of data module in AI & ML.
- AI & ML is a replacement of professionals. Simultaneously, it is an opportunity to provide much better decision support services with IT collaboration. We can understand the relevance of data in depth and can make more strategic decisions which would absolutely be worthful for organisation. With AI & ML perfect governance structure can be set-up and any risk associated with internal control can be easily identified and managed accordingly. Professionals need to focus on how machine learning can be leveraged to facilitate our roles & responsibility towards stakeholders. With AI & ML professionals can allocate their valuable time to improve efficiency & productivity of services with the mission to increase the market size.
- Big data analytics is becoming a prime choice for various companies and for that they are looking to such professionals who can build logic and can summarise the logic into algorithm. Not only pertains to finance but also having a choice in diversified streams like supply chain management, product management, sustainable market selection, valuation etc. which makes it easy to standardise the global value of any organisation. Most companies are focusing on data analysis through application of multiple statistics on whole data and visualise the entire data.
- Technology has been playing an integral role in many phases of the financial ecosystem. High volume of historical data is now easily available at moderate cost with that it's very feasible to examine entire data with extreme logical concepts. Fraud detection and risk mitigation are also now easy to control. To verify large number of data entries it's easy to observe fraudulent or suspicious arrangements like money laundering, unfair transactions, etc. To determine the real long-term value of any entity, technology has been an integral part of it and based on techno level anyone can determine the value of it.
- Documentation and the critical analysis thereof also a complicated job for anyone. Very instant advantage of Deep Learning has transformed image recognition accuracy beyond our capability. Document analysis is also an ideal illustration of AI & ML in finance sector. To reduce human efforts and simultaneously increase efficiency with accuracy with cost optimisation, Machine Learning is seen as a diamond in a coal mine. ■■■

# ICAI - Committed to Ethics in the Profession

***Inheriting the rich heritage of profession, and saddled with the responsibility of its regulation, the Institute has constantly strived to keep up to the many expectations and made significant contributions to the development of nation. It has been a forerunner for the highest professional and ethical standards. The mechanism to achieve this end has been clearly defined in the governing statute and has been implemented with equal clarity too. The unflinching dedication of the Institute with ethics has stood the test of time. This position of eminence could not have been achieved without the wholehearted support and contribution of the fraternity as well. Read on…***

*"When you are able to maintain your own highest standards of integrity - regardless of what others may do - you are destined for greatness."*

– Napoleon Hill

Though auditing is one of the oldest professions, the first Companies Act in India was legislated in 1857, and the law relating to maintenance of accounts and audit thereof was introduced in The Indian Companies Act, 1866.

In the year 1913, the new Companies Act was enacted again, which specified how books of accounts are to be maintained. Therein, the formal qualification to act as an auditor was also mentioned. A certificate from the local government was required to be held in order to act as an auditor. An unrestricted certificate entitled a person to act as auditor throughout British India, while a restricted certificate entitled him to act as auditor only within the province concerned, and in the languages specified.

In the year 1918, the Government Diploma in Accounting (GDA) was introduced. As a result, on completion of articleship of three years under an approved accountant and passing the qualifying examination the candidate became eligible for the grant of an unrestricted certificate.

In 1930, the government decided to control and regulate the accountancy profession and provided for the grant of certificates to auditors through the amendment in the Indian Companies Act. It also provided for maintenance of a register of accountants. Any person who had been enrolled on the register of accountants maintained by the government under the


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

Auditor's Certificate Rules, 1932 was designated as a "Registered Accountant" (RA) and allowed to practice throughout India.

Later in 1943 GDA was abolished.

An expert committee was formed in 1948 to examine the scheme of an autonomous association of accountants in India and subsequently the Chartered Accountants Act was passed in 1949 ("Act") for regulation of the profession of chartered accountants in India, and for that purpose to establish the Institute of Chartered Accountants of India ("Institute"). The Act came into force on 1st day of July, 1949.

The Institute thus inherited the responsibility that was earlier vested with different authorities, as also the various unprecedented responsibilities provided under the Act. It coincided with the dawn of freedom in the country and making of modern form of government for the first time, as well as a vision of every citizen of sky being the limit . Clearly, there was tremendous expectation from the Institute to play its part well in the growth and development of the nation.

## Ethics and Chartered Accountancy

Compliance with ethics is critical for long term sustenance of any business or profession.

The importance of ethics for chartered accountants is even more enhanced, as the stakeholders which rely on their services are many - clients, credit grantors, governments, taxation authorities, employees, investors, the business and financial community, and the general public. There is a direct and indirect relationship that a chartered accountant has with every member of the society.

The following extract from ***History of the Accountancy Profession in India (Volume II) P. 137 – 138*** is noteworthy in this regard:-

*"A professional is able to command respect in the society because his motto is 'pride of service in preference to personal gain". A person who places public good above his personal gain is a "true" professional. This applies to any person engaged in a profession be it legal, medical, engineering or accountancy. For the success of any profession, it is essential that there is a strong base provided by the regulating body. The system of education, training and examinations should be such that it is able to command the respect and confidence of the general public. Further, the regulating body should be vigilant in enforcing discipline on the members of the profession. The users of professional services require an assurance that the member of the profession Services are retained is: (i) competent to render professional service, and (ii) a person of character and integrity*

*The word "Ethics" has been defined in a dictionary to mean moral principles; quality of practice; a system of moral principles; the morals of individual action or practice' Accordingly, the professional ethics of an accountant would connote his behaviour towards his professional brothers and sisters, his employees, articled trainees, clients, users of his service and the general public.*

*Character and integrity of a professional will depend on his personal qualities. This will also be guided by the environment in which he is working. This position can be maintained and*

"An expert committee was formed in 1948 to examine the scheme of an autonomous association of accountants in India and subsequently the Chartered Accountants Act was passed in 1949 ("Act") for regulation of the profession of chartered accountants in India, and for that purpose to establish the Institute of Chartered Accountants of India ("Institute"). The Act came into force on 1st day of July, 1949.

*strengthened only if the regulating professional body is able to guide and create an appropriate environment to enable its members to live up to the high moral and professional standards.*

*The Prestige and confidence enjoyed by a profession, to a great extent, depends on the strictness and the scrupulous manner in which the professional code is interpreted. What is necessary is to create a public image that the members are honest and that the erring members are awarded due to punishment without any delay. A strong professional body, like our Institute, has been able to create this public image and maintain discipline amongst our members through legislative support and self-regulatory measures."*

Today, economic growth is seen inevitably with expansion of the corporate system. Further with the opening of the economy , multinational investment was welcomed as it was important to supplement the domestic investment for the growing aspirations of the citizens of the country. This has undoubtedly raised opportunities for the accountancy profession and led to an explosion of professional opportunities in all areas of services over and above the traditional areas of accounting and auditing. It is thus imperative for the accountants, not just in terms of audit, but also in other service offerings to provide value added services to pave way for growth and development of the economy.

## Disciplinary Mechanism of the Institute

The Act and the schedules to the Act set out the legal framework for the profession of chartered accountancy. Section 22 of the Act defines and describes what constitutes `professional misconduct' . The two schedules spell in detail the various acts and omissions which lead to professional/other misconduct and consequential punishment in accordance with Chapter-V of the Act. The schedules are distinguished on the basis of gravity of misconduct and quantum of punishment for the misconduct, with the second schedule providing for situations which are considered comparably as more grave misconduct and higher punishment.

The disciplinary mechanism of the Institute is provided in the Act, and the legal backing has led to the norms of ethical code being clearly etched out for members.

The Chartered Accountants (Amendment) Act 2006 added the provisions for imposition of fine as a punishment for the misconduct for the first time. Sections 21, 21A, 21B, 21C, 22-A and 22-G of the Act read with The Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct of Cases) Rules, 2007 have laid down the procedure in regard to the investigation of misconduct of members.

> Section 22 of the Act defines and describes what constitutes `professional misconduct'.

A member is liable to disciplinary action under Section 21 of the Act if he is found guilty of any professional or "other misconduct". This provision empowers the Director (Discipline) to enquire into any conduct of a member under any other circumstance.

> A member is liable to disciplinary action under Section 21 of the Act if he is found guilty of any professional or "other misconduct".

The question whether a particular act or omission constitutes "misconduct in any other circumstances" has to be decided on the facts and circumstances of each case. The observations of the Supreme Court in "Council of the Institute of Chartered Accountants of India and another vs. B. Mukherjea" (AIR 1958 SC 72) are also relevant:-

*"We, therefore, take the view that, if a member of the Institute is found, prima*

*facie, guilty of conduct, which, in the opinion of the Council renders him unfit to be a member of the Institute, even though such conduct may not attract any of the provisions of the Schedule, it would still be open to the Council to hold an enquiry against the member in respect of such conduct and a finding against him, in such an enquiry, would justify appropriate action being taken by the High Court."*

The disciplinary mechanism of the Institute has been aptly described by CA C.P. Mukherjee, Past President, at 12th Annual Meeting of the Council, as contained in ***Treasure Trove of Wisdom from Visionaries Speeches of Past Presidents, Second edition, 2014 P. 88 - 89:-***

*"In order to maintain a high standard of integrity, honesty and efficiency, the Chartered Accountants Act provides for the appointment of a Disciplinary Committee of the Council. The duty of this Committee is to enforce discipline in the profession by investigation and report to the Council the lapses on the part of the members of the professions, for the decision of the High Courts or the Council as provided in the Act. The rules regarding its jurisdiction are indeed very strict; naturally they must be. Indeed, it may be submitted that these rules are very much stricter than in some of the other advanced countries where the profession has been in existence for a longer period. An erring member is liable to be removed from the roll of the Institute. The Council has always been very keen on maintaining and preserving the good name of the profession and to establish high traditions and this is amply borne out by the fact that the High Courts in most of the cases have agreed with the recommendations of the Council..."*

## Code of Ethics

Code of Ethics is a publication of the Institute. The first edition of Code of Ethics was published as far back as in 1963, then called as *"Code of Conduct".* It included not only the provisions of the Act but also the interpretation of the Council, various High Courts and the Supreme Court on the law and guidelines relating to the conduct of the members. The *"Code of Conduct"* was essentially a set of professional ethical standards regulating the relationship of Chartered Accountants with others.

> Code of Ethics is a publication of the Institute. The first edition of Code of Ethics was published as far back as in 1963, then called as "Code of Conduct".

The '*Code of Conduct*' , was renamed as *'Code of Ethics'* for the first time in its ninth edition in 2001. Since its first edition the Code has been constantly updated from time to time to fine tune it with the changes in legislation, ethical and professional standards . The fourth edition of the Code included certain relaxations made by Council with regard to publicity by members. while the seventh edition contained several principles enunciated by the Council e.g. responding to tenders, use of CA designation in invitation cards , requirements of Sections 224 and 225 of the Companies Act , 1956 with regard to appointment and change of Auditors , etc. The eighth edition made changes necessitated by the replacement of Chartered Accountants Regulations , 1964 by the Chartered Accountants Regulations, 1988 .

> The 'Code of Conduct' , was renamed as 'Code of Ethics' for the first time in its ninth edition in 2001.

The Institute is a member of International Federation of Accountants (IFAC). IESBA i.e International Ethics Standards Board for Accountants is in turn a body under IFAC, which formulates ethical standards for the professional accountants.

With a view of its membership obligations towards IFAC, and towards its commitment for aligning with best international standards, the Institute converged the Code of Ethics with IESBA Code of Ethics for the first time in its eleventh edition in 2009. The 2009 Code had two parts – A and B, A representing the provisions converged with IESBA Code of Ethics, as suitably modified as per our domestic provisions, and Part-B representing the domestic provisions as per the legal framework governing chartered accountants in India. The provisions of Part-A of Code of Ethics were issued as guideline of the Council of the Institute, meaning thereby that the non-compliance thereof would be treated as professional misconduct under the Act.

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

> With a view of its membership obligations towards IFAC, and towards its commitment for aligning with best international standards, the Institute converged the Code of Ethics with IESBA Code of Ethics for the first time in its eleventh edition in 2009.

they shall comply with all other parts of this Code. Accordingly, in convergence with the IESBA Code, certain variances have been made by the Institute, wherever necessary, to ensure that any provision of IESBA Code does not contradict with our domestic provisions.

The revised twelfth edition of Code of Ethics has been issued recently, and has been divided into Volumes-I, II and III for the first time. The Volume-I, issued in 2019, is the part converged with IESBA Code of Ethics, 2018 edition. The Volume-II, issued in 2020, is the guide on the provisions of the domestic provisions , while Volume-III, also issued in 2020, for the first time separately provides a reference to various disciplinary cases that have been so decided under the various clauses of the Act and the schedules.

## Ethical Standards Board

For the formulation of ethical standards for members in response to changing conditions and environment, the Council of the Institute constituted Ethical Standards Board , then "Ethical Standards Committee" at its 74th Meeting held in December, 1975.

The nomenclature of the committee was later changed to "Committee on Ethical Standards and Unjustified Removal of Auditors" (CESURA), after which it became be a fact-finding body and also looked at consider cases of unjustified removal of Auditors in Government Companies Public Sector Banks etc. The name of the Committee was again changed by the Council in March, 2005 from CESURA to "CES" i.e.

> The revised twelfth edition of Code of Ethics has been issued recently, and has been divided into Volumes-I, II and III for the first time.

Committee on Ethical Standards, and then to Ethical Standards Board(ESB) In December, 2008. Ethical Standards Board is today engaged in formulation of principles of Ethics for its members that are stringent enough to guarantee the confidence building in the public.

The purpose of the Ethical Standards Board is:-

*"The Institute of Chartered Accountants of India (ICAI) is a statutory body established under The Chartered Accountants Act, 1949 for the regulation of the profession of Chartered Accountants in India. The Council of ICAI is empowered to discharge the provisions of the Act, and regulate and maintain the standards of the profession. In pursuance of this, ICAI has established the Ethical Standards Board to function as standard setting body. The Ethical Standards Board develops and issues ethical standards and other pronouncements for chartered accountants. It works towards evolving a dynamic and contemporary Code of Ethics and ethical behaviour for members while retaining the long cherished ideals of `excellence, independence, integrity' as also to protect the dignity and interests of the members".*

> Ethical Standards Board is today engaged in formulation of principles of Ethics for its members that are stringent enough to guarantee the confidence building in the public.

Besides other terms of reference, Ethical Standards Board has, from its very inception, been engaged with various exercises to equip our members to enhance their competitive edge and professional dynamism through various professional means and methods. In its tryst to spread awareness, the Ethical Standards Board has always contemplated to help the members keep abreast of the latest happenings on ethics on one hand and make them ethics compliant on the other.

It examines and renders advice on ethical issues received from members, and referred to it by the Council, other committees/ departments.

## Certain New Initiatives

With the growth of profession, it is incumbent that the standards of professional ethics need to be more dynamic and responsive and relevant. The institute recognizes this fact and is taking requisite steps to provide right solutions to the contemporary issues. Some examples are:-

1. *Transparency* - In the present-day scenario, it is imperative for a chartered accountant not only to maintain righteous conduct but also to demonstrate to the outside stakeholders that such conduct is being followed as a matter of course. One can defend himself against accusations of any malpractice when based on the documentation maintained, he can show that he has behaved strictly in an ethical manner in compliance with the professional standards. Thus, it is important to maintain proper documentation, which helps in defending one's actions and makes a person's professional actions "transparent" or easily assessable. Accordingly, these documentation requirements have been elaborately described in the new Code of Ethics.

2. *Inadvertent breach* – There are situations where a member may have committed an inadvertent breach, and nobody is aware of the said breach. The Volume-I of Code of Ethics provides guidance on this aspect as to what safeguards should be taken to rectify the inadvertent breach.

3. *Advisory* – As per the revised Advertisement guidelines of the Institute, the Institute may issue a reasoned directive for removal or withdrawal of the whole write-up or of any part(s) thereof. The members may thus correct the minor issues. This is supposed to inculcate a culture of compliance.

4. *Communication through E-Mail* - The revised code of Ethics allows communication with the previous auditor through E-mail and eases the process both from the point of view of Auditor and Auditee.

5. *Mandatory KYC Norms* – The mandatory KYC norms are applicable for all attest functions w.e.f 1.1.2017. These are indispensable to address threats resulting from illegal client activities like money laundering. From the stand point of the Institute, the paradigm of ethics has evolved through the years and indeed become multifaceted to be able to achieve the three objectives :- guide (in professional queries), prevent (professional misconduct) and encourage (compliance). The responsibility is equally incumbent upon the Institute and fraternity, so as to maintain the prestigious position of the profession as it has been hitherto. The modalities of various issues are being formulated and modified every day, but the basic tenets have not changed, nor should they. It is on the foundation of these tenets that the profession would continue to flourish in the time to come and will continue to enrich the country and its citizens. ■■■

> As a part of certain new initiatives, the mandatory KYC norms are applicable for all attest functions w.e.f 1.1.2017 to address threats resulting from illegal client activities like money laundering.

# MSMEs – The New Champions of Economic Growth

*Post-corona pandemic and the resultant worldwide lockdown, the entire world economies have plunged into an unprecedented recession. Besides, the unwarranted and unrelenting border skirmishes have posed another threat for India. In this emergent situation, India is endeavoring to find an opportunity to build a new self-reliant India. The recent announcement of Atmanirbhar Bharat Abhiyan giving an enormous package to stimulate the economy has assigned a pivotal role for the MSMEs in the country, both as a support-industry for the large enterprises as well as by providing a major market for them. Various initiatives taken for the growth and development of MSMEs which are expected to uplift the domestic industry, boost the country's economy and make India even stronger than before, have been comprehensively deliberated upon in this article. Read on...*

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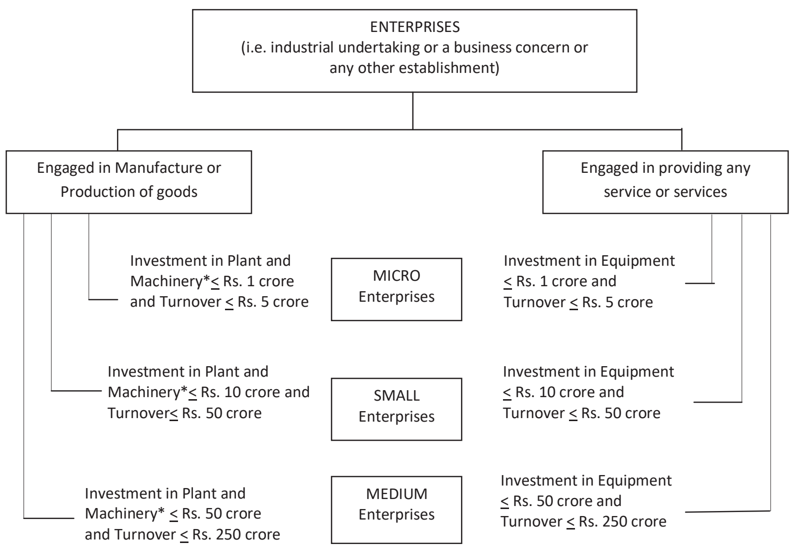
MSMEs have always been the backbone of Indian industry and have always enjoyed special privileges and incentives in all strategies adopted to boost industrial growth. Be it the first generation reforms which started with the new Industrial Policy document of 1991 or the second generation reforms constituting MSME as a separate focus area with an independent legal framework under the Micro Small and Medium Enterprises Development Act, 2006. Recently, Prime Minister has launched the Atmanirbhar Bharat Abhiyan, giving a humongous stimulus package whereunder MSMEs have been given the lion's share besides several relaxations and privileges. The classification of MSMEs has been revised in order to include more enterprises under the MSME. Besides, the package announced for MSMEs is expected to have a sizeable bearing on the viability and operations of MSMEs. MSMEs are therefore bound to emerge as the largest contributor in India's economic growth and the champions of self-reliant India.

## MSMEs – New Classification

As per Section 7(1) of the MSME Development Act, 2006, any class or classes of

enterprises may be classified as micro, small or medium enterprises by a notification issued in this behalf. However, the classification shall be based on investment in plant and machinery (in case of manufacturing enterprises) and investment in equipment (in case of service enterprises).

The revised classification as notified vide Ministry of MSME Notification no. S.O. 2119(E) dated 26.6.2020 is based on composite criteria of investment and turnover. Under the new criteria, the thresholds have been revised significantly upwards. This is expected to help the MSME sector to grow robustly. The new classification effective from 1.7.2020 is depicted in the chart below:




*Excluding cost of pollution control, research and development, industrial safety devices and other notified items.

### *Enterprise – Meaning of*

The term 'enterprise' has been defined under section 2(e) of the MSMED Act, 2006 so as to mean 'any industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services.

Further, as per section 7(1) of the Act, enterprises shall include proprietorship, Hindu undivided family, association of persons, cooperative society, partnership firm, company or undertaking, by whatever name called.

It may be clarified that enterprises engaged exclusively in trading of goods are not included in the above definition, and hence are not covered under MSMEs.

## Application of Composite Criteria of Investment and Turnover

Under the revised classification effective from 1.7.2020, a composite criteria of investment and turnover has been prescribed for classification of enterprises as micro, small or medium, as depicted above.

***Upscaling of Enterprises:*** If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to be classified in that category and shall be upscaled in the next higher category. For example, in case of a micro enterprise, while its investment remains below Rs. 1 crore, if its turnover surpasses Rs. 5 crore it will be upscaled as a small enterprise.

***Downscaling of Enterprises:*** However, an enterprise shall not be placed in a lower category unless it goes below the ceiling limits specified for both investment and turnover for its present category. For example, if in case of a medium enterprise, while its investment in plant and machinery remains above Rs. 10 crore (but upto Rs. 50 crore) and its turnover falls below Rs. 50 crore, it will not be downscaled to a lower category. However, in case its investment in plant and machinery also comes down below Rs. 10 crore, it will be reclassified as a small enterprise.

***Consolidated Turnover and Investment of all units to be considered :*** If an enterprise (with one PAN) has different units (with separate GSTIN) then they shall be collectively treated as one enterprise and their consolidated turnover and investment shall be considered for the purpose of classification criteria.

## Computation of Investment in Plant and Machinery or Equipment

For computation of the investment in plant and machinery or equipment, following principles have to be followed:

1) ***Scope as per Income Tax Rules***: The expression plant and machinery or equipment shall have the same meaning as assigned to plant and machinery in the Income Tax Rules, 1962 and shall include all tangible assets (other than land and building, furniture and fittings).

2) ***Linking with Income Tax Return***: The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous year's filed under the Income Tax Act, 1961. In case of a new enterprise, where no prior ITR has been filed, the investment will be based on self-declaration by the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year for which it files its first ITR. Thus, once the enterprise files its first ITR, the investment in plant and machinery or equipment, as declared therein, shall be reckoned for the purpose of classification.

3) ***Valuation to be based on Original Cost***: In case of a new enterprise (without any ITR), while calculating the investment in plant and machinery, the original price thereof excluding GST amount, irrespective of whether the plant and machinery are new or second hand, shall be reckoned on self-declaration basis.

4) ***Items to be Excluded***: Cost of following items is to be excluded:

   (A) Pollution control, research and development and industrial safety devices, and

   (B) Other items as may be notified. Earlier certain items were notified vide notification no. S.O.1722(E), dated 5.10.2006 which has been superseded.

## Computation of Turnover

For the purposes of classification criteria, in calculating the turnover of an enterprise the value of exports of goods or services or both shall be excluded. This will significantly benefit MSMEs as they will continue to avail the benefits and privileges extended to MSMEs despite having large export turnover.

The information relating to turnover and exports turnover of an enterprise will be linked with its ITR or GST return. In case of new enterprises which do not have a PAN, turnover related figures shall be accepted on self-declaration basis up to 31.3.2021 and thereafter, PAN and GSTIN shall be mandatory.

## Udyam Registration

Any person who intends to registera micro, small or medium enterprise may file Udyam Registration online on the Udyam Registration portal (udyamregistration.gov.in). The registration is on self-declaration basis and no documents, papers, certificate or proofs are required to be uploaded. The registration is free and no fee is required to be paid.

The entrepreneur is only required to furnish his Aadhaar number (Aadhaar card is not to be uploaded). In case of a proprietorship firm its proprietor, in case of a partnership firm its managing partner and in case of a HUF its karta has to give his Aadhaar number. In case of a company or a Limited Liability Partnership or a Cooperative Society or a society or a Trust, the organization or its authorized signatory shall provide its GSTIN and PAN alongwith its Aadhaar number.

In case an enterprise does not have PAN or GSTIN or both, it can be furnished later on, but not beyond 31.3.2021. W.e.f. 1.4.2021, all registered MSMEs must possess PAN and GSTIN.

An enterprise can obtain only one Udyam Registration for any number of units/activities including manufacturing or service or both.

In case an enterprise is already registered as an Udyam with PAN, any deficiency of information for previous years when it did not have PAN shall be furnished and accepted on self-declaration basis.

Whoever intentionally misrepresents or attempts to suppress the self-declared facts and figures appearing in the Udyam Registration or updation process shall be liable to such penalty as specified under section 27 of the Act.

On successful registration, the enterprise shall be assigned a permanent identity number called 'Udyam Registration Number'. Thereafter, the details furnished by the enterprise shall be verified and validated with PAN and GSTIN details. On completion of registration process, the enterprise shall be issued an e-certificate called 'Udyam Registration Certificate' which can be downloaded from the portal.

***Registration of Existing Enterprises***: All existing enterprises registered under EM-Part II or UAM shall also be required to obtain Udyam Registration up to 31.3.2021, whereafter the existing registration shall lapse. Enterprises registered with any other organization under Ministry of MSME shall also be required to obtain Udyam Registration.

All existing enterprises registered till 30.6.2020 shall be re-classified in accordance with revised criteria w.e.f. 1.7.2020.

## Updation of Information on Udyam Registration Portal

An enterprise having Udyam Registration Number shall be required to update its information on the portal, including the details of the ITR and the GST Return for the previous financial year and such other details as may be required, on self-declaration basis. Failure to do so within the period specified in the online Udyam Registration portal shall render the enterprise liable for suspension of its status.

## Re-classification and its Effect

On the basis of information furnished or gathered from the ITR or GST Return furnished by an enterprise, its classification shall be updated. In case of graduation/upscaling (from lower to higher category) or reverse-graduation /downscaling (from higher to lower category) of an enterprise, an intimation thereof shall be sent to the enterprise about the change in the status.

In case of graduation/upscaling, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration.

In case of reverse-graduation / downscaling, the enterprise will continue in its present category for the ensuing financial year and the changed status will be effective from the next financial year.

## Privileges offered to MSMEs under the Act

The MSMED Act, 2006 confers following privileges to MSMEs:

***1) Buyer's Liability to make Timely Payment for Goods and Services***

In order to ensure timely receipt of payment for their goods and services by MSMEs, section 15 casts an obligation upon the buyer of any goods or services, to make payment to the supplier MSME, by the specified date as under:

(a) *Where there is an agreement in writing :* On or before the date agreed upon between them, which shall, in no case, exceed 45 days from the day of acceptance or the day of deemed acceptance.

(b) *Where there is no agreement :* Before the day following immediately after the expiry of 15 days from the day of acceptance or day of deemed acceptance.

For this purpose, 'day of acceptance' means-

(i) the day of actual delivery of goods or rendering of services, or

(ii) where the buyer makes an objection (in writing) within 15 days from the delivery of goods or rendering of services, the day on which the supplier removes such objection.

Further, 'day of deemed acceptance' means the day of actual delivery of goods or rendering of services, where the buyer makes no written objection within 15 days from such day.

**2) *Interest on Delayed Payment***

In terms of section 16, in case a buyer fails to make payment by the specified date as required under Section 15, he shall be liable to pay interest on the impugned amount from the appointed day or, as the case may be, from the date immediately following the date agreed upon, for the period of delay at a rate three times the bank rate compounded monthly, notwithstanding anything contained in any agreement between the buyer and the supplier or in any law for the time being in force.

Besides, as per section 23, any such interest paid or payable by the buyer shall not be treated as a deductible expenditure in computing his taxable income for the purposes of Income Tax Act, notwithstanding anything contained in the Income-tax Act, 1961.

**3) *Dispute Resolution***

As per section 18, any dispute relating to amount payable for any goods or services, and/or any interest thereon, may be referred by any party to the Micro and Small Enterprises Facilitation Council for conciliation in the matter. The Council shall either itself conduct conciliation in the matter or seek the assistance of any institution or centre providing alternate dispute resolution services by making a reference to such an institution or centre, for conducting conciliation and the provisions of sections 65 to 81 of the Arbitration and Conciliation Act, 1996 shall apply to such a dispute as if the conciliation was initiated under Part III of that Act. If conciliation process fails, the Council shall take up the dispute for arbitration either itself or refer it to any institution or centre providing alternate dispute resolution services for such arbitration and the provisions of the Arbitration and Conciliation Act, 1996 shall then apply to the dispute as if the arbitration was in pursuance of an arbitration agreement referred to in sub-section (1) of section 7 of that Act. The dispute should be resolved within a maximum period of 90 days from the date of its reference.

Notwithstanding anything contained in any other law for the time being in force, the Council or the centre providing alternate dispute resolution services shall have jurisdiction to act as an Arbitrator or Conciliator in a dispute between the supplier located within its jurisdiction and a buyer located anywhere in India.

**4) *Other Promotional Measures***

Sections 9 to 14 of the Act, cast an obligation upon the Central Government, State Government and the Reserve Bank of India to undertake measures for promotion, development and enhancement of competitiveness of MSMEs. These measures may relate to facilitating skill development, provisioning for technological upgradation, marketing assistance, credit facilities, preferential procurement of goods and services from MSMEs, constitution of special fund etc. The important measures taken in this regard are briefly discussed below:

*(a) Public Procurement Policy for the Micro and Small Enterprises (MSEs) Order, 2012*

This order which came into force w.e.f. 1.4.2012, provides for following measures:

(1) Mandatory procurement of goods and services from micro and small enterprises, of minimum 25% of total annual purchases, by every Central Ministry/ Department or Public Sector Undertaking.

(2) A sub-target of 20% (i.e. 5% out of 25%) shall be earmarked for procurement from the MSEs owned by the Scheduled Caste or Scheduled Tribe entrepreneurs.

(3) Out of the 25% target procurement, 3%

shall be earmarked for procurement from MSEs owned by women.

(4) In case of tenders, where L1 price is from someone other than a MSE, participating MSEs quoting price within price band of L1+15% shall also be allowed to supply at least 25% of the total tendered value at L1 price.

(5) Central Ministries/ Departments or PSUs shall organize Vendor Development Programmes, or Buyer-Seller Meets or enter into Rate Contracts with MSEs for a specified period in respect of periodic requirements.

(6) Annual Plan for procurement from MSEs to be uploaded on official websites by Ministries/Departments or PSUs.

(7) To reduce transaction cost of doing business, MSEs to be provided tender sets free of cost and exempted from payment of earnest money.

(8) Reservation of 358 items for exclusive procurement from MSEs.

(9) In order to encourage Startup MSEs (startups recognized by Department for Promotion of Industry & Internal Trade), condition of prior turnover and prior experience with respect to MSEs may be relaxed subject to meeting of quality and technical specifications. [Min. of MSME, Policy Circular No. 1(2)(1)/2016-MA, dated 10.3.2016 read with M.F. Letter no. F. 18/14/2020-PPD, dated 29.6.2020]

However, the Policy does not cover any trading activities by MSEs. Besides, an MSE unit will not get purchase preference over another MSE unit.

[Min. of MSME Order No. S.O.581(E),dated 23.3.2012 as amended up to S.O. No. 5670(E), dated 9.11.2018]

(b) *Extending Non-Tax Benefits of Original Category*

If any MSME graduates to a higher category from its original category or beyond the purview of the Act, it shall continue to avail all non-tax benefits of its original category for a period of three years from the date of such graduation.

[Min. of MSME Notification No. S.O.3322(E), dated 1.11.2013]

(c) *MSME Fund*

MSME Fund set up by the Central Government, to be utilized exclusively for the measures facilitating MSMEs.

[Min. of MSME Notification No. S.O.3356(E), dated 28.10.2016]

(d) *Trade Receivables Discounting System (TReDS) Platform*

All companies registered under the Companies Act, 2013 having a turnover of more than Rs. 500 crores and all Central Public Sector Enterprises have been instructed to get themselves onboarded on the Trade Receivables Discounting System platform set up as per the notification of the RBI. The TReDS platform facilitates quick access to the financing/discounting of trade receivables of MSMEs through multiple financiers (i.e. banks, NBFC-Factors and other financial institutions). MSMEs may onboard TReDS platform without payment of any fee.

[Min. of MSME Notification No. S.O.5621(E), dated 2.11.2018]

(c) *Return of Delayed Payments*

All companies making payments to micro and small enterprises for supplies of goods or services, beyond 45 days from the date of acceptance or the deemed date of acceptance of goods or services, are required to furnish a half-yearly return to the Ministry of Corporate Affairs giving details of amounts of payments due and the reason for the delay.

[Min. of MSME Notification No. S.O.5622(E), dated 2.11.2018]

## New Facilitation Measures

Under the Atmanirbhar Bharat package announced by the Government, several new initiatives have been taken to promote the MSME sector. These are briefly as under:

(1) Guarantee free and collateral free loans amounting to Rs. 3.00 lakh crores with a moratorium of 12 months on payment of principal, is expected to benefit about 45 lakh MSME units. This will help in resumption of business activity and safeguard the employment of people.

(2) In all Government procurement, there would be no global tender enquiry for procurements up to Rs. 200 crores. Necessary amendments in the General Financial Rules, 2017 have been made for this purpose. This will help domestic companies in general and the MSMEs in particular, as these units find difficult to withstand the pressure of undue competition from foreign companies.

(3) Since physical trade fairs and exhibitions would be difficult in the present circumstances, promoting e-marketing linkages would go a long way in helping the MSME sector.

(4) All Government Departments and the CPSEs have been directed to pay the receivables to MSMEs within 45 days, thereby easing the working capital situation of the MSMEs.

(5) For all government procurements under rule 149 of General Financial Rules, 2017, that is, on Government e-Marketplace (GeM), government buyers are mandated to make payments within 10 calendar days after generation (including auto generation) of Consignee Receipt and Acceptance Certificate (CRAC) on GeM. In case payment is delayed beyond the prescribed timeline, the buyer organization will be required to pay penal interest @ 1% p.m. for the delayed payment period. [M.F. O.M. no. F. 6/18/2019-PPD, dated 3.7.2020]

(6) Restructuring of existing loans to MSMEs classified as 'standard' (as on 1.3.2020), has been allowed without a downgrade in the asset classification, subject to specified conditions including, *inter alia*, that the aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed Rs. 25 crore (as on 1.3.2020) and the restructuring is implemented by 31.3.2021.

[RBI Cir. No. DOR.No.BP. BC/4/21.04.048/2020-21, dated 6.8.2020]

(7) Reduction in TDS/ TCS rates by 25% and immediate release of refunds will also improve the liquidity position of MSMEs. Besides, extension of various income-tax compliance dates will allow MSMEs to peacefully focus on their business and productivity for atleast few months.

(8) The Champions Control Rooms functioning in various offices of the Ministry of MSME including Development Institutes (MSME-DI) and District Industries Centres shall act as Single Window Systems for facilitating the registration process (including obtaining Aadhaar Number and Udyam Registration) and further handholding the MSMEs in every possible manner.

## Conclusion

The existing as well as the new facilitation measures announced for the MSMEs, envisage to extend both policy and procedural support for the MSMEs enabling them to adopt newer technologies and innovations, to withstand competition both at domestic and global level, to achieve higher productivity and to contribute in a significant way in the evolvement of new self-reliant and vibrant India. ■■■

# Role of MSMEs in Indian Growth Story

*In emerging economies, 7 out of 10 jobs are created by Small and Medium Enterprises ("SMEs"). The SMEs play an indispensable role in global value chains and their financial and operational health has a bearing on overall supply chains. It would not be wrong to say that any crisis on the MSME will have a domino effect on the entire economy and undoubtedly MSMEs will act as a catalyst for any future growth.This article is an attempt to evaluate the crisis beckoned upon our MSMEs, the reforms announced, the future opportunities, indispensable role of MSMEs in achieving self-reliance and the role of professionals in achieving this dream. Read on...*

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## Impact of Pandemic on Lives and Livelihoods and Importance of MSMEs

The Covid-19 pandemic has impacted both lives and livelihood. India had been under lockdown since 25th March, 2020. Currently, the global count of confirmed Covid positive cases are around 23.4 Million, out of which 15.2 Million have recovered and there has been a loss of 809,000 lives. In India alone, there has been around 3,110,000 plus confirmed cases, with 2,340,000 recoveries and loss of around 57,542 lives. The health emergency has been intrinsically linked with economy and livelihood. The stock markets crashed the world over, with the Indian NIFTY plunging below the 8000 level, in what was being observed as a bigger collapse than the 2008 subprime mortgage crisis which triggered recession across the globe. Further, the pandemic has resulted in mass lay-offs across the industries which is on a cost cutting spree. According to Centre for Monitoring Indian Economy ("CMIE"), India's unemployment rate had spiked from 8.75% in March to 23.5% in April when around 122 Million Indians lost their jobs and had further peaked up to 27.1% in May. Formal employment generation in April was lowest since 2017 when EPFO started

mapping data of net additions to payroll. As per *Global Economic Prospect Report* of World Bank, nearly 60 million people could be pushed into poverty in 2020. It will not be wrong to say that the pandemic fronted us with the gut-wrenching realisation of the plight of our migrant labourers, who not only lost their livelihood but were battling for their lives and walking thousands of miles to reach their respective homes in search of a social security net.

In view of striking a balance between lives and livelihood, the Government recently started relaxing the lockdown restrictions, to prevent an economic collapse which could be far more devastating than the Covid-19 induced health crisis. The country was already witnessing a slow-down in growth prior to Covid-19 outbreak and Covid-19 had made things far worse. The Government had announced a fiscal stimulus package under "*Atmanirbhar Bharat Abhiyan*" of INR 20 lakh crores, equivalent to 10% of our GDP, in order to support the jittering economy during this crisis. The clarion call was to be *vocal about local*, and the package would focus on land, labour, liquidity and laws.

The special package includes five pillars – Economy, Infrastructure, System, Vibrant Demography and Demand. The roadmap for the package has five phases, the first one being on "Businesses including MSMEs". This underlines the importance placed by the Government regarding the role played by MSMEs in the reboot of Indian economy and in enabling "self-reliance".

This importance is well founded as MSMEs form the backbone of our economy, and is crucial, not only for our GDP growth, but also for our exports, tax revenue and employment generation. As per the 73rd round of National Sample Survey, conducted during 2015-16, there were 6.3 Crore unincorporated non-agriculture MSMEs in the country engaged in different economic activities. Out of these, 31% were engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services. The Micro sector accounted for more than 99% of total number of MSMEs. Small sector and Medium sector with accounted for 0.52% and 0.01% of total MSMEs, respectively. 51.25% of MSMEs were in rural area and 48.75% were in the urban areas.

These 6.3 crore MSMEs provide employment to over 12 crore people, contribute to 45 percent of exports and over 30 percent of manufacturing value added including service and manufacturing. 90% of India's estimated 450 million-strong workforce is informal and MSMEs employ about 40 percent of these workers. The MSME Ministry had set a target to up its contribution to GDP to 50% by 2025 in sync with the USD 5 Trillion-dollar economy goal. MSMEs are an important part globally, as they represent 90% of the businesses and more than 50% of employment worldwide.

## Government Reforms for MSMEs under Atmanirbhar Bharat Abhiyan

The government has, over past many years, initiated steps to formalise the financing of MSMEs by setting up a nationwide network of regional rural banks, NBFCs and MFIs, the specialised Small Industries Development Bank of India (SIDBI), and more recently, the Micro Units Development and Refinance Agency (MUDRA) under the Pradhan Mantri MUDRA Yojana.

The MSME sector, despite its rapid growth in the past years, was already facing distress before the Covid induced lockdown due to a perceived lack of creditworthiness. Hence, it was very crucial to usher in structural reforms and infuse economic support to address the financial and operational concerns of the leading catalyst of country's growth.

On 12th May, the Prime Minister announced the mega stimulus package for the economy under *Atmanirbhar Bharat Abhiyaan.* Consequently, on 13th May, the Finance Minister announced several measures under the post pandemic financial package to help restore economic growth and achieve the goal of self- reliance. Out of sixteen measures announced under the package, six were targeted MSME Reliefs highlighting the importance of MSME sector as a catalyst to nations growth. The six measures are briefly as under:

1. **Collateral Free Automatic Loans:** INR 3 Lakh Crore outlay, benefitting 45 Lakh MSMEs. MSMEs with INR 25 Crore outstanding in loans and INR 100 Crore in turnover will get credit guarantee backed loans of 4 years tenure, with a 12 months moratorium on principal amount and a capped interest rate. The scheme can be availed up to 31st October.
2. **Subordinate Debt for stressed MSMEs**: INR 20,000 Crore outlay, benefitting 2 Lakh MSMEs. Government to provide INR 4,000 crores towards partial credit guarantee support to banks and banks will do onward lending to promoters who can use it to infuse equity.
3. **Fund of Funds for MSMEs**: With a corpus of INR 10,000 Crores, operating through primary and secondary funds, and will help leverage INR 50,000 Crore fund at secondary level enabling MSMEs to expand in size.
4. **MSME definition amendment**: Amendment in MSME definition to ensure efficient targeted reform intervention and in line with global standards and synchronised with GSTN framework.
5. **Only Local Bids for Government tenders upto INR 200 Crores**: This will act as a boost to MSMEs and protect it from foreign competition
6. **MSME dues and Market Access:** E-market linkages for MSMES is on the anvil to promote trade. All receivables of MSME from Government and PSUs to be cleared in 45 days.

Further, to ensure liquidity to NBFC, MFI and HFCs with low credit rating to do fresh lending to MSMEs, a INR 45,000 Crore Partial Credit Guarantee Scheme is also introduced, wherein existing partial guarantee scheme will be extended to cover borrowings such as primary issuance of bonds/commercial papers and first 20% of loss will be borne by Government of India.

Out of the INR 3 Lakh Crore outlay under 100% Emergency Credit Line Guarantee Scheme ("ECLGS"), as on 9th July, 2020, the total amount sanctioned by Public and Private Banks stood at INR 1,20,099.37 Crores with disbursements of INR 61,987.90 Crores. Amount sanctioned by Public Sector Banks stood at INR 68,145.40 Crores of which INR 38,372.88 was disbursed. State Bank of India leaded the charts with a sanctioning of INR 20,788 Crores and disbursements of INR 13,893 Crores. The States of Maharashtra and Tamil Nadu received the highest sanctions with INR 7.305 Crores and INR 6,955 Crores respectively.

There have been many tax relief measures like extension of compliance due dates, reduction in TDS and TCS rates, speedy processing of income tax refunds etc, which will further provide the much required liquidity to MSMEs.

In line with the promises made, on 1st June, the Government brought in an amendment to effect change in definition of MSME with effect from 1st July, 2020.

The revised MSME classification, with composite criteria of investment and annual turnover, is as under:

| Classification | Micro | Small | Medium |
|---|---|---|---|
| Manufacturing & Services | Investment< Rs. 1 Cr. And Turnover < Rs. 5 Cr. | Investment< Rs. 10 Cr. And Turnover< Rs.50 Cr. | Investment< Rs. 50 Cr. And Turnover< Rs.250 Cr. |

The new definition abandons the difference between manufacturing and service MSMEs and classifies enterprises on the basis of combination of invested capital and annual turn-over. The turnover is excluding all export of products/ services for all MSMEs, and hence increasing the coverage of MSME net. The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return of the previous years. Additionally, information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax and GST laws and also the GSTIN.

On 1st June, Government has also launched "Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength" (CHAMPIONS) in the MSME portal to register grievances around finance, raw materials, labour, regulatory permissions etc. and it has started to gain traction. In around five weeks since launch, the portal has resolved nearly 50,000 complaints filed by MSMEs. As the name suggests, the portal is basically for making the smaller units big by solving their grievances, encouraging, supporting, helping and handholding. It is a real one-stop-shop solution of MSME Ministry.

Another innovative existing mechanism is the GeM Marketplace, which was launched in August, 2016, to bring in transparency and efficiency in the public procurement process. The portal has over 3.87 Lakh sellers out of which 1 Lakh are MSME sellers. Overall, there are more than 17.76 lakh products listed on the portal that has a transaction value of Rs 54,184 crore. According to the government's Public Procurement Policy (2012) for MSMEs, every central ministry, department, and PSU has been mandated to set an annual procurement target of minimum 25 per cent from micro and small enterprises of their total annual purchases. Further, within this 25%, a sub-target of 4% is earmarked for SC/ST entrepreneurs and 3% for MSMEs owned by women, in order to bridge the societal inequalities. In her Budget 2020 speech, Finance Minister had proposed increasing the turnover of the GeM portal to Rs 3 lakh crore. The portal had also partnered with Trade Receivables Discounting System (TReDS) platform operator Receivables Exchange of India Ltd to help government departments to finance their payments to MSME sellers of goods and services.

Most recently, on 24th June, MSME Minister, rolled out the subordinate debt scheme promised under the Atmanirbhar Bharat reforms, to provide INR 20,000 Crore guarantee cover to 2 Lakh MSMEs. This also entails a sub-debt facility to promoters of those operational MSMEs that are distressed or have become NPAs as on 30th April, 2020. It also guarantees covers to the promoters who can take loans from banks and further infuse it as equity in their MSME. Under the scheme, promoters of the MSMEs will be given credit equal to 15% of their stake (equity + debt) or INR 75 lakh, whichever is lower. In turn, promoters are liable to infuse this amount into the MSME unit as equity. This is expected to enhance the liquidity and maintain debt-equity ratio. In this sub-debt scheme, 90% of the cover will be given while the rest 10% falls on promoters concerned. The payment of the principal amount will be under moratorium for seven years. Maximum tenure for repayment will be 10 years. This is expected to ease out the liquidity crunch faced by MSMEs.

## Impact on MSMEs – Crisis and Course Correction

The Indian economy was already suffering from slow growth prior to the pandemic and the Covid-19 has worsened the economic prospects to an unanticipated level. As per CRISIL, the Indian Economy will contract by 5% this fiscal and the MSMEs will be hit the hardest due to the Covid-19 induced lockdown. It is important to understand the MSMEs role in a global context, since the sector is heavily export oriented and plays a significant role across nations.

As per International Trade Centre Report titled, "SME Outlook" issued in June 2020, it is observed that there is no one-size-fits-all solution and small business travel through four phases as they travel through Covid-19 crisis:

- Shutdown Impacts
- Supply Chain
- Demand Depression – business investment may remain low and households may cut down on discretionary spends, SME bankruptcy might be on rise
- Recovery – The new normal will make recovery challenging

The accommodation and food services, followed by non-food manufacturing, retail & wholesale, and travel and transport were the most impacted and there are mostly

SMEs. One Fifth of surveyed SMEs reported that they risk shutting down permanently within 3 months and highlighted need for rapid government action. Informal firms are 20% more likely to report that the pandemic is pushing them towards bankruptcy.

As per the report, given the difficulty of identifying and reaching businesses in the informal sector, the most popular way to support SMEs during the pandemic has been through cash transfers to their employees. India's state of Uttar Pradesh has transferred INR 1,000 to 2.3 million people who have participated in the National Rural Employment Guarantee Scheme.

The Report suggests that four long-term trends will characterize the 'new normal' and as MSME play a major role in most economies, they are required to be involved in these four trends:

1. **Resilience:** This can strengthen the ability of the firms to ride out of crises and can be achieved through diversification, for production or sales, retention of profits, connecting to business support organizations and building collaborative platforms, and even public policy to encourage partnerships and research.
2. **Digital:** In the near future, digital facilities will no longer be optional. Customers, clients, business partners and workers will come to expect them as a matter of course. Cash payments and paper-based documents will be substituted with digital payments and cloud computing.
3. **Inclusive:** Making economies more inclusive starts with decent jobs and social protection for all. SME plays a significant role in job creation and without a strong SME sector, it will be impossible to achieve Sustainable Development Goals.
4. **Sustainable:** Climate change risk was rated as top global business risk in a 2019 survey of insurance industry experts and hence environment friendly development is the need of the hour.

As per a recent CRISIL Report titled "The epicentre of an existential crisis", MSME sectors revenue growth will plunge into deep red this fiscal because of the Covid-19 pandemic. The fall in revenue for MSMEs has been estimated at 17-21%, while the EBITDA margin may shrink by 200-300 basis points to 4-5%. Demand destruction caused by Covid-19 has far outweighed the benefits of weak commodity prices. As per the Report, the impact on operations due to Covid-19 induced lockdown will additionally impact the creditworthiness and worsen the already existing liquidity crunch for MSMEs. The average interest coverage ratio could deteriorate to 1-1.15 times from the 2.4 level witnessed between fiscal 2017 and 2020. This is post factoring of the moratorium benefit provided by RBI, absence of which could have driven the ratio below 1. Micro Enterprises, which account for 32% of MSME debt are fronted with the maximum complications in view of stretched balance sheet and liquidity issue, particularly working capital.

The Report also observes the following sector specific challenges:

i. Small real estate contractors, ceramics and textile makers are the ones having most vulnerable credit profile.

ii. Revenue growth of MSMEs in the real estate EPC segment could almost halve with sliding demand, rising cost, labour disruptions and margin pressure.

iii. Lower utilisation and partial absorption of BS-VI price hike may erode margins of auto component MSMEs.

iv. Working capital is highest for MSME sectors that have higher B2B clientele or dominant export share such as gems & jewellery, ready-made garments and real estate contractors.

v. In upstream sectors like construction, auto component and textiles, inventory build-up and stretched receivables have triggered working capital requirement and rebound is not expected before 2022. Construction units have seen an 80-85% drop in enquiries.

vi. In downstream sector, in FMCG, initial benefit was visible by reason of panic buying, however, majority distributors reported 5-10% dip in sales in May due to product and manpower availability. Auto Distributors have reported near zero sales in April and seen more than 50% dip in enquiries in May, signalling a slow recovery.

vii. About 70% of 40,000 companies have cash to cover employee cost for only 2 quarters.

Further, growth in NBFC credit to MSMEs has been tepid although MSME constitutes 14% in the overall credit book. Lack of credit growth is mainly attributable to lack of demand for new capex funding, low recovery sentiments in unorganized sectors, lack of client connect owing to lockdown, lack of demand or revenue growth visibility and severely impacted cash flow of MSMEs.

It is understood that out of the INR 3 Lakh Crore emergency credit guarantee line scheme of the Government to MSME under the May 13 reforms, only INR 32,000 Crore has been sanctioned by Public Sector Banks. To address this, leading public sector banks are appointing zonal officers to establish direct contact with MSMEs and to improve its market share with MSMEs which is currently controlled 30-35% by NBFC and MFIs.

A recent survey of over 46,000 MSMEs published by All India Manufacturers Organisation ("AIMO") found that 1 out of 3 MSME considers its enterprise beyond recovery whereas a further 32 percent expect recovery to take at least six months. This will impact the lives and livelihoods of crores of workers and their families.

A joint study report by CEEW & NIPFP, titled "Jobs, Growth and Sustainability", has identified following broad parameters in relation to MSMEs:

i. The Government had announced INR 3 Lakh Crore collateral free loan facility for MSMEs, however, only a fraction of MSMEs are connected to any banking channel/ NBFC/MFI. It is suggested that an accurate, scalable and real time information system is built to identify and serve genuine beneficiaries of government schemes and aid.

ii. MSME information is currently scattered across datasets as Udhyog Aadhar Memorandum, MSME databank and the GST Network. These are either self-certified data or a mandatory requirement based on a turnover threshold and hence not reliable.

iii. A fresh MSME census should be carried out and Unique Business Identity number should be allotted.

iv. It is recommended that MSME Ministry prepares a vulnerability assessment framework based on economic importance and business risk dimension, to efficiently target support measures.

v. Enterprises in critical supply chains and markets, specially export oriented need special attention. MSME sector is India's largest employer after agriculture. The viability of MSMEs decide the livelihood of 12 Crores workers and targeted interventions will preserve these workers and create new opportunities.

vi. Textiles, the largest commodity in India's merchandise export basket, is predominantly manufactured by MSMEs. This sector contributed 12.2 per cent of total exports in 2018-19 and is crucial for India's forex earnings. Ensuring the vast and rapidly growing MSME sector's revival after the lockdown will prevent a structural collapse of the economy and set India back on its growth path.

vii. As of April, 2020, an estimated amount of INR 10,582 Crores were owed by Central and State Government Departments and PSE's to MSMEs, and 40,000 delayed payment application filed by MSMEs in SAMADHAAN portal since 2017. These delays pose a huge challenge for MSMEs, which are already constrained by high fixed cost and disruption of revenue streams due to Covid-19. In a major relief, Finance Minister announced the clearing of all MSME dues from Government and PSE within 45 days.

viii. In order to improve credit worthiness of MSMEs, the Government should mandate the lenders to introduce a mechanism to track fund utilisation and financial health of the borrowers on monthly basis and intervene at the sign of first distress.

## Conclusion - Way Forward and Role of Professionals

Even in adversities, we can find opportunities. And Covid-19 has come as the biggest adversity which most of us would have faced in our lifetime. It has worked as a wake up call for all of us from slumbers, and made us realise that nothing in certain, whether in life or in business. It has definitely made us realise, how important it is, to have a backup plan to fall back on. Those, who build up resilience and invest in diversification, will fare out much better than those who do not. Businesses have to rethink and reboot on their strategy, and change their risk perception and revise their profitability projections.

Diversification of MSMEs into defensive sector like FMCG, pharmaceuticals, food products, hospitals, telecom etc. will make their credit profile less vulnerable and secure their revenue streams. A departure or change in portfolio of verticals may be required if the MSMEs are engaged in automobiles, construction, gems& jewellery, hospitality, textiles etc as recovery is not expected anytime soon.

Also, MSMEs should leverage technology and be tech-friendly in order to capitalise on upcoming opportunities. Collaboration with business support organizations will help MSMEs access required ecology support and even enable their entry into sectors based on Artificial Intelligence, Robotics, Commercial Drones etc.

It is essential to analyse and evaluate the ground realities, including supply and demand bottlenecks, higher fixed cost, industry sentiments and labour issues, before entering into any business ventures.

The sheer statistics with regard to quantum of MSMEs, and their contribution to our GDP, exports and employment, highlight their indispensable role as a catalyst to reset the path to economic recovery from this crisis and enable future economic growth.

The professionals, like Chartered Accountants, are well equipped to understand the regulatory and banking framework and have been engaged at ground level with entrepreneurs and start-ups and assisting them in their growth stories. They can play an enabling role by handholding the stressed MSME sector and assisting them in availing the benefits under the announced reforms and further help them optimise their business operation by cutting cost, introducing process improvements and even by facilitating restructuring of debt with the banks. The professionals can provide required expertise to the MSMEs in dealing with the regulators and financial institutions and help MSMEs optimise their working capital cycle by renegotiating credit terms and faster debtor recovery.

The importance of the role played and to be played by MSMEs cannot be stressed enough. They are the backbone of our economy and their fate will decide the fate of millions of our citizens and the dependent families. The UN General Assembly in its 74th Plenary had declared 27$^{th}$ June as Micro, Small and Medium-sized Enterprises Day, recognising the importance of Micro, Small and Medium-sized Enterprises in achieving sustainable development goals and in promoting innovation, creativity and sustainable work for all. As we celebrated the International MSME day, we hope that the MSMEs across the globe, receive the required support and infrastructure to truly achieve their potential as the catalyst to the global growth. ■■■

# Responsibilities of Auditors in Changing Scenario

*ICAI has issued various Auditing standards and Guidance notes relating to Internal control system, Reporting on frauds, Risk assessment , External confirmations, Related party transactions etc. Besides, in the companies act 2013, various reporting requirements through CARO 2020 have been introduced regarding end use of Funds, Diversion of funds, Related party transactions and Loans& Investment in subsidiaries, joint ventures and Associates, etc. An attempt has been made in this Article to consolidate/ summarize the desired Auditing practices to be adopted by the Auditors considering the guidelines/regulations prescribed in Auditing standards / Guidance notes issued by ICAI and COMPANIES ACT 2013 so that the Expectation of society/Regulatory authorities may be fulfilled. Read on...*

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During recent times many corporates including NBFC'S Frauds have taken place, which have awakened a need for introspection among professional fraternity to review the Audit strategies and practices. Reserve Bank of India has recently reported that number of frauds have increased from 2251 cases in 2014-15 amounting Rs.17122 crores. to 3606 cases amounting Rs.64548 cr. in 2018-19 and 2438 cases amounting to Rs.110419 crores in H1 financial year 2020. RBI has advised lenders to decide whether loan accounts that have been red flagged as suspicious six months ago are fraudulent or not. Since, it is being alleged by the Regulators that more professional skepticism needs to be adopted by the Auditors as well as adoption of Standards on Auditing in its true spirit. The risk factors and deficiency in the internal control system as reported has revealed following:

i. No proper due diligence was exercised while granting loans and advances by the NBFCs.

ii. End use of the funds was not ensured and funds were diverted to Group companies.

iii. Short term borrowings were utilized for long gestation

projects through Group companies which resulted in default of repayment to the lenders and bondholders, etc.

iv. Terms & conditions of loans including interest rates on loans were found prejudicial to the interest of the company.

v. Ever greening of loans had taken place i.e. additional credit facilities have been granted to the defaulting borrowers to adjust their overdue outstanding so that classification of loans as non -performing assets may be avoided. This has also resulted in overstating of profit through generation of fresh interest income.

vi. Fresh loans were given to the companies where account was written off in the books of NBFCs.

vii. Loans were given to Promoter related entities without proper due diligence. For instance, net worth of the Borrowing entity was not sufficient and full loan was disbursed without monitoring the physical progress as suggested by National Housing Bank.

viii. Sales were inflated by raising fictitious invoices resulting into overstating of profit and consequential increase in share prices of the companies.

ix. Debtors and Bank deposits were overstated through deficiency in the internal control system.

x. Payments against service contracts were released without taking into account the physical progress of the work / completion of services.

## Auditing Strategies

Considering above and expectations of various regulatory authorities including MCA, SEBI, RBI and NFRA, now there is a need to exercise more professional skepticism while conducting the audit and adopt the auditing strategies religiously and in true spirit as prescribed in various Standards on Auditing (SAs) particularly following standards and Guidance Notes:

**SA 240- *The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements***

As per this standard, An Auditor is responsible for obtaining reasonable assurance that financial statements taken as a whole are free from material misstatement whether caused by fraud or error. To ensure it, Auditor has to maintain Professional skepticism i.e. questioning mind throughout the audit. Auditor also needs to perform necessary procedures e.g. risk assessment procedures which include inquiries of the management, evaluation of fraud risk factors, evaluation of audit evidence, obtaining management representations, communication to Management and with those charged with the governance and communication to enforcement and regulatory authorities.

**SA 315- *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment***

As per this Standard, Auditor has to assess the risk of material misstatement, whether ,due to fraud or error in the financial statements/ assertions(representations by the management as included in the financial statements). For that purpose ,Auditor has to study the nature of industry to which entity pertains, the nature of entity and its operations, its regulatory environment to which it is exposed and its internal control which will help the auditor in adopting appropriate auditing strategies to reduce the risk level of material misstatement. To achieve this objective, auditor has to enquire appropriate officials including internal audit team, adopt analytical procedures like Ratio/trend analysis and conduct observation and inspections like comparison of Budgets with Actuals, review of minutes of Audit committee and Board of directors and review of internal control/ audit manual etc. Auditor has to examine controls embedded in the IT system, authorization for changes in programs/ data files and overriding of Edit checks etc. Auditor has also to review manual control system like delegation of powers for granting various financial sanctions, rotations of job, segregation of duties, preparation of bank and other reconciliations and generation of various MIS reports etc. For example, in Banks, integration of SWIFT with CBS to be examined so that all Letters of credit/guarantees issued may be recorded, similarly generation of various exception reports in the banks also to be reviewed by the auditor. Selection of accounting policies should be in consistent with the relevant accounting standard/accounting practices adopted in industry so that Revenue and other transactions may be properly recognised, measured, classified and disclosed.

**SA 450- *Evaluation of Misstatements identified during the audit***

As per this Standards, Auditor has to evaluate the impact of identified accumulated material misstatements on the financial statements. Misstatements may pertain to classification, presentation and disclosure of a reported financial item. Auditor has to evaluate the misstatements considering the aspect of materiality determined as per SA 320.He has to convey the same along with its impact on financial statements to those charged with the governance and request them to correct it. If not corrected , the impact of uncorrected misstatements ,which are material individually or in aggregate, the impact of same on auditors opinion may be communicated to those charged with governance and if, necessary, a written representation may be obtained from them regarding not treating the misstatements to be material.After receipt of representation, auditor has to exercise his professional judgement for inclusion of uncorrected misstatements in the audit report suitably.

**SA 550- *Related Parties***

As per this standard, Auditor has to understand related party relationships and transactions to recognise fraud risk factors if any, arising out of those relationships and transactions so that identification and assessment of risk of material misstatement due to fraud may be made. Auditor has to obtain sufficient appropriate audit evidence about identification of related party relationships and transactions, their proper accounting and disclosures in the financial statements in accordance with the applicable financial reporting framework.

***Guidance Note on Audit of Internal Financial Controls over Financial Reporting***

Companies Act 2013 requires the Auditor to report on adequacy of internal financial controls with reference to financial statements of the company and the operating effectiveness of such controls. To ensure that, auditor has to understand flow of transactions, risk of material misstatements, identification of applications and associated IT environment, design and implementation of controls and assess audit impact/plan operative effectiveness testing. For detailed guidance on this aspect, reference may be made to the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by ICAI.

**SA 505- *External Confirmations***

As per this standard, direct confirmations are obtained from third parties regarding account balances, other elements and terms of contracts etc.

***Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013***

Detailed reporting requirement under companies act has been given in the guidance note during audit/attest functions by the auditor if, he has reason to believe in performance of duties that an offence of fraud involving individually an amount of Rs. one crore or above has been/is being committed against the company by the officers/employees, auditor shall report the matter to the Central Government.

**Besides above, auditors have to pay special attention to the following areas of an organisation:**

a) Verification of sales with GST returns and GSTR 9c and scrutinize unbilled Revenue. Review of IT system for ensuring that Raising of invoices are linked with delivery of goods / E –way bills etc. and sales are recognized as per principles envisaged in AS9.ie Revenue recognition / IND AS 115 i.e. Revenue from Customer.

b) Minutes of Audit Committee , Board Meetings and shareholders meetings to ascertain approval/Arms -length of related party transactions , show cause notices issued by Regulatory /Tax authorities, if any and other important matters relating to Misstatements/ frauds in the financial statements, if any.

c) Risk assessment of the Organization particularly information Technology system including segregation of duties ,sharing of passwords, concept of maker, checker and approver etc. and delegation of power issued by the Board of Directors.

d) Whistle blower policy of the company and detail of complaints if any, after going through the minutes of Audit committee and Board of Directors.

e) Vigilance department /C&AG observations on propriety cum efficiency audit in case of public sector undertakings.

f) Contingent liabilities with reference to demands raised by Tax authorities, letter of credits /counter guarantees issued to Bankers / financial institutions so that cases of Tax evasion, issue of in-genuine Letter of credits and Guarantees including its development/ involvement may be ascertained.

g) Review of reports of RBI, Internal inspection audits and concurrent audits in case of Banks/NBFCs so that fraudulent/suspicious transactions may be ascertained. RBI has issued master directions no. RBI/ DBS/2016-17/28 dated 1st July 2016(updated as on 3rd July 2017) on Frauds-classification and reporting by commercial banks and select FIs. Few early warning signals highlighted in the master directions are given below:

- Critical issues highlighted in stock audit report
- Liabilities appearing in ROC search report, not reported by borrower in the Annual report
- Floating front/associate companies by investing borrowed money
- Not routing of sales proceeds through consortium /member bank/lenders to the company
- Heavy cash withdrawal in Loan accounts.
- Review of Internal audit and forensic audit reports, if any, to ascertain the risk factors, weakness in internal control system and material misstatement in the financial statements.
- Compliance of sections 179,180,185,186 and 187 of the Companies Act 2013 relating to Powers of Board, Restrictions on loans & advances to Directors and companies/firms in which Directors are interested as well as relating to investment of funds which is presently limited to 60% of paid-up capital, free reserves and securities premium account or 100% of free reserves and securities premium account whichever is higher except with prior approval of General body meeting by way of special resolution.
- Accounting and Auditing manual prepared by the organization which contains detailed guidelines relating to internal control system and recording of transactions.

## Regulatory Provisions

Salient regulatory provisions under Companies Act, 2013 related to responsibilities of an auditor for inquiring /reporting on utilisation of funds/review of internal control system/ misstatements in the financial statements are briefly discussed below:

**Section 143(1)(a)** mentions "whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members" i.e. proper security covering loan amount has been obtained and rate of interest is in conformity with the prevailing market rates (not less than prevailing yield on Govt. securities).

**Section 143(1)(b)** mentions "whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company" (same refers to transactions like in the nature of circular trading which implies that multiple transactions have taken place among various entities without physical movement of goods and raising fabricated invoices. This may also result into fraudulent claim of input tax credit under GST law).

**Section 143(3)(i)** requires Auditor to report whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.

**As per Section 143(12) read with Rule 13 of Companies (Audit and Auditors Rules, 2014),** if the Auditor of a company in the course of performance of his duties as statutory auditor, has reason to believe that an offence of fraud which involves or is expected to involve individually an amount of Rs. one crore or above, is being or has been committed against the company by its officers or employees, the Auditor shall report the matter to the Central Government.

Provided that in case of fraud involving lesser than the specified amount, the auditor shall report the matter to the Audit committee constituted under section 177 or to the Board in other cases within such time and such manner as may be prescribed and in such cases companies shall also disclose the details of such frauds in the Board report.

Besides above, CARO 2020 has also inserted various reporting requirements by the auditors considering the issues of diversion/end use/siphoning of funds, which are briefly described below:

- *Agreement of quarterly returns/statements filed by the company with the banks/financial institutions with the books of Account, in case sanction of working capital limits more than Rs. 5 crore during the year on basis of security of current assets:* Auditor has to ensure that stock / book debt statements are in conformity with books of account/ stock records of the company.
- *Whether the investments made, guarantees provided, security given and the terms and conditions of grant of loans and advances in nature of loans and guarantees provided are not prejudicial to the interest of the company:* Auditor has to examine sources of funds of the company for such investment, rate of interest as per prevailing market rate, repayment period and other covenants of the loan. Financial standing and credit rating of the investee company needs to be examined.
- *Whether schedule of repayment of principal and payment of interest in respect of loans & advances in the nature of loans has been stipulated and whether the same are regular:* Auditor has to examine loan agreements and whether repayments including interest as per stipulations are regular or not.
- *Whether reasonable steps have been taken in respect of recovery of principal and interest in respect of overdue amount more than ninety days.*
- *Reporting in case of loans or advances in the nature of loan which has fallen due during the year and has been renewed or extended or fresh loan granted to settle the overdues of existing loans given to the same parties:* Auditor has to examine the terms of renewal/ extension and granting of fresh loan to settle the old loan considering the Ever greening aspect as mentioned in the preceding paragraphs.

- *Reporting the aggregate amount of loans granted to promoters under section 2(69), related parties as defined in section 2(76) of companies act 2013 in case of loans either payable on demand or without specifying the terms or repayment period:* Auditor has to examine above aspect considering the loan agreements and requirements of SA 550, Related Parties and report accordingly.
- *Compliance of Section 185 and section 186 of Companies Act 2013 relating to Loans, Investments, Guarantees and security to Directors etc. and other Body corporate:* Section 185 relates to restrictions on loans and providing guarantees/security to directors of the company / its holding company, their relatives , partners and the firm in which director and relatives are partner. However, for granting such loans and provision for security/ guarantee to the private companies/ body corporate (excluding wholly owned subsidiaries) in which directors are interested, approval of General meeting by way of special resolution is required. Section 186 relates to restriction on inter-company loans/ investments for which threshold limit is defined as mentioned in preceding paragraphs, rate of interest to be levied not less than applicable rate on government securities as per applicable tenor and prior approval of public financial institutions are to be obtained in case where any term loan is subsisting.

- *Reporting about period and amount of default in repayment of loans or other borrowings or in the payment of interest to the lender*: Auditor has to obtain schedule of repayments including interest and ascertain default position, if any, for reporting.
- *Whether the company has been declared willful defaulter by any Bank or financial institution or other lender:* RBI vide master circular no RBI/2014-15/73 dated July 1st 2014 has defined willful defaulter as those borrower who have defaulted in repayment obligations inspite of having capacity to honour the said obligations/diverted the funds for other purposes/ disposed off the property without knowledge of the lender. The list of willful defaulter may be ascertained from the credit information companies like CIBIL, EQUIFAX etc. who are registered with RBI.
- *Reporting about end use of the term loans and its diversion, if any:* Auditor has to examine specific end use of the fund borrowed or its diversion as defined in RBI master direction dated 1st July 2014 as mentioned above which includes diversion of funds to group companies/routing of funds through other bank other than lender/ consortium banks/ utilising short term fund for long term purposes etc.
- *Reporting of utilisation of funds raised on short term basis for long term purposes:* Auditor has to review sources and Application of funds and current ratio to examine and report above aspect.
- *In case of funds raised by company from any entity or person on account or to meet the obligations of its subsidiaries, joint ventures or associates, then reporting about details of such transactions:* Auditor has to examine above aspect by obtaining a list of subsidiaries, associates and joint venture companies, schedule of borrowings and review the cash flows of the company to ascertain the utilization of borrowed funds for group companies. Confirmations from the auditors of group companies as per SA 600, Using the Work of another

auditor to be taken and disclosures required by SA 550 and AS 18 /Ind AS 24 to be checked.

- *Reporting about loans raised during the year along with default, if any, on the pledge of securities held in its subsidiaries, joint ventures or associates companies:* Auditor has to obtain schedule of loans raised during the year against the pledge of securities of subsidiaries, joint ventures and associate companies, examine the loan agreements and details of charges/modifications filed with the ROC and report the defaults taken place, if any, as per terms of the agreement.

- *Reporting about nature and amount of any fraud by the company or any fraud on the company noticed or reported during the year:* Auditor has to review internal audit reports, minutes of meetings of audit committee and Board, show-cause notices issued by regulatory authorities, etc. to ascertain the details of fraud by/ on the company and also obtain management representations for disclosure of all frauds.

- *Whether the auditor has considered whistle blower complaints if any, received during the year by the company:* As per section 177(9) of the Companies Act, 2013, following class of companies are required to establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances:

  a) Every listed company

  b) Companies which accept deposit from the public

  c) Companies which have borrowed money from banks and public financial institutions in excess of Rs. fifty crore

- Auditor should examine establishment of above system, obtain management representations for completeness of complaints and enquire about their investigations and findings.

- *Compliance of Sections 177 and 188 of the companies act 2013 for related parties transactions and disclosure thereof in the financial statements as per applicable accounting standards:* Auditor has to examine minutes of meetings of Shareholders and Board of directors /Audit committee for approval of related party transactions considering its Arm's-Length position particularly those outside ordinary business transactions like services rendered to sister concerns without considerations, Major sales discounts and circular transactions etc. Compliance of SA 550 and AS 18/Ind AS 24 to be also checked.

- *Reporting on recording of transactions surrendered/ disclosed as income during the year in the tax assessment under Income tax act 1961 which was not accounted for earlier:* Auditor has to assess whether company had intentionally not accounted for that income in previous years which may be an indication of fraudulent financial reporting.

## Conclusion

In nut shell, emphasis has been laid down on reporting requirements by the auditor on the End use of the fund raised, diversion of funds raised for short term purpose to the projects having long gestation periods, siphoning of funds through shell companies, examining related party transactions for its Arm's-length nature etc. Any non-compliance by the companies in utilization of funds as mentioned above have resulted in default in repayment of borrowings taken from Banks/ financial institutions/public and non-reporting of above compliances may shake the trust imposed in the auditors by the society and Regulatory authorities. Auditors therefore, have to exercise proper due diligence in auditing the financial transactions as mentioned above following the guidelines and principles prescribed in the Standards on Auditing and Guidance Notes issued by ICAI and directives issued by various regulatory authorities like RBI, MCA, SEBI and NFRA. ■■■

# Building Internal Audit Credibility

***Credibility has been an important aspect of life. It touches every part of our daily living. Whether human or organisations, everyone loves to deal with another human or organisations which are credible. It gives peace of mind and satisfaction. People and organisations are willing to make concessions and go step forward beyond required, when dealing with another person or organisations with well-established credibility. Internal Audit credibility has similar significance. Every interaction Internal Audit has within organisations, leads to some formation of perceptions towards its credibility. Internal Audit needs to manage and build credibility, if it intends to excel. Read on…***

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The origin of word credibility can be traced back to Latin word credibilis and Medieval Latin credibilitas in mid-16th century. As per Oxford dictionary meaning of the word credibility is the quality of being trusted and believed in. Merriam-Webster, whereas, explains credibility as quality or power of inspiring belief. The main components of credibility are trust and belief.

Credibility has been an important aspect of life. It touches every part of our daily living. Whether humans or organisations, everyone loves to deal with credible human or organisations. People and organisations are willing to make concessions and go step forward beyond required, when dealing with another person or organisations with well-established credibility.

Internal audit derives much of its force and credence from being internal assurance function as a part of legal requirements. However, this force and credence does not lead to actual acceptance in the organisations and building of credibility in the eyes of various stakeholders. Building credibility requires working on multitude of factors.

As the internal audit function evolves, the mix of skills, knowledge and attributes that determine professional success transform. Technical skills remain absolutely necessary but is not the only trait that is required. The

most effective Internal Auditor should have a broad range of non-technical attributes (such as credibility, integrity, soft and interpersonal skills, relationship building etc.) in addition to deep technical expertise.

Credibility can be viewed at three levels as given below:

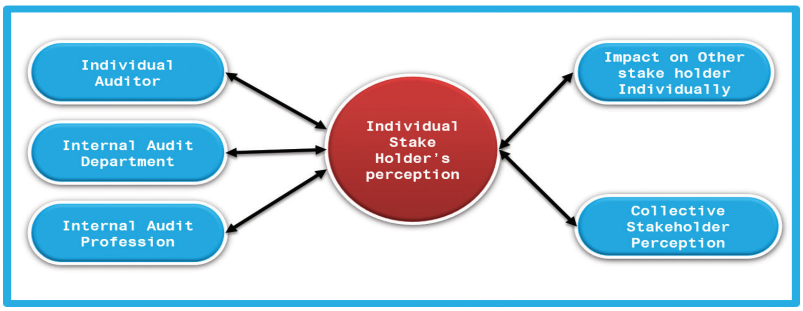
1. Individual level,
2. Collective or group level and
3. Profession as a whole.

If correlated with Internal Audit – Credibility can be taken at individual auditor level, how credible he is being perceived within organisation. Second level could be, how credible department is being perceived within organisation. Third can be taken as the Internal Audit profession as a whole. Deliberation on third level is beyond the scope of this article, as it requires participation from Institute of Chartered Accountants of India and Government. It includes host of interventions as setting standards, formulating laws and regulations bringing minimum expected standards and compliances. Our Institute has already come up with various standards on Internal Audit and tirelessly working towards upliftment of the internal audit profession.

One thing is clear, credibility is perceptual and might differ from person to person. Similarly, different stake holder's might have different opinion about how credible auditor or internal audit department is. This difference arises due to different interpretations of interactions and touch points. For Internal Audit at organisational level, following can be identified as the main/ direct stakeholders:

1. Internal auditors
2. Organisational Employees
3. Functional Heads
4. Senior leadership
5. Audit Committee
6. Board of Directors
7. Statutory Auditors etc.


As stated earlier, credibility can be at three levels. But it is perceived and retained at the individual level, which has an impact on collective formation of the perception. Working of the perceptions are given in the figure below:

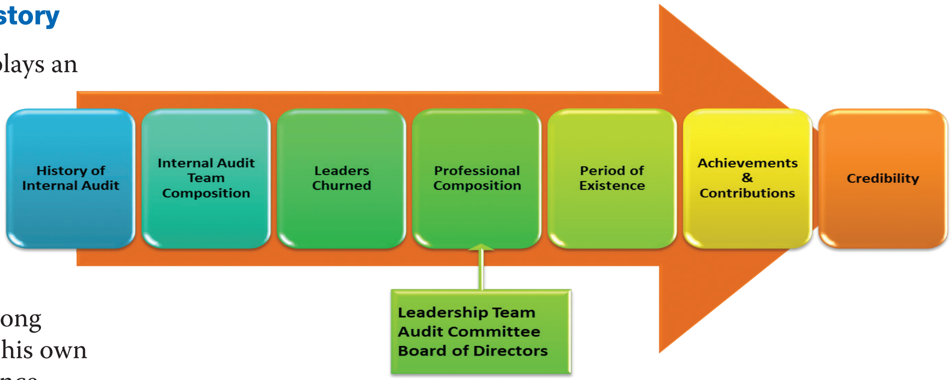



Whenever individual auditor interacts with any of the stakeholders, it leads to some impact on the stakeholder. This impact may be negative or positive. These interactions build or destroy individual credibility of the Internal Auditor. Multiple interactions of different Internal Auditors with stakeholders leads to the formation of Internal Audit department credibility in the eyes of a particular stakeholder. This formation of image can get a boost or can get hampered, when stakeholders interact with each other and share insights about individual auditor or department as a whole. This leads to formation of collective credibility in the eyes of organisation.

Internal Audit Leadership interactions also play important role in every aspect building perception for Internal Audit Department. Reputation of the department may get affected depending upon the leadership, ethics, commitment and consistency displayed by the Chief Internal Auditor and second in lead. Morale of team and its interaction with others is also greatly impacted by the leadership team.

Interactions which lead to formation of perception between internal auditor and stakeholders can be both formal and informal one. Similarly, interactions between various stakeholders can be at formal and informal levels. These perceptions can be far from objective reality. Number of factors may affect these perceptual interpretations. Following can have an impact on perceptual context, which in turn have bearing on the credibility:

## 1. Internal Audit History




Internal Audit history plays an important role in the establishment of perceptual context for the credibility within the organisations. If internal audit has been life blood of the organisation for long time and has history of his own existence besides existence of the organisation, then it might have extra hold in terms of organisation's working, culture and heritage along with repository of what it has achieved along the way. Its common knowledge, you can't just bank upon laurels of your predecessors, department needs to prove it's worth along the way.

## 2. Internal Audit Team composition

History of how well a team is constituted, can also contribute to the credibility of the Internal Audit Department. Balanced composition of technical and professional experts can lend the required punch while carrying out assurance and advisory reviews. By having team composition and expertise, keeping in view nature and scope of organisation's business, can contribute towards enhancement of organisational efforts in good governance and lending credibility to the departmental efforts.

> "Internal Audit Leadership interactions also play important role in every aspect building perception for Internal Audit Department. Reputation of the department may get affected depending upon the leadership, ethics, commitment and consistency displayed by the Chief Internal Auditor and second in lead.

## 3. Leaders Churned Out

In an organisation, if few prominent leaders are from Internal Audit department over a period of time, it will increase visibility and organisational understanding of its working. It sends right signals of equal importance tended to Internal Audit. As a matter of fact, Internal Audit should be given same preference as others, while deciding about succession planning of critical positions in organisational hierarchy. For this to happen, organisation and Internal Audit needs to imbibe right culture, which gives equal opportunities to everyone in the organisation. Usually few departments, depending upon organisations emphases, get undue advantage in career progression over others. It happens due to visibility accorded to them throughout the organisation and opportunities of the exposure they have.

## 4. Professional composition of leadership, Audit committee and Board etc

In general, organisations which have balanced composition of professional representations in leadership, audit committee and Board are able to take care of all organisational aspects comparatively better. They tend to give relatively more importance to Corporate Governance and Internal Audit. This situation lends more ear and better credibility to the voice of Internal Audit.

## 5. Period of existence

In nascent stages of internal audit department setup, no one might be aware of working or utility of the department except for those taking decisions for setting up of the department. But over a period, Internal Audit might be able to build credibility by proving itself relevant to the organisation.

## 6. Major historical achievements and contributions to the organisations

Whatever said and done, major achievements and contributions which Internal Audit can exhibit to the organisation, is what creates real credibility. These contributions and achievements arise both through assurance and advisory assignments. These contributions could be interms of strengthening control environments, product, process and technology improvement, bringing realignments in organisational structure etc. These contributions are possible only if there is a balanced blend of technical experts and professionals of different fields in Internal Audit.

Few of above stepping/ corner stones might not be in the control of Internal Auditor or Internal Audit leadership when thinking to established or enhance credibility of the internal audit within organisation. Following are the steps which can be helpful in enhancing or establishing credibility:

**a) Reality Check- Coming Out of Dilutions:**

First and foremost, step towards building credibility of Internal Audit department within the organisation, is recognition of the fact that Internal department is dwindling, not heard and losing its credibility with stakeholders. Number of factors may point out such situations about loss of credibility:

i) Positioning of Internal Audit Head within the organisation,

ii) Lack of allocations of adequate resources,

iii) Low morale of the internal audit team,

iv) Difficulty in getting data and information,

v) Low quality Internal Audit outputs,

vi) Unresolved Internal Audit issues or delay in resolutions/ responses/justifications,

vii) Inadequate access rights within ERP system,

viii) Non-acceptance of justifiable audit point,

ix) Lack of seat on the business table,

x) Delay in completion of assignments,

xi) Audit and auditor avoidance,

xii) Inadequate or insufficient time or hearing during audit committee meetings,

xiii) Lack of support from Audit committee and Board,

xiv) Lack of cohesiveness and insights in Internal Audit Team,

xv) People trying to move out of Internal Audit,

xvi) Inadequate and malicious reporting structures with in Internal Audit,

xvii) Inadequate engagements of auditors / low utilization rate,

xviii) Lack of auditors mingling / relationship with stakeholders,

xix) Non-invitation or participation in business initiatives by Internal Audit or vice-versa not from conflict of responsibility point of view, etc.

Based on above factors, an evaluation scale can be devised for taking stock of present situations. Otherwise also, from interactions, informed judgements can be made about existing conditions. Accurate and frank appreciations of current conditions will go to help in long way for identification of lacunae and plugging of the same to build reputation and credibility.

**b) Adherence to Ethics**

In any profession, reputations are built on continuous and unwavering adherence to the ethics. Ethical conduct leads to building of faith and trust. Internal Audit is also not an exception. Demonstrating and standing up for the values go in a long way to build credibility for the internal audit department. It is not only an individual internal auditor's responsibility, but collective accountability within Internal Audit department to ensure that ethical behaviour is observed by one and all. Other members of the organisation might not point out but keep an eye that internal auditor and chief audit executive live up to ethical behavior. Every member of the internal audit team should understand that maximum respect is earned by adhering to ethical and unbiased behaviour.

**c) Auditor Job satisfaction:**

Job satisfaction has multitude of factors involved with it, besides the monetary aspect. These factors include

i) Opportunities for career progression,

ii) Opportunities to demonstrate knowledge and skills,

iii) Freedom to express views without retributions,

iv) Opportunities for personal and professional development,

v) Mentoring and guidance,

vi) Acceptance and acknowledgements for the contributions,

vii) Independence to work,

> In any profession, reputations are built on continuous and unwavering adherence to the ethics. Ethical conduct leads to building of faith and trust. Internal Audit is also not an exception. Demonstrating and standing up for the values go in a long way to build credibility for the internal audit department.

viii) Adequate monetary compensations,

ix) Job Stability,

x) Cohesive team environment, etc

Dissatisfactions churn below average performance along with employee turnover. Continuity and stability are key factors contributing towards performance. Internal auditor's job satisfaction too is governed by the above-mentioned factors. Organisation and leaders responsible for deciding Internal Audit destiny, needs to build conducive working environment for auditor's job satisfaction. With existence of these essential parameters, optimum performance can be expected from the auditors. Optimum performance will lead to building of the credibility in the organisation.

**d) Internal audit's Organisational structure:**

Importance of reporting structure within Internal Audit and its alignment across organisation can't be neglected. Getting an optimum return from Internal Audit efforts, its structure should be built on factors which take care of organisation needs and environment along with internal skills and capabilities rather than haphazard structuring on the whims and fancies of those at helm of the affairs. It should also consider vertical and horizonal diversification of the organisation along with its geographical spread and internal audit skill-set that the organisation wants to develop. If internal audit department is carefully structured keeping in view various factors, it will go a long way in streamlining efforts and building credibility among stakeholders.

**e) Competency and quality of auditors:**

No credibility is possible to build unless and until, Internal auditors are knowledgeable, skilled and competent keeping in view organisation's area of operations and requirements. Building knowledge, skill and competency is thought provoking and long drawn process. Routine training relating to internal audit and related seminars might help to develop understanding about internal audit. To develop deep understanding about business and various functions, specialized training and courses are required to give a different perspective to the auditor aside from regular training. These training and courses will help auditors to understand and speak language of the business, which is very essential to build any credibility in their eyes along with own functional knowledge.

**f) Developing and Using Internal Auditor strength matrix:**

Having good delivery is of prime importance and can't be relegated to backstage. Developing and maintaining Internal Audit strength matrix is one of the ideas for great output delivery to the organisations in terms of assurance and value add. Strength matrix would help in informed decisions regarding allocation of work as per strength of the auditors. To train budding auditors, they can be appended to experienced and more knowledgeable auditors for enhancement of their capabilities for the future. Expert pool can be developed within Internal Audit and organisation as a whole for guidance and fall back mechanism.

**g) Leaders in Internal Audit department:**

Great many battles are lost due to incompetent leaders. Selection and placement of leaders in

> It should also consider vertical and horizonal diversification of the organisation along with its geographical spread and internal audit skill-set that the organisation wants to develop. A carefully structured internal audit department will go a long way in streamlining efforts and building credibility among stakeholders.

Internal Audit department requires careful deliberation, rather than pushing anyone who fails to deliver anywhere else in the organisation. Any manager can have good output and performance from an exceptional team. But only good leaders have a capacity to take exceptional output and performance from below average or average teams. Having goods leaders with an understanding about functioning and requirements of Internal Audit and organisations are needed to build much required credibility. Having a weary Head Internal Audit will jeopardize the functioning of the department.

**h) Internal Department relationship:**

Building a conducive and cooperative relationship within department can lead to great output and greater job satisfaction on the part of the auditors. It is the most challenging task, as it involves managing human relationship. It requires conscientious efforts on the part of everyone involved especially departmental Head. Internal Audit Head needs to check his action and behaviour which promotes biases, hyper competition, subjugation of individual auditors, promotes lack of cooperation and suspicion among team members.

**i) Cultural alignments and fittings:**

Aligning Internal audit culture with organisational culture is also required to avoid undue friction and frustrations. Any misfits need to be ironed out. To do it, efforts are required on the part of both Internal Audit department and organisation.

**j) Building stories:**

Building success stories is a great way of developing internal and organisational bonding. Many organisations build stories and share across organisation. These stories help to establish connection between stakeholders and organisations. On similar lines, internal audit stories can help to build desired long-term connection with various stakeholders.

**k) Stakeholder relationship management:**

In most of the organisations, Internal audit is a mandated activity. Rarely those charged with leading internal audit activity find any need for stakeholder relationship management except for managing direct reporting responsibilities. Stake holder relationship management is as critical as managing direct reporting responsibilities even though results might not be as visible or lucrative as in the case of direct reporting relationship management. While meeting in any case are conducted for deliverables but it's also good to meet over cup of tea with various stakeholders. It might give, we are on the same team feeling along with developing and strengthening bond.

**l) Participation/ Marketing audit work:**

As earlier highlighted, internal audit is mostly a mandated activity. So, very few think of stakeholder's participation and marketing of the internal audit work except for direct reporting line and audit committee. How to manage stake holder participation and marketing audit work, is a difficult proposition, but if managed properly, it can lead to the greatest reap of harvest in building credibility.

“Internal Audit Head needs to check his action and behaviour which promotes biases, hyper competition, subjugation of individual auditors, promotes lack of cooperation and suspicion among team members.

**m) Deliverables:**

For any function, quality deliverables are pre-requisite for building credibility. Internal Audit is also not an exception. Ensuring quality deliverables in terms of assurance and value add, goes without saying for achieving any credibility in the eyes of stakeholders. Volumes of information and auditors' trainings are available on enhancing quality of internal audit deliverables.

**n) Power politics – can't stay away – need to manage:**

Last but not the least, leaders and auditors alike, need to manage organisational power politics. Better if, internal audit can stay away from politics. Any power play politics should be timely addressed, managed and rooted out in an unbiased manner in the interests of organisation as a whole.

In the end, I would like to add, achieving credibility is not a goal post but a continuous daily journey which every member of the internal audit department, embarking on this arduous voyage, needs to travel to sustain the same. ■■■

# Remote Internal Audit in the Covid-19 Era - Key Considerations

*With the Covid-19 era re-defining the new norm, businesses across the globe are scrambling to cope with the situation. It's time for Chartered Accountants engaged in the Compliance function to step into the new era and start the process of conducting Remote Internal Audits. In this article, we analyse how the characteristics of Remote Internal Audit, the challenges/ opportunities and key considerations to ensure that the objectives of Internal Audit are met in a similar fashion and there is no compromise on quality. Read on to know more…*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With the Covid-19 era re-defining the new norm, businesses across the globe are scrambling to cope with the situation. It's time for Chartered Accountants engaged in the Compliance function to step into the new era and start the process of conducting Remote Internal Audits.

One of the pre-requisites of a career in Internal Audit is the willingness of the incumbent to travel extensively. However, it will take some time before the Internal Auditor can travel freely to the manufacturing plants, ports, sales depots and warehouses to conduct the Internal Audit assignments. For now, the audits will have to be done remotely without any site visit.

In essence, whether it is site-based or conducted remotely, the purpose of Internal Audit remains the same. Standard on Internal Audit (SIA) 230 - Objectives of Internal Audit- read in conjunction with the "Preface to the Standards on Internal Audit," "Framework Governing Internal Audits" and "Basic Principles of Internal Audit" issued by the Institute of Chartered Accountants of India governs this theme.

*"Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives."*

## Characteristics of Remote Internal Audit

Here, interviews are conducted with the auditee, say using Microsoft Teams, Google Hangouts or any other mode teleconferencing. The auditor reviews the documents and data through screen or file sharing and discussions are held with fellow team members. The auditor selects data points for through Sampling Techniques Records and using a risk-based approach. The auditor is given a walk-through of the processes using technology. In Remote Audit, you may need to bring in aspects of Desktop Auditing (i.e., analyse documents or data in isolation so that you can prepare for / refine interviews and record requests).

The key considerations that will emerge are as follows:

**a) Usage of Technology**

- Technology can be leveraged to ensure access to site data through applicable ERP packages such as SAP, Oracle etc. Manual registers could be scanned and copies made available to the Internal Auditor through Google drive etc.
- While the internal auditor continues to remain off-site, through Video Conferencing mode, he/she can witness activities such as Physical Verification of Assets and Stock being conducted by the site-personnel.
- Cloud based technologies can facilitate the collaborative team effort.
- While using technology is great, however, there is an increased risk-inbuilt of hackers taking advantage of the situation and gaining access to systems and documentation.

**b) Audit Planning**

Perhaps, this is the most important consideration which the Team Leader needs to envisage. In view of the changed scenario of businesses, the priorities and business procedure also have changed, which have in-turn affected the risks and control system of the organisation.

- Since the future is unknown, Instead of building a regular long-term Annual Audit plan, short term assignments may be mandated("Agile Audit Plan")
- The concept of scheduled dedicated days of Audit at site to be converted into a defined work-schedule
- Working as a business "facilitator" while maintaining its independence viz. Engaging with other stakeholders such as Statutory Audit so that unnecessary duplication may be avoided
- Providing real-time important updates to management on immediate emerging risks

If I am accessing the data through screen sharing, how will the electronic documentation happen?

Whereas Standards on Auditing traditionally address as to "What" evidence is required, in the current times, Auditors need to step-up and formulate as to "How" the documentation will take place whilst being fully compliant with the regulatory requirements.

- The IA personnel can request for a "time-stamped" video or photo, which can be considered an alternative procedure and documentation for Stock taking in the current scenario.
- In case of accessing any off-ERP report or MIS, a signed PDF may be considered sufficient audit documentation.

It is to be stressed upon again that just like documenting any verbal communication, documentation of electronic communication is of prime importance.

**c) Audit Effectiveness**

One needs to evaluate whether the objectiveness of the audit can be achieved in the remote mode. For instance, it could be easier for the auditee to keep burning issues under the wraps in the remote mode.

This can be an ideal time to completely reassess the defined internal controls over different areas of the business organisation in view of the changed scenario.

- Short and focussed studies may be carried out in presumed risk areas
- Identifying areas such as Force Majeure, Liquidated damages, Cyber Security, Business Continuity/ Loss of Income Insurance and its claim
- Focus may also be given on areas such as changes in supply chain and its consequent changes in cost, losses of customers, credit terms with both vendors and customers
- Long pending issues which are no longer relevant in current scenario may be discussed and concluded
- In these times of pandemic wherein the organisations may be working with sub-optimum work-force, there may be instances of control over-ride and also create opportunities of fraud
- Effectiveness of Audit can be increased by using analytical tools so that coverage of high risk areas can be increased to close to 100% assurance

**d) Cost**

Internal Audit in the remote mode will always be more cost effective. Since there will not be any site visit for some time-period. The current year Internal Audit budget may be utilised for:

- Further strengthening the IT infrastructure and analytical tools used by IA personnel
- Team members may be encouraged to undertake relevant and emerging online courses
- In case it is required, a local expert may be engaged for site visit, keeping in mind the risk and cost benefit.

**e) People Factor**

It is common knowledge that informal discussions over cups of tea/coffee often lead to camaraderie between the auditor and auditee. The auditor gets a more accurate understanding of the ground realities. The auditee gets the comfort of resolving a lot of audit observations through face-to-face discussion. Non-verbal communication plays a major role here.

There are more chances of discovering fraud or catching hold of malafide intentions in case of onsite Audit. Attitude and behaviour of the Auditee plays a big role in assessing the culture and on goings at the Audit location.

In remote audits, the latter can feel a bit intimidated because everything is a bit more formal. Another school of thought envisages that remote Audit might create new opportunities, since test-procedures can be conducted without any direct involvement of the Auditee, innovative and unexpected procedures can be used to eliminate any fraud risk areas, thereby enhancing the quality of Audit.

Even in case of remote Audit, Video-conferencing can be used intelligently to catch the non-verbal cues. Seeing the “Face” makes such lot of difference.

Reception of the Auditee/ Client in these times can also be taken as an important cue, while some may be facing real hard-ship in routine jobs, continuous avoidance or indefinite postponement taking Covid-19 as an excuse can be a red flag.

**f) Engagement with team members**

A brief distinction between On-site and Remote Audit can be summarized as under:

| Area | On Site | Remote | Considerations |
|---|---|---|---|
| **Pre-Audit** | Senior member/Team Lead in the IA team interacts with functional and location heads | Interaction is held online through video-conferencing call | Face-to-Face meeting is held to get an initial brief and understanding. Virtual meeting seems to be more formal |
| **Interviews** | Interviews are held in person with the specified personnel | Interviews are held over call/ VC or through online forms | Lack of non-verbal cues |
| **Review** | Physical inspection/walk-through and review of documentation | Data from ERP/in-house software are reviewed | Dependence on system data |
| **Risk profile** | Risk is assessed as per interaction and interview with the functional managers | Focused areas are selected and risk assessed based on continuous online monitoring | Major changes in risk profile |
| **Evidence Collection** | Mostly stored in Hard-Copy files | Mostly soft-copy, pictorial or video evidence stored on cloud/online | Online evidences can be used remotely by anyone of the team-member |

The senior members from Internal Audit team can virtually try and keep the team motivated and connected in the current times:

- Primarily checking upon the health of the team members who might be away from their regular base locations.
- A dedicated session may be kept wherein any emerging issue in the business world or any new challenge may be shared upon by any team member
- Virtual Coffee/Tea breaks- with change of hosts
- De-briefing session- A short daily de-briefing session may be held at day end wherein achievements during the day may be appreciated and also challenge for days ahead may be set.

## Remote Audit: Advantages and Limitations

**The following is a summary of** advantages and limitations that a company may have if it implements remote audits.

### *Advantages of Remote Audit*

- Given the Covid circumstances, normalcy is not expected to return in near future. So, implementing remote audit would give organisations a sense of normalcy in day to day operations.
- Reduced travel costs. Organisations having multiple annual audits would have significant savings in terms of travel costs, if remote audits are implemented.
- Since audits would be done remotely, there would indeed be an expanded pool of available auditors rather than just the ones who could travel to the specified location.Also, this would mean we would have more time and thus, areas covered can be expanded.
- Specialists could be brought in significant areas in case required without worrying about the fact that they need to be present for full audit.
- Since the documents would be at the disposal of the auditor for a larger time frame, he could easily dig down to details and have a higher quality review.
- Improved use of available technology strengthens documentation and reporting. Facility personnel's use of technology to capture video and photographic information contributes to improving their

understanding and use of available technology. This contributes to better documentation of facility conditions, improved ability to report incidents and conditions to remote corporate personnel, and increased opportunities for future remote training tools.

- The audit burden to facility operations is mitigated. This is one of the biggest advantage of remote audit. Audit documents and videos can be gathered and digitized at regular intervals and need not be restricted to the audit period when the auditors visit the organisation. Daily activities of the facility personnel thus don't get disrupted.

***Limitations of Remote Audit***

*First-hand observations cannot be replaced:* As they said first hand observations are always better than just relying on documents. Documents can be misleading sometimes where operations are secure, highly restricted, or in sensitive environments.

*Remote auditing makes it hard to build rapport with auditees:* Opportunities to provide hints, tips, and observations for improvement are lost. It is hard to identify best practices or describe things that others may benefit from, outside of the documentation process. Good auditors do this, and these are often the most useful things that auditees get from the exercise.

*The lack of in-person interaction opens other opportunities for fraud:* The opportunity to present doctored documents and to omit relevant information is increased. This may call for additional planning, some additional/different audit procedures, or a follow-up once the barriers to a traditional audit lift.

## Conclusion

Remote auditing isn't going to go away it will become the new normal and hence it's imperative that we gear up to the changed scenario. If internal auditors provide critical guidance now, while also prepare for the future. Internal Audit function will emerge as a stronger team which provides even greater value to the department and the business.

Who knows that some of the work which have been successfully tested and delivered while working virtually might be mandated to be done on "off-site" basis, as it will save both time and resources of the organisation without any compromise on the assurance levels or regulatory norms. This will also potentially open much greater participation from the female workforce who could have had issues with the logistics of long travels to remote locations. In all, it will also ensure greater work-life balance for the audit community as a whole.

Challenge for the Internal Audit fraternity also lies in the fact that increased virtual engagement and availability of enhanced analytical tools might call for a reduction in Audit personnel and as such they need to be more abreast with emerging tools and skilled up so that an individual's relevance and contribution in the team can be counted upon. Thereby the onus would be upon the internal Audit function owners to demonstrate that they can engage teams irrespective of location. Chances are fairly bright they can create an immersive audit experience that comes with similar trusted skillset! ■■■

# Customs Duty on Virtual Imports- Battle between Developed and Developing Nations

*With the revolution of Industry 4.0 and the technological advancements, the scope of digital trade is expanding. In trade context, electronic transmissions are generally understood to cover cross-border digital delivery rather than delivery through physical mode. Growing digitalisation is expected to give further boost to trade by electronic transmissions for example, online delivery of music, e-books, films, software and video games. Most of the digital technologies like Big Data analytics, 3D printing (Remote Additive Manufacturing), Robotics, Artificial intelligence, Internet-of-Things, etc. require software to operate, which are increasingly leaving their physical "carriers" when they cross the borders. It is much simpler to download an e-book or music or software from the internet than import these digitisable products in physical form. Read on...*

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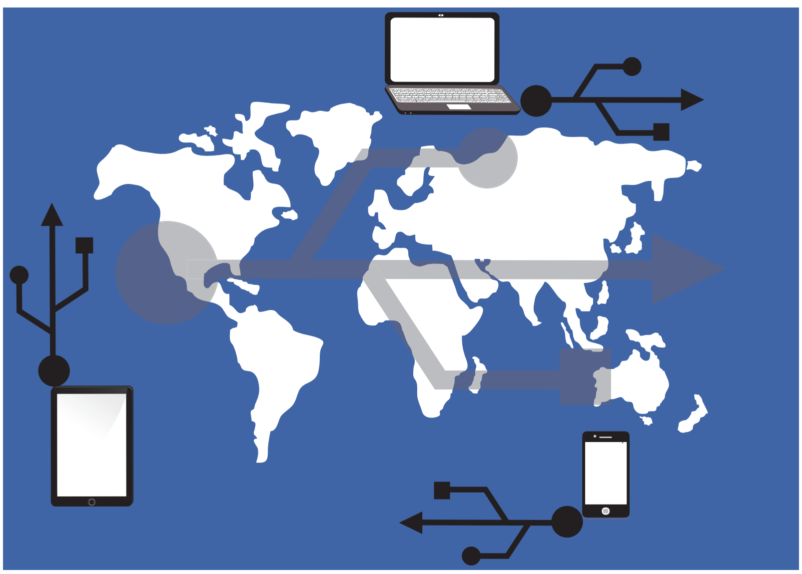
United Nations Conference on Trade and Development (UNCTAD) has published a research paper in the month of February 2019 on the subject *of "Growing trade in electronic transmissions - Implications for the South."* A list of 49 products has been identified by such research paper which fall under the category of digitalised products, like Photographic films, Cinematographic films, Printed matter, Music, Media, Software and Video games. This report suggests that in the year 2017 approximately 55% of total global



imports of digitalised products were made by way of Electronic Transmission. In other words, approximately $139 billion worth of virtual imports made of digitalised products versus $116 billion of physical imports in the year 2017. Further, the report says the total imports of digitisable products in the year 2026 would be at around half a trillion dollars, i.e., $ 507 billion, if the market will continue to grow at rate of 8% (annual average growth rate of the years from 1998 to 2010). If we apply the current ratio of 55: 45 between virtual and physical imports, the market size of virtual imports would be $279 billion in the year 2026. This will further increase because the incremental growth also needs to be applied in case of global imports through Electronic Transmissions.

## Customs Duty and its Moratorium

In today's scenario, physical import of goods attracts customs duty whereas import of same goods through electronic transmission is out of purview of customs duty. Way back in 1998, on the basis of a proposal submitted by the United States of America (USA), WTO members adopted a Declaration on global electronic commerce, which included a two-year moratorium stating that "Members will continue their current practice of not imposing customs duties on electronic transmissions". Since 1998, this Moratorium has been renewed every two years. However, because of the difficulties in limiting the scope of electronic transmission, the debate on the Moratorium on custom duties has continued without reaching any consensus. USA has been the founder of the idea of continuing the existing practice of not imposing custom duties on electronic transmissions.

Today, after two decades of introduction of e-Commerce in WTO, still the debate is on whether moratorium shall continue or to get away from it. This issue was in continuous discussion under various meetings or inter-ministerial meetings of WTO, but consensus could not build till date. Even in latest meeting of General Council of WTO, held on 10th December 2019, the council decided to continue moratorium next Ministerial Conference which was originally scheduled in June 2020 at Nur Sultan – Kazakhstan but it is postponed due to Covid-19. Next meeting is scheduled in June 2021.

However, with rising digitalisation of products and growing trade in electronic transmission, a decision on moratorium has become important, mainly whether the moratorium should be extended or removed. The main reason for continuance of moratorium is, members countries have not yet reached on the consensus that what is Digital content which ultimately fit under the criteria of Digitalised Product. Another issue is in case of intangibles, what is goods versus service. In the year 2000, the United Nations Conference on Trade and Development (UNCTAD) identified the digitalised products by mentioning the products like cinematograph film, books, pamphlets, maps, newspapers, journals and periodicals, postcards, personal greeting cards, other printed matter, video games, computer software, musical records, tapes and other sound or similar recordings; and other recorded media. The note on "Fiscal implications of The Customs Moratorium on Electronic Transmissions: The Case of Digitisable Goods" issued by WTO in the year 2016, has defined the term electronic transmissions as 'on-line' deliveries of digitisable products, defined as "physical goods which have the potential to be digitalised and subsequently sent across borders digitally".

## Reasoning by Developing Nations for Removal of Moratorium:

- The moratorium on customs duties on Electronic transmissions implies that customs duty is not imposed on products imported in digitalised form, even in case of customs duty applicable on the same product, if it is delivered in the physical form.
- Due to the Moratorium on custom duties on digitalised products through Electronic transmissions, the tariff revenues of developing countries are reducing.
- The estimated loss of tariff revenue at US$ 756 million due to moratorium, of which 92% is lost by the developing countries and only 8% by developed countries. The top five developing nations which face the maximum revenue loss, are Mexico followed by Thailand, Nigeria, India, China.
- If moratorium gets removed, the tariff revenue of

developing countries will get increased rather than said loss. This can be a source of revenue which will continue to grow in the coming years as more and more products are digitised due to digital revolution.

- United Nations is also a big supporter for removal of moratorium.

### The Argument by Developed Nations, in Favour of Continuance of Moratorium:

In contrast, the argument put forward by Developed Nations, is that developing countries' gain far more through the moratorium than they would give up in the form of customs duties. It is important that revenue implications to be considered in the context of overall economic growth rather than only tariff loss. Analysis shows that the revenue implications of the Moratorium are likely to be small relative to overall government budgets and that its lapse may would have come at the expense of wider gains in the economy.

In this regard, European Centre for International Political Economy has published a paper in August 2019 in the name of *"The Economic Losses from Ending the WTO Moratorium on Electronic Transmissions"*. Similarly, OECD also published a paper called *"Electronic transmissions and international trade – Shedding new light on the Moratorium Debate"* in November 2019. Both the papers summarised the concerns of developed nations. How the developed nations will get impacted if moratorium get removed. Their inputs could be summarised as:

- **Ultimate benefit to Consumers:** There is no logistics cost involved in case of Electronic Transmission. This is having overall positive impact on total cost of trade. By eliminating cost of logistics and promoting digital delivery, likely to have welfare enhancing impacts. Consumers will get certainly benefit of lower price because of not having customs duty and logistic cost.
- **Digitally deliverable services increase domestic value added in exports:** Digitalisation, including the ability to deliver and to source digitally, is associated with new export opportunities, including for SMEs. This development (enabled by duty-free access) is essential to the emergence of a vital information and communications technology (ICT) sector, especially for systems development and data hosting services or creative industries in the developing world. Indeed, the use of such services, which tend to be digitally delivered, is associated with higher domestic value added in exports. So brining customs duty on virtual imports would reduce the export competitiveness of developing nations
- **Impact on overall economic output/Investments in developing nations**: In case if developing countries impose customs duty on electronic transmission, they will see a reduction in GDP because of reduction in output. The gap between tariff revenue and output losses is likely to be much wider. Currently, the developing countries may have lost some of their revenues, but they have also benefited from the lower prices, inclusion and higher levels of overall consumer welfare produced by such advancement.

> "By eliminating cost of logistics and promoting digital delivery, likely to have welfare enhancing impacts. Consumers will get certainly benefit of lower price because of not having customs duty and logistic cost.

- **Reciprocal by Other Countries**: If few individual countries began to impose tariffs on electronic transmissions, then other WTO Members may begin to consider their own tariffs. Moreover, product range under the scope of 'electronic transmissions' can change country by country as per their own interests and sensitivities. The reciprocation scenario would also lead to further negative impact on the investments in developing nations and will invite a trade war between developed and developing nations.
- **Other ways to collect revenue**: Moratorium on electronic transmissions does not preclude a country from imposing internal taxes on a digital product transmitted electronically, provided that those taxes are imposed in a manner, consistent with its obligations under the WTO

> Even if WTO decides to remove moratorium and give freedom to member countries to impose the customs duty, existing trade agreements among member countries, need to be re-looked and to be amended.

agreements. For example, GST or VAT can be imposed.

Accordingly it can be said that customs duties on electronic transmissions will lead to higher costs that exceed the potential tariff revenues and put the open nature of the internet at risk.

## Concluding Remarks

While business world is waiting of outcome from next meeting which is scheduled in June 2021, but the issue is not so simple. One side, the autocracy of developed nations and anther side is needs of the developing countries, a revenue foregone by developing nations due to moratorium, which could have been added to Governments kitty in form of Customs duty. Even if WTO decides to remove moratorium and give freedom to member countries to impose the customs duty, existing trade agreements among member countries, need to be re-looked and to be amended.

In addition to the above, there are lot of open questions which required a detailed deliberation by all member countries. Some of them as follows: -

1. What items should be covered under the category of Digitalised Products. In the year 2016, the United Nations categorized 49 items under the heading of Digitalised Product but that is only story of Developing nations. When it come for discussion before developed nations, certainly story will be different.

2. Whether digital content is goods or service. There has been a stalemate in the WTO on the issue of whether 'digital content' should be treated as a goods and its trade be disciplined under the General Agreement on Tariffs and Trade (GATT) or should it be considered as a service and therefore be disciplined under General Agreement on Trade in Services (GATS). USA has been the primary advocate of the position that digital content should be treated as goods and its trade be disciplined under GATT. EU, on the other hand, has advocated for categorizing electronic transmissions as services, to be disciplined under services commitments of countries under GATS.

3. What about Software products. In the case of software, it is not the value of the actual product but rather the licensing fee paid to the developer. As per EU, software shall always be treated as Service. India considers packaged software as a goods whereas licensing and Software as Service (SaaS) products are treated as service. Another aspect is "Intellectual Property Rights". It is argued that when digital content crosses border, the program itself remains in the possession of the intellectual proprietor but the buyer has the limited license to use the program.

4. Whether the moratorium is applicable only in respect of carrier or it includes the content as well. Whether custom duties should be applied on the 'content' of the transmitted goods or just the 'carrier'. The debate on the "carrier" or "content" is closely related to the debate on whether the digital content that is not fixed on carrier medium should be classified as a 'goods' or a 'service'.

5. Presently, the manufacturing through 3-D printing is growing at very fast pace. What will be impact on this industry if moratorium get removed.

6. How to monitor by respective government if customs duty imposed on electronic transmission.

> The debate on the "carrier" or "content" is closely related to the debate on whether the digital content that is not fixed on carrier medium should be classified as a 'goods' or a 'service'.

Lastly, though each country has its sovereign rights to tax. In case of international trade, the mutual benefit of both countries should be taken care in one form or other. In author's view, WTO should take call by considering the needs of developing nations and relevant contribution by developed nations in the overall development of the developing countries. ■■■

# TCS on Sales Consideration under section 206C(1H) – FAQs

*Vide the Finance Act, 2020, a new provision under section 206C(1H) was introduced for Collection of Tax at Source on Sale of Goods by a seller (whose Aggregate Gross Receipts or Sales or Turnover in preceding Financial Year exceeds ₹10 crores), from the buyers, from whom he has received any amount as Consideration for Sale exceeding ₹ 50 lakhs during the year. The aforesaid provisions are applicable from the 1st day of October 2020. The above sale of goods exclude Sale of Motor Vehicles and other specified goods. Read on...*

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**1. Who is liable to collect Tax?**

A. Every Person who is a seller. It means the seller may be an individual or HUF or Firm or LLP or Company or Association Of Persons or Artificial Juridical Person or Local Authority or a Charitable Trust, whether Resident or Non Resident.

**2. Whether all the sellers are liable to collect the tax and remit to Government of India?**

A. The seller whose total sales, gross receipts or turnover for the business carried on by him exceed ₹ 10 crores during the Financial Year immediately preceding the Financial year in which the sale of goods are carried out.

**For Example:**

The Current Financial Year is 2020-21. If the total sales or gross receipts from the Business for the Financial Year 2019-20 exceeds ₹ 10 crores, then the seller is liable to collect the TCS and remit to the Government irrespective of the Current Financial Year 2020-21 Total Sales or Gross Receipts or Turnover. It may be less than or equal to or more than ₹ 10 crores.

**3. Whether any of the seller is exempted from this provision?**

A. Central Government by notification in its Official Gazette can exempt or exempt category of any of the other persons subject

to such conditions as may be specified in that notification..

**4. From whom this Tax shall be collected?**

A. The tax must be collected by the seller from the buyer from whom he has received any amount as Consideration for sale of any goods of the value or aggregate of such value exceeding ₹ 50 lakhs during the Previous Year.

**5. What are the Sales exempted from this provision?**

A. Following Sales are exempted:

i. Sale of goods being exported out of India, or

ii. Sale of following goods mentioned in 206C(1)

a. Alcoholic Liquor for human consumption

b. Tendu leaves

c. Timber obtained under a forest lease

d. Timber obtained by any mode other

e. Any other forest produce not being

f. Scrap

g. Minerals, being coal or lignite or iron ore or

iii. Remittance of money through an Authorised Dealer through Liberalised Remittance Scheme mentioned in 206C(1G)(a),

iv. Seller of Overseas Tour Package u/s 206C(1G)(b), and

v. Every Seller who is making sale of Motor Vehicles value exceeding ₹ 10 lakhs and is liable to collect tax under section 206C(1F)

> The tax must be collected by the seller from the buyer from whom he has received any amount as Consideration for sale of any goods of the value or aggregate of such value exceeding ₹ 50 lakhs during the Previous Year.

**6. Where a seller who has more than one line of business and for each line of business, there is a Separate Books of Accounts, in that case how to apply the Turnover Limit of ₹ 10 crores?**

A. As per the Law, "Seller means a person whose total sales or gross receipts or turnover from the business carried by him exceed ₹ 10 crores"

From the above, the total sales or gross receipts or turnover shall be seen for an assessee as a whole – Aggregate of total Sales or Gross Receipts or Turnover of all the business under one PAN exceed ₹ 10 crores in the last financial year, then this provision shall apply for entire business.

**7. Where the Seller receives Consideration of Sale from the same buyer for different line of Business for which he maintains Separate Books of Accounts, whether the Limit of Sale Consideration from the buyer shall apply independently for each line of Business?**

A. According to Section 206C(1H), Buyer means a person who purchases any goods from the seller and that seller who receives amount as consideration for sale of any goods of the value or aggregate of such value exceeding ₹ 50 lakhs. From the above, if the seller receives Consideration from the buyer for a value exceeding ₹ 50 lakhs in aggregate during the Financial Year, from all the line of business irrespective of the Separate Set of Books of Accounts, this provision shall apply.

**8. What is the Rate at which Tax is to be collected from the Buyer and at what point of time?**

A. The seller shall collect from the buyer at the time of receipt of Sale Consideration, and shall collect the following–

| Situation | Rate of TCS |
|---|---|
| (a) If the Buyer provides PAN or AADHAR Number | a sum equal to 0.1 percent of the Sale Consideration exceeding ₹ 50 lakhs<br>**For Financial Year 2020-21 – 0.075% instead of 0.1 % as per the Press Release of CBDT Dated 13th May 2020** |
| (b) If Buyer does not provide PAN or AADHAR Number | a sum equal to 1 percent of the Sale Consideration exceeding ₹ 50 lakhs |

**9. Who are the buyers exempted?**

A. The following Buyers are exempted:

i. Sale consideration from the buyer in aggregate, doesn't exceed ₹ 50 lakhs

ii. The Buyer is liable to deduct tax under the provisions of this Act on the goods purchased from the seller and has deducted such amount

iii. the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or

iv. a local authority as defined in the Explanation to clause (20) of section 10; or

v. a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein;

**10. At what point of time shall the Seller collect TCS of 0.1%?**

The TCS shall be collected at the time of receipt of Sales Consideration from the Buyer,

**11. Whether the Seller shall charge the TCS of 0.1% on the Sale Invoice and add it to the value of Invoice?**

A. The levy u/s 206C(1H) is not a levy on sale. It is a mode of recovery of Income Tax on the Sale of goods by the seller made to the buyer.

It is advisable that Sales Invoice shall have a following Clause as the Terms and Conditions of Sales. If the aggregate Purchase by the buyer exceeds ₹ 50 lakhs during the Current Financial Year, the buyer shall pay 0.1% as Tax Collected at Source u/s 206C(1H) along with the sales consideration remittance in excess of ₹ 50 lakhs during that Financial year.

Otherwise TCS shall be adjusted 1st with the Consideration received amount and the balance to be adjusted to Sale Consideration due by using the following Formula

TCS Amount = Amount Received x 0.1% /100.1%

**For Financial Year 2020-21 – 0.075% is the reduced rate of TCS as per the Press Release of CBDT Dated 13th May 2020**

TCS Amount = Amount Received x 0.075%/100.075%

**12. For the Financial Year 2020-21, the law is applicable from 1st October 2020 and the aggregate Sale Consideration of exceeding 50 lakhs shall be considered from 1st April 2020 or 1st October 2020?**

A. In our opinion, the aggregate Sales Consideration is prescribed for the Previous year. Even though, the law came into effect from 1st October 2020, to avoid unnecessary disputes and saving time, it is advisable in case of the buyer for whom the aggregate Sale Consideration received already exceeded ₹ 50 lakhs on or before 30-09-2020, the seller shall collect 0.1% on the Sale consideration received on or after 01-10-2020.

In case, the aggregate Sale consideration from the buyer doesn't exceed ₹ 50 lakhs, it is advisable to collect 0.1% of Sale Consideration at the time of receipt of the amount exceeding ₹ 50 lakhs.

**Note: For Financial Year 2020-21 – 0.075% is rate of TCS as per Press Release of CBDT dated 13th May 2020**

**13. Whether the Seller who had a turnover of ₹ 15 crores in the Financial Year 2019-20 and projected to have ₹ 7 crores in Financial Year 2020-21, is liable to collect tax at source for the Financial Year 2020-21?**

A. Yes, since the sales in the preceding Financial Year 2019-20 exceeds ₹ 10 crores, the seller is liable to collect tax from the buyers from whom, receipt of Consideration of Sale exceeds ₹ 50 lakhs.

**14. Whether the Seller who had a turnover of ₹ 7 crores in the Financial Year 2019- 20 and projected to have ₹ 15 crores in Financial Year 2020-21, is liable to collect tax at source for the Financial Year 2020-21?**

A. No, since the sales in the Preceding Financial Year 2019-20 does not exceed ₹ 10 crores, the seller is not liable to collect tax from the buyers u/s 206C(1H).

**15. What shall be the tax collected at source, for the Financial year 2020-21, if a**

> "It is advisable that Sales Invoice shall have a following Clause as the Terms and Conditions of Sales. If the aggregate Purchase by the buyer exceeds ₹ 50 lakhs during the Current Financial Year, the buyer shall pay 0.1% as Tax Collected at Source u/s 206C(1H) along with the sales consideration remittance in excess of ₹ 50 lakhs during that Financial year.

**seller has made sale of goods to a buyer for ₹ 30,00,000 upto 30th September 2020 and from 1st October 2020 to 31st March 2021 has made a sale to the aforementioned buyer for ₹ 25,00,000?**

A. In this scenario, the seller is liable to collect tax on the amount exceeding ₹ 50,00,000, and TCS shall be collected at 0.1% **(for the Financial year 2020-21 – rate is 0.075%)**

Tax Collected at Source = [(₹30,00,000+₹ 25,00,000) - ₹ 50,00,000 ] x 0.075%

= ₹ 375

**16. What shall be the tax collected at source, for the Financial year 2020-21, if a seller has made sale of goods to a buyer for ₹ 80,00,000 upto 30th September 2020 and from 1st October 2020 to 31st March 2021 has made a sale to the aforementioned buyer for ₹ 25,00,000?**

A. Since the section is applicable only from 1st October 2020, Tax shall be collected at source prospectively from 1st October 2020. Since the Turnover/sale has exceeded ₹ 50 lakhs on the first half of the Financial year 2020-21. The seller in my opinion is liable to collect tax at source on the entire ₹ 25,00,000 in the second half of the year at 0.075% (as per Press Release dated 13th May 2020)

Tax Collected at Source = ₹ 25,00,000 x 0.075%

= ₹ 1,875

**17. Whether Sales Consideration includes any other Charges as well as Goods and Service Taxes if it is forming part of Sales Invoice?**

A. The charging section specifies with the words Any amount as Consideration for Sale of any goods and it doesn't mention sale value or Price of the goods. To avoid unnecessary disputes, it is better to Collect tax on the entire amount of Invoice (including Taxes and Duties and other levies)

**18. What is the application of Provision of law in case of advance received towards sales consideration?**

A. The tax is to be collected at the time of receipt of such amount from the buyer and so whether the amount is received prior to sale as an advance or after sale, if the aggregate value of Sale Consideration during the previous year exceeds ₹ 50 lakhs, the seller is liable to collect Tax at source. Hence it is the duty of the seller to collect TCS at 0.1% at the time of receipt of advance money from the buyer to whom this provision apply.

**19. In Case of Works Contract liable u/s 194C, whether Contractor Liable to collect this tax?**

**Situation 1**: Composite Contract for Both Supply of Material and other services and the invoice is raised as both supply of goods as well as services together, then TDS may be deducted by the Contractee on the whole value of Invoice u/s 194C. In that case, TCS u/s 206C(1H) shall not apply

**Situation 2:** Composite Contract for Both Supply of Material and other services and the invoice is raised separately for supply of goods as well as supply of services, then TDS may be deducted by the Contractee u/s 194C for the supply of services and Tax must be collected u/s 206C(1H) on the Sale of goods.

"The charging section specifies with the words Any amount as Consideration for Sale of any goods and it doesn't mention sale value or Price of the goods. To avoid unnecessary disputes, it is better to Collect tax on the entire amount of Invoice (including Taxes and Duties and other levies)

**20. When should Tax collected at source be remitted to the government?**

A. The Tax collected at Source shall be remitted to the government on 7th day of succeeding month from the month in which tax is collected at source.

**21. When should the Statement showing the Tax collected at source u/s 206C(1H) be filed?**

A. A Quarterly Return in Form 27EQ shall be filed for Tax Collected at Source u/s 206C(1H) with the following due dates;

| *Quarter* | *Quarter of the financial year ended* | *Due date* |
|---|---|---|
| 1 | 30th June | 15th July of the financial year |
| 2 | 30th September | 15th October of the financial year |
| 3 | 31st December | 15th January of the financial year |
| 4 | 31st March | 15th May of the financial year immediately following the financial year in which collection is made |

**Please note:** For FY 2020-21, the aforesaid general due dates have been extended in view of spread of Covid pandemic. ■■■

# Covid-19: Impact on Foreign Exchange Fluctuations

*The increased risk aversion on account of Covid-19 has resulted foreign investors pulling out money from the emerging markets. This has caused the rupee to depreciate against the dollar. This exceptional change in foreign currency rates exposes business enterprises to foreign exchange (FX) risk and impact transfer pricing analysis. The article focuses on the treatment of FX gain or loss and emphasise under which situation it should be considered as a part of profitability analysis or treated as an abnormal item that require economic adjustments. Economic crisis generated by Covid-19 has more varied effects on industries or markets and therefore, the prospects of finding appropriate comparables would be difficult and therefore, in such circumstances, it is important that taxpayer maintains robust transfer pricing documentation to justify such economic adjustments. Read on to know more…*

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## Background

The increased risk aversion on account of Covid-19 has resulted foreign investors pulling out money from the emerging markets. This has caused the rupee to depreciate against the dollar. The data indicates[1] that the rate of USD was INR 71.75 as on December 01, 2019 which has gone as high as INR 76.97 on April 21, 2020. However, the Indian Rupee surged to INR 75.33 after Prime Minister Narendra Modi announced a 20 trillion-rupee economic package to help the country cope with the extended corona virus crisis.

This exceptional change in foreign currency rates exposes business enterprises to foreign exchange (FX) risk. FX risk relates to the potential variability of profits that can arise because of changes in foreign exchange rates. Business enterprises that regularly transact in and convert multiple currencies to meet contractual obligations are particularly vulnerable to this risk and may suffer significant financial losses as a result.

There are three types of FX risk: (i) transaction risk – risk of exchange fluctuation between the time transactions are committed

[1] *https://www.exchangerates.org.uk/USD-INR-exchange-rate-history.html*

and settled; (ii) translation risk - conversion of the financial statements of a foreign subsidiary into the reporting currency of the parent and; (iii) policy risk - caused by the effect of unexpected and unavoidable currency fluctuations when there is a time lag between entering into a contract and actual transaction. Illustrative examples are given below:

In the subsequent paragraphs, the article discusses the Indian transfer pricing regulations, international guidelines and important points that need to be considered while analysing FX risk and its impact on transfer pricing analysis:

## Indian Transfer Pricing Regulations

The Transfer Pricing Regulations under Rule 10B(1)(e), which explains the methodology of applying Transactional Net Margin Method (TNMM), provides that net profit margin should be determined in relation to costs incurred or sales effected or having any other relevant base. This rule compares the net profit of taxpayer and comparable companies and consider all the direct and indirect costs attributable to a transaction while determining the net profits.

| Transaction risk | Translation risk | Policy risk |
|---|---|---|
| Company A entered into an agreement with Company B for import of 100 products. At the time import of goods $ 1 is equivalent to INR 50 and if the rupee depreciated to INR 60 at the time of settlement, then the Company A will need to pay INR 6,000. The transaction risk resulted in a loss of INR 1,000. | Indian Parent company made a profit of INR 5,000 and the foreign subsidiary, reported loss of $ 100. Currently, $ 1 is equivalent to INR 50.<br><br>However, before the parent company consolidates its financial reports, the rupee depreciated to INR 60. Now, parent company reports a consolidated loss of INR 1,000 instead of Nil. | Company A entered into an inter-company agreement with Company B for import of 100 products @ $ 50 during the year 2020. At the time of contract $1 is equivalent to INR 50. However, at the time of actual import rupee depreciated to INR 60. The policy risk resulted in a loss to Company A amounting to INR 1,000. |

Often, business enterprises may counter the foreign exchange risk using hedging instruments. The two-primary method of hedging are (i) forward exchange contracts and (ii) currency option. A forward exchange contract is an agreement under which a business agrees to buy or sell a certain amount of foreign currency on a specific future date and protect itself from subsequent fluctuations in a foreign currency's exchange rate. On the other hand, currency option gives business enterprises the right, but not the obligation, to buy or sell a currency at a specific rate on or before a specific date. They are similar to forward contracts, but business enterprise is not forced to complete the transaction when the contract's expiration date arrives.

The above rule does not lay down guidelines for treating the expenses as operating or non-operating in determining the net profit margins. This gives both tax administration and taxpayers an option to consider the FX gain or loss as operating or non-operating according to their convenience.

In September 2013, the Government of India notified Safe Harbour Rules (SHR) that provides circumstances in which the tax authorities shall accept the transfer price declared by the taxpayer. While determining operating profit margins under SHR, it has been provided that income or loss arising out of translation of foreign currency items should be excluded from operating revenue or operating expenditure. While laying down such guidelines, the safe harbour rules do not provide the rationale as to why the same needs to be considered as non-operating item, however, relying on the above rules, the tax administration treats the FX fluctuation as non-operating expense.

## OECD Transfer Pricing Guidelines ('TPG')

TPG in para 2.88 under Chapter III (Transactional Profit Methods) discusses about the inclusion or exclusion of FX gain or loss in determination of net profit level indicator and highlighted two important points: (i) ascertain whether the foreign exchange gains or losses are of a trading nature (e.g. exchange gain or loss on a trade receivable or payable) and tested party[2] is responsible for them; and (ii) any hedging of foreign currency exposure on the underlying trade receivable or payable also needs to be considered and treated in the same way in determining the net profit.

## Comparability Analysis

It is the cardinal principle of Transfer Pricing that attempt should be made to select comparable companies as close to the tested party, since it minimizes the need of making economic adjustments for sieving out material differences between the comparable companies and the tested party.

In para 2.97 of TPG, it has been provided that where foreign exchange fluctuation materially affects the comparison, the key is to compare like with like and follow the same accounting principles for the tested party and for the comparables.

## Important Consideration

The above rules and guidelines raise the following important points that needs to be addressed while analyzing the impact of foreign exchange fluctuation on an international transaction and comparing the same with an uncontrolled transaction:

1. Whether FX gain or loss is of a trading nature and if yes, whether tested party bears FX risk?
2. Whether FX gain or loss is arising from current year transaction or earlier years?
3. Whether FX gain or loss arise from hedging relates to business earning transaction or otherwise?
4. Whether FX gain or loss should be treated as operating or non-operating expenses?
5. Whether reliance placed by tax administrations on SHR is correct?
6. Whether adjustment would be required for abnormal or extraordinary fluctuations in FX rates?

Seeking answers to the above questions, we have analysed various judicial precedence pronounced by High Courts (HC) or Income Tax Appellate Tribunals (ITAT) that may serve as an important guide in taking the right course of action is tabulated hereunder.

## Judicial Pronouncements

| Consideration | Case Law | Ruling |
|---|---|---|
| Whether FX gain or loss is trading in nature? | Pr. Commissioner of Income Tax vs. Ameriprise India Pvt. Ltd. (Delhi High court - ITA No. 206/2016) | The Hon'ble Court upheld that FX gain earned in relation to trading items and emanating from international transactions cannot be treated as non-operating losses and gains |
| | Similar view has been adopted by following jurisdictional High Courts in the matter of: (i) Pr. Commissioner of Income Tax vs. B.C. Management Services Pvt. Ltd. (Delhi High Court – ITA 1064/2017 & CM No. 43177/2017) and (ii) Pr. Commissioner of Income Tax & The Deputy Commissioner of Income-tax vs. Guhring India Pvt. Ltd. (Karnataka High Court - ITA No. 357/2016). There are other HC & ITAT rulings on this issue, however, the same has not been discussed due to brevity of space. | |
| Whether tested party bears FX risk? | DCIT vs. Tilda Riceland Pvt. Ltd. (ITA No. 6592/Del/2015) | The Hon'ble ITAT upheld DRP's direction that FX gain or loss pertains to the operations of sale transactions and thus directed to adopt a uniform approach to include FX gain or loss in operating revenue of both tested party and as well as the comparables. Also, placed reliance on OECD guidelines for inclusion of FX gain or loss in TNMM to a transaction in which FX risk is borne by the tested party |

[2] *Tested party will most often be the one that has the least complex functional analysis*

| Consideration | Case Law | Ruling |
|---|---|---|
| Whether FX gain or loss pertains to current year? | DCIT vs. Sunway Construction India Pvt. Ltd (IT(TP) A No. 1190/ Bang/ 2012) | The Hon'ble ITAT directed that if sale has taken place in the present year then the corresponding FX gain should be considered to compute the operating profit margin because such turnover is part of the denominator |
| Whether FX gain or loss arising out of hedging transactions? | Pr. Commissioner of Income-tax & The Deputy Commissioner of Income-tax and M/s Indigra Exports Private Ltd.<br>(High Court of Karnataka – ITA No. 322/2016) | The Hon'ble Court upheld that FX gain or loss could have been considered as non-operational only if the Assessing Officer could show that such gain or loss came out of hedging and transactions which were independent of the business revenue earning transaction |
| | SAP Labs India Pvt. Ltd. vs. DCIT (ITA No 2883/ Bang/2018) | The Hon'ble ITAT referred the matter back to the file of Commissioner Appeal and directed to pass speaking order when the receipt of FX gain by Assessee is on account of conversion of sales proceeds from export of services whereas the FX gain in the case of comparable is on account of an additional function of treasury activity which is in the nature of hedging |
| Whether premium paid on FX contract is trading in nature? | Ambattur Clothing Ltd. v. JCIT (ITA Nos.1436 & 1643/ Mads/14 & ITA No.910/ Mds/2015) | The Tribunal held that when premium on forward exchange contract is on account of proximity with the export turnover, the same should be taken as part of the operating profit margin |
| Whether Safe Harbour Rules needs to be considered during normal TP audit? | Vaildor Capital India Pvt. Ltd. vs. ITO (ITA No. 1961/ Del/2015) | The Hon'ble Tribunal upheld that the safe harbor rules are like presumptive taxation and has been made applicable only from 18th September, 2013 and therefore, same are not applicable to the present assessment year. Even otherwise they are to be opted by the Assessee and if not opted those are not binding on Assessee |
| | Digital Group Infotech Private Limited (ITA No. 475/Pun/2017) | The Hon'ble ITAT placing reliance on the Hon'ble Delhi High Court in the case of B.C. Management Services (P) Ltd and rejected the plea of Transfer Pricing Officer and Dispute Resolution Panel to consider FX gain as non-operational income by relying solely on Rule 10TA |

| Consideration | Case Law | Ruling |
|---|---|---|
| Whether adjustment on account of abnormal and huge fluctuation in FX rates may be allowed in determining the arm's length price? | Honda Trading Corporation India Pvt. Ltd. vs. ACIT (ITA No 5297/Del/2011) | The average exchange rate of Thai Bhat during October, 2005 to March 2006 was 100 Thai Bhat equivalent to INR 110 and after considering said average exchange rate, price of sale of goods agreed upon with the customers. However, during April 2006 to September 2006 at the time of purchase, the exchange rate of Thai Bhat was substantially increased to 100 Thai Bhat = INR 119.<br>The Hon'ble ITAT upheld that the said fluctuation in FX rate must be removed and the margin thereon needs to be adjusted for arriving at the credible comparable through the requisite adjustments |
| | Mercedes Benz India Pvt. Ltd. vs. DCIT ITA No. 514/Pun/2014 & ITAT No. 566/Pun/2014 | The Hon'ble ITAT noticed that there was fluctuation in the rate of Euro / INR rates compared to the previous year and the market witnessed around 14.10% increase in Euro/ INR rates. The Hon'ble ITAT relying on the ruling of Demag Cranes & Components (India) Pvt. Ltd (ITA No.328/PN/2014) directed exclusion on foreign exchange loss while computing PLI of the Assessee. |

## Concluding Thoughts

It seems that controversy revolves around treatment of FX gain or loss which has more or less settled from the court decisions as they have laid down a simple rule that FX fluctuation should be considered as operating item when it emanates from the international transactions and tested party bears that risk which is similar to the principle enshrined in TPG.

The Indian TP regulations under Rule 10B(3) prescribe the differences materially affecting the comparison that will need to be adjusted to the extent, these adjustments are reasonable, reliable, and improve comparability. This rule has been given due importance by Hon'ble ITAT while upholding that abnormal fluctuations in currency rates need to be adjusted. However, economic crisis generated by Covid-19 has more varied effects on industries or markets and therefore, the prospects of finding appropriate comparables would be difficult. In such circumstances, it is important that taxpayer maintains robust transfer pricing documentation that entails detailed industry overview including macro-economic factors, price setting policy, and the collation of information and documents that justify FX adjustments based on the comparable uncontrolled transactions. ■■■

# National Update

## Govt Forms Five Task Forces to Make Indian MSMEs Future-ready: Secy

The government has constituted five task forces to make India's micro, small and medium enterprises future-ready and formulate a concrete strategy towards making the country a leading exporter, a top government official said recently. MSME Secretary expressed confidence that it would be on the path of implementing the futuristic initiatives by the start of next year. He added that one of the five areas identified is Industry 4.0, including elements like artificial intelligence, 3D and virtual reality, and this task force has been formed with the objective of making India a global leader in Industry 4.0. Sharing details on the other task forces, he said the second area is export promotion and import reduction, including how to focus in the key manufacturing areas, how to improve our quality standards, designs and technology, packaging. The final objective is to see that India becomes a global manufacturing hub and a leading exporter in the world. The third is how to re-engineer vertically and horizontally our existing cluster schemes so that they are able to assist the grass-root and the micro-level enterprises as well as the high-end enterprises, Sharma said. The Secretary said the fourth task force will focus on how to integrate our technology centres. The fifth task force will explore interventions to align various modernisation schemes like ZED (zero defect and zero effect) and LEAN (for manufacturing competitiveness), as well as other schemes related to design, intellectual property rights and marketing scheme. By the beginning of next year, we would be on the path of implementing these futuristic initiatives, the secretary said.

*(**Source:** https://www.financialexpress.com)*

## IBC Suspension Gets 3 months' Extension

The Centre has extended by three months the suspension of insolvency proceedings initiation against the corporate debtor for defaults arising post March 25, when the Covid-19-induced lockdown was announced. It may be recalled that in response to the pandemic, the government had, on June 5, come out with an ordinance to prohibit the initiation of insolvency proceedings for defaults arising during the six months from March 25, 2020 (extendable up to one year). Now with the first timeline of six months from March 25 that was getting over last month, the Corporate Affairs Ministry (MCA) has extended the suspension of Sections 7 ( financial creditor), 9 (operational creditor) and 10 (corporate debtor) of the IBC by three more months – up to December 25 – a top official confirmed. This ordinance of June 5 was recently replaced through the enactment of Insolvency and Bankruptcy Code (second amendment) Act 2020. While the law prohibits insolvency proceedings against the corporate debtor for defaults occurring during the specified period, it does not disallow such action against the personal guarantors of a corporate debtor. There is also no prohibition of initiation of insolvency proceedings on defaults pertaining to debts taken prior to March 25.The government had, on June 5, come out with an ordinance to prohibit the initiation of insolvency proceedings for defaults arising during the six months from March 25.

*(Source: https://www.thehindubusinessline.com)*

## RBI Releases Technology Vision for Cyber Security for Urban Co-op Banks

The Reserve Bank of India came out with a Technology Vision for Cyber Security for Urban Co-operative Banks for 2020-23 listing action points for these lenders.

With the ever increasing number, frequency and impact of cyber incidents and manifold increase in attacks in the recent past, majorly in the case of financial sector including Urban Co-operative Banks (UCBs), it has become essential to enhance the security posture of UCBs so as to prevent, detect, respond to and recover from cyber-attacks. A differentiated tier-wise approach will be followed while prescribing cyber security controls for UCBs with the tiers being decided based on risk exposure in terms of the digital services offered by the lenders.

The vision document aims to achieve the objective through a five-pillared strategic approach call GUARD – including governance oversight, utile technology investment, appropriate regulation and supervision, robust collaboration and developing necessary IT, cyber security skills set. UCBs would be expected to prepare a Business Continuity Plan for all processes and ensure that it is well-communicated, well-rehearsed and reviewed periodically. Further given their large numbers, the RBI has called for setting up effective offsite supervision of UCBs to monitor their compliance for cyber security guidelines as well as to have an overall and up-to-date understanding of the cyber security posture of the UCB sector.

The vision document also called for adopting cloud services and imparting technical skills for managing IT and cyber security issues at these lenders. In the recent past, some UCBs have faced cyber-attacks and frauds, a prominent case being that of Pune based Cosmos Cooperative Bank.

*(**Source:** https://www.thehindubusinessline.com)*

### Personal Guarantors: IBBI, Govt. to Defend Legal Validity of IBC Provisions

Insolvency regulator IBBI and the government are expected to go all out to defend the legal validity of the IBC provisions on personal insolvency against personal guarantors to corporate debtors, when the current matters on legal challenges come next before the Delhi High Court on October 6. Some personal guarantors who are in the dock are now claiming that enforcing certain IBC provisions in relation to personal guarantors to corporate debtors amounted to an unconstitutional usurpation of legislative power by the executive and they are challenging the provisions as "wholly impermissible in law", sources said. The stance to stick to the legal validity is also supported by the fact that the Department of Financial Services in the Finance Ministry had, recently, in separate directions, asked public sector banks (PSBs) to put in place a mechanism for monitoring cases, which may require initiation of insolvency proceedings against personal guarantors of corporate debtors.

On the recent legal challenges to the IBC provisions on personal guarantors, Chairman, Insolvency and Bankruptcy Board of India (IBBI), clarified that insolvency resolution of a corporate debtor and resolution of its guarantors – corporate and personal – are intertwined. He said that resolution of personal guarantors to corporate debtors, therefore, complements the corporate insolvency resolution process and also places both corporate guarantors and personal guarantors of the corporate debtor on the same level playing field.

Corporate observers pointed out that even for corporate insolvency, there were so many rounds of challenges, taking the legal validity matter all the way up to the Supreme Court. It is no surprise that the people who are affected are fighting to their best against the personal insolvency proceedings of the guarantors and have challenged it, they said.

*(Source: https://www.thehindubusinessline.com)*

## IFAC and ICAEW Release First Installment of Six-Part Anti-Money Laundering Educational Series

Segment provides introduction to anti-money laundering (aml) for professional accountants. Together with ICAEW, The International Federation of Accountants (IFAC) recently released the first installment in its *Anti-Money Laundering: The Basics* educational series: *Installment 1: Introduction to Anti-Money Laundering for Professional Accountants.* The publication is part of a -6month short series helping professional accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest. The series, with its focus on accessibility and ease of use, will be a resource for Small and Medium Practices (SMPs,) and accountants less familiar with AML, while also providing guidance for those looking for a quick refresher or reference.

*Anti-Money Laundering: The Basics* will be featured on both the IFAC and ICAEW websites and available for download for free. To be globally relevant, the series uses the risk-based approach of the Financial Action Task Force (FATF) – the global money laundering and terrorist financing watchdog – as a starting point.

The series is the latest in IFAC's ongoing commitment to promote AML in the public interest, following the organization's Point of View on fighting corruption and money laundering – and its recently released joint report with CPA Canada on Beneficial Ownership Transparency.

*(Source: https://www.ifac.org/)*

## IFAC Calls for Creation of an International Sustainability Standards Board Alongside the International Accounting Standards Board (IASB)

*New Board to Build on Important Initiatives Already Underway; Critical Objective Is a Global System of Interconnected Corporate Reporting.* IFAC, the global voice of the accountancy profession, recently called for the creation of a new sustainability standards board that would exist alongside the IASB under the IFRS Foundation. The proposed board would address the urgent and growing demand from investors, policy makers and regulators for a reporting system that delivers consistent, comparable, reliable, and assurable information relevant to enterprise value creation, sustainable development and evolving stakeholder expectations. IFAC's overview of the objectives, structure and building blocks of the proposed board can be found at *The Way Forward.*

*(Source: https://www.ifac.org/)*

## September 2020 IFRS for SMEs Update Published

The September 2020 *IFRS for SMEs Update* is now available. This edition of the *IFRS for SMEs Update* highlights recent activities and materials published to support the Request for Information on the second comprehensive review of the *IFRS for SMEs* Standard (Request for Information), which the Board published in January 2020.

This Update includes the following:

- information on the options for responding to the Request for Information;
- information on outreach events;
- an overview of materials supporting the Request for Information;
- SME Implementation Group (SMEIG) new member induction;
- a farewell note from Darrel Scott;
- an updated *IFRS for SMEs* Fact Sheet; and
- information about online resources.

View this update and all previous *IFRS for SMEs Updates* on IFRS website.

*(Source: https://www.ifrs.org/)*

## IFAC Endorses Joint Statement from the Secretariats of the International Organisations

Recently, the Organisation for Economic Co-operation and Development (OECD) hosted the seventh annual meeting of the Partnership of International Organisations for Effective International Rulemaking (IO Partnership). The meeting concluded with the publication of a *Joint Statement of International Organisations in Support of Effective International Rulemaking.* Signed by nearly 50 major international organizations, as diverse as the World Health Organiation (WHO), World Trade Organization (WTO), United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Energy Agency (IEA), and the International Organization for Securities Commissions (IOSCO), the Joint Statement reiterates the central role that international organizations play in promoting the global public good, tackling transboundary issues, and achieving the United Nations Sustainable Development Goals (SDGs). IFAC is proud to be a member of the OECD IO Partnership and a signatory to the Joint Statement. The Joint Statement complements IFAC's *G20 Call to Action* and its themes of *Recommit to Global Collaboration* and *Resist Regulatory Fragmentation*.

*(Source: https://www.ifac.org/)*

## International Accounting Standards Board to issue Interest Rate Benchmark Reform—Phase 2

The International Accounting Standards Board expects to issue *Interest Rate Benchmark Reform—Phase 2*, which amends IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, and the corresponding Proposed IFRS Taxonomy Update, on 27 August 2020. eIFRS Professional and eIFRS Comprehensive subscribers will be able to download the document from http://eifrs.ifrs.org/eifrs/PDFArchive?categoryId=71. Comprehensive subscribers will also be sent a printed copy of the document, and printed copies will also be available to order from the Web Shop. We do our best to ensure that the dates we provide in alerts about forthcoming publications are correct; however, circumstances may cause publication dates to change. To ensure you are up to date with all our forthcoming publications, you can choose to sign up to receive these news stories as email alerts. To do this, sign in and go to your Dashboard and choose to follow 'Forthcoming publications' in the 'Others' category on the left hand side on the dashboard. You must have an IFRS account—registration is free. You can also choose to receive updates and alerts to IFRS Standards from the dashboard. Please ensure you click on the 'manage alerts' tab to set the frequency of news alerts sent to your email address. Email alerts are set to 'never' by default, so please change this should you wish to receive email alerts. For more information on how the dashboard and alerts work, please go to our getting started page. (***Source:*** *https://www.ifrs.org/*)

## FASB Approves Accounting Updates to Presentation and Disclosures By Not-For-Profit Entities For Contributed Nonfinancial Assets

The Financial Accounting Standards Board (FASB) recently issued an Accounting Standards Update (ASU) intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. 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 recognized contributed services.The ASU requires a not-for-profit organization 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 also requires a not-for-profit to disclose:

1. Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets, and
2. For each category of contributed nonfinancial assets recognized (as identified in (a):
3. Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.
4. The not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
5. A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
6. The valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.
7. The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The ASU, including a FASB in Focus, is available at fasb.org. *(Source: https://www.fasb.org/)*

# ICAI

# Guiding Light… Leading Right

## Reaching Pinnacle in Independence, Integrity and Excellence

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

**The Institute of Chartered Accountants of India**



### Financial Reporting Review Board

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

### Peer Review Board

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

### Disciplinary Mechanism

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

### Quality Review Board

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

### Monitoring the Tendering issues

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

### Taxation Audits Quality Review Board

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

### Unique Document Identification Number

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

**and much more…..**

# ACCOUNTANT'S BROWSER

## PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

*Index of some useful articles taken from Periodicals received during August-September 2020 for the reference of Faculty/Students & Members of the Institute*

### 1. Accountancy

Financial reporting and auditing considerations on account of Covid-19 by Anand Bathiya and Yash Thakkar. *The Bombay Chartered Accountant Journal,* Vol,52-A/2, 2020, pp.26-30.

### 2. Auditing

Artificially intelligent audit function: With planning and processes, AI can revolutionize internal audit's work and value by Kitty Kay Chan and Tina Kim. *Internal Auditor,* September 2020.

### 3. Economics

Analysis of IT software and service exports from India by Manzoor Hassan Malik and Nirmala Velan. *International Trade, Politics and Development,* Vol.4/1,2020, pp.3-25.

Empirical study of trade openness and inflation in India by Megha Chhabra and Qamar Alam. *Decision,* Vol.47/1, 2020, pp.79-90.

Investigating the determinants of firm performance: A qualitative comparative analysis of insurance companies by Stavros Kourtzidis and Nickolaos G. Tzeremes. *European Journal of Management and Business Economics*, Vol.29/1, 2020, pp.3-22

### 4. Investment

Covid-19 impact on indian economy and financial markets by Apurva Shah. *The Bombay Chartered Accountant Journal,* Vol,52-A/2, 2020, pp.44-48.

### 5. Management

Academic production and technological emergence in finance : Bibliometric study on Fin Techs by Caciatori Junior and Ana Paula Mussi Szabo Cherobim. *Innovation and Management Review,* Vol.17/2, 2020, pp.115-131.

How corporate governance and ownership affect banks risk-taking in the MENA countries? by Luis Otero and Rafat Alaraj. *European Journal of Management and Business Economics,* Vol.29/2, 2020, pp.182-198.

### 6. Taxation and Finance

GST on sale of developed plots by V. S. Datey. *Goods and Services Tax Cases,* Vol.80/04, July 28- August 3, 2020, pp.39-43.

Impact of Covid-19 on international taxation by Siddharth Banwat and Anuj Jain. *The Bombay Chartered Accountant Journal,* Vol,52-A/2, 2020, pp.15-19.

Mediating role of adoption of an electronic tax system in the relationship between attitude towards electronic tax system and tax compliance by Sadress Night and Juma Bananuka. *Journal of Economics, Finance and Administrative Science,* Vol.25/49, 2020, pp.73-88.

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

# Legal Decisions


## Income Tax

***LD/69/41, [ITAT Jaipur: ITA No.595/ JP/2019], The Income Tax Officer, TDS Vs. Ajmer Vidhyut Vitran Nigam Ltd., 14/08/2020***

CIT(A) had deleted levy of late fees under Section 234E for AY 2016-17 and 2017-18 and Revenue's appeal against such deletion was dismissed by Jaipur ITAT, ITAT held that the matter was not covered by any of the exceptions as listed under the CBDT Circular No. 3/2018 regarding appeal filing monetary limit, Rejects Revenue's claim that the current levy under Section 234E is based on information and processing of TDS statement by Central Processing Centre (CPC), which is an external agency and hence, the case falls under Clause (e) of para 10 of the Circular providing for an exception in cases where addition is based on information received from external sources in the nature of law enforcement agencies, ITAT held that where the TDS statement has been processed by the CPC and while processing the same, fee under Section 234E has been levied having tax effect less than the prescribed limit, it will continue to be governed by low tax effect circular issued by the CBDT which is binding on the Revenue, ITAT also held that CIT(A) had not exceeded his jurisdiction while deleting the late fees levied.

***LD/69/42, [ITAT Mumbai: ITA No.2297/Mum/2017], Network Construction Company Vs. The Asst. Commissioner of Income Tax, 11/08/2020***

Section 50C held to be not applicable to transfer by way of contribution of 'development rights' to an AOP, Such transfer held to be covered under Section 45(3) which provides for both charge and computation in cases of contribution of a capital asset by a partner, Assessee entered into a joint venture agreement with an AOP and agreed to contribute development rights as 'capital contribution' at an agreed consideration of ₹ 5 crores, AO treated the same as 'capital asset' and computed the sale consideration value under Section 50C as per Stamp Valuation authority at ₹ 10 crores and taxed capital gains accordingly.

***LD/69/43, [ITAT Delhi: ITA No. 5128/Del/2018], AWP Assistance India P. Ltd. Vs. The Dy. Commissioner of Income Tax, 07/08/2020***

ITAT held that TDS credit denial vide Section 143(1) intimation without assigning reasons, suffered legal irregularity and cannot be sustained, for AY 2016-17, ITAT set aside the impugned orders and remanded the issue to the AO for disposal by way of speaking order, With respect to the advances received, assessee had recognized only such portion of income which pertains to a particular year along with corresponding TDS and had carried forward TDS of 1.56 Crores of AY 2015-16 since it pertained to AY 2016-17, Assessee filed the present appeal against Section. 143(1) intimation whereby the corresponding TDS brought forward from earlier AY to the income of subject AY was rejected, ITAT noted that intimation under Section 143(1) is only a matter of information generated in a pro forma by the Centralized Processing Centre, Bangalore and it does not appear to be the result of any due examination of the issue by the learned AO.

***LD/69/44, [Delhi High Court: ITA No. 822/ 2005], The Commissioner of Income Tax, Delhi Vs. M/s Nalwa Investment Limited, 07/08/2020***

Delhi High Court held that receipt of shares of amalgamating company in lieu of shares of amalgamated company amounts to 'transfer' under Section 2(47) in the hands of the assessee-shareholder and that the amount would be taxable under Section 28 in the event the shares are held as 'stock-in-trade', Assessee, the promoter company

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

of the Jindal group of companies transferred its shareholding in JFAL under a scheme of amalgamation in lieu of receipt of shares of JSL and claimed the same as exempt from capital gain tax under Section 47(vii) and the AO noted that the shares were held as 'stock-in-trade' and so ought to be taxed as 'business income', If the shares are exchanged, it can be said the assessee has made realisation of the value of the shares and the difference in the price of the shares would have to be treated as profit of the assessee for the taxation purpose, Matter remanded to check whether shares were held as stock or as capital asset.

*LD/69/45, [ITAT Delhi: ITA No.4199/Del/2016], Peartree Enterprises Pvt. Ltd. Vs. The Dy. Commissioner of Income Tax, 05/08/2020*

Amount paid by assessee co to its JV partner represented the diversion of income by overriding title, Delhi ITAT ruled in favour of assessee, Rejects AO's stand that the amount represented procurement commission subject to Section.40(a)(ia) disallowance on failure to deduct TDS during AY 2011-12, Assessee had entered into a JV with HCIL for the construction of road in Bihar and in terms of the MoU, on receipt of payment from client, JV account will pay 3% to HCIL and balance 97% to assessee.

## Transfer Pricing

*LD/69/46, [ITAT Bangalore: ITA No.2984/Bang/2018], The Asst. Commissioner of Income Tax Vs. EYGBS India Pvt. Ltd., 31/08/2020*

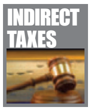
Additional income offered to tax on account of voluntary TP-adjustment pursuant to APA by assessee in respect of Gurgaon SEZ unit is eligible for Section 10AA deduction for AY 2014-15, Section 92C(4) specifically denies claim of Section. 10AA deduction on any adjustment made by TPO under section 92CA, however, increased income on account of voluntary TP-adjustment pursuant to APA made by the assessee would be eligible for Section.10AA deduction. ITAT referred to ruling in IBM India [(59 CCH 260)] which had held that deduction under Section 10AA of the Act has to be allowed on incremental income pursuant to APA as per modified return filed under Section 92CD as the same is not hit by proviso to Section 92C(4).

*LD/69/47, [Madras High Court: W.P. No. 34618/2019], Costal Energy Pvt. Ltd. Vs. Addl. Commissioner of Income Tax, 27/08/2020*

High Court set aside the order passed by TPO under Section 92CA(3) on the ground of violation of principles of natural justice for AY 2010-11, TPO had passed an order within a day of receiving assessee's reply dated 31.10.2019 to Revenue's show cause notice dated 29.10.2019, High Court directed the TPO to initiate proceedings de novo and complete the proceedings within eight weeks of date of first hearing with assessee, Assessee's third application filed during pendency of the reassessment proceedings with the settlement commission was rejected and thereafter an assessment order was passed on 26.02.2020 incorporating the aforesaid order under section 92CA(3), High Court directed that by virtue of setting aside of TPO order, the portion relating to the ALP-adjustment from the assessment order will stand substituted by the order to be passed by the TPO now and an order incorporating the same shall be passed by the AO.

*LD/69/48, [Gujarat High Court: W.P. No. 34618/2019],The Principal Commissioner of Income Tax Vs. Gulbrandsen Chemicals Pvt. Ltd., 03/02/2020*

In respect of sales to AE of chemicals by the assessee a chemical manufacturer, assessee's internal TNMM method was accepted by the High Court as the most appropriate method, against TPO's internal CUP method, As per High Court, a difference of opinion as to the appropriateness of one or the other method cannot be gone into in the appeal under Section 260A, ITAT had noted that CUP method ceases to be workable in assessee's case as accurate adjustments could not be made to nullify the impact of the fundamental differences in economic circumstances and contractual terms between the intra-AE transactions and non-AE transactions, Gujarat High Court thus confirmed ITAT's order.




## GST

***LD/69/49, [2020-TIOL-1280-HC-KERALA-GST], Devices Distributors Vs. Assistant State Tax Officer, and Ors., 23/07/2020***

The reasoning that the invoices accompanying the goods are not serially number and hence there is a reason to doubt that some goods may have escaped the tax reporting cannot be the ground for detaining goods which are backed by such invoices.The Hon'ble court held that, entertainment of a doubt that the invoices carrying the missing serial numbers were possibly not reported to the authorities cannot be a justification for detaining the goods in question, especially when they were admittedly accompanied by tax invoices as also e-way bills that clearly indicated the particulars that were required by Rule 46 of the GST Rules. The Court also pointed out that in any case the doubt pertained to goods other than those that were actually detained and consequently, the detention cannot be justified under Section 129 of the GST Act.

## SERVICE TAX

***LD/69/50, [Gauhati High Court: W.P. No. 2264/2020], M/s Urban Systems Vs. The Union of India, 28/08/2020***

There was an inadvertent mistake by assessee stating the duty payable under a wrong clause in the SVLDRS [Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019] application due to which the application was rejected by the Revenue, High Court dismissed such rejection of application, High Court stated that the assessee may make an application to the authorities to consider its claim of benefit under SVLDRS by allowing it to make necessary correction in the information provided as regards the disclosure of the dues from them and upon such application being made, the authorities would pass a reasoned speaking order thereon, High Court explained the distinction between an incurable mistake and inadvertent mistake.

***LD/69/51, [2020-TIOL-143-SC-ST-LB], Commissioner of Service Tax, Ahemdabad vs Adani Gas Ltd., 28/08/2020***

The "connection charges" collected from the customers at the time of providing new connection towards the use of pipelines, measuring equipment in the provision of "transportation of goods through pipeline services" will attract service tax as it would amount to "supply of tangible goods service."

***LD/69/52, [2020-TIOL-1444-HC-KAR-ST ], M/s Jagdish Advertising Vs. Designated Committee, 19/08/2020***

High Court held that the designated committee while processing an application under Sabka Vishwas Scheme of 2019, cannot adjudicate upon any of the contentious issues which existed between the Revenue and the Assessee before the Scheme was enacted, in the guise of verifying the accuracy of the declaration. Hence, if assessee has claimed payment by CENVAT Credit, which is otherwise disputed by the Revenue in the show cause proceedings, even then deduction in respect of payment of CENVAT Credit shall be allowed in respect of deciding application against SCN raised for disputed tax demand.

## CUSTOMS

***LD/69/53, [Madras High Court: W.P. No. 26324/2019], Vigneswara Exims Vs. The Asst. Commissioner of Income Tax, 28/08/2020***

Assessee had claimed title of goods was transferred to assessee by Ghana exporter to it during the course of transit by way of high sea-sales, High Court noted that certain documents have been enclosed in typed set of papers however no payment has been made to foreign exporter or importer, High Court upheld the import assessment order releasing goods to original importer and rejected assessee's title claim on those goods, Further High Court stated that Revenue to retain the goods when the original documents are only with the actual importer of goods who have complied with all formalities and that keeping such goods (perishable in nature) in the custody of Revenue will only make the items lose their value.

# Legal Update

## Disciplinary Case

***Complaint against Chartered Accountant for issuance of false Utilization Certificate -- Plea of Respondent that the amount in the Certificate of Utilisation was supported by the Valuer's report and books of accounts -- Held, Chartered Accountant is not expected to be expert in assessing the valuation of cost of construction and for the same he is expected to rely upon the work of report of valuers / engineers -- Held, Respondent Not Guilty of professional misconduct under Clause (7) of the Part I of Second Schedule to the Chartered Accountants Act, 1949.***

***Held:***

In the instant case, the firm while availing the term loan for construction of the project, has filed a certificate issued by the Respondent. As per the Complainant, utilization certificate submitted by the firm was false. The Committee noted that the valuation report brought on record by the Complainant is dated 05.09.2013 and there was nothing on record from the Complainant to establish as to how the said valuation report which is issued after 4 years is relevant to the present matter. Further, the Complainant did not bring on record copy of bank statement to show that the payment for expenses was not made through the bank account. There was nothing on record to show that the Complainant had ever challenged the genuineness of the parties to whom payments were made. It is also observed that the Complainant did not provide the copy of valuation report. The Committee also observed that a Chartered Accountant is not expected to be expert in assessing the valuation of cost of construction and for the same he is expected to rely upon the work of report of valuers / engineers. In the present case, the Respondent brought on record copy of valuer report pertaining to the period of expenses, to show that amount as mentioned in the Certificate of Utilisation was supported by the valuer report and books of accounts. Hence, in view of above facts and submissions, the Committee decided to extend the benefit to the Respondent and accordingly, decided to hold the Respondent Not Guilty of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

# Circulars/Notifications

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


## I. NOTIFICATIONS

### *1. Amendment of Income-tax Rules, 1962 for providing conditions and guidelines for Pension Funds u/s 10(23FE) of the Income-tax Act, 1961 – Notification No. 67/2020, dated 17/08/2020*

Vide the Income-tax (20th Amendment) Rules 2020, Rule 2DB (other conditions to be satisfied by the pension fund), Rule 2DC (Guidelines for notification under section 10(23FE) and Form No. 10BBA, 10BBB, 10BBC are inserted in the Income-tax Rules, 1962. *Refer:https://www.incometaxindia.gov.in/communications/notification/notification_67_2020.pdf*

## II. CIRCULARS

### *1. Imposition of charge on the prescribed electronic modes u/s 269SU - Circular No. 16/2020, dated 30-08-2020*

Vide this Circular, CBDT has advised Banks to immediately refund the charges collected, if any, on or after 01.01.2020 on transactions carried out using the electronic modes prescribed under section 269SU and not to impose charges on any future transactions carried through the prescribed modes. *Refer: https://www.incometaxindia.gov.in/communications/circular/circular-16-2020.pdf*

## III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

### *1. Order designating Pr.CCsIT as cadre controlling authority overall the field formations including ReAC – Order u/s 119, dated 20-08-2020*

The CBDT, in exercise of powers u/s 119, has directed that the Pr. CCsIT will be the cadre controlling authority in their area of jurisdiction in respect of all field formations including ReACs, Central Charges, International Taxation and Transfer Pricing charges, Investigation Directorates, Exemptions charges and RTI etc. *Refer:https://www.incometaxindia.gov.in/Documents/faceless-assessment/Order-119-PrCCsIT-Cadre-Controlling-Authority.pdf*

### *2. Order u/s 138 for sharing of information with "Scheduled Commercial Banks - Order, dated 31-08-2020*

The CBDT, in exercise of powers conferred u/s 138(1)(a)(i), has directed that PDGIT (Systems), New Delhi shall be the specified income-tax authority for furnishing information to the 'Scheduled Commercial Banks', as notified vide Notification No. 71/2020 dated 31.08.2020 u/s 138(1)(a)(ii). *Refer:https://www.incometaxindia.gov.in/Lists/Latest%20News/Attachments/413/order_225_136_2020_MiscComm_1-9-20.pdf & https://www.incometaxindia.gov.n/communications/notification/notification_71_2020.pdf*

### *3. CBDT provides ITR Filing Compliance Check Functionality for Scheduled Commercial Banks – Press Release, dated 02-09-2020*

The Department has now released a new functionality "ITR Filing Compliance Check" which will be available to Scheduled Commercial Banks (SCBs) to check the IT Return filing status of PANs in bulk mode. The PDGIT (Systems) has notified the procedure and format for providing notified information to the Scheduled Commercial Banks. *Refer: https://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/851/Press-Release-CBDT-provides-ITR-Filing-Compliance-Check-Functionality-for-Scheduled-Commercial-Banks-dated-02-09-2020.pdf*


## GST

### *Aadhaar Based Registration under GST*

The Central Government vide *Notification No. 62/2020- Central Tax dated 20th August, 2020* has amended the CGST Rules, 2017 so as to provide an option for authentication through Aadhaar number for registration under GST.

### *Interest on Delayed Payment of GST*

The Central Government vide *Notification No.*

(Matter on Direct and Indirect Taxes, is contributed by Direct Taxes Committee and GST & Indirect Taxes Committee of ICAI respectively. FEMA updates by CA. Manoj Shah, CA Hinesh Doshi and CA. Sudha G. Bhushan)

*63/2020- Central Tax dated 25th August, 2020* has notified 1st day of September, 2020, as the date on which the provisions of section 100 of the Finance (No. 2) shall come into force. That is amendment in section 50 of the CGST Act, 2017 regarding Levy of interest on Net Tax Liability (i.e. interest on tax paid through Electronic Cash Ledger only) has been made effective from 1st Sept, 2020.

It has also been clarified in a press release dated 26th August, 2020 that provisions related to interest on delayed payment of GST shall be effective prospectively due to certain technical limitations. However, it has assured that no recoveries shall be made for the past period as well by the Central and State tax administration.

***Extension of Due Date for Filing FORM GSTR-4 for financial year 2019-2020***

The Central Government vide *Notification No. 64/2020- Central Tax dated 31st August, 2020* has further extended the due date of filing of GSTR-4 for the year ending 31st March, 2020 till 31st October, 2020.

***Extension of Due Date of Compliances by Anti-Profiteering Authority***

The Government through *Notification No. 65/2020- Central Tax dated 1st September 2020* has provided that where any time limit for completion or compliance of any action, by any authority under section 171 of CGST Act, 2017, which falls during the period from the 20th day of March, 2020 to the 29th day of November, 2020, and where completion or compliance of such action has not been made within such time, then, the time limit for completion or compliance of such action, shall be extended upto the 30th day of November, 2020."

## CUSTOMS

***Manufacturing or other Operations in Special Warehouses***

The CBIC vide *Circular No. 36/2020-Customs dated 17th August, 2020* has prescribed the detailed procedure to be followed in cases of manufacturing or other operations undertaken in special warehouses under section 65 of the Customs.

***All India roll-out of Faceless Assessment – Registeration***

The CBIC vide *Circular No. 40/2020-Customs dated 4th September, 2020* has decided to roll-out the Faceless Assessment at an All India level in all ports of import and for all imported goods by 31st October 2020. It has provided the detailed roll-out plan in phases covering different Customs Zones and Chapters of the Customs Tariff Act, 1975, including the existing Phases I and II.

It has further provided detailed procedure for Constitution of National Assessment Centres (NACs), its responsibilities, responsibilities of Co-conveners of NAC, Co-ordination among NAC Commissioners, Co-ordination of NACs with Other Directorates and Pre-launch preparation for Faceless Assessment,etc.

***Auto Let Export Order under Express Cargo Clearance System (ECCS)***

The CBIC vide *Circular No. 41/2020-Customs dated 7th September, 2020* has allowed the Let Export Order (LEO) under Express Cargo Clearance System (ECCS) for goods covered under the Courier Shipping Bills (CSBs) and Risk Management System (RMS) and cleared by x-ray scanning.

The objective of the Board to allow Export Order under Express Cargo Clearance System (ECCS) was to facilitate exports by courier and to enhance the global competitiveness of India's exporters with an aim to ensure Ease of Doing Business.

CORPORATE LAWS

***Amendment of item no.(ix) of Schedule VII of the Companies Act,2013***

The Ministry of Corporate Affairs has issued a notification dated 24th August 2020 where it has substituted (ix) of Schedule VII which states

a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government and

b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals(SDGs) *Refer: http://www.mca.gov.in/Ministry/pdf/Notification CompAct_26082020.pdf*

***Companies (Corporate Social Responsibility Policy) Amendment Rules, 2020***

The Central Government vide notification dated 24th August 2020 further amended the Companies (Corporate Social Responsibility Policy) Rules, 2014.

1) Post this notification, any company engaged in R&D activity of new vaccine, drugs and medical devices in their normal course of business may undertake R&D activity of new vaccine, drugs and medical devices related to COVID-19 for financial years 2020-21 to 2022-23, subject to the conditions that- (i) such research and development activities shall be carried out in collaboration with any of the institutes or organisations mentioned in item (ix) of Schedule VII to the Act. (ii) details of such activity shall be disclosed separately in the Annual Report on CSR included in the Board's Report"

2) In Rule 4, in sub-rule 1, the words "excluding activities undertaken in pursuance of its normal course of business" shall be omitted.

3) In Rule 6, in sub-rule (1), — (i) first proviso shall be omitted; (ii) In the second proviso, the word "further" shall be omitted. *Refer:http://www.mca.gov.in/Ministry/pdf/csr_26082020.pdf*

***Commencement notification for Section 23(ii) of the Companies(Amendment) Act, 2017***

The Ministry of Corporate Affairs has appointed 28th August, 2020 as the date on which the provision of section 23 clause (ii) shall come into force.

In section 92 of the principal Act (ii) for sub-section (3), the following sub-section shall be substituted, namely:— "(3) Every company shall place a copy of the annual return on the website of the company, if any, and the web-link of such annual return shall be disclosed in the Board's report.". *Refer:http://www.mca.gov.in/Ministry/pdf/Notification CompAct_29082020.pdf*

***Companies (Management and Administration) Amendment Rules, 2020***

The Ministry of Corporate Affairs vide its notification dated 28th August, 2020 has notified Companies (Management and Administration) Rules, 2020 wherein it has amended the sub-rule 1 of rule 12 of Companies (Management and Administration) Rules, 2014, by inserting the following proviso, namely:

"Provided that a company shall not be required to attach the extract of the annual return with the Board's report in Form No. MGT.9, in case the web link of such annual return has been disclosed in the Board's report in accordance with sub-section (3) of section 92 of the Companies Act, 2013. *Refer: http://www.mca.gov.in/Ministry/pdf/Rule_29082020.pdf*

***Companies (Acceptance of Deposits) Amendment Rules, 2020***

The Ministry of Corporate Affairs has notified Companies (Acceptance of Deposits) Amendment Rules, 2020 on 7th September, 2020 to further amend the Companies (Acceptance of Deposits) Rules, 2014. The following amendments have been made:

Rule 2 (1)(c)(xvii), which specifies the definition of deposits has been substituted, namely:

"An amount of twenty five lakh rupees or more received by a start-up company, by way of a convertible note (convertible into equity shares or repayable within a period not exceeding ten years (from the date of issue) in a single tranche, from a person."

The period of repayment was fixed at 5 years from the date of issue, prior to this amendment. This has now been extended to 10 years *Refer: http://www.mca.gov.in/Ministry/pdf/Rule_08092020.pdf*

# Legal Update

***Relaxation of additional fees and extension of last date of filling of CRA-4 (form for filing of cost audit report) for FY 2019-20***

The Ministry of Corporate Affairs vide its circular dated 10th September, 2020 has clarified that if cost audit report for the financial year 2019-20 by the cost auditor to the BOD of the Companies is submitted by the 30th November, 2020 then the same would not be viewed as the violation of rule 6(5) of Companies (cost records and audit) Rules, 2014 and consequently the cost audit report shall be filed in e-form CRA-4 within 30 days from the date of receipt of the copy of the cost audit report by the company.

However, in case a company has availed extension of time for holding AGM then e-form CRA-4 may be filed within the timelines provided under the proviso to rule 6(6) of the above said rules. *Refer: http://www.mca.gov.in/Ministry/pdf/circular_ 10092020.pdf*

***Extension of Annual General Meeting (AGM) for the financial year ended as at 31.03.2020 without filing of GNL-1***

Ministry of Corporate Affairs (Registrar of Companies of various States) have issued order dated 8th September, 2020 across the country to extend the time for holding of AGM for the financial year ended on 31.03.2020 by three months from the due date by which AGM ought to have been held in accordance with section 96(1) of the Companies Act, 2013 without requiring the Companies to file applications for seeking such extensions through prescribed Form GNL-1.

Accordingly the Companies are not required to file Form GNL-1 for seeking extension. Further, it has been clarified by the respective ROC's that the extension shall cover the following:

a) Pending application filed in Form GNL-1 for the extension of AGM for the financial year ended on 31.03.20 which is yet to be approved

b) Application filed in Form GNL-1, for the extension of AGM for the financial year ended on 31.03.20 which were rejected.

An announcement in this regard, has also been hosted on the ICAI website. Link for the same has been given below

*Refer: https://www.icai.org/post/registrar-companies-various-regions-ext-agm*


***Re-lodgement of Transfer Share Requests in terms of Regulation 40(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015***

The Securities and Exchange Board of India (SEBI), vide *Circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2020/166 dated September 07, 2020* has fixed March 31, 2021 as the cut-off date for re-lodgement of transfer deeds in terms of Regulation 40 (1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Further, it has been clarified that the shares which are re-lodged for transfer (including those request that are pending with the listed company / RTA, as on date) shall henceforth be issued only in demat mode.

*Refer:https://www.sebi.gov.in/legal/circulars/sep-2020/re-lodgement-of-transfer-requests-shares_47500.html*


**Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2020 dated 11th August 2020. – Notification No. FEMA 6(R)/(2)/2020-RB**

New Regulation 9 is inserted and powers have been givenm to reserve Bank to permit import and export of currency. Therefore, as per the said new regulation, any person is allowed to take or send out of India to any country or bring into India from any country currency notes of Government of India and /or of Reserve Bank of India subject to such terms and conditions as the Reserve Bank may stipulate upon application made to RBI to this effect.

RBI may give such approval subject to certain terms and condition.

*Refer: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10255&Mode=0*

## Notification No.1-CA(7)/195/2020 dated 14th September, 2020

**NOTIFICATION**

New Delhi, the 14th September, 2020

**No.1-CA(7)/195/2020** — The following draft of certain regulations further to amend the Chartered Accountants Regulations, 1988, which the Council of the Institute of Chartered Accountants of India proposes to make, is hereby published, as required by sub-section (3) of Section 30 of the Chartered Accountants Act, 1949 (38 of 1949) for the information of all persons likely to be affected thereby; and notice is hereby given that the said draft regulation shall be taken into consideration after the expiry of a period of forty-five days from the date on which the copies of the Gazette of India, in which these draft regulations are published, are made available to the public;

Any person desiring to make any objection or suggestion in respect of the said draft regulations, may forward the same to the Council of the Institute of Chartered Accountants of India within the period so specified addressed to the Acting Secretary, the Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002;

Any objection or suggestion which may be received from any person with respect to the said draft regulations before the expiry of the period so specified shall be taken into consideration by the Council.

**Draft Regulations**

1. (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2020.

   (2) They shall come into force on the date of their final publication in the Official Gazette.

2. In the Chartered Accountants Regulations, 1988, -

**I. In Regulation 4:**

(i) The existing regulation 4, shall be numbered as sub-regulation (1);

(ii) After so numbered sub-regulation (1), the following shall be inserted as sub-regulation (2), namely,-

"(2) Notwithstanding anything contained in clause (a) or (b) of sub-regulation (1), a person who makes an application for membership of the Institute after a period of three years or more from the date of his passing the final examination and comply with other provisions of these regulations, shall be required to appear and pass such Assessment as may be approved by the Council from time to time."

**II.** In regulation 19, after sub-regulation (1), the following proviso shall be inserted, namely,-

"Provided that a person who makes an application for restoration of his name after a period of three years or more from the date of removal of his name shall be required to appear and pass such assessment as may be approved by the Council from time to time."

RAKESH SEHGAL, Acting Secretary
[ADVT.-III/4/EXTY./219/2020-21]

………………………………………………………..

**Note**: The principal regulations were published in the Gazette of India, Extraordinary, dated the 1st June, 1988 vide number 1-CA(7)/134/88 dated 1st June, 1988 and subsequently amended by the following numbers:-

(i) Notification No.1-CA(7)/1/89 published in the Gazette of India, dated 7th October, 1989

(ii) Notification No.1-CA(7)/10/90 published in the Gazette of India, dated 19th January, 1991

(iii) Notification No.1-CA(7)/11/90 published in the Gazette of India, dated 19th January, 1991

(iv) Notification No.1-CA(7)/12/91 published in the Gazette of India, dated 23rd February, 1991

(v) Notification No.1-CA(7)/13/90 published in the Gazette of India, dated 2nd February, 1991

(vi) Notification No.1-CA(7)/19/92 published in the Gazette of India, dated 7th March, 1992.

(vii) Notification No.1-CA(7)/28/95 published in the Gazette of India dated 1st September, 1995

(viii) Notification No.1-CA(7)/30/95 published in the Gazette of India, Extraordinary dated 13th March, 1996

(ix) Notification No. 1-CA(7)/31/97 published in the Gazette of India, dated 16th August, 1997

(x) Notification No. 1-CA(7)/44/99 published in the Gazette of India dated 26th February, 2000

(xi) Notification No.1-CA(7)/45/99 published in the Gazette of India, dated 26th February, 2000

(xii) Notification No.1-CA(7)/51/2000 published in the Gazette of India, Extraordinary, dated 17th August, 2001

(xiii) Notification No.1-CA(7)/59/2001 published in the Gazette of India, Extraordinary dated 28th September, 2001

(xiv) Notification No.1-CA(7)/64/2002 published in the Gazette of India, Extraordinary dated 31st March, 2003

(xv) Notification No.1-CA(7)/64A/2003 published in the Gazette of India, Extraordinary dated 4th December, 2003

(xvi) Notification No.1-CA(7)/83/2005 published in the Gazette of India, Extraordinary dated 28th July, 2005

(xvii) Notification No.1-CA(7)/84/2005 published in the Gazette of India, dated 17th June, 2006

(xviii) Notification No. 1-CA(7)/92/2006 published in the Gazette of India, dated 13th September, 2006

(xix) Notification No. 1-CA(7)/102/2007(E) published in the Gazette of India, dated 17th August, 2007

(xx) Notification No.1-CA(7)/116/2008 published in the Gazette of India, dated 25th September, 2008

(xxi) Notification No.1-CA(7)/123/2008 published in the Gazette of India, dated 3rd December, 2008

(xxii) Notification No. 1-CA(7)/145/2012 published in the Gazette of India, Extraordinary dated 1st August, 2012

(xxiii) Notification No. 1-CA(7)/154/2014 published in the Gazette of India, Extraordinary dated 22nd July, 2014

(xxiv) Notification No. 1-CA(7)/167/2014 published in the Gazette of India, Extraordinary dated 23rd January, 2015.

(xxv) Notification No. 1-CA(7)/178/2016 published in the Gazette of India, Extraordinary dated 25th May, 2017.

**Comments/suggestions if any may be sent to email id - comments.mss@icai.in**

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## Explanatory Note to the draft amendments in Regulations 4 and 19 of the Chartered Accountants Regulations, 1988 – Published vide Notification No.1-CA(7)/195/2020 in the Gazette of India dated 14th September, 2020, seeking objections/suggestions from public

The following is the explanatory note on the proposed draft amendments in Regulations 4 and 19 - seeking regulatory powers with the Council for deciding the manner of assessment in which the current level of knowledge of a person seeking membership of the Institute or applying for restoration of his name after three years from the date of his being eligible for membership of Institute will be assessed:-

The Council at its 392nd meeting held on 22nd April, 2020 approved the proposal for introducing an Assessment/Refresher Course Scheme for the students who have not taken membership of the Institute for more than 3 years after qualifying the Final Examination as well as for ex-members who have not applied for restoration of membership for more than three years after removal of name due to non-payment of Membership fee or any other reason. Based on the decision of the Council, the draft amendments in the Chartered Accountants Regulations, 1988 were submitted to the Central Government for its consideration and approval. The Central Government has accorded its in-principle approval to the proposed amendments and has asked the Institute to notify them in the Gazette of India for public comments and re-submit the proposal for final approval of the Ministry after considering the comments received by the Council of the Institute.

Accordingly, the draft amendments have been notified in the Gazette of India dated 14th September, 2020 seeking objections/suggestions from the public. A copy of the Gazette Notification has also been hosted on the website of the Institute at https://resource.cdn.icai.org/61210gazette-notification-dated14092020.pdf for information and seeking suggestions/objections from the members, students of the Institute and other stakeholders within a period of 45 days. The suggestions/objections so received will be considered by the Council of the Institute on or after 29th October, 2020.

It may be mentioned that the Council at its meeting held in August, 2020 has decided that instead of assessment it should be a refresher course. As per decision taken by the Council and based on the comments that will be received, the proposal will be modified by the Council at the time of consideration of the comments and the revised proposal will again be submitted to the Government for its final approval. The purpose behind these draft amendments is to have empowerment with the Council for the manner in which such refresher course will be done. It may also be mentioned that once the Ministry gives its final approval to the proposed amendments and the amendments in regulations are finally notified in the Gazette of India, the matter will again be brought back before the Council for deciding the modalities in which such refresher course will be done and the date from which it will be effective.

It may be clarified that once these amendments are brought into force and with effect from such date as may be decided by the Council, such students and ex-members shall be required to comply with such requirements as may be decided by the Council of the Institute, for obtaining the membership of the Institute. Therefore, students who have passed the Final Examination of the Institute and have also complied with other requirements of the Regulations and those ex-members, whose names have been removed from the Register of Members on account of non-payment of fee or for other reason, but have not applied for membership of the Institute or restoration of their names in the Register of Members for more than 3 years, may apply for membership or restoration of name as the case may be at the earliest.

## Draft Amendments in Regulations 51, 54 and 58 of the Chartered Accountants Regulations, 1988

**NOTIFICATION**

New Delhi, the 23rd September, 2020

No. 1-CA(7)/196/2020 — The following draft of certain regulations further to amend the Chartered Accountants Regulations, 1988, which the Council of the Institute of Chartered Accountants of India proposes to make, is hereby published, as required by sub-section (3) of Section 30 of the Chartered Accountants Act, 1949 (38 of 1949) for the information of all persons likely to be affected thereby; and notice is hereby given that the said draft regulation shall be taken into consideration after the expiry of a period of forty-five days from the date on which the copies of the Gazette of India, in which these draft regulations are published, are made available to the public;

Any person desiring to make any objection or suggestion in respect of the said draft regulations, may forward the same to the Council of the Institute of Chartered Accountants of India within the period so specified, addressed to the Acting Secretary, the Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002; Any objection or suggestion which may be received from any person with respect to the said draft regulations before the expiry of the period so specified shall be taken into consideration by the Council.

**Draft Regulations**

1. (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2020.

   (2) They shall come into force on the date of their final publication in the Official Gazette.

2. In the Chartered Accountants Regulations, 1988,-

   I. For regulation 51 of said regulations, the following regulation shall be substituted, namely:-

   “**51** (1) An articled assistant who has passed the Intermediate (Professional Competence) Examination or Professional Education (Examination-II) or Intermediate examination and has completed a minimum of eighteen months of practical training under these regulations shall be eligible for industrial training.

(2) An articled assistant may, at his discretion, serve as an industrial trainee for the period specified in sub-regulation (4) in such offices of the Central or State Governments, Central statutory andjudicial authorities, regulatory bodies, banking companies and such other departments of central or state governments, institution or organisation as may be decided by the Council from time to time; or in any of the financial, commercial, industrial undertakings with minimum fixed assets or minimum total turnover or minimum paid-up share capital as may be approved by the Council from time to time.

(3) An articled assistant shall intimate to his principal his intention to take such industrial training at least three months before the date on which such training is to commence.

(4) The period of industrial training may range between nine months and eighteen months.

(5) The industrial training shall be received under a member of the Institute. An Associate who has been a member for a continuous period of at least three years shall be entitled to train one industrial trainee at a time and a fellow shall be entitled to train two industrial trainees at a time, whether such trainees be articled assistants or audit assistants.

Provided that in the case of the Central or State Governments, Central statutory and judicial authorities, regulatory bodies, banking companies and other departments of central or state governments, institution or organisation, if no member of the Institute referred to in this subregulation is available, the industrial training can be imparted by such an officer of that Government, Authority, Body, Bank, department of central or state government, institution or organisation, as may be recognised by the Council from time to time.

Provided further that the entitlement of such officer to train the industrial trainee shall be determined by the Council from time to time keeping in view the number of years of service and the nature of services being rendered by the department concerned.

(6) An agreement of training shall be entered into in the form approved by the Council.

(7) On satisfactory completion of the industrial training, the member training the industrial trainee, shall forthwith issue to the trainee a certificate in the form approved by the Council in respect of the training undergone under him and forward a copy thereof to the Secretary.

Provided that if such industrial training is imparted by an officer recognized by the Council under sub-regulation (5), the industrial trainee shall obtain a certificate in the form approved by the Council from such officer and shall forward a copy thereof to the Secretary.

(8) The period of industrial training referred to under this regulation, shall be treated as service under articles for all purposes of these Regulations, provided the certificate referred to in sub-regulation (7) is produced.

(9) Notwithstanding anything contained in this regulation and subject to the provisions of subregulation (1), an articled assistant may also serve as an industrial trainee for a period ranging from six to eighteen months in any foreign country under a member of the accountancy body in that country recognised by the International Federation of Accountants in such manner as may be determined by the Council from time to time.

(10) A member or Officer, with the consent of industrial trainee serving under him, may depute the latter for industrial training for a period of three months in any foreign country, in such manner as may be determined by the Council.

(11) The industrial trainee shall be paid such monthly stipend as may be agreed

mutually between the industrial trainee and the member or officer imparting the industrial training.";

II. In regulation 54 of the said regulations, in sub-regulation (5), for the words "shall not exceed one year", the words "shall not exceed eighteen months" shall be substituted.

III. In regulation 58:

(i) In sub-regulation (2), -

(a) for the words "If the period of the excess leave taken is sought to be served",, the words

"The period of excess leave taken shall be served" shall be substituted;

(b) For the words "last served his articles," the words "last served his articles and" shall be substituted;

(ii) Sub-regulation (4) shall be omitted.

RAKESH SEHGAL, Acting Secy.
[ADVT.-III/4/Exty./234/2020-21]

..............................................................

**Note :** The principal regulations were published in the Gazette of India, Extraordinary, dated the 1st June, 1988 vide number 1-CA(7)/134/88 dated 1st June, 1988 and subsequently amended by the following numbers:-

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(iii) Notification No.1-CA(7)/11/90 published in the Gazette of India, dated 19th January, 1991

(iv) Notification No.1-CA(7)/12/91 published in the Gazette of India, dated 23rd February, 1991

(v) Notification No.1-CA(7)/13/90 published in the Gazette of India, dated 2nd February, 1991

(vi) Notification No.1-CA(7)/19/92 published in the Gazette of India, dated 7th March, 1992.

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(viii) Notification No.1-CA(7)/30/95 published in the Gazette of India, Extraordinary dated 13th March, 1996

(ix) Notification No. 1-CA(7)/31/97 published in the Gazette of India, dated 16th August, 1997

(x) Notification No. 1-CA(7)/44/99 published in the Gazette of India dated 26th February, 2000

(xi) Notification No.1-CA(7)/45/99 published in the Gazette of India, dated 26th February, 2000

(xii) Notification No.1-CA(7)/51/2000 published in the Gazette of India, Extraordinary, dated 17th August, 2001

(xiii) Notification No.1-CA(7)/59/2001 published in the Gazette of India, Extraordinary dated 28th September, 2001

(xiv) Notification No.1-CA(7)/64/2002 published in the Gazette of India, Extraordinary dated 31st March, 2003

(xv) Notification No.1-CA(7)/64A/2003 published in the Gazette of India, Extraordinary dated 4th December, 2003

(xvi) Notification No.1-CA(7)/83/2005 published in the Gazette of India, Extraordinary dated 28th July, 2005

(xvii) Notification No.1-CA(7)/84/2005 published in the Gazette of India, dated 17th June, 2006

(xviii) Notification No. 1-CA(7)/92/2006 published in the Gazette of India, dated 13th September, 2006

(xix) Notification No. 1-CA(7)/102/2007(E) published in the Gazette of India, dated 17th August, 2007

(xx) Notification No.1-CA(7)/116/2008 published in the Gazette of India, dated 25th September, 2008

(xxi) Notification No.1-CA(7)/123/2008 published in the Gazette of India, dated 3rd December, 2008

(xxii) Notification No. 1-CA(7)/145/2012 published in the Gazette of India, Extraordinary dated 1st August, 2012

(xxiii) Notification No. 1-CA(7)/154/2014 published in the Gazette of India, Extraordinary dated 22nd July, 2014

(xxiv) Notification No. 1-CA(7)/167/2014 published in the Gazette of India, Extraordinary dated 23rd January, 2015.

(xxv) Notification No.1-CA(7)/178/2016 published in the Gazette of India, Extraordinary dated 25th May, 2017.

Comments/suggestions if any may be sent to email id comments.bos@icai.in


ICAI
INTERNATIONAL
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2020
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INRESEARCH ARENA
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President, ICAI &
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The International Research Awards will enhance the continuing advancement of the worldwide accountancy profession. This research award is one of only a few global awards which will encourage research activities internationally by recognizing high-quality research work through a fair and rigorous process. I am proud that ICAI is playing a role in strengthening the progress of the global accountancy profession through hosting this award.
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Submission of Published Research Paper
Last date - 31st Oct., 2020
Hon'ble Justice
(CA.) Anil R. Dave
Former Judge,
Supreme Court of India
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Ms. Yelena
Rodríguez Trujillo
Executive Director,
CCPAP


# ICAI DOCTORAL SCHOLARSHIP SCHEME 2020

**Last date for Submission of application: 15TH NOVEMBER 2020**

## Eligibility CRITERIA

- Member of the ICAI
- Minimum of 75% marks in 10th and 12th standard.
- NET/SLET and M Phil from a recognized university will carry weightage in the assessment of research proposal.
- The scholar should not be more than 40 years of age on the last date of application.
- Candidates who have already availed any other doctoral fellowship awards are not eligible to apply.

## About the SCHOLARSHIP

Research Committee of ICAI has launched ICAI Doctoral Scholarship Scheme 2020 to award scholarship to members of the Institute who are registered as Ph.D. Scholars in UGC recognized Indian Universities / Deemed Universities/ Colleges, IIMs having University/IIMs approved Ph.D. Programme to pursue and complete their Doctoral Research in Auditing, Taxation, Commerce, Management and Accounting Discipline. The candidates must have confirmed Ph.D. Registration at any of the Institutions mentioned above on the last date of application.

## SCHOLARSHIP

The scholarship of Rs. 50,000 per month for 3 years will be given to maximum 5 scholars.

## How to APPLY

The application along with research proposal, abstract (3000 and 300 words respectively) and all the enclosures must be sent to Research Committee before the last date of submission duly signed and stamped by the Ph.D. Registered Institution.

## Scholarship TOPICS

***The following topics are suggested:***

1. Human Resource Accounting
2. Simplification of Human Resource Laws
3. Government Sector Accounting
4. Integrated Reporting
5. International Taxation Laws
6. Water Audit

***The Research Committee will decide the suitability of the topics from time to time.***

For further details please write to:

**Secretary, Research Committee**
The Institute of Chartered Accountants of India
ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002. India
☎ +91 120 3876877 ✉ doctoral.research@icai.in
Mob No. 7836040914

**Weblink : https://www.icai.org/new_post.html?post_id=16491**

Scan for weblink

## Release of Second Edition of Publication on *'Municipal Bonds for Financing Urban Infrastructure in India: An Overview'*

Issuance of municipal bonds is an innovative source of raising finance through which the municipal bodies can raise funds from capital market. The Committee on Public and Government Financial Management (CP&GFM) of ICAI has issued Second edition of the publication on '*Municipal Bonds for Financing Urban Infrastructure in India: An Overview*' to provide updated guidance to municipal bodies and other concerned stakeholders in India about municipal bonds. The revision was necessitated owing to various developments that have taken place like Securities and Exchange Board of India (SEBI) amended regulations for issuance and listing of municipal bonds [SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015] in 2019, issued circular in 2019 regarding continuous disclosures and compliances by listed entities under aforesaid SEBI regulations, constitution of Municipal Development Committee by SEBI, etc.

The publication was released by the Committee during the webinar on '*Roadmap for Financially Sustainable Cities in India*' held on September 10, 2020 addressed by senior officials off SEBI & Asian Development Bank (ADB) and guided members about relevant SEBI regulations along with the details about the concept of municipal bonds, municipal bond market in India, International perspective and how Chartered Accountants (CAs) can support municipal bodies in tapping capital market and issue municipal bonds.


**Committee on Public and Government Financial Management**

# ICAI in Media : Glimpses of September - 2020

THE HINDU BusinessLine

## CA Institute to come out with forensic accounting, investigation standards

New Delhi | September 02, 2020

OUR BUREAU

New Delhi, September 1

The Institute of Chartered Accountants of India (ICAI) proposes to come out with a set of Forensic Accounting and Investigation Standards (FAIS), it's President Atul Kumar Gupta said on Tuesday.

The new standards, numbering about 30, are expected to be ready by end-December and will go a long way in raising the quality benchmark of forensic engagements, Gupta told a virtual press conference.

He also said that FAIS will be mandatory for the members of the CA Institute and non-adherence will invite disciplinary action. Even if the forensic audit and investigation is conducted by a non-audit international firm, any member of the CA Institute signing such report would be required to follow the FAIS, Gupta clarified.

Atul Kumar Gupta, President, ICAI

"We will be guided by who is signing the forensic investigation report and not by the firm," he said.

FAIS will also be useful to the law enforcement agencies, corporate, banks and other stakeholders to appreciate the common practices and finer nuances of conducting forensic accounting and investigation engagements, he said.

**The world's first**

The CA Institute will be the first body in the accounting world to develop a full set of FAIS standards for forensic professionals and stakeholders, he said.

The proposed standards would help Forensic Accounting and Investigation professionals to conduct their examinations in a highly professional manner and collect evidences which may be subject to high level of scrutiny in a court of law, Gupta said.

The Forensic Accounting and Investigation Professionals will be able to contribute to judicial proceedings as experts with the help of FAIS. Also, stakeholders like the Directorate of Enforcement (ED), Central Bureau of Investigation (CBI), Serious Fraud Investigation Office (SFIO), Economic Offence Wing (EOW), Reserve Bank of India (RBI) and others will gain more confidence in their investigations by involving forensic professionals supported by FAIS.

Outlook

## ICAI issues MSME Business Continuity Checklist

New Delhi, September 4, 2020

Chartered accountants" apex body ICAI has issued a checklist for business continuity of micro, small and medium enterprises (MSMEs).

The ''MSME Business Continuity Checklist" is in addition to the launch of MSME mentorship programme, the Institute of Chartered Accountants of India (ICAI) said in a release on Friday.

"A substantial number of chartered accountants spread across the country are practicing as Small and Medium Professionals (SMPs). Over 3.20 lakh members strong chartered accountants" community has deep reach and connect to the MSMEs sector as SMPs are the trusted financial advisor of MSMEs...," it said.

The SMPs help with project financing, working capital management, export promotions advice, budgetary forecasts, financial modelling, assessing the design and operative effectiveness of internal controls, among other services.

TAXSCAN SIMPLIFYING TAX LAWS

## ICAI forms Group for Considering the Impact of National Education Policy on CA Course

By : Taxscan Team | September 5, 2020

The Institute of Chartered Accountants of India ( ICAI ) has formed the group for considering the impact of the National Education Policy on the CA Course.

The ICAI President C.A Atul Kumar Gupta said that, "Progressive ICAI cannot lag behind and needs to attune its systems and structures in line with the new education policy. While the present education and training scheme was implemented only three years back on July 01, 2017, it is important to remain in tandem with the new policy and emerging ideologies".

He also said that "to analyze the impact of the new policy on our scheme of education and training, we have constituted a Group, namely, Group for Considering the Impact of the National Education Policy on CA Course of ICAI. The group will recommend changes, wherever required, in the ICAI's Scheme of Education and Training to be in line with the new policy. The group will also identify and address challenges, if any,that may arise to ICAI out of the changes to be brought in vide the said policy".

The Indian state took a leap towards a better future and reintroduced a new Education Policy to replace the 34-year-old National Policy on Education (NPE), 1986. The policy intends to broaden the choices available to students and incorporate more modern initiatives to ensure greater learning. Built on the foundational pillars of access, equity, quality, affordability, and accountability, the new policy is aligned with the 2030 Agenda for Sustainable Development. The change aims to transform our country into a vibrant knowledge society and global knowledge hub.

# ICAI in Media

Education TIMES

GET UNTANGLED

New Delhi, September 7, 2020

## Why it matters to have financial literacy in schools and colleges

c-Puniti.Pandey
@timesgroup.com

With an aim to create a financially aware population, the Reserve Bank of India (RBI) recently launched the National Strategy for Financial Education (NSFE) 2020-25. The strategy aims at inculcating financial literacy concepts among the people, encouraging their active savings behaviour and boosting participation in financial markets. The NSFE will formulate the content for financial education and develop capacity and code of conduct for the providers. Speaking on the need for introducing the plan, Atul Kumar Gupta, president, ICAI says, "India is home to around 17% population of the world and the literacy rate here is around 74%. While, out of the total population, only 24% population is financially literate. This reveals the pressing need to educate the masses about finance and savings."

He, however, adds that there has been a marked improvement in the understanding of financial concepts by rural India in the last five years. Only 15% of the population was financially literate in 2013 as compared to the 24% today, he says.

Anticipating a boost due to NSFE in the economy, Ashish Garg, president, ICSI, says the strategy will act as a game-changer in creating financial literates which will further serve as a key component in building the country's economy.

"The initiative of the government and financial sector regulators that aims at building a financially educated and independent nation will definitely act as a game-changer. Financial literates will play an important role in building a strong Gross Domestic Capital Formation (GDCF) which is a key component in a nation's economic development," he says. Garg underlines that though the foundation of modern banking was laid in the country as early as the 18th century, a large portion of the savings is still in the unorganised sector. "Despite having the world's 10th largest and Asia's oldest stock exchange, low per capita income, education inequality, non-banking habits and informal borrowing and lending, ruled the country for years. Thus, it is imperative for the country to now optimise its resources and boost the economic and financial backbone of the nation," he adds.

### Benefits of early inclusion

The plan recommends the introduction of the financial curriculum in schools and colleges. The move to inculcate financial awareness at an early age is expected to benefit the people in planning their investment properly at a later age, says Gupta. "Students would be exposed to the basic fundamentals of capital markets and different areas of investment in the school. This would help them plan their investment well once they start earning. Also, they would, over a period of time, learn to analyse the performance of companies to decide whether or not to invest in shares of those companies," he says. The introduction of financial education at an early level will also help the students to identify whether to narrow down to the same career in future or not. As currently, they are able to take this decision only when they are undergoing graduation, he adds.

THE WEEK

## Automation a key tool for biz to maximise efficiency in finance functions: Report

PTI, September 18, 2020 11:57 IST

The report explored the correlation between automation and headcount. Automation is a key tool for businesses that are expecting finance functions to maximise the operational efficiency and minimise the time spent on non-value activities, according to a report.

In a joint report released on Wednesday, the Institute of Chartered Accountants of India (ICAI) and the Institute of Chartered Accountants in England and Wales (ICAEW) said efficiency in finance operations, data and digital transformation, and improved controls and compliance are among the benefits of automation.

The report also explored the correlation between automation and headcount. It found that most jobs are made up of a number of different tasks, and automation typically gets rid of some of those tasks, rather than the entire job.

"As a result, it was often reshaping rather than eliminating jobs," the report, titled 'Automation in finance functions: lessons from India and the UK', said.

ICAI President Atul Kumar Gupta said, "With the introduction of artificial intelligence, robotic process automation, blockchain technology and IoT (internet of things), among others, it becomes imperative for all to be vigilant and respond to the technological innovations to continuously improve business operations."

He added that automation raises particular concerns about the future of jobs, and the report emphasises the importance of upskilling and training finance teams in a range of areas, including data and technology, in order to thrive in this new environment. "Automation, in most of our research examples, was reshaping rather than replacing jobs."

According to the report, automation enables wider digital transformation in finance and successful automation is often small scale and closely linked to process improvement.

It noted that while automation can sometimes involve expensive software, there are many cheaper tools that typically do not require programming-level skills.

The companies, in the research, emphasised that automation generates more benefits when it is integrated into wider initiatives aimed at process improvement and not treated as an end in itself.

The study also suggests three areas that stakeholders should focus on in order to help finance functions succeed in an automated world.

These include emphasising the benefits of automation and sharing good practices. It said professional bodies have a role to play in this by curation and sharing of learning through research.

Besides, retraining and reskilling staff to work in changing roles are also required, the report added.

In addition, developing and demonstrating a different value proposition for finance can also help finance functions to succeed in an automated world.

"Technology is transforming our profession, and automation technologies in particular raise profound questions about the future role of chartered accountants," ICAEW President David Matthews said.

He, however, added that automation also creates tremendous opportunities and helps finance functions to deliver more value to their businesses.

## The Institute of Chartered Accountants of India

# Precautionary Measures Taken To Prevent Covid-19

Protect Yourself And Those Around You

Wash your hands
regularly with
soap and water

Make use of
alcohol-based
hand rub

Avoid
touching
your face

Maintain Social distance
of at least '6 feet'
between you and others

See a doctor
if you
feel unwell

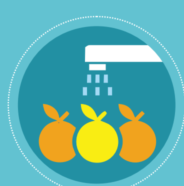
While visiting a doctor
wear a mask/cloth to cover
your mouth and nose

Stop
shaking
hands

Take special care
of the elderly

Don't
share personal
items

Clean and
disinfect surfaces
on regular basis



Wash fresh groceries
and maintain
a good hygiene

Stay home
and avoid
unnecessary travel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Regd. with the RNI No. 738/57
ISSN 0009-188X