



TWO DAYS
NATIONAL CONFERENCE
at Hyderabad

Organized by:
Committee for Members in Practice

75
आज़ादी का
अमृत महोत्सव

21ST WORLD
CONGRESS OF
ACCOUNTANTS
2022 | Mumbai | India
BUILDING TRUST ENABLING SUSTAINABILITY

CPE
12
Hrs.



इष्टान इहेवाव



SCALING TO NEW HEIGHTS



Venue: **The Park Hotel**
Somajiguda, Hyderabad.

DATE :

18th & 19th August, 2022

Hosted By :

Hyderabad Branch of SIRC of ICAI



Registration Link : <https://www.hydicai.org/event/details/1228>

Day 1

Thursday



ग्यान इहाला
SCALING TO NEW HEIGHTS
18th August 2022

| TIMINGS | SESSION/TOPICS | RESOURCE PERSON |
|---------------------|---|--|
| 09.30 AM - 10.00 AM | Inauguration Session | |
| 10.00 AM - 11.30 AM | TECHNICAL SESSION-I Networking, Merger & New Advertisement Guidelines | CA Dayaniwas Sharma Central Council Member, ICAI |
| 11.30 AM - 11.45 AM | TEA BREAK | |
| 11.45 AM - 01.15 PM | TECHNICAL SESSION-II 2 to 500 | CA Guru Prasad, |
| 01.15 PM - 02.15 PM | LUNCH BREAK | |
| 2.15 PM - 3.45PM | TECHNICAL SESSION-III Practice Management Strategies & Way Forward | CA. Nilesh Vikamsey Past President, ICAI & CA Umesh Sharma Central Council Member, ICAI |
| 03.45 PM - 4.00PM | TEA BREAK | |
| 4.00 PM - 5.30 PM | TECHNICAL SESSION-IV Practice Management Strategies & Way Forward | CA. Nilesh Vikamsey Past President, ICAI & CA. Umesh Sharma Central Council Member, ICAI |



Technical Session - I

Topice :

Networking, Merger &
New Advertisement Guidelines



CA. Dayaniwas Sharma

Central Council Member, ICAI

Technical Session - II

Topice : 2 to 500



CA. Guru Prasad Makam
Bengaluru

ICAI Hyderabad

TOPIC : 2 to 500

Guru Prasad M

Founder Partner of
Guru & Jana Chartered Accountants





**What
We
Are**

**What
We Want
To Be**

MONEY REMAINS MONEY, ONLY FORM CHANGES

PAYMENTS



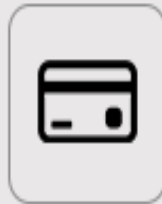
BARTER



**PHYSICAL
CURRENCY**



**FIAT
MONEY**



**CREDIT
CARD**



**DIGITAL
PAYMENT**



**DIGITAL
CURRENCY**



UNKNOWN

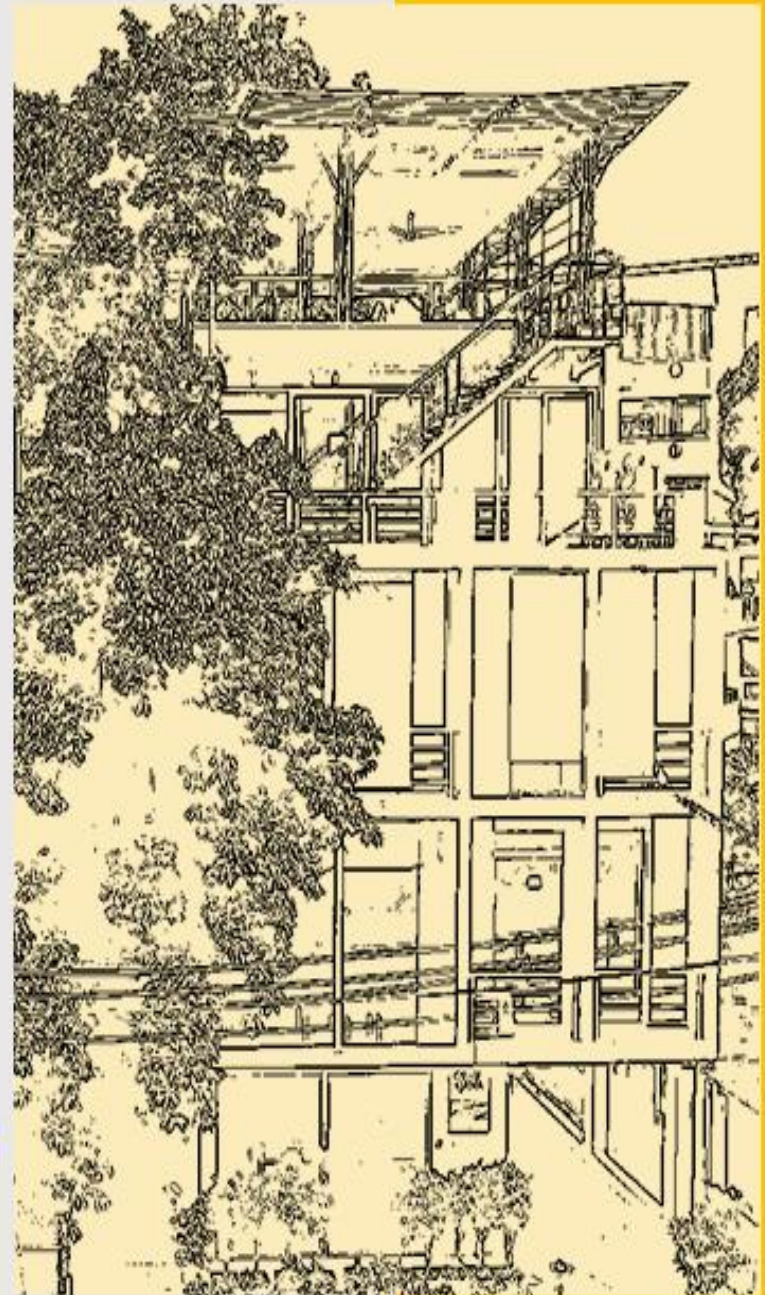
PROFESSION REMAINS PROFESSION ONLY FORM CHANGES

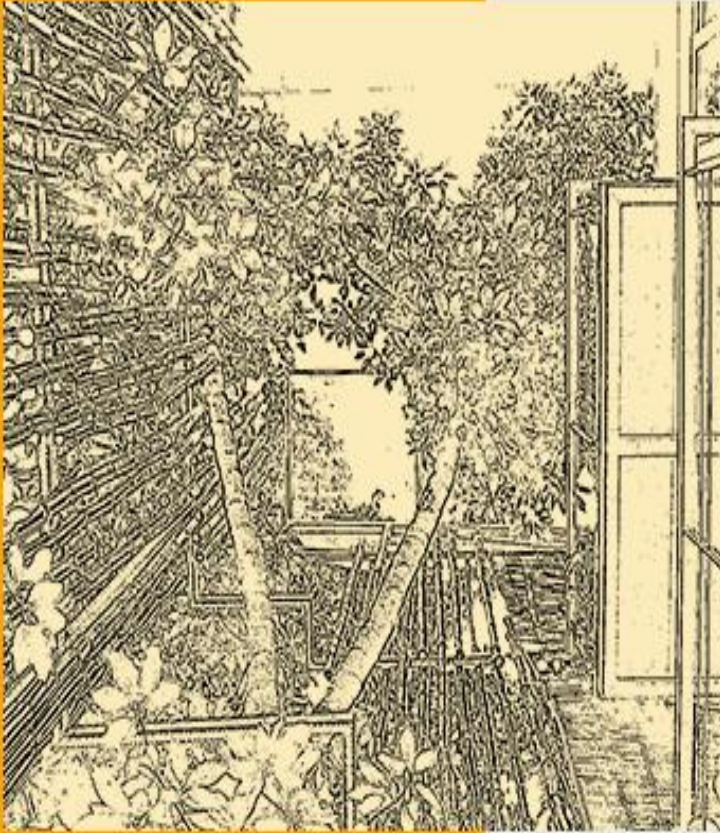
Manual Books – Lotus

Qpro – Tally Desktop – Zoho

Tally prime – HSBC flow, Verify – No

entries – No MIS





The process today –

Can we have an introspection
scoring exercise.


Each of us can score 1 to 10, 10
being the best.



- **“I know that you know”**
- GST, TDS, Tax audit, Articles, Retention, partners, clientele, Code, digitisation, collections are poor, timelines, free work, margins are down, audit risks are
- high, regulatory changes, you are a blood hound, CA's did this and CA's did that.

Thanks to the professionals “Erode to Kolkata, Surat to Puri, Amsterdam to Scotland.

■ What should we drop 

■ What should we do 

■ Technology we could  use

■ Our partnership structure 

■ Succession and legacy 

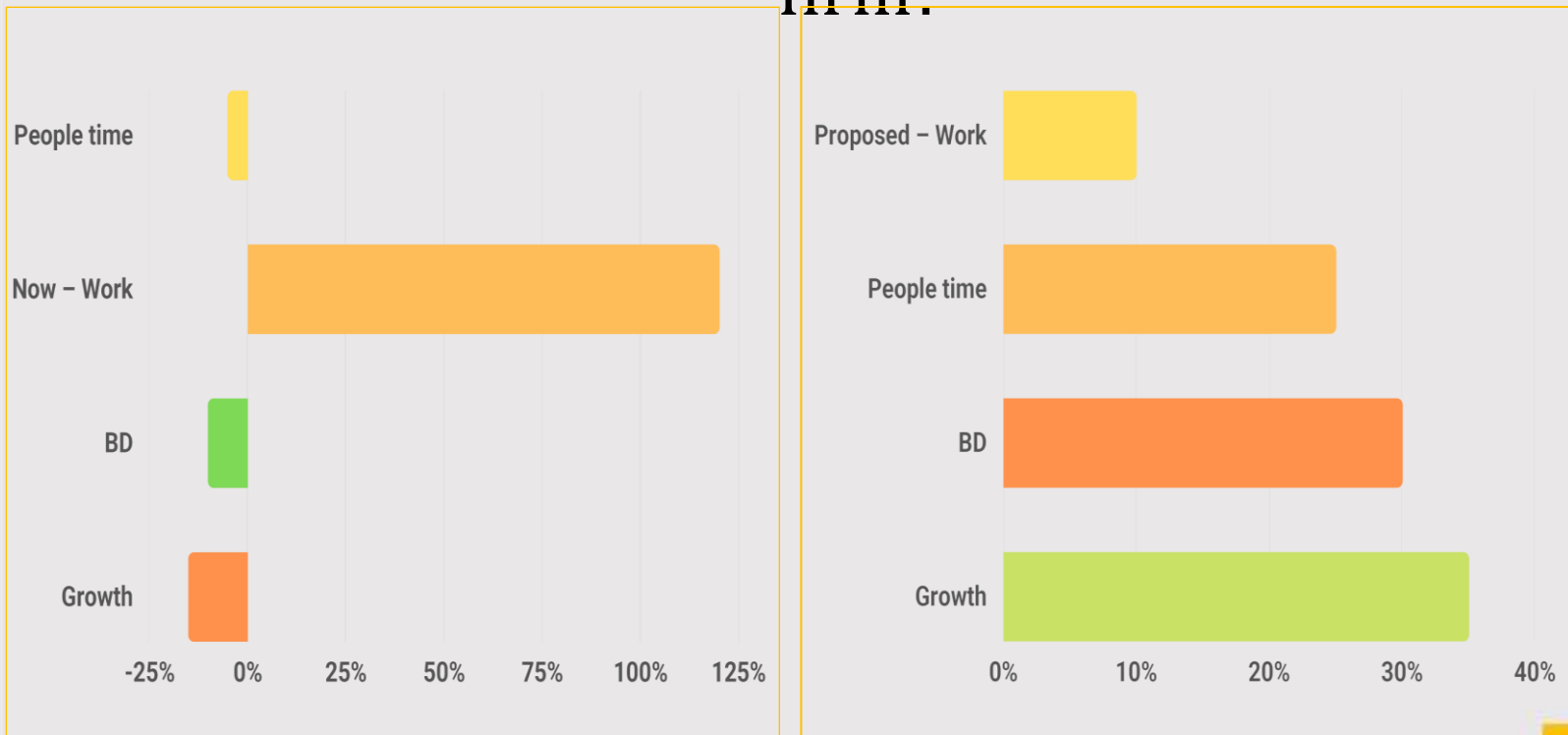
■ Beyond all... 



WHAT SHOULD WE DROP

It takes 3 years time. % vs earnings

What is the time spent on firm than in the firm?



Q 1 – Have I invested time on growth [1 to 10]

WHAT SHOULD WE DROP

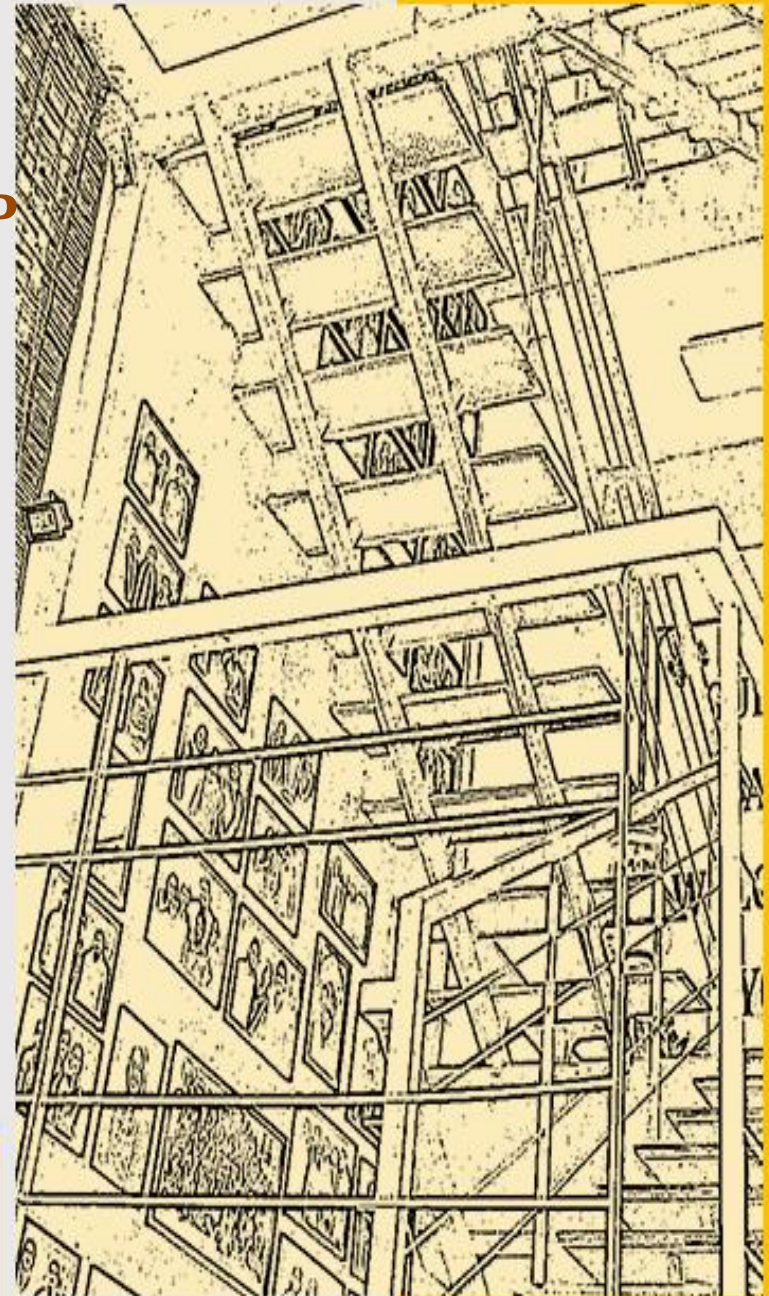
Should I accept this client?

Lets talk about positioning
later

Client weeding procedure

20:80

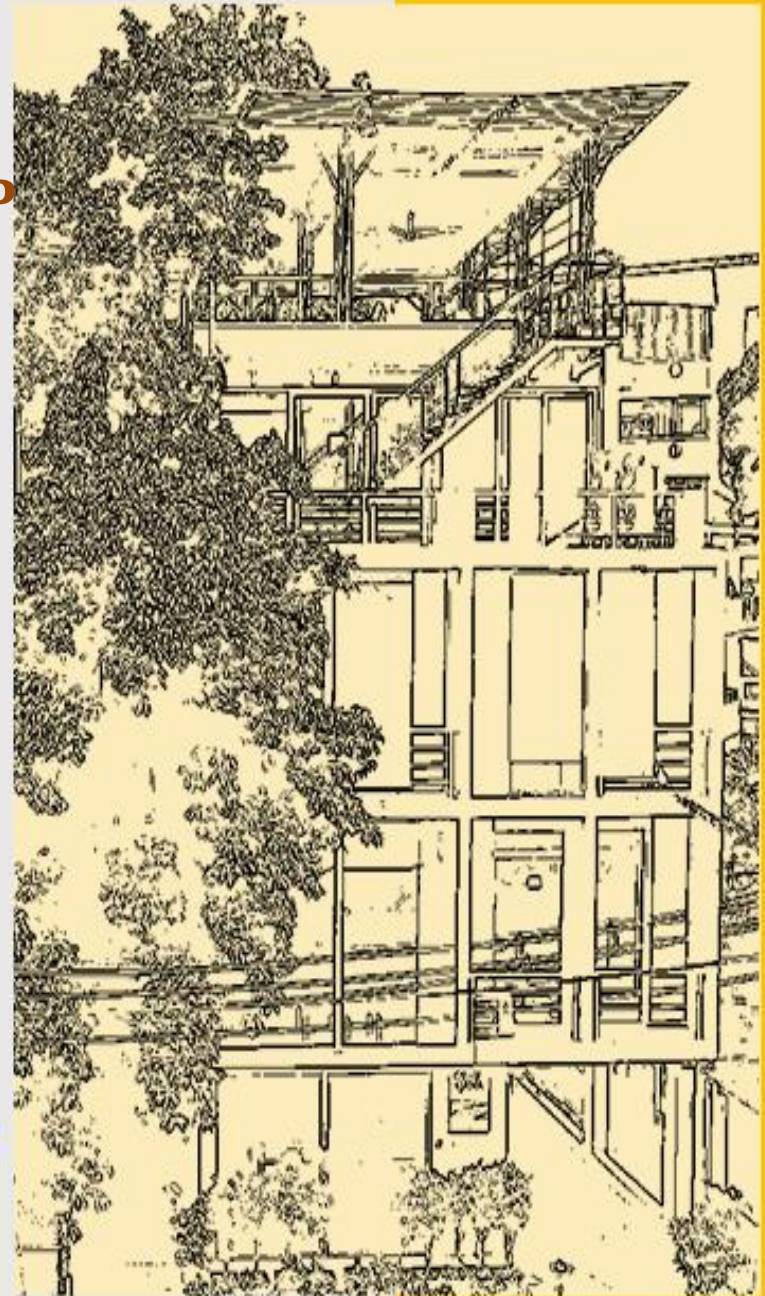
Q 2 -Have I weeded out clients every
year?



WHAT SHOULD WE DROP

Who got us the client, is it a visiting card, is it a google, is it a hearsay reference, or just the firm name?

Q 3 – Is our firm sharing profits based on who got the client?



WHAT SHOULD WE DROP

Should I specialise in tribunal – then who will
take
care of management?

Q4 – Is there a managing partner [read with Time
invested in office]

WHAT SHOULD WE DROP

We are paid for services, not for taking client pressures?

May 22. Fee is 10000

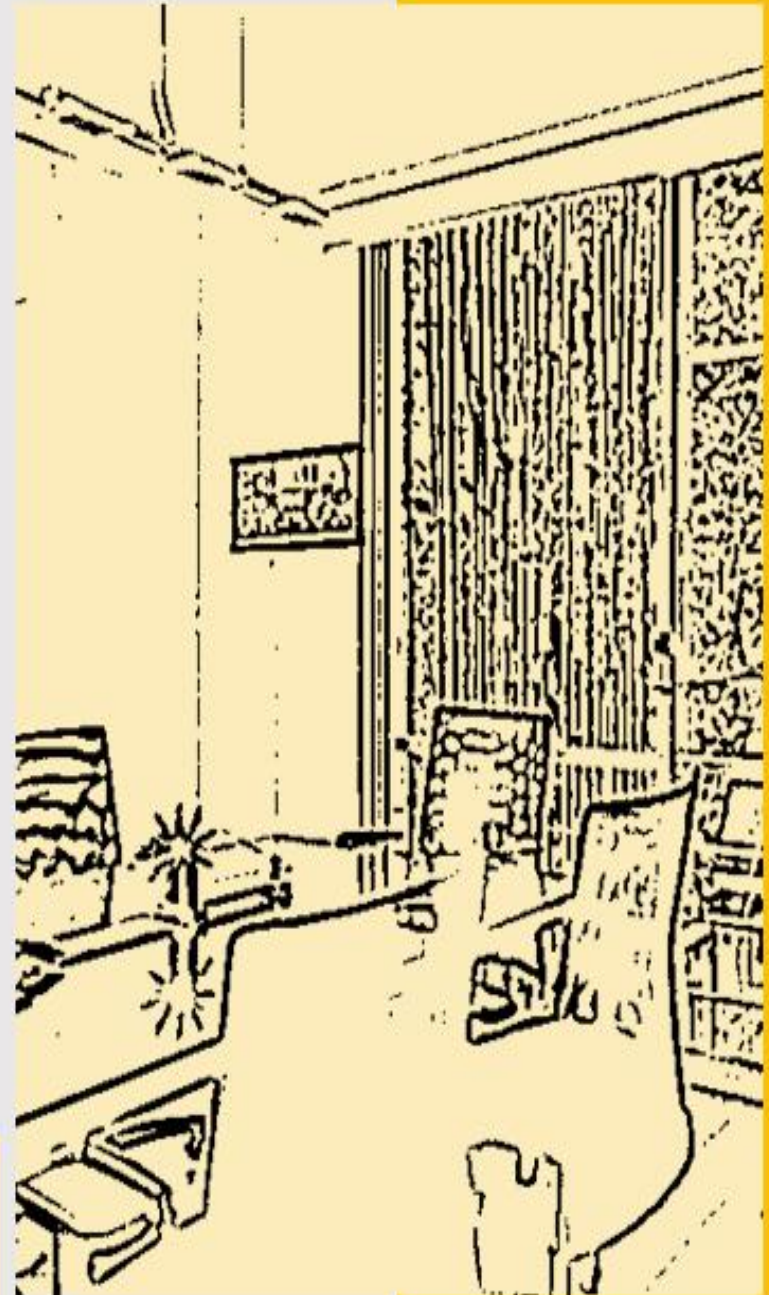
June 22- Fee is 12500

July 22 – Fee is 15000

August 22 – Fee is 20000

Sept 22 – “I cannot be treating appendicitis and getting paid for common cold”

Q5 – Am I getting paid for taking pressure of client, on 30th Sept he is having a party, while I have not even had lunch



WHAT SHOULD WE DROP

Data does not come on time, data collection is a pain.

Google sheet – for data monitoring

Start work – when data is reasonably ready –
indicator

Q6 – the more we follow up for data manually, the more time we waste. Automated “whatsapp reminders” – automated trackers

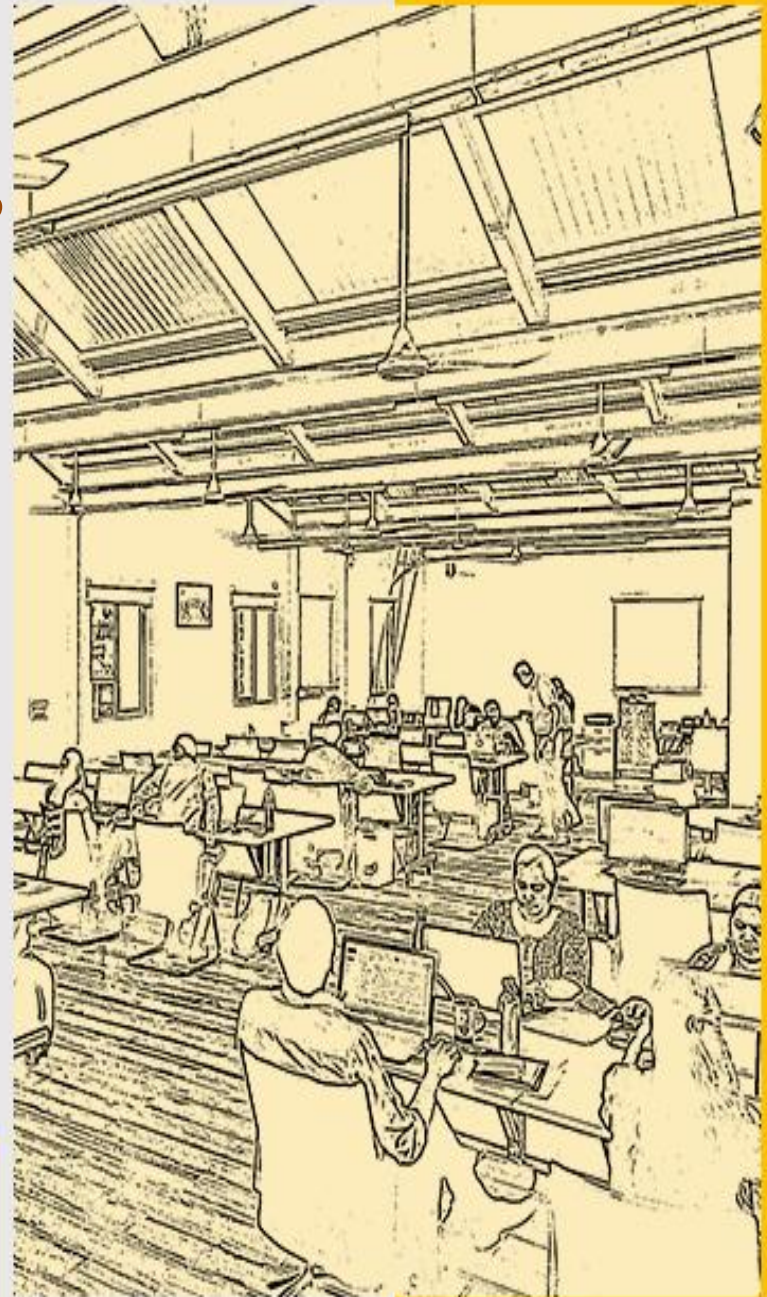
WHAT SHOULD WE DROP

The pain of cash.
firms with over 5 partners in India
is 243

How many partnerships firms have
survived?

How can trust be built amongst
partners, if there is cash receipts
and payments

Q7 – Are we 0 in cash – in all
Forms? Do we realise there could
be misunderstanding amongst



WHAT SHOULD WE DROP

I would use 80 JJA and save 8 lakh on tax

Sales - 100 Crore

Tax at 25% - 2.5 crores

TallyPrime
GOLD

MANAGE

K: Company

Y: Data

Z: Exchange

G: Go To

O: Import

E: Export

M: E-mail

P: Print

F1: Help

Profit & Loss A/c

POPATLAL AND CO

| POPATLAL AND CO For 1-Apr-22 | | POPATLAL AND CO For 1-Apr-22 | |
|---------------------------------|-------------------|---------------------------------|-------------------|
| Particulars | | Particulars | |
| Opening Stock | 5,00,00,000.00 | Sales Accounts | 1,00,00,00,000.00 |
| Stock in Hand | 5,00,00,000.00 | Exempt Sales | 5,71,42,857.10 |
| Purchase Accounts | 75,00,00,000.00 | Sales @ 12% | 20,00,00,000.00 |
| Exempt Purchases | 5,00,00,000.00 | Sales @ 18% | 27,14,28,571.40 |
| Purchases @ 12% | 15,00,00,000.00 | Sales @ 28% | 34,28,57,142.90 |
| Purchases @ 18% | 20,00,00,000.00 | Sales @ 5% | 12,85,71,428.60 |
| Purchases @ 28% | 25,00,00,000.00 | Direct Incomes | |
| Purchases @ 5% | 10,00,00,000.00 | Closing Stock | 10,00,00,000.00 |
| Direct Expenses | 20,00,00,000.00 | Stock in Hand | 10,00,00,000.00 |
| Over Heads | 20,00,00,000.00 | | |
| Tax Expense @ 25% | 2,50,00,000.00 | | |
| Nett Profit | 7,50,00,000.00 | | |
| Total | 1,10,00,00,000.00 | Total | 1,10,00,00,000.00 |

F2: Period

F3: Company

F4

F5

F6

F7

F8: Valuation

F9

F10

B: Basis of Values

H: Change View

J: Exception Reports

L: Save View

C: New Column

A: Alter Column

D: Delete Column

N: Auto Column

WHAT SHOULD WE DO



We have a loan scheme. I assure you it is equally good. Why don't you try that instead?

Positioning
What is my segment
Can I sell Maruthi car and BMW
in same shop

Q 8 – do I intend to have a segment,
or shall I serve all clientele?

WHAT SHOULD WE DO

Positioning

I do want go to income tax

I don't want to manage stocks

I am worried about stock certificates

Companies with loss

Companies without bank

profits

Loss making Companies

Start up & Foreign companies

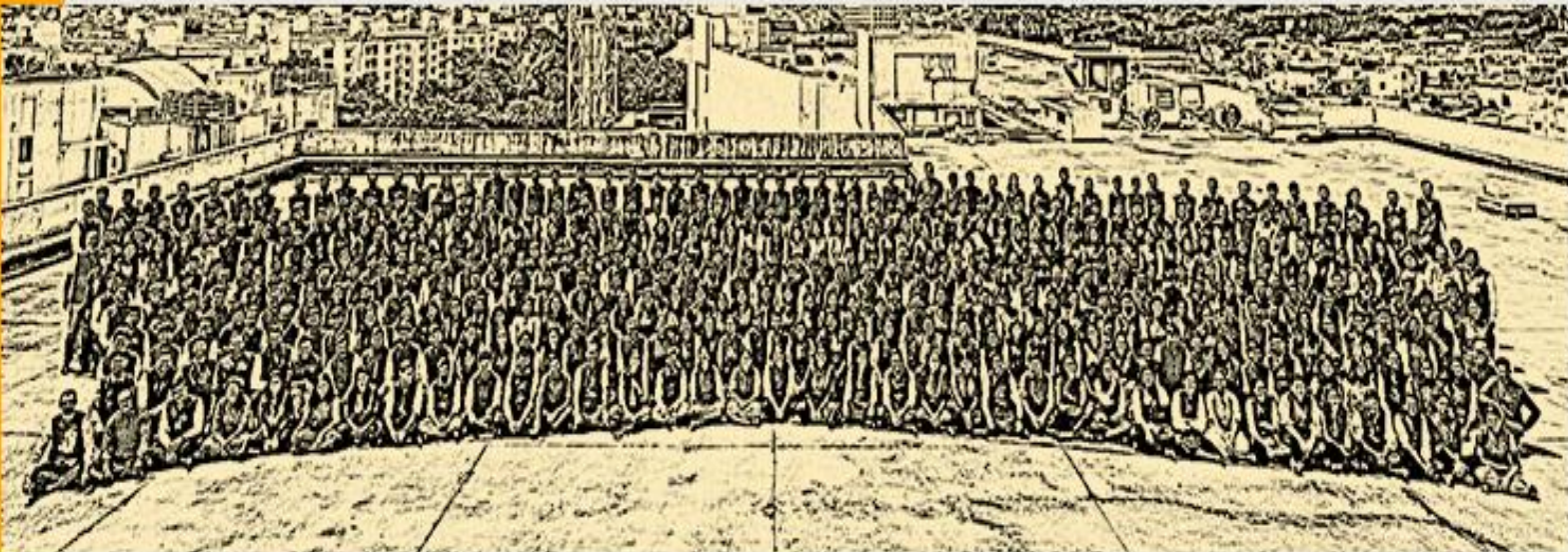
Cross selling + we do all

Who is my customer – next

slide

Q11 – Have I done a positioning either on client segment, or price segment, or market, or nature of work

Q12 - I don't think specialisation in profession is positioning



WHAT SHOULD WE DO

520 VC funds

200 PE Funds

Law firms [corporate]in

Surat – May not be more
than 10

Then who is my
Business development – the Code says so
customer

Who is my client - understand that first

Is it B2B or B2C

Q 9 – can I create influencers?

Q 10 – Can I understand actually who is my customer?



WHAT SHOULD WE DO

WHAT SHOULD WE DO

- Business development – the Code says so
- ICAI Vs IIM, CII or Nasschom
- We-works and Co-works
- Am I in a “Go mood”, or “Wait mode”.
- The age of websites, blog, is important, but that is
- not BD Strategy
- Incubation centres AIC Surat Lab
- Sine Mumbai, NSR Cell Mumbai

Q13. Am I in the GO MOOD or Wait MODE?
Can I

WHAT SHOULD WE DO



- The Org-Chart in a CA firm.
 - Internal branding
 - Employees quit, that is a GIVEN
 - Systems can ensure he moves in a day
 - Patriots vs Loyaltz
 - Make a partner program – documented
- Q14 Do I have a documented process how one can be a partner
- Q15 do I have a PL for each individual
- Q16 Can I create systems that is not individual dependent, so that I can take care of “transactions”

WHAT SHOULD WE DO

Automate our policies, it is not partner dependent

Automate Performance appraisal

Interview process – AI Rs 360 per interview

Can LMS be automated?

Can instructions be automated?

WHAT SHOULD WE DO

Vision is not just a name plate, how to integrate that.

For instance, Values in an organisation – how do you imbibe it into your organisation, it does not happen with speeches

“Respect all” – Open seating,

Data access – I am in control

Automated Fi/Jupiter etc salary accounts and advance benefits

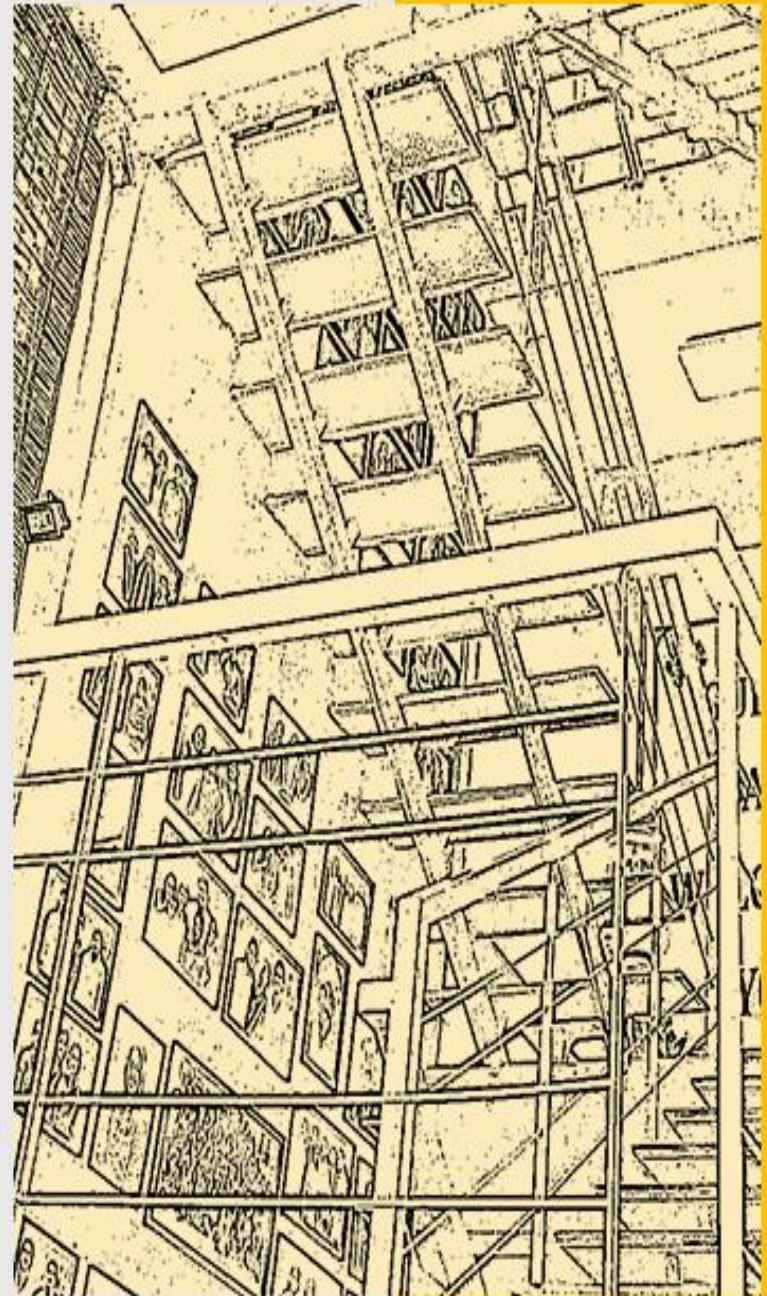
Automated reimbursements, if limits are met

Open accessibility to every one

TECHNOLOGY WE COULD USE [I CANNOT IMPLEMENT AI TOMORROW]

He pays me only 5000, but there is
so much changed in AIS – perfios
Is it just a 2 page income tax order,
how do demonstrate the effort

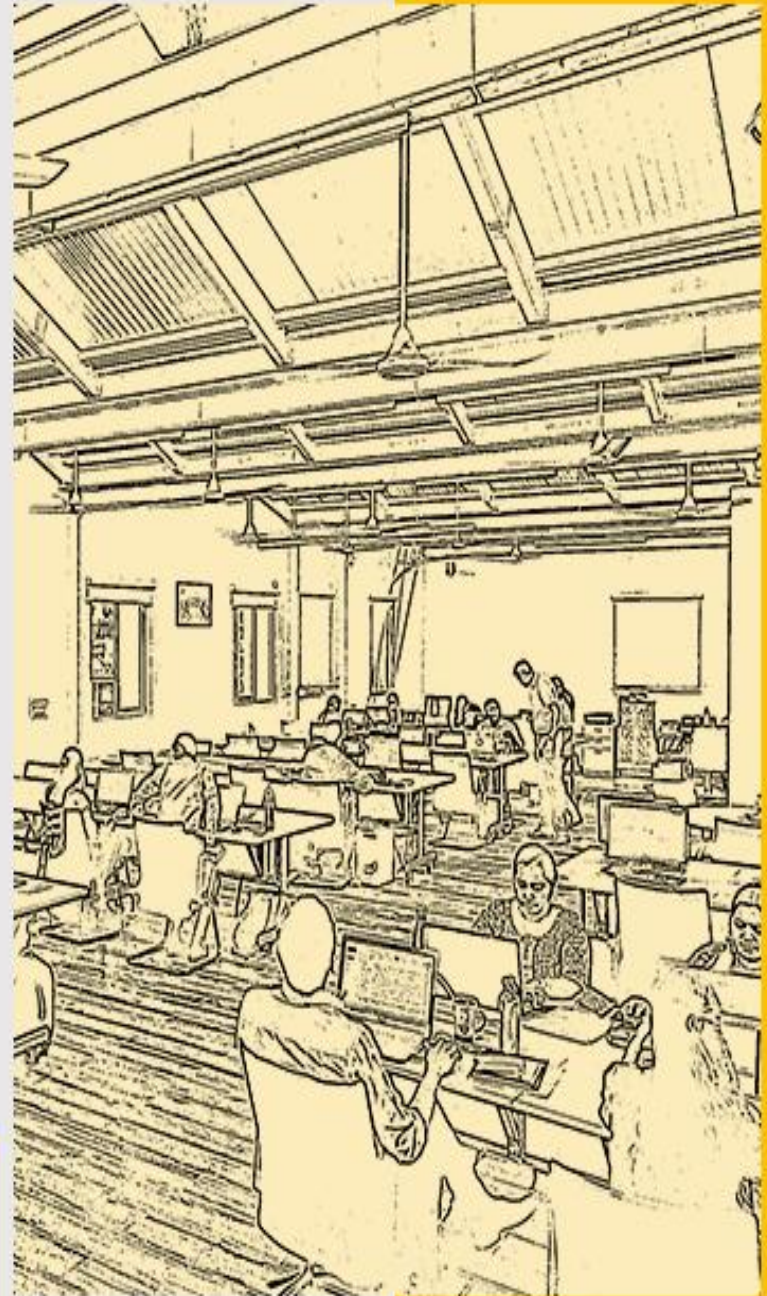
Q17. Am I presenting my output
properly, work done in the
Midnight of Sept – how do I
showcase my effort, have I done it
well?



TECHNOLOGY WE COULD USE [I CANNOT IMPLEMENT AI TOMORROW]

Any simple office
management
tool – ICAI gives

www.hostbooks.com



TECHNOLOGY WE COULD USE [I CANNOT IMPLEMENT AI

TOMORROW]

Problem

People Problem

a) How do we recruit people

b) How do you be fair in appraisal systems

c) How do we make the office look modern to

Solutions



- Recruitment process through zoho.

- Recruitment process artificial intelligence of artificial intelligence

- Social media

today's youth
Q18 – is technology involved in recruitment, am I attracting talent of today's modern world
• Implementation cost would be ₹250 per employee time to

TECHNOLOGY WE COULD USE [I CANNOT IMPLEMENT AI TOMORROW]

Problem

What is the problem

- a) Teaching students
- b) Creating process
- c) Every time a new employee comes, I need to teach him again

d) Tribunal is no use to

Q19 – Today genZ has only 20-minute attention span, so I have a teaching methodology where I simply capture their attention for 20 minutes and then I put them to work. I don't have to put in a lot of effort to teach an article.

Solutions



- Learning management system.
- One time recording .
- Automated questions, Appraisals.
- Linked to learning management systems.
- **Cost**

Zoho - Already paid for

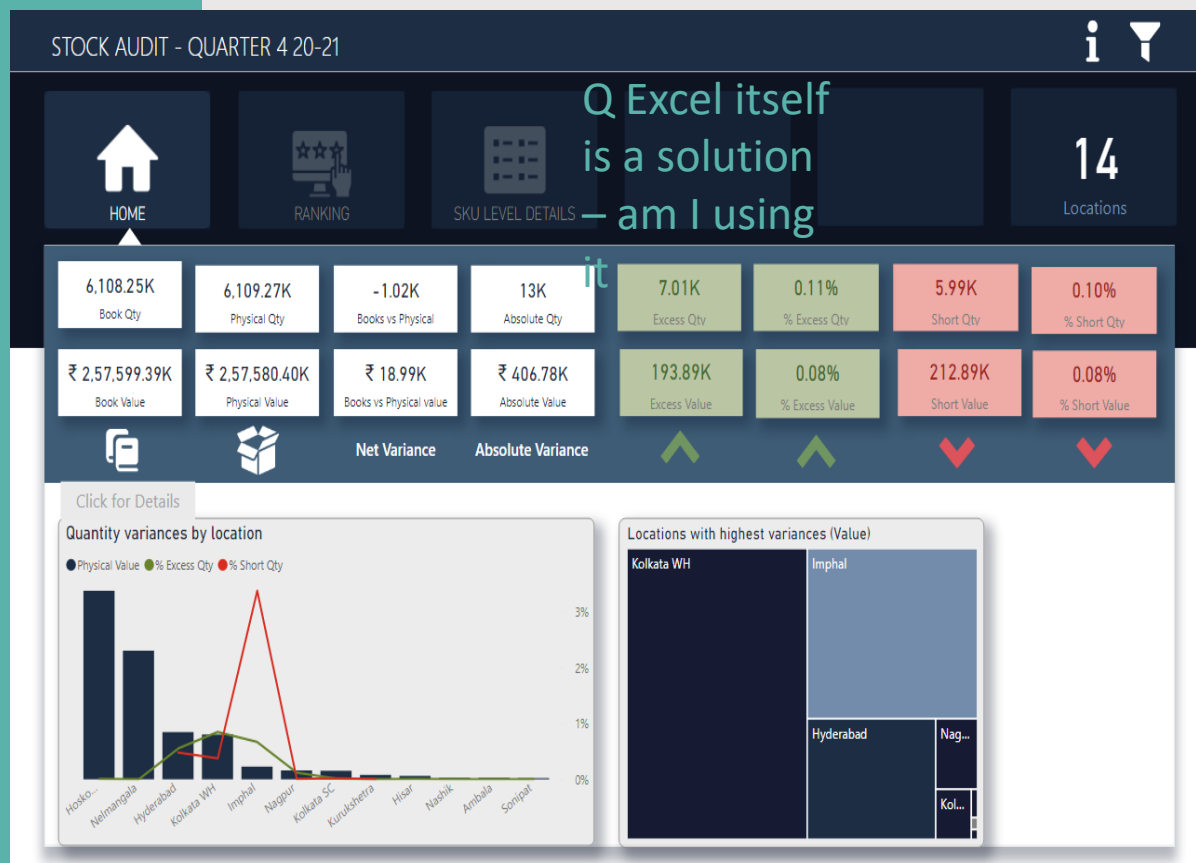
payroll, so

logically where I simply capture their attention for 20 minutes and then I put them to work. I don't have to put in a lot of effort to teach an article.

TECHNOLOGY WE COULD USE

[I CANNOT IMPLEMENT AI

TOMORROW]

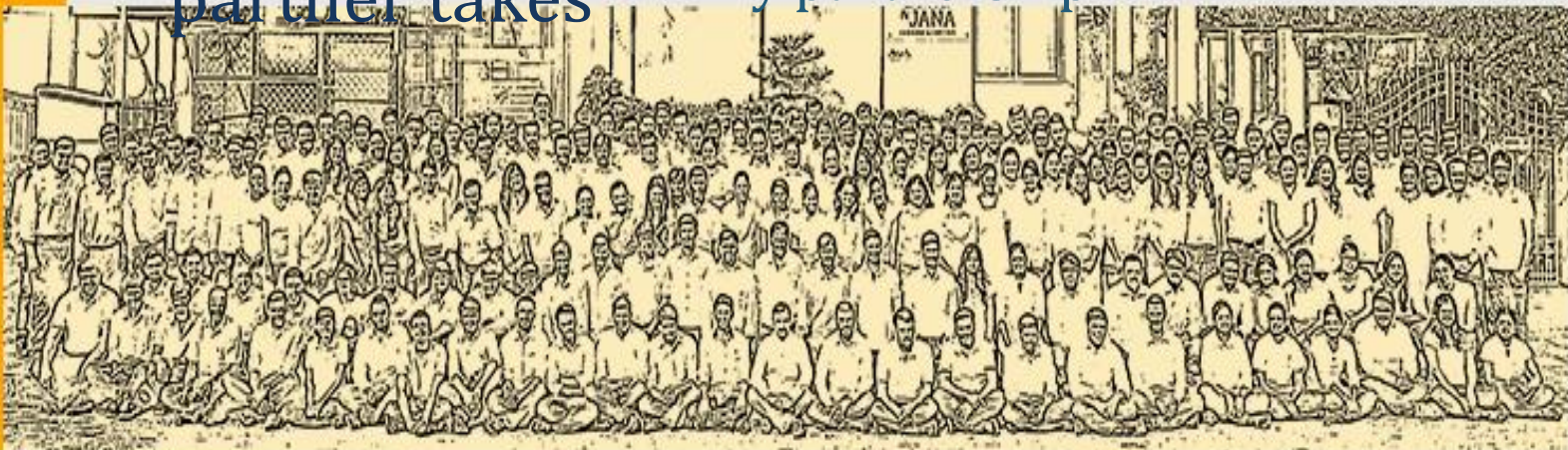


OUR PARTNERSHIP

STRUCTURE

- PL account based on “who got the sales”. I got this
 - client
 - I did more social media
 - I am the face of the organisation.
- PL cannot be based on this

What is the additional organisation role, each partner takes in my partnership firm

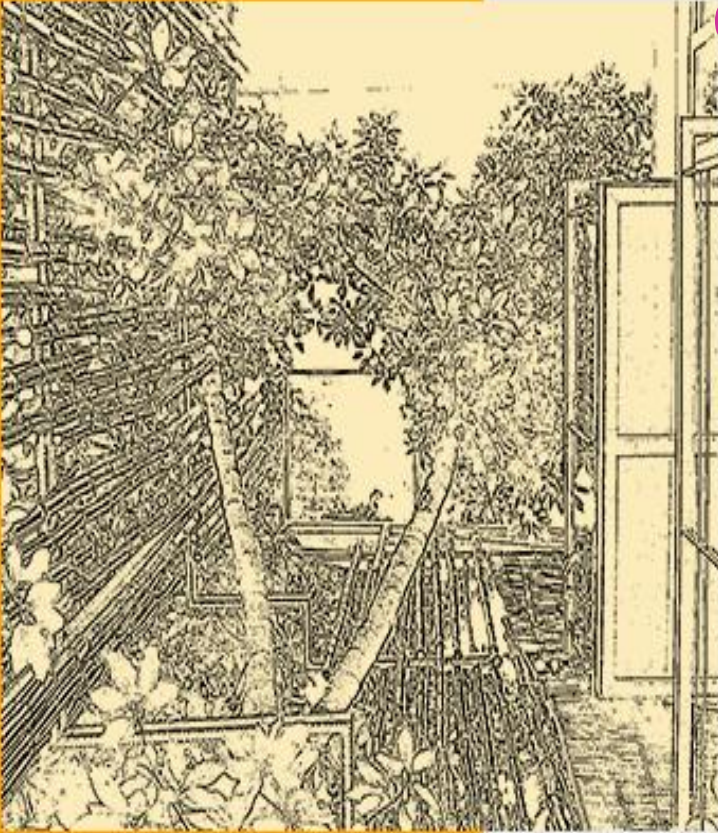


OUR PARTNERSHIP

STRUCTURE

- Do we have a growth fund in the office. Who would pay for content writing, I need to publish a book, who pays for that.
- From where will I invest on new talent – Rs 30 lakh salary is not profitable from day 1
- Where will I invest for my international network

Q21. Do we have a growth fund in our partnership deed



OUR PARTNERSHIP STRUCTURE

Shareholders agreement
'Investors rights', a VETO
power

Q22 – do I have a veto power
in my deed



OUR PARTNERSHIP

STRUCTURE

- Our firms accounting itself – Dash board
- Why do partnership firms fail
- Accounting,
- Measurement
- Collections
- I worked more than you

Q23 Do we have a dashboard for reporting on an online basis, or is our firm doing its books of accounts in Sept after all client deliverables

OUR PARTNERSHIP

STRUCTURE

- Exit of a partner – the partnership deed, the CODE, the no competition clause
- Do I have a clause that if the firm breaks, exit partner cannot take his clients
- Is it a code of conduct issue
- Exit partner, does not claim valuation

Q25 – Do I have this clause in my partnership

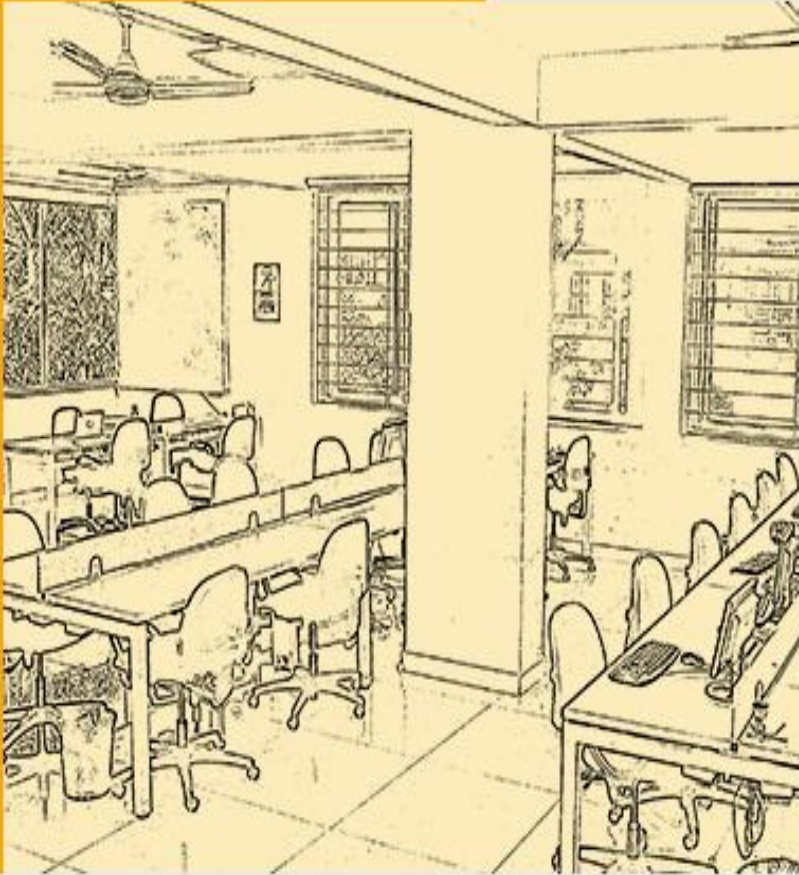
OUR PARTNERSHIP STRUCTURE

A Partner for Tax, a partner for Audit, but who is the partner for management – all MNC firms have an all India partner

Q24 Do I have a partner for management? (Read with the question of how much time I spend for work)



OUR PARTNERSHIP STRUCTURE



- Partnership ratios change often.
 - Partnership ratios are not just client engagement.
 - Partnership ratios are also based on how many leaders you groomed.
 - Partnership ratios are also on what new technology you got.
- Contribution can be on many grounds.

Q26 – Have I revised
partnership share periodically

OUR PARTNERSHIP

STRUCTURE

- The concept of goodwill is actually non-existent
- A new partner has to pay goodwill to join, but you have already withdrawn all the profits you worked for
- Retirement parameters cannot be just buy my share like in an MNC firm
- How many acquisitions have happened in Surat to arrive at goodwill

It is a concept of increasing the pie size and reducing the %

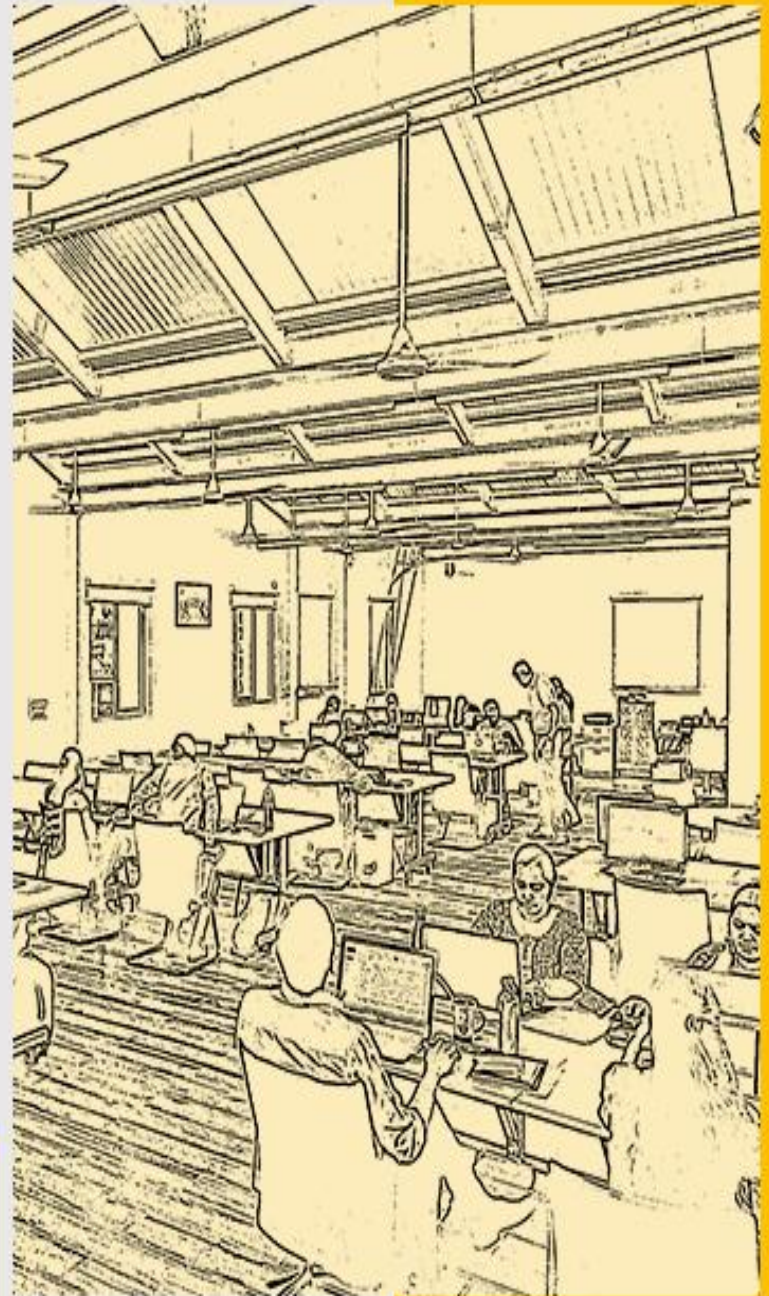
Q27 – Can I consider putting a clause, that there is no goodwill in the firm

OUR PARTNERSHIP

STRUCTURE

- Today there is a valuation –1 X
- There could be a game only if you get value in cash
- Can there be consolidation for cash &
- not just “you do your clients, I do my clients”
- Cpa brokers in US
- The concept will catch up soon

I am a proprietor, have good name, but retire at 65



SUCCESSION AND LEGACY

- Is the retirement of a proprietor end of the
- firm
- What is the succession plan in your firm
- Beevers and suthers 1910 firm
- How is it surviving for 100 years

My son is entitled, but what about other
partners,
how do you structure it

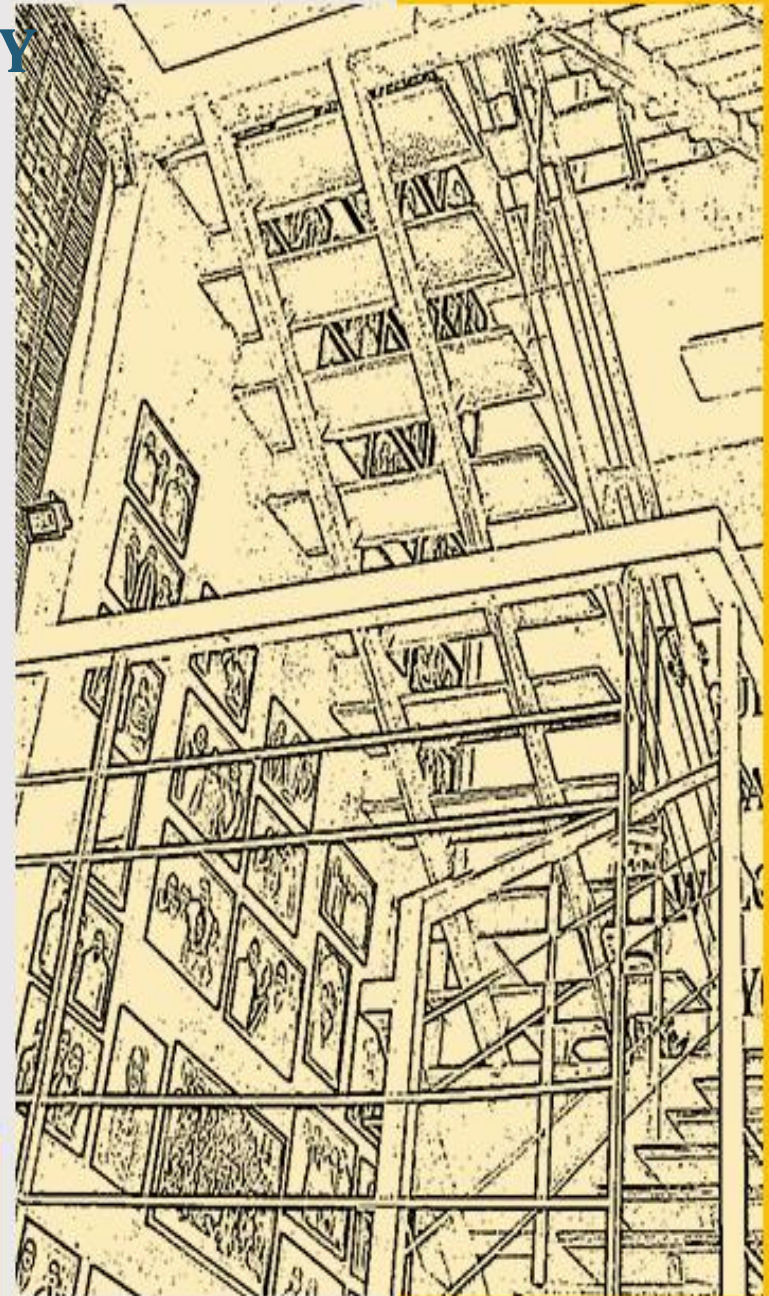
Q29 – is there clarity on succession plan

SUCCESSION AND LEGACY

My son is my legacy syndrome
[Protect him, but define it]

My son enters the profession,
does it mean another senior
partner has a new young boss

Q30 Yes, I will protect my son,
but will I also be fair in the
firm. What does my
succession policy state?



SUCCESSION AND LEGACY

Give up to go up

SUCCESSION AND LEGACY

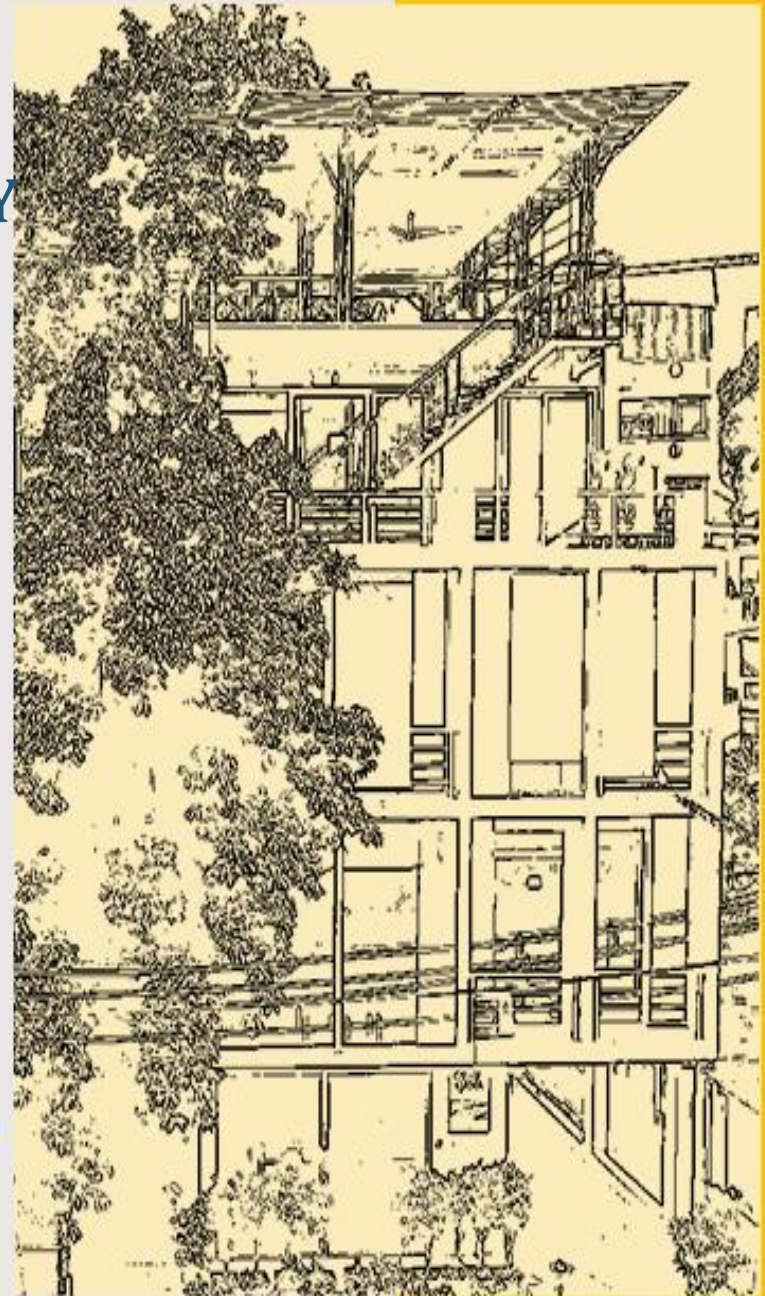
No money, no work

Little work, no Money

Little money, little work

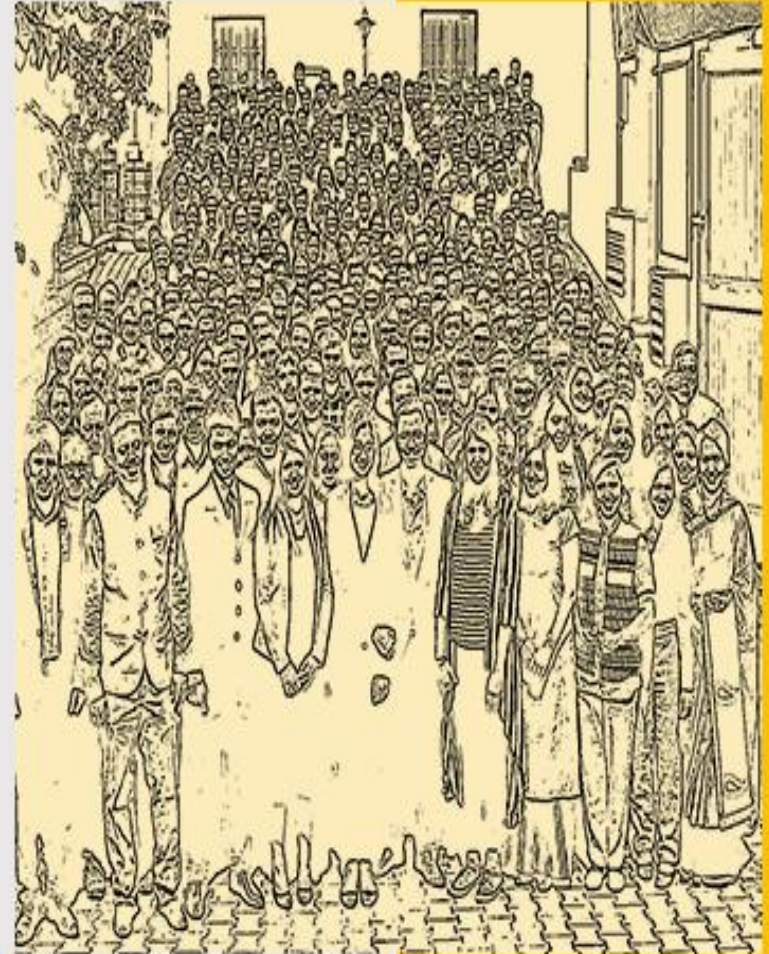
More work, more money

No work, lot of money



BEYOND ALL

How do you get business ?



Technical Session - III

Topice : Practice Management
Strategies & Way Forward



CA. Nilesh S Vikamsey

Past President, ICAI
Mumbai



National Conference

Gyan Shala

Organized by
Committee for Members in
Practice

Practice
Management
Strategies & way
forward

CA Nilesh Vikamsey
18 August 2022



SETTING THE CONTEXT

- Current Position of CA Practice
- Practice Management Statistics
- Practice vs Industry
- Challenges in Practices
- Practice Management Strategies
- Clientele & Fees
- Ingredients to Successful Practices
- Growth Strategies
- Specialization/ New Areas



Current Position of Chartered Accountants In Practice

Current Position of CA Practice

- Risk has gone up substantially
- Several scams have surfaced where CAs are found involved or presumed to be involved
- Increased expectations of Regulators / Stakeholders / Society
- NFRA is set up
- Stiff penalties / regulatory action against CAs
- E-governance in almost all government administration
- Increasing impact of technology
- Constant amendments in GST, Companies Act, Ind AS, Bankruptcy code, Valuations
- Constant changes in practice due to introduction of Rotation of Auditors, UDIN, Valuation rules, Technology etc.
- Segregation of Audit and Consultancy

Changes in Professional Spectrum

- **Compliance to Consulting:** Compliance based practice faces severe competition, whereas consulting opportunities blossoms in a disrupted world
- **Power Shift to the Tech Savvy :** The generation that operated through dictations, files, paper, administrative empire, personal meetings over coffee or more find it difficult to type their own emails, leave aside draft opinions or edit reports – the generational shift of power and leadership got accelerated.
- **Caught in the Middle:** The pains of being medium sized have surfaced – too large to be nimble, too small to make serious investments in technology and people – consolidation and re-structuring is no longer a leisurely discussion topic, but has become a dire need
- **Monopolies Threatened:** The regulators have gone into a overdrive to create safety for stakeholders; Raising of tax audit limits, eliminating GST audits led to loss of business for the SMPs.
- **Soaring Management Expectations:** Boards and independent directors demanding much more – ability to meet management expectations by creating a distinct edge.

* Presented by CA Ameet Patel, CA Nandita Parekh, CA Vaibhav Manek in BCAS Power Summit 2022

Noteworthy Changes – Taxation and Compliance Reforms

Government of India enforced stringent tax and other compliance reforms such as:

- Jan Dhan Yojana
- Aadhar
- Income Declaration Scheme
- Demonetization
- Cash Transaction Reforms
- MCA struck off 3.8 lakhs Shell Companies identified, struck off during FY 2018-20
- Money Laundering and Benami Transaction
- Mergers of Banks
- Real Estate Regulatory Authority (RERA)
- Insolvency and Bankruptcy Code (IBC)
- Goods and Service Tax (GST)
- Atmanirbhar Bharat



Practice Management Statistics

Practice vs Industry - Statistics

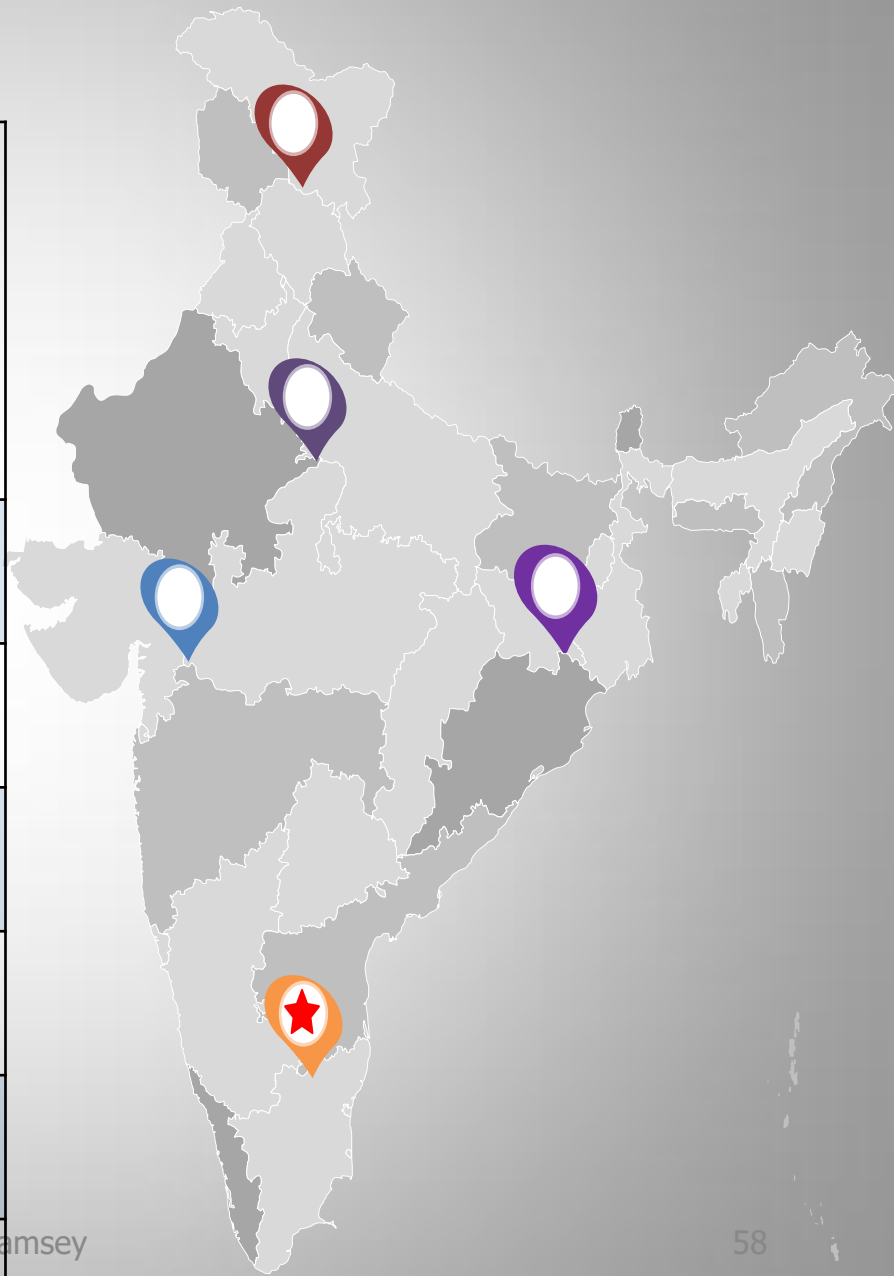
Year wise Statistics – Practice vs Industry

| As On | Total Members | Full Time COP | No COP/ Part Time COP | % of Full Time COP | % No COP/ Part Time COP | Change in Full Time COP Holders | Change in No COP/ Part Time COP |
|--------------|---------------|---------------|-----------------------|--------------------|-------------------------|---------------------------------|---------------------------------|
| Apr 01, 2003 | 1,10,256 | 75,399 | 34,857 | 68% | 32% | | |
| Apr 01, 2004 | 1,16,091 | 65,570 | 50,521 | 56% | 44% | -9,829 | 15,664 |
| Apr 01, 2005 | 1,23,546 | 66,869 | 56,677 | 54% | 46% | 1,299 | 6,156 |
| Apr 01, 2006 | 1,30,946 | 68,026 | 62,920 | 52% | 48% | 1,157 | 6,243 |
| Apr 01, 2007 | 1,39,841 | 68,944 | 70,897 | 49% | 51% | 918 | 7,977 |
| Apr 01, 2008 | 1,45,481 | 68,979 | 76,502 | 47% | 53% | 35 | 5,605 |
| Apr 01, 2009 | 1,53,600 | 70,362 | 83,238 | 46% | 54% | 1,383 | 6,736 |
| Apr 01, 2010 | 1,61,516 | 81,643 | 79,873 | 51% | 49% | 11,281 | - 3,365 |
| Apr 01, 2011 | 1,70,610 | 84,618 | 85,992 | 50% | 50% | 2,975 | 6,119 |
| Apr 01, 2012 | 1,92,513 | 83,244 | 1,09,269 | 43% | 57% | -1,374 | 23,277 |
| Apr 01, 2013 | 2,16,459 | 95,242 | 1,21,217 | 44% | 56% | 11,998 | 11,948 |
| Apr 01, 2014 | 2,29,679 | 1,03,798 | 1,25,881 | 45% | 55% | 8,556 | 4,664 |
| Apr 01, 2015 | 2,39,974 | 1,07,200 | 1,32,774 | 45% | 55% | 3,402 | 6,893 |
| Apr 01, 2016 | 2,53,337 | 1,12,359 | 1,40,978 | 44% | 56% | 5,159 | 57,8,204 |
| Apr 01, 2017 | 2,70,307 | 1,20,839 | 1,49,468 | 45% | 55% | | |

Practice Management Statistics

- Active Member Mix as of April 1, 2022
(% age of Full Time COP Members vis-à-vis Total Members)

| Region | % age Full time COP | Full Time COP Member (Nos) | Part Time/ No COP Member (Nos) | Total Members (Nos) |
|-------------|---------------------|----------------------------|--------------------------------|---------------------|
| North | 42% | 29,122 | 40,227 | 69,349 |
| Central | 46% | 31,513 | 36,403 | 67,916 |
| West | 39% | 45,401 | 70,618 | 1,16,019 |
| East | 43% | 11,858 | 15,413 | 27,271 |
| South | 41% | 28,790 | 41,877 | 70,667 |
| Whole India | 42% | 1,46,681 | 2,04,538 | 3,51,219 |



Practice Management Statistics

Regional Statistics

| City | Member-Full Time COP | Members Full Time COP (%) | Members-No COP/ Part Time COP | Members Total | Population (Lakhs)* | Members-Full Time COP per Lakh Population |
|-----------|----------------------|---------------------------|-------------------------------|---------------|---------------------|---|
| Hyderabad | 4,299 | 42% | 5,908 | 10,207 | 105 | 41 |

| State | Member-Full Time COP | Members Full Time COP (%) | Members-No COP/ Part Time COP | Members Total | Population (Lakhs)* | Members-Full Time COP per Lakh Population |
|----------------|----------------------|---------------------------|-------------------------------|---------------|---------------------|---|
| Andhra Pradesh | 3,672 | 35% | 6,680 | 10,352 | 529 | 7 |
| Telangana | 5,155 | 41% | 7,455 | 12,610 | 385 | 13 |

Practice Management Statistics

| Year | Proprietorship | Partnerships | Total |
|------|----------------|--------------|---------|
| 2022 | 67,299 | 25,459 | 92,758* |
| 2020 | 64,423 | 25,339 | 89,762 |
| 2019 | 52,374 | 22,783 | 75,157 |
| 2018 | 49,392 | 21,831 | 71,223 |
| 2017 | 45,956 | 20,960 | 66,916 |
| 2016 | 43,080 | 18,870 | 62,950 |
| 2015 | 41,808 | 18,749 | 60,557 |
| 2014 | 40,768 | 17,649 | 58,417 |
| 2013 | 38,263 | 16,072 | 54,335 |
| 2012 | 35,127 | 14,556 | 49,683 |
| 2011 | 33,093 | 13,853 | 46,946 |
| 2010 | 32,235 | 13,536 | 45,771 |
| 2009 | 31,871 | 13,179 | 45,050 |
| 2008 | 32,001 | 13,209 | 45,210 |
| 2007 | 32,165 | 13,439 | 45,604 |
| 2006 | 31,950 | 13,753 | 45,703 |

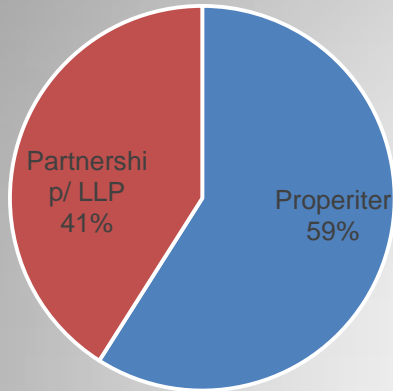
| No. of partners | Firms |
|-----------------|--------|
| 2 | 13,761 |
| 3-10 | 11,295 |
| 11-20 | 350 |
| 21-50 | 44 |
| More than 50 | 9 |

Stagnancy

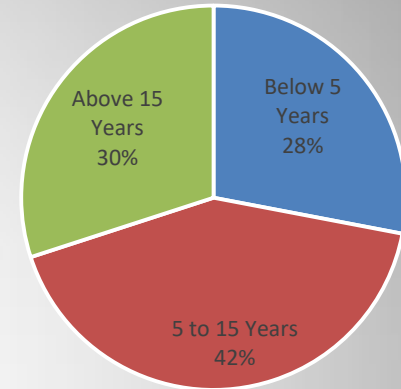
*Firm count data as on April 1, 2022

Current Position of CA Practice

Constitution of Practice

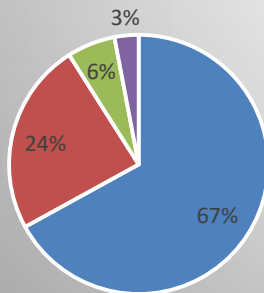


No. of Years of CA Practice



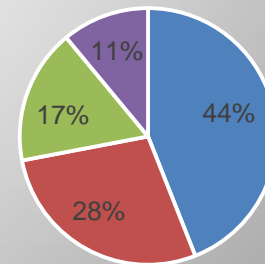
Gross Turnover of Practice (Proprietor)

■ Below 20 Lakhs ■ 20 t 50 Lakhs
■ 50 to 1 Crore ■ 1 Crore and above



Gross Turnover of Practice (Partnership)

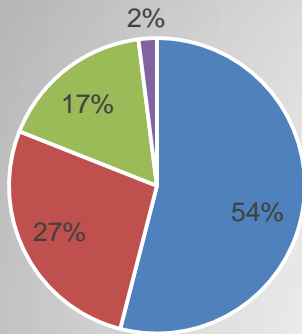
■ Below 20 Lakhs ■ 20 t 50 Lakhs
■ 50 to 1 Crore ■ 1 Crore and above



Current Position of CA Practice

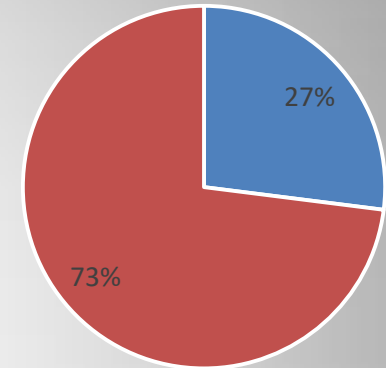
Total Strength of your office
articles & staff etc

0 to 5 5 to 10 11 to 50 50 and above

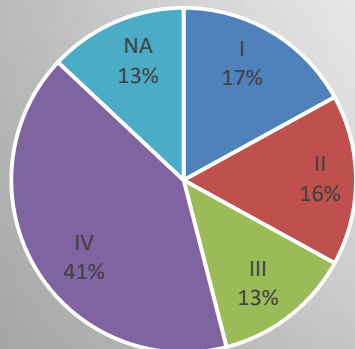


Branches/ Networks outside city

Yes

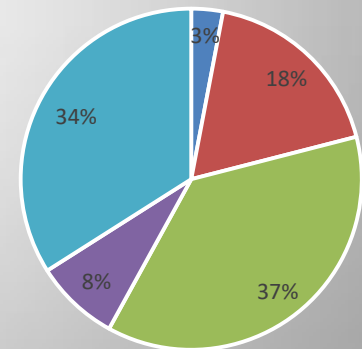


Category of your firm as per ICAI/
MEF



Regular training meeting are held in
office

Daily Weekly Monthly Yearly No

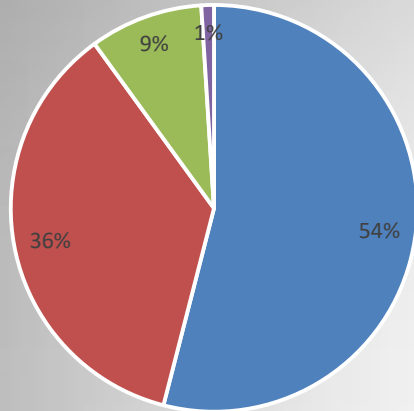


Ref: CA Umesh Sharma Seminar consisting of 35 cities in WIRC with attendees more than 2500 members

CA Nilesh Vikamsey

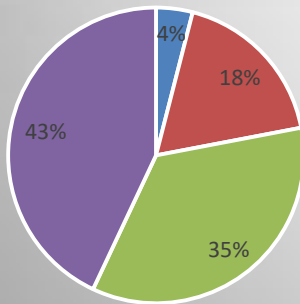
Current Position of CA Practice

Your fees outstanding as compared to
Total Fees in a year



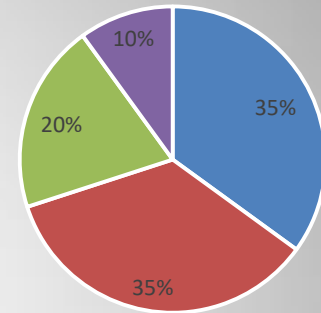
■ 0 to 25% ■ 25% to 50% ■ 50 to 70% ■ More than 75%

What is your view on growth % in
Practice in city as compared to your
last year turnover?



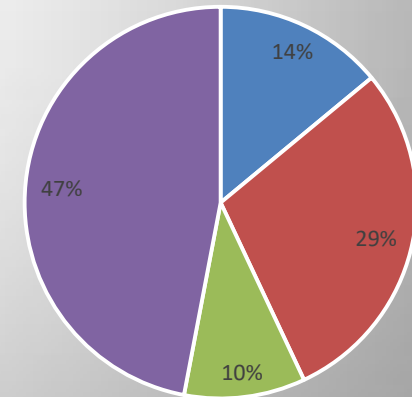
■ Negative Level ■ Same Level ■ Upto 10% ■ Above 10%

What is the ratio of all expense
(Excluding partners salary and
Interest) to Total Receipts of PY



■ 0 to 30% ■ 30% to 40% ■ 40 to 50% ■ More than 50%

Growth Areas of Practice

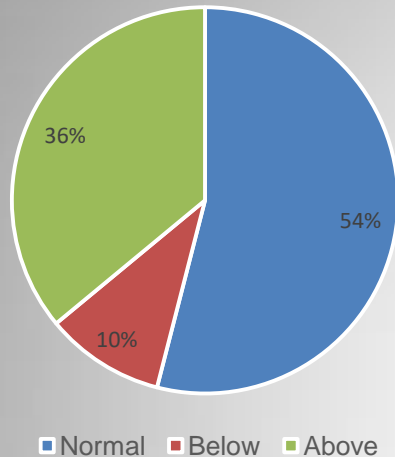


■ Income Tax ■ GST ■ Audit ■ Management Consultancy

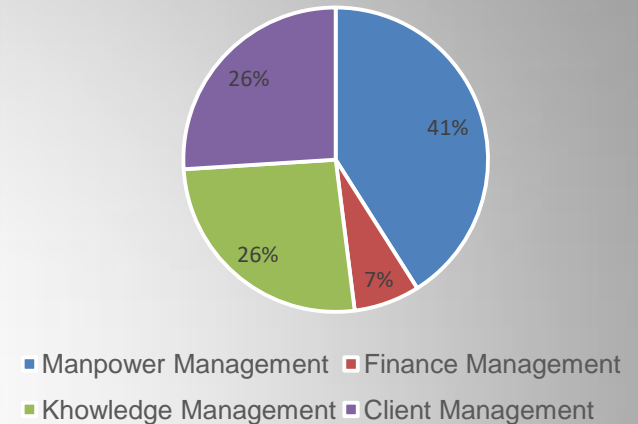
Ref: CA Umesh Sharma Seminar consisting of 35 cities in WIRC with attendees more than 2500 members
CA Nilesh Vikamsey

Current Position of CA Practice

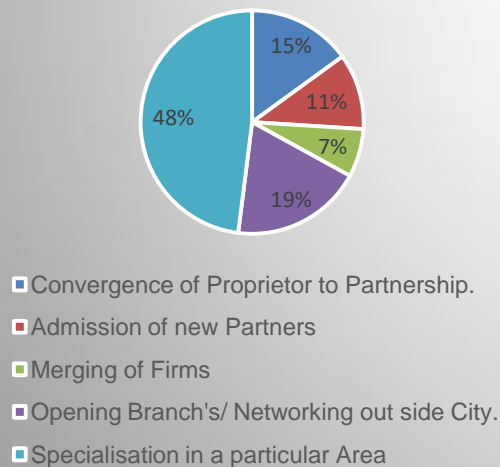
Growth of Economy of City



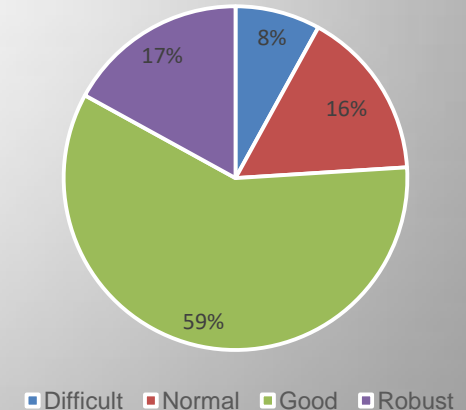
Most Challenging Strategies in CA Practice



Are you willing to grow in CA Practice by.



Overall View on Future of CA Practice



Practice Management Statistics

■ Statistics for Income Tax as of 15 August 2022

10.57 crore
Individual
Registered

5.96 crore
No. of
Returns Filed
(AY 22-23)

4.72 crore
No. of
Returns
Verified
(AY 22-23)

3.90 crore
No. of
Verified ITRs
processed
(AY 22-23)

■ Statistics for Income Tax as on 31 March

2019*

| Tax Payer status | PAN Number (A) | Count of Returned Filed (B) | Count of Taxpayers (C) | Difference (A- B) |
|------------------|---------------------|--------------------------------|---------------------------|----------------------|
| Individual / HUF | 43,54,68,489 | 6,07,11,199 | 8,16,32,691 | 37,47,57,290 |
| Partnership Firm | 44,32,922 | 13,18,828 | 14,25,375 | 31,14,094 |
| Company | 17,41,192 | 8,47,860 | 8,86,889 | 8,93,332 |
| AOP / BOI | 12,84,300 | 183270 | 2,67,107 | 11,01,030 |
| Trust | 847,834 | 2,44,624 | 2,84,578 | 6,03,210 |
| AJP / LA / Govt. | 19,42,646 | 12,805 | 24,847 | 19,29,841 |
| Total | 44,57,17,383 | 6,73,57,829 | 8,45,21,487 | 38,23,98,797 |

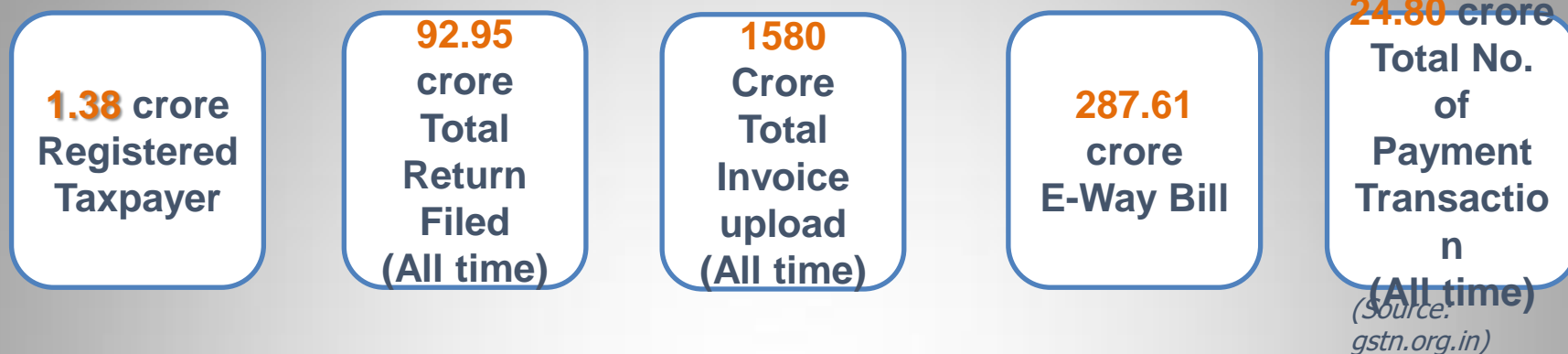
As per incometaxindiaefiling.gov.in, Individual/HUF e-returns filed as of March 2021 -

6,86,87,469

(Source: Income Tax time series data FY 2000-01 to 2018-19,
www.incometaxindia.gov.in)

Practice Management Statistics

■ Statistics for GST as of 31 July 2022



■ Statistics for Tax collection

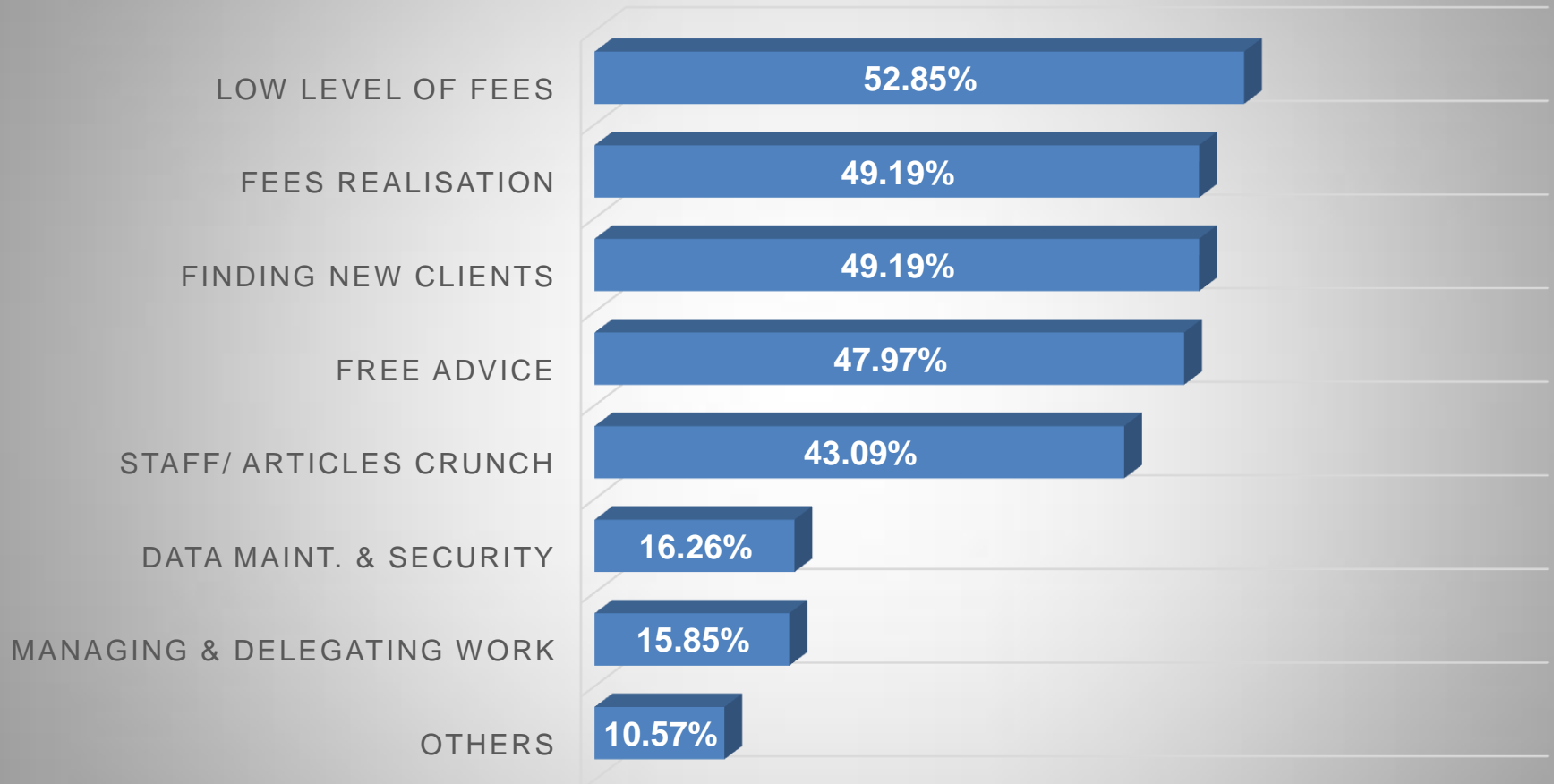
| Financial Year | Corporate Tax | Personal Income Tax | Total Direct Tax | Total Indirect Tax | Total Tax Collections |
|----------------|---------------|---------------------|------------------|--------------------|-----------------------|
| 2022-23# | 7,20,000 | 7,00,000 | 14,20,000 | 13,30,000 | 27,57,820 |
| 2021-22* | 6,35,000 | 6,15,000 | 12,50,000 | 12,59,000 | 25,16,059 |
| 2021-22# | 5,47,000 | 5,61,000 | 1,108,000 | 11,02,000 | 22,17,059 |
| 2020-21 | 4,57,719 | 4,87,144 | 9,44,863 | 10,76,892 | 20,27,104 |
| 2019-20 | 5,56,875 | 4,92,672 | 10,49,547 | 9,60,508 | 20,10,055 |

(*Revised Estimate)
(#Budget Estimate)

(Source: www.indiabudget.gov.in)

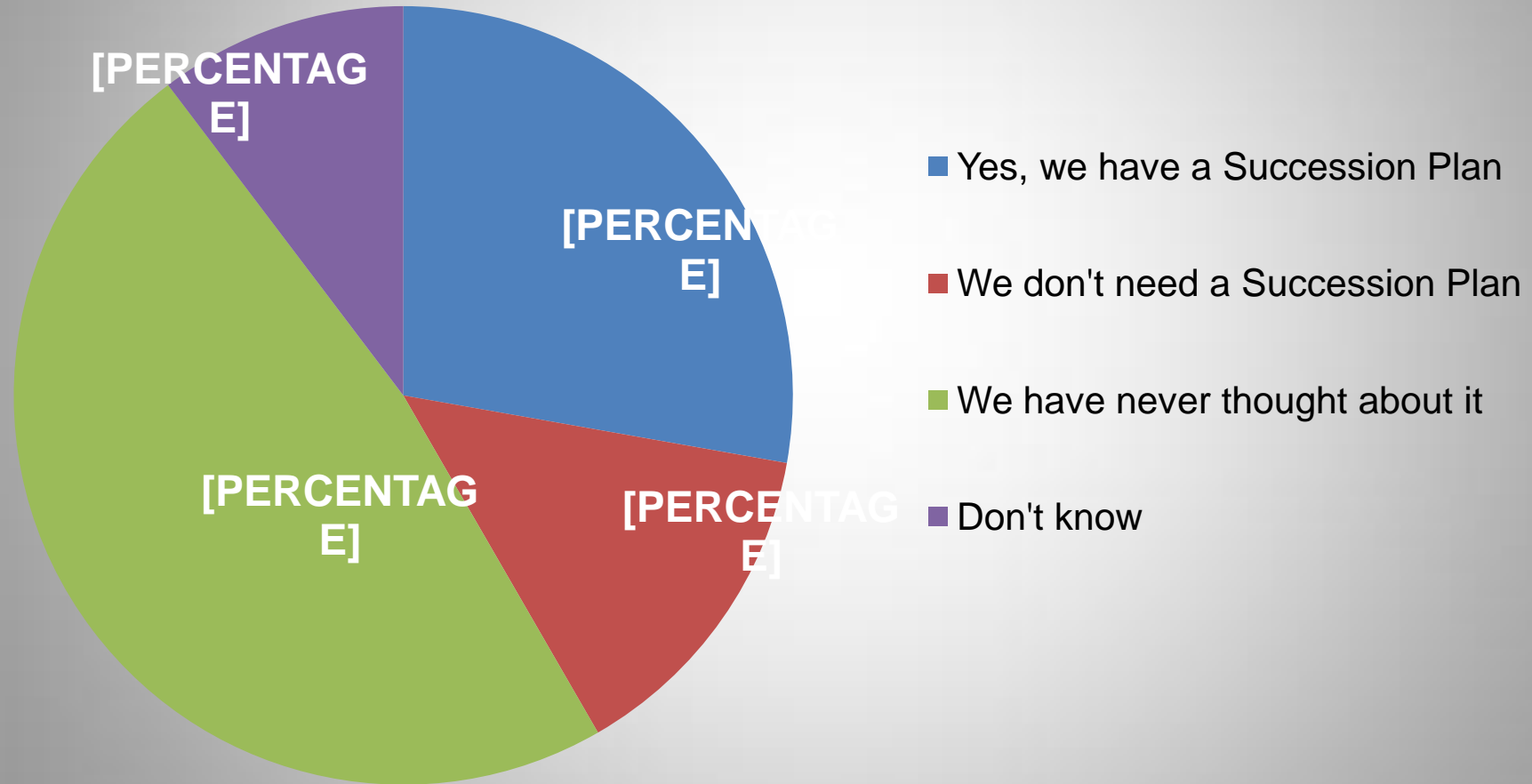
Current Position of CA Practice

Main Problem and Issues you face in your office



Current Position of CA Practice

Is your firm equipped with a Continuity Plan/ Succession Plan to succeed the senior partners



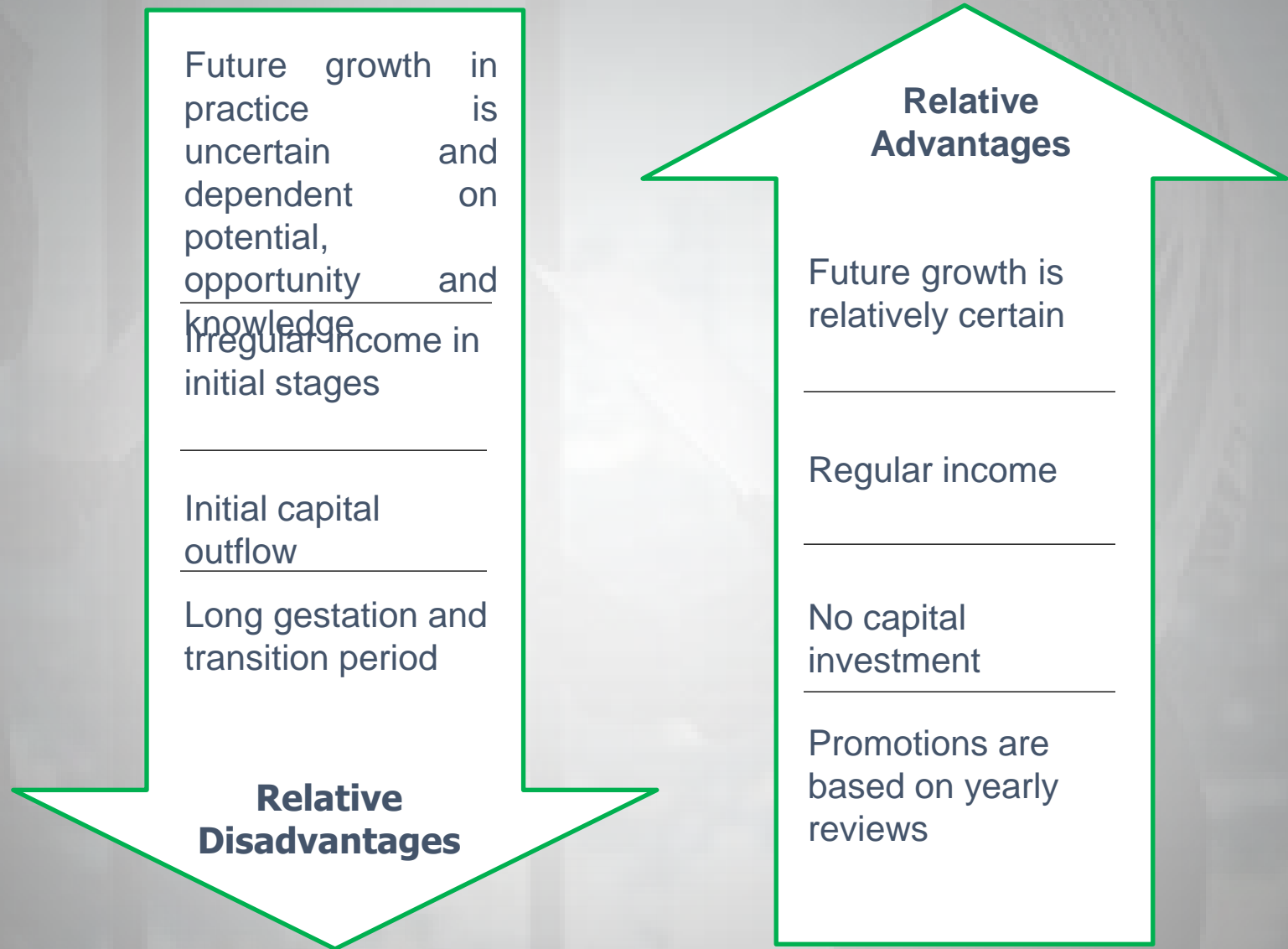


Practice Vs. Industry

IS THE GRASS GREENER?

Practice vs Industry

Practice vs. Industry



Practice vs. Industry

Relative Advantages

Leadership and independence

Multifaceted knowledge of subjects

Continuous knowledge gain

Wider interaction leads to networking and personality development

Flexibility

Independence subject to ones position in the industry

Departmentalization limits ones exposure to various areas

Knowledge is limited to the areas which one is responsible for

Interaction is with the same set of people in the office

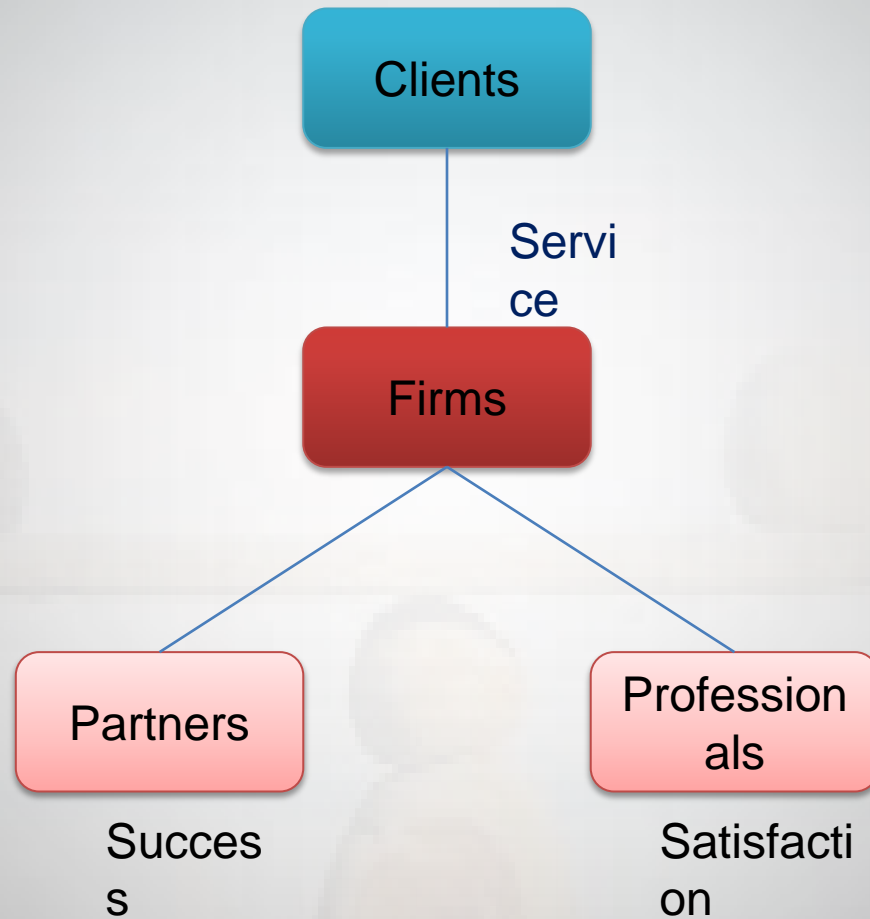
Relative Disadvantages



Challenges in Practice

Balancing 3 S

Balancing the 3 S - Service, Satisfaction, and Success

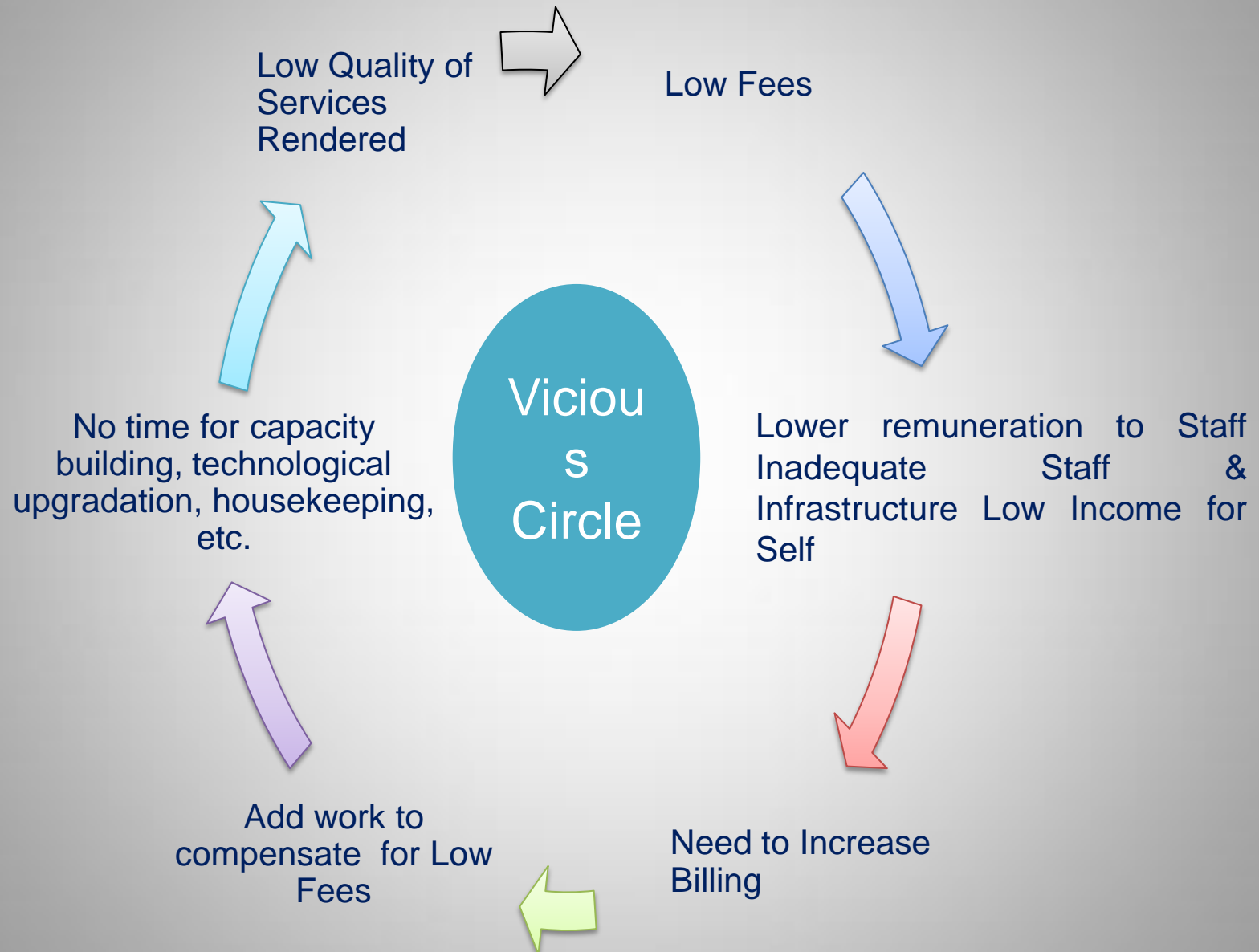


Source: Strategy and positioning of professional service firms - Ashish Nanda (Harvard Business School)

Challenges in Practice : Economic

- Rapidly increasing costs
- Inadequate projection of services Rendered (Value of assuring no material misstatement or of no major non-compliance in Taxation is not adequately projected and made known to clients which results in accepting lower fees)
- Competitive environment
- Client loyalties are no longer as stable as earlier (more of professional relationship)
- Retaining clients who are growing big is a challenge (if PU does not grow)
- Traditional Areas of Practice like Audit, Tax etc 'appear' over-crowded
- Increasing cost of executing Assurance Functions (more time taken in compliance of Auditing & Accounting Standards, Regulatory matters, increasing costs of Manpower etc) without corresponding increase in fees
- Lack of Billing Skills throws the smaller firms into the 'Vicious circle of Low Fees'

Challenges in Practice : Economic



Challenges in Practice : Regulatory

- Income Tax reduced no. of Deductions / Exemptions, Simplification & lesser no of scrutiny cases
- Professionals are prone to regulatory action (NFRA / Peer review / QRB / FRRB / SFIO / Disciplinary Proceedings & other regulatory issues)
- Too many changes in Laws, Standards & Guidelines at alarmingly rapid speed (GST / Demonetization / Ind AS / ICDS / IBC / Company Law / NBFC)
- Plethora of internal compliances—Standards of Auditing , Code of ethics,
- Cumbersome procedures
- Implementing process for complying with Code of Ethics
- Series of due dates in GST Laws
- Burden on GST practitioner for non-compliance/default of Client
- GST Authorities taking stringent views/actions for tax collection

Challenges in Practice : Technological

- Constant updates on technical front (unlearning – a big challenge)
- New technologies coming rapidly (Robotic Process Automation, Machine Learning, AI, Block Chain)
- Increasing use of technology is making the clients more independent and self reliant
- Impact on the Business Processes and Internal Control Processes
- Missing audit trail due to automation
- Understanding complex IT environments in which clients are functioning
- Increasing Threat to Data security / Privacy
- Knowledge is available at click of button !!!

Enduring Challenge of Computerisation

- **Use of Sophisticated Algorithms to do repetitive tasks**
- **John Keynes prediction of Technological Unemployment** - cited prediction of widespread technological unemployment “due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour”.
- **Oxford University research on Susceptibility to computers** - Jobs relating to Accounting and Auditing has 94% probability of susceptibility
- **Requirement of client as One Stop Solutions:** Due to increased complexity in the business clients look out for one stop solutions. This could lead to requirements for establishment of multidisciplinary firms.

Challenges in Practice : Human Capital

- Staff Loyalty and High attrition
- Inadequate Training and Practical Experience
- Stressed Relationships
- High expectation of Salary
- Dilemma of retaining experience resources – Increased Pay – Same Fee
- Lack of Managerial skills
- Lack of patience among staff
- Preference for routine / mechanical work
- Challenge of good staff with Clients—increasing our work
- Changing the HR dynamics – being less dependent on articles/intern. Qualified professional should form the main stay

Challenges in Practice : Personal Challenges

- Docile / Passive nature of CAs (accept lower fees and delays)
- Greed to increase volume of work at any cost
- Inadequate / Improper communication skills to showcase oneself
- Society's perception – **Necessary Evil !!**
- Lack of time management (peak and nonpeak periods)
- Not billing clients for telephonic consultations like lawyers or doctors
- Imbalance between knowledge and execution skills
- Inadequate funds and improper financial management
- Inability to keep pace with Technology changes
- Shift in practice from knowledge to Branding, Size, Organization, Management

Union Budget 2022 & Technological Advancement

Direct Tax -

- Streamlining of process of Faceless Assessment impacted personal skill set and management skill set of the tax professionals in the tax advisory and appellate services
- Relief to senior citizens on filing of income-tax return
- Enhancement in tax audit limits for small businesses
- Prefilled Income Tax Returns by Newly launched Income tax p

Indirect Tax –

- GST Audit abolished
- Reconciliation statement merged with Annual Return: To be self-certified
- Pre-filled editable GST returns
- Filing of Nil return through SMS

**Declining
Scope
?**

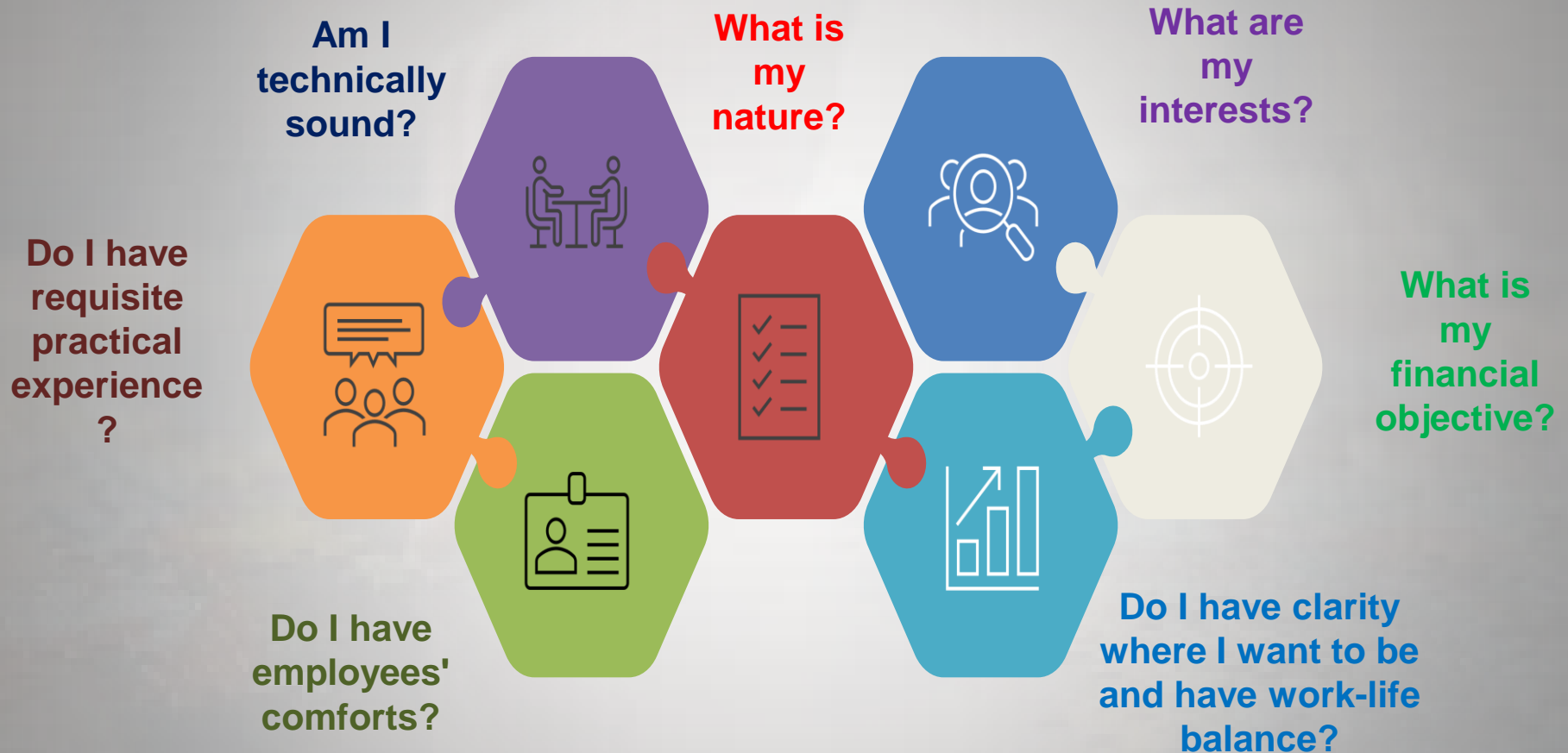


Practice Management Strategies

Practice Management Strategies



Self Evaluation Puzzle



Addressing the Self Evaluation Puzzle

Specialize In an Area

And grow to establish a specialized firm



Be a Retainer

And have my own small practice as well?



Work in a Firm

Then set-up my practice after gaining experience?



Join an Existing Firm

And grow into the partnership role in the same firm?



Positioning – Specialization – What you want to be ?



POLYCLINIC

BOUTIQ

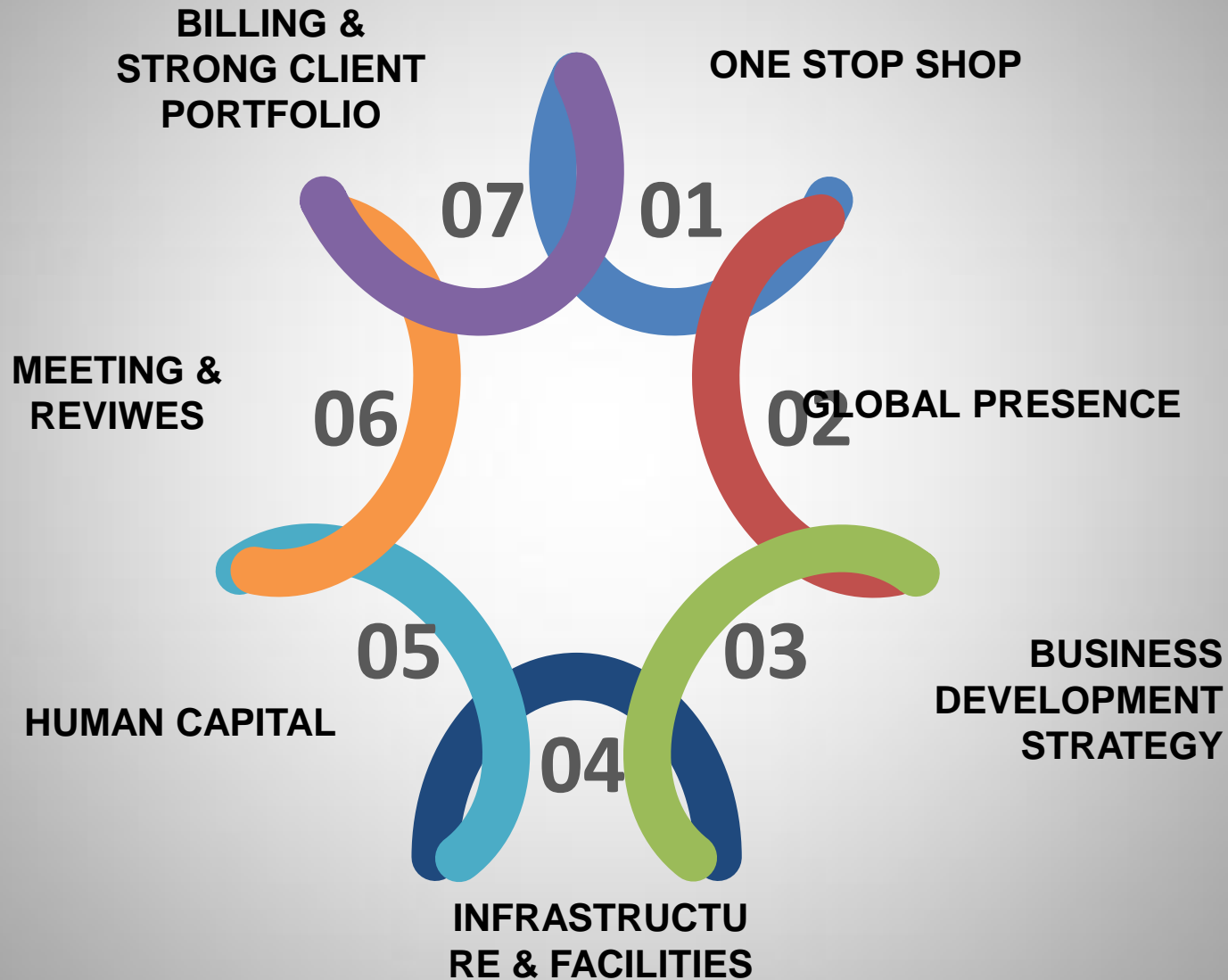


Advisor
y

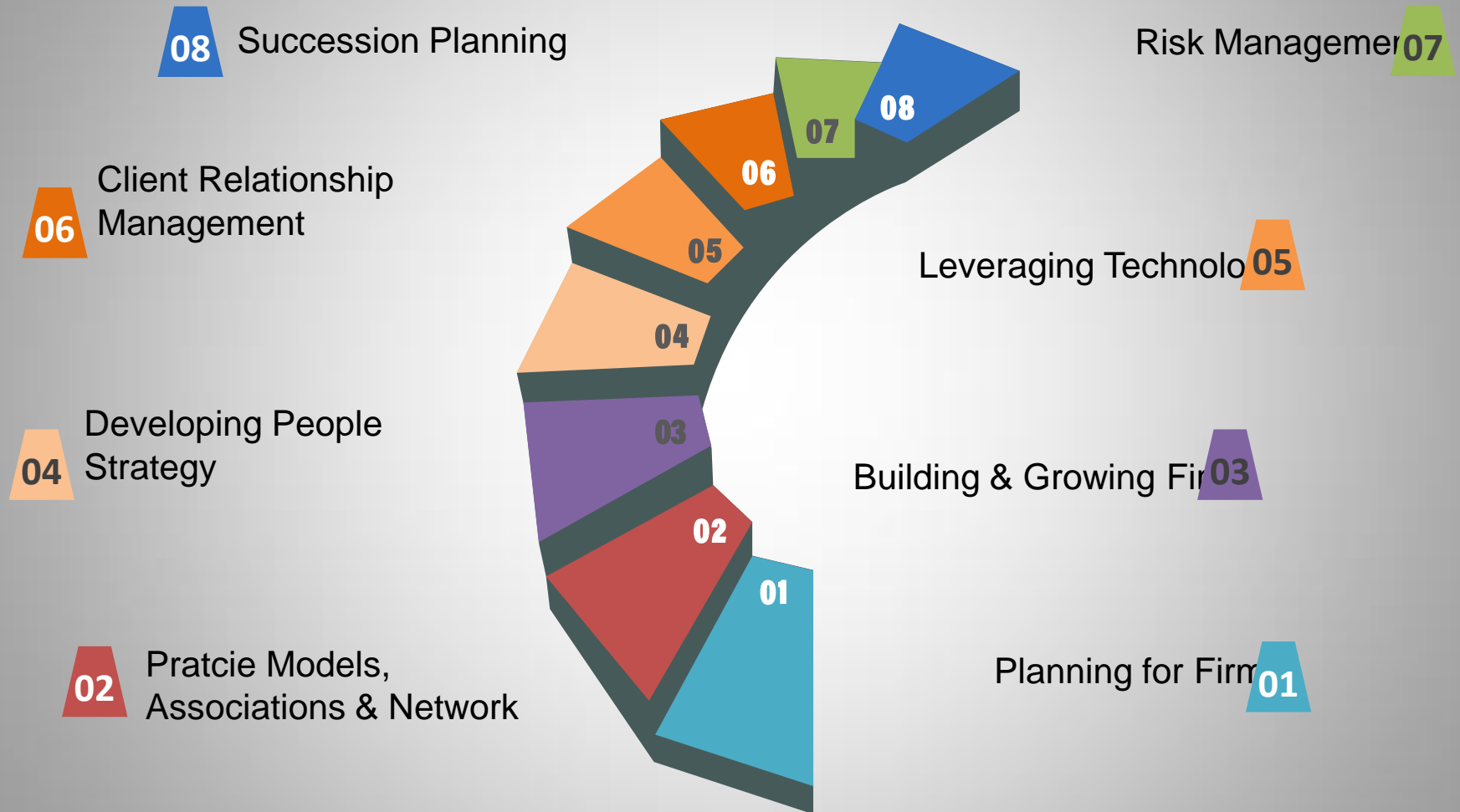
RETAIL
STORE



Practice Scenario – Large Accounting Firms



Practice Management for Small and Medium-sized Practices



Office Management

- **Office Sharing**

- ✓ You may also want to consider sharing offices whether this means sharing with other companies or just sharing a desk with your colleagues. This would not only cut costs and boost social awareness and new friendships

- **Location**

- ✓ The Location of your business is an essential aspects to your overall success. You want your business to be in a safe neighborhood, eco-friendly and ideally, one that is convenient for your clients or customers

- **Building**

- ✓ A healthy building one that has lots of natural light, good ventilation, and eco-friendly materials, paints and flooring is always a plus

- **Space**

- ✓ Many businesses make the mistake of selecting an office space that is too small for their requirements. When selecting your business spot, ensure that you are choosing a space that is large enough not only to accommodate you now but, in the future, if needed

Managing Clients

Quadrant 1

- Loyal Clients
- Do Not Negotiate for Fees
- High End Services
- Willingness to Pay : High
- Cost to Serve : Low

e.g.: Consulting

Quadrant 2

- Demanding Clients
- Negotiate for Fees
- Latest and Best Service Offering, Handholding in Services
- Willingness to Pay : High
- Cost to Serve : High

e.g.: Audit Services

Quadrant

- 3 ▪ Small Clients
- Negotiate for Fees
- Requires Core, unbundled services
- Willingness to Pay : Low
- Cost to Serve : Low

e.g.: Routine Taxation Services

Quadrant

- 4 ▪ High Negotiation for Fees
- Risky Clients
- Willingness to Pay : Low
- Cost to Serve : High

Service Spectrum

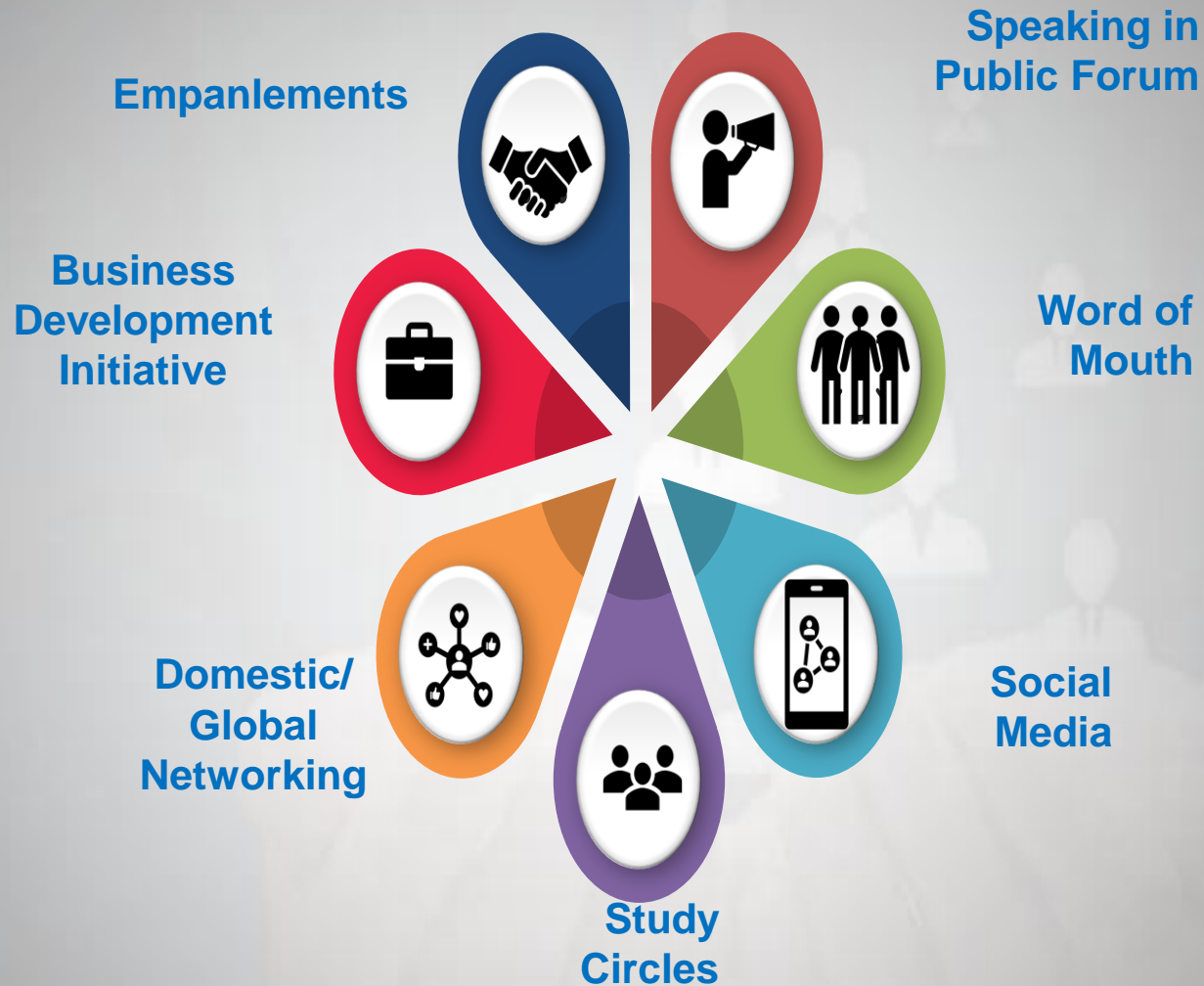
| | Efficiency Based Practice | Experienced Based Practice | Expertise Based Practice |
|-------------------------|---------------------------|---|----------------------------|
| Client Need | High Execution Intensive | Mix of High Execution and Diagnosis Intensive | High Diagnosis Intensive |
| Selling Proposition | Programmatic Solution | Mix of Customized and Programmatic | Highly Customized Solution |
| Client Risk | Low Client Risk | Project Mix will define Client Risk | High Risk |
| Availability of Vendors | Many Qualified Vendors | Various Qualified Vendors | Few Qualified Vendors |
| Fees | High Fee Sensitivity | Fees corroborate Client Requirements | High Fees |
| Margin | Low | | High |
| Rate | Low | | High |
| Utilisation | High | | Low |
| Leverage | High | | Low |

Source: Managing the Professional Service Firm by David Maister



Client and
ele Fees

Clientele and Client Acquisition

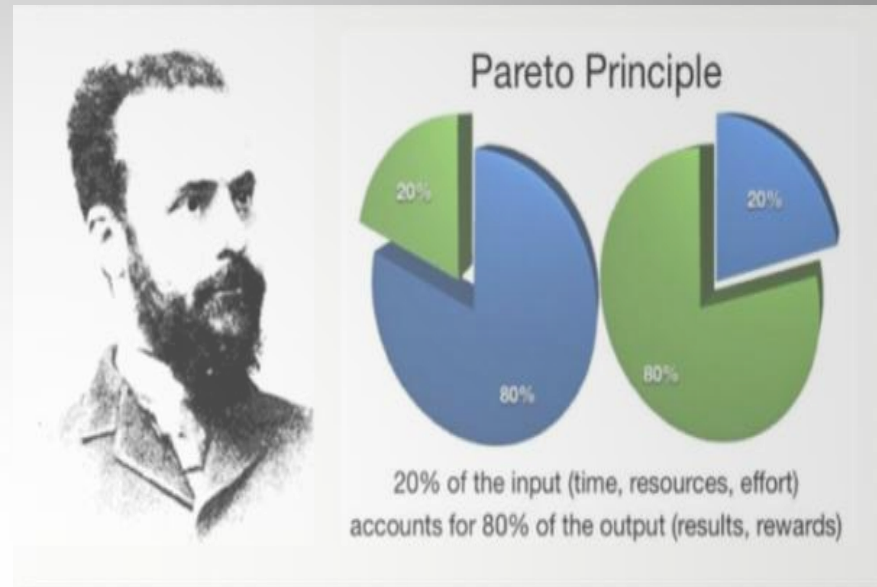


Clientele and Client Acquisition

- While initially, a firm would like to grab as many assignments as possible, as a firm grows it becomes important to identify those clients which have the potential to add value to the firm.....
- Know your Client (Geography, Size, Industry)
- Understand Client needs and Exceed Expectations
- What is “**value**” for your clients – Compliance vs Cost optimization vs high specialized advisory
- Build a Client Profile – “**Who is our ideal client?**”
- Don’t feel comfortable taking on the Client – **SAY NO !!**
- ICAI does not allow firms to advertise
- Tap the Start-Ups
- Clients can be classified under 3 categories:
 - ✓ Quality lover and fair
 - ✓ Moderate and Practical
 - ✓ Miser
- The third type of clients can describe by the definition of Cynic given by **Oscar Wilde** – “**What is Cynic?**” – **a man who knows the price of everything and the value of nothing**
- After few years, dispense with 3rd category of clients since they take precious time without commensurate revenue

Clientele and Client Acquisition

Pareto Principle



80% of the events / activities in life contribute to 20% of the results and 20% of the events/ activities contribute to 80% of the results. Hence, successful people concentrate on “important few” and pay less attention to “trivia many”

Focus on 20% clients giving 80% revenue

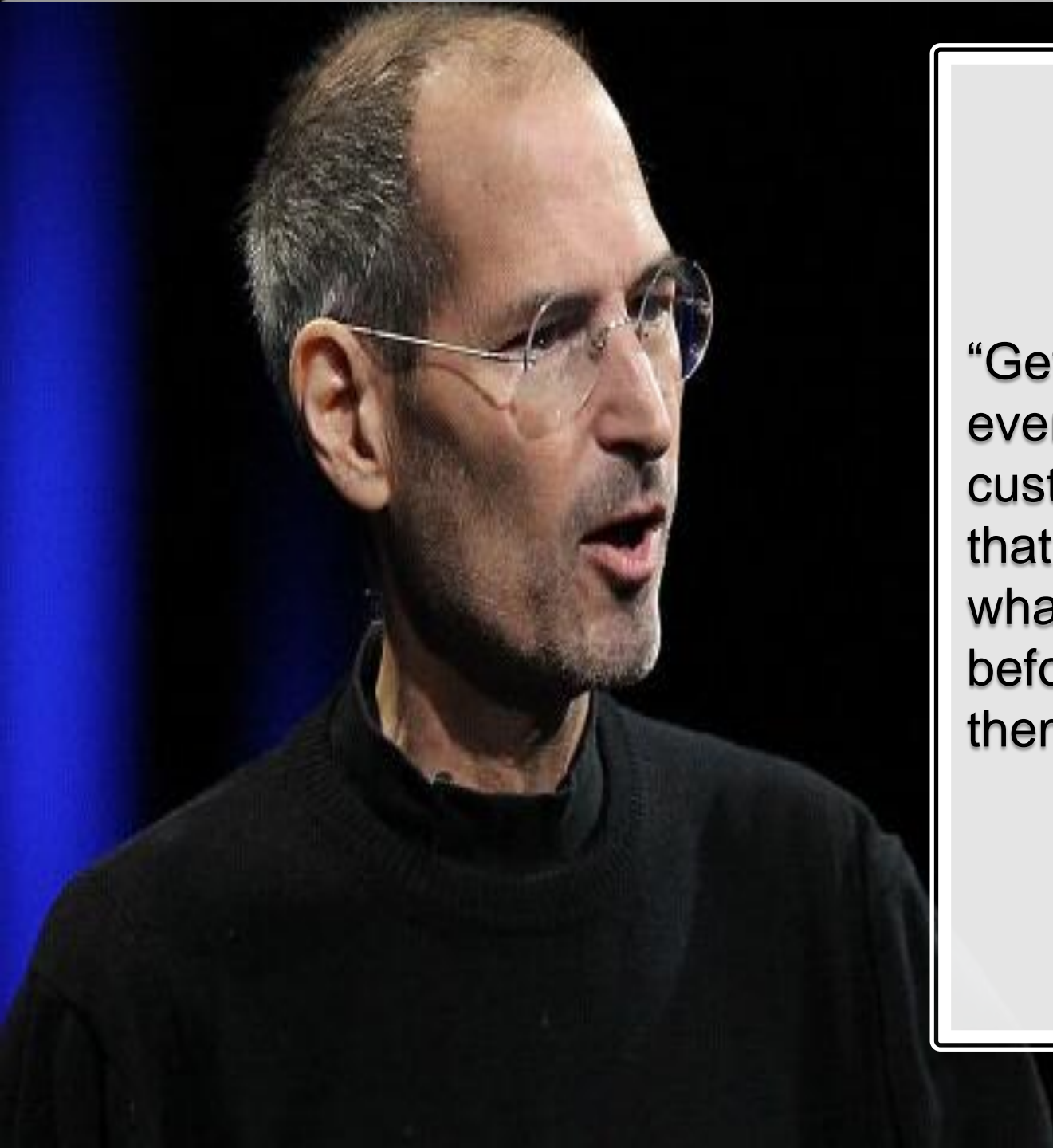
Clientele and Client Acquisition

ABC Analysis / Client Rating *based on....*

- Fees per client – Good / Moderate / Poor
- Quality of client – Progressive / Good Housekeeping
- Potential of growth of client
- Profile value – Clients adding profile to the firm

Client Management





“Get closer than ever to your customers. So close that you tell them what they need well before they realize it themselves.”

Fees & Billing

- Man-hour rates
- CA's earning is dependent on time
- Hence apart from generating good fees out of advice
- ***Time sheets are must !!***
- Bill clients for telephonic consultations
- Specify clear terms and condition
- Develop policy of advance and credit
- Develop policy for reimbursements
- Regular reminder mails and second line of escalations
- Be courteous, Be professional
- ***Charge as soon as the assignment gets over***



Time is money.

~ Benjamin Franklin

Fees & Billing - Calculation of Man-Hour Rate

No. of days in a Year 365

Less: i. Holidays for Sundays 52

ii. No. of Days for further continuing education 16

iii. National Holidays, Public Holidays and unscheduled
Holidays on account of social reasons, Bandh,
etc. 15

83

282

Less: Annual Leave including Sick leave, etc. 30

No. of Working days in an year 252

Therefore No. of Working days in a month 21

Fees & Billing - Calculation of Man-Hour Rate

| | | | | | |
|---|-----------|-----------|-----------|-----------|-------------|
| Minimum Expected Net Monthly Remuneration for a C.A. | 50,000 | 100,000 | 200,000 | 500,000 | 10,00,000 |
| | 600,000 | 1,200,000 | 2,400,000 | 6,000,000 | 1,20,00,000 |
| Minimum Expected Net Yearly Remuneration | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 10,00,000 |
| Add: Overhead Expenses | 1,600,000 | 2,200,000 | 3,400,000 | 7,000,000 | 1,30,00,000 |
| Therefore, Rate per Day | 6,667 | 9,167 | 14,167 | 29,167 | 51,587 |
| Therefore, hourly rate (assuming 4 hours chargeable) * | 1,667 | 2,292 | 2,542 | 7,291 | 12,897 |
| (assuming 6 hours chargeable) * | 1,111 | 1,528 | 2,361 | 4,861 | 8,598 |
| * Substantial time of a day goes into Administration, training, etc. i.e. non billable time | | | | | |

Fees & Billing – Considerations for Man Hour Rates

- Normal working days in a year (240-260)
- Normal working hours devoted to clients (i.e. excluding time spent for administration, continuing education, research, reading etc)
- Overheads
- Opportunity Costs
- Specialized Skills required
- Nature and type of assignment / client
- Seniority in profession
- Quality & Service Levels
- Peak and non-peak season

- ***Consider Minimum Scale of fees as recommended by ICAI***

Fees & Billing – General Guidelines

- As far as possible when raising the Bill, **break-up all services rendered** and mention each service separately.
- Try to make your Bill as **exhaustive** as possible by detailing all the services rendered to make the **client realize the efforts** put in by us.
- Raise the Bill **immediately** on completion of work and realise the value of service when rendered, as thereafter the significance may be lost.
- Monitor **outstanding bills** and try to realise the bill in the shortest possible time.
- Try and **provide value addition** to clients. A satisfied client will honour your bills with pleasure.
- Be **firm with your Billing** and as far as **possible do not settle for lower amount**.
- The recommendatory scale of fees is in the interest of the members as well as profession at large, hence members should adhere to the schedule of fees.

Reality Check Agreement v/s Expectation

■ Agreed scope of work

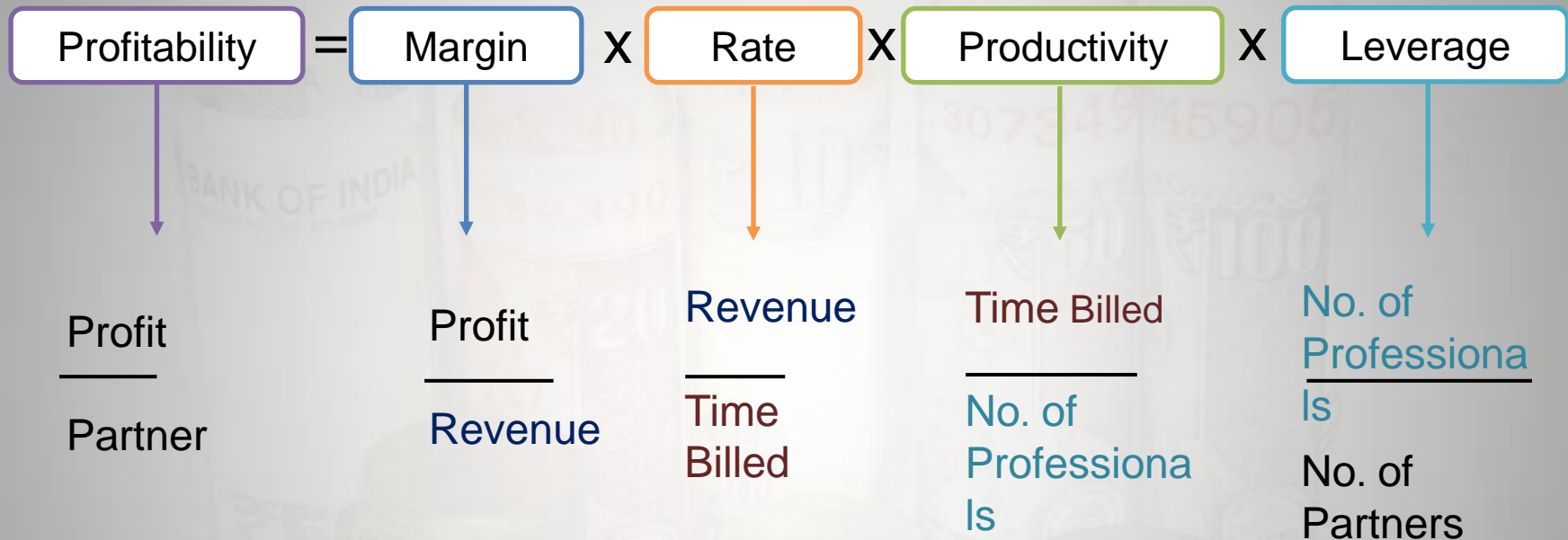
- Filing GST returns = Rs. 3,000 per registration as reduced after discussion (Original quote Rs.4,000)

■ What is expected by client?

- Segregation of sales data and purchase data in the prescribed form
- Preparation of returns (GSTR-1 and GSTR-3B)
- Verification of eligibility of input tax credit (ITC)
- Reconciliation of ITC with GSTR-2A
- Send mismatch reports to client
- Computation of GST liability
- Preparation of payment challans
- Sometimes, make payment on behalf of client
- Filing the GST returns (GSTR-1 by 11th and GSTR-3B by 20th) within due date.
- Regular advice on HSN codes and GST rates to be charged
- Advice on HSN codes and GST charged by supplier in their Invoices
- Answering calls of the department officers
- Advice on contract clauses in agreement with suppliers/customers
- Negotiation with supplier for ITC mismatches and invoicing issues
- Making correction in the subsequent returns due to errors in previous return

Efforts put in and fees for doing all this = 30,000

Drivers of Profitability





Ingredients of Successful Practice

Ingredients of Successful Practice

- **Service First Attitude -**

- ✓ People with a money-first attitude become so money-conscious that they forget money cannot be harvested unless they plant the seeds that grow the money. And the seed of money is service. That is why “put-service-first” is an attitude which creates wealth. Put service first and money takes care of itself.

- Demonstrate better performance for increase in the fees
- There never is a demand for anything second-class, especially when it is given a first-class price tag.
- Make sure your proposal is Impactful - First Impression Lasts and making presentations to client as part of your deliverable
- Value addition to client even in compliance work e.g., Management letter (suggestion letter)
- Remove the perception of being a “Necessary evil” in audit and taxation in the minds of the client. One needs to add value to clients on an ongoing basis and document value added to client.
- Be patient as there may be a long gestation period of at least 3 years or more
- Increase delegation of work as practice starts growing
- Plug Revenue Leakages (Certification, Oral advisory on phone / meeting etc.,)
- Do Proper Client Appraisal- whether he has the ability & willingness to pay proper/ reasonable fees
- Quote fees for work only after **proper analysis of work**, time & man- power required

- Systemize work procedures in writing

Ingredients of Successful Practice

- Job **assignment should be clear** to the CA and the client by documenting it in the quotation / engagement letter to avoid unpleasant expectation gaps
- In case of new work/ large work (non-audit), take advance payment/ installment of fees as the work progresses
- Better Office culture and working environment and adequate trainings
- Technology – use technology effectively for improving quality, productivity, management, knowledge, research, tracking work, etc..
- Rendering Personalized Service with a broader exposure covering Audit, Income Tax , GST etc)
- Make Products of Services (Preparation of Manuals, Company Formation, Compliance audits, etc.)
- Discuss issues with peers and seniors and get different perspective
- Need to network / collaborate / merge
- Provide multi-Disciplinary services and challenging assignments
- Define Engagement Letters for assurance and non-assurance services
- Making presentations to client as part of your deliverable
- Regular updations of knowledge through reading various professional publications and staying connected with recent updates
- Don't fall in the trap of lump sum fees for various services
- Send detailed billing for work done
- Recover OPE

Ingredients of Successful Practice

Use of Power of Social Media

- Increase in Visibility
- Regular update of Website
- Regular updates on Laws, Regulations, Notifications, Circulars
- Webinar : Key Events and Conferences
- Client Engagement Activities



Interpersonal Skills

- Amongst Partners – **Team Work**
- With Clients - **Networking**
- With Employees – **Leadership**



Interpersonal Skills

Leadership

Decision Making

Mentoring

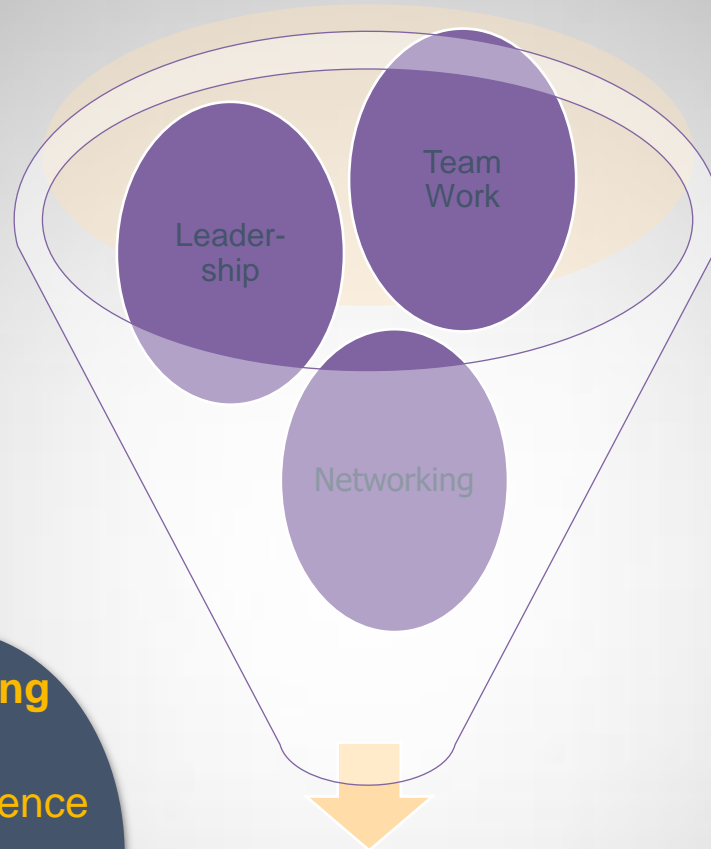
Delegation

Motivating

Networking

Self Confidence

Effective
Communication



Team Work

Mentoring

Collaboration

Human Capital Management

▪ Building Human Capital

- Structured Work Assignment Systems
- **Coaching** during work assignments by providing stretched but realizable challenges and providing constructive feedback
- Development of junior partners by senior partners specifically if rainmakers' departure
- Adding to Knowledge base by developing industry-based departments, interdisciplinary (or interoffice) committee to encourage communication between isolated and other professionals
- **Managing Project Mix** is such way it will not only exploit firms existing skills but provide for the further development

• Productivity Strategies

- ✓ Reallocation of costly resources to handle higher value work
- ✓ Reward Seniors for explicitly for good coaching
- ✓ Performance based pay schemes
- ✓ Drop “up-or-out” system to reduce turnover

• Reduce Need Strategies

- ✓ Withdraw from some services and markets that cannot support new salary levels
- ✓ Rethink fast growth strategies
- ✓ Emphasize profitability more, volume of fees less

• Substitution Strategies

TEAM – Together Everyone Achieves More



- Sacrifice small for larger interest
- I vs We Culture
- Success is Team Efforts

“A wise man will make more opportunities than he finds”

- Francis Bacon



Meeting and Reviews

- Meetings ensure that firms quality standards are maintained and improved

- **Regular Partner Meetings:**

- ✓ Growth strategy discussions
- ✓ Human Resources etc
- ✓ Enquiries / Proposals
- ✓ Updations and Use of technology
- ✓ Improvements in systems & processes
- ✓ Firm Policies - updations & introduction of new policies



Ingredients of Successful Practice – Protect your Intangibles

- Human Capital
- Existing Good Clients
- Client's satisfaction
- Own Investment & Fund Management abilities
- Knowledge & Skills
- Professional Networks
- **Health** and Happiness
- Enhancing the quality of **documentation**
- Enhancing review mechanism
- Internal succession planning
- Periodic and timely dialogue with client

9 Rules of Managing Professional Service Delivery



Source: Managing Professional Service Delivery

CA Nilesh Vikamsey

Balance Score Card – Measures that Drive Performance

Financial Perspective

| Goals | Measures |
|---------|---|
| Survive | Regular Cash Flow |
| Success | Yearly Growth of client along with increase in the income |
| Prosper | Increase return of equity |

Internal Business Perspective

| Goals | Measures |
|-----------------------|---|
| Technology Capability | Adopting new technological changes |
| New Service | Actual Introduction of new service Scheduled vs planned |
| Service Excellence | Cost per Employee Cycle Time for rendering service |

Client Perspective

| Goals | Measures |
|------------------------------|---|
| New Services | Percentage of revenue from New Services |
| Responsive supply of Service | On-time delivery of service |
| Preferred Clients | Share of key accounts from preferred clients and Ranking of key clients |

Innovation and Learning Perspective

| Goals | Measures |
|-----------------------|---|
| Technology Leadership | Time to develop/ adoption of new technology |
| Service Sales | Percentage of services/ clients that equal 80% of sales |
| Time to Market | New service introduction vs competition |

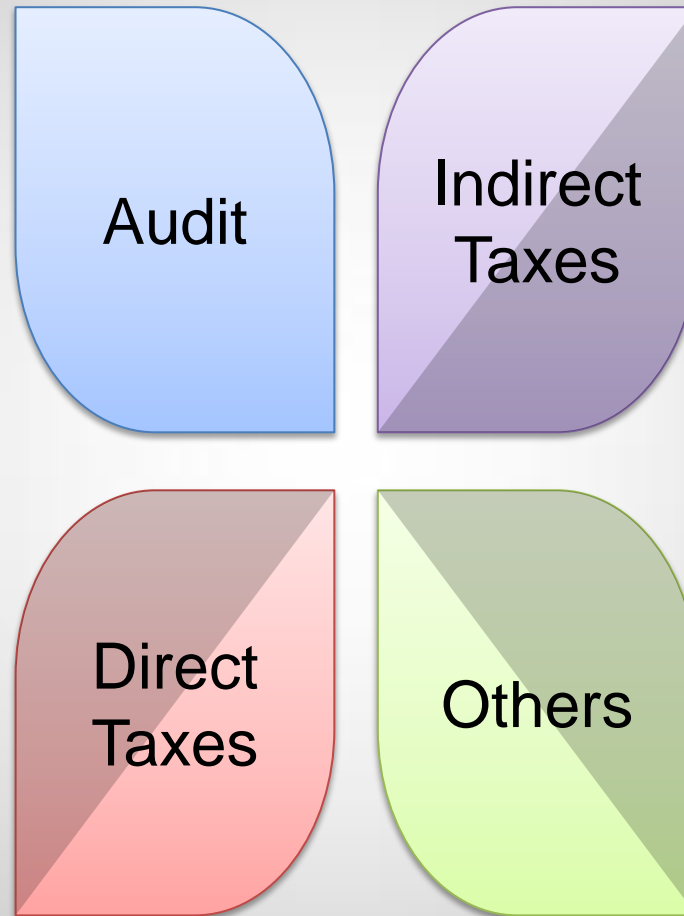
Ref: The Balance Scorecard – Measures that Drive Performance (Robert Kaplan and David Norton) – Harvard Business Review (January – February 1992)



Growth Strategies

Traditional Areas

- **Company Audit**
- **Tax Audit**
- **Co-op Society Audit**
- **Internal Audit**
- **Specialized Audit**



- **Compliance**
- **Advisory Appellate**

- **Compliance**
- **Appellate**
- **TDS**
- **International Tax**
- **Transfer Pricing**

- **ROC Compliance**
- **Annual Returns**
- **15CA / 15CB**

Emerging Areas

Bankruptcy

Digital Forensic / Data
Analysis

Forensic/ Fraud
Investigation

Valuation

RPA & Digital
Accounting

Risk Assessment
& Management

Advisory

Artificial Intelligence
Blockchain
Cloud Computing

IFC, Systems, Process
development

Inbound and Outbound
services

Cyber Security

ESG

Business Support
Services

Opportunities from Atmanirbhar Bharat Mission and Digital India

Increased Client Servicing to Agriculture Sector

- ✓ Allocation to Fisherman through Pradhan Mantri Matsya Sampada Yojana (Rs. 20,000 Crores)
- ✓ Allocation for formalization of Micro Food Enterprises to attain FSSAI foods standards (Rs. 10,000 Crores)
- Increased Client Servicing to NBFCs
 - ✓ Partial Credit Guarantee Schemes to NBFCs (Rs.45,000 Crores)
 - ✓ Special Liquidity Scheme (Rs.30,000 Crores) housing finance companies, microfinance firms with Government Guaranteed Securities
- Advisory Services to MSMEs
 - ✓ Revised Definition of MSME
 - ✓ Equity Funding for MSME upto Rs.50,000 Crores
 - ✓ Collateral Free loans to MSME
- Export of Accounting Services listed as Champion Sector for Export Promotion
- Big 8 Indian Accounting Firms where 4 firms are Indian by 2022, Hon'ble Prime Ministers Vision
- Opportunity for Indian CA firms for pooling of resources, expertise and build a pan India



Specializa tion/ New Areas

Why to focus on New Areas/ Specialization ?

- Be jack of all but **master of few** areas
- Need to go **up the value chain and get higher fees**
- Better **job satisfaction** / liking of the work being done
- Venture into New areas of liking
- Make focused / better / bigger investment in **resources** (infrastructure, Personnel (HR) / Premises - Ambience latest technologies etc)
- **Better client perception and solutions to complex problems** (good response / service/ office / advice)
- **Churning** the portfolio of **clients** (existing clients will always have mental resistance in paying higher fees)
- Have Economies of scale, better organization, improved services to client in routine services
- Improve systems/ process of doing practice
- In case of services of one time / specialized nature rather than annual / routine the client will not mind paying higher fees than for routine practice
- To sum it up **Better Potential**



Positioning – Specialization – What you want to be ?

- Initially, one may have to provide all services for getting new clients... However, specialization is the need of the hour!!!
- Select your area of expertise and provide specialized services
- There are several small firms in the market providing core business services to a large number a bigger firms. Such firms have gained great respect and recognition from the professional and the business community
- **Growth does not necessarily mean expansion in size.....It also means excelling in what you do!!!**



How to Enter New Areas

- Decide your own **USP** (Unique Selling Proposition) and areas / services of your **liking**
- Be on the lookout and try to enter areas having **“First Mover” advantage**, e.g., IBC, Environment Audits , IFRS, GST, Liquidation, Outsourcing, Asset Reconstruction, NCLT, etc.
- **Analyze competition** in those areas and know to live and thrive with it
- Do a **project report, business plan and activity chart** how to be successful in the new area
- Decide **strategy** on:
 - ✓ **High end specialization or lower end mass repetitive working**
 - ✓ How to **create and need** in the mind of clients
 - ✓ How to attract the clients
 - ✓ **Using jargons** like SRS (Systems Review), ABCD (Artificial Intelligence, Block Chain, Cyber Security, Data)
- Have **commitment / determination to devote time and to succeed**
- Do **landmark assignments** which may not make money but will create a brand for future jobs

Problems in Venturing into New Areas

- Lack of vision, awareness, conviction, desire, willingness to accept change
- Cost of entering new area
- Losing opportunities / work in existing area
- Last mile syndrome - Inadequate efforts put to succeed in the new areas
- Not identifying gaps / weaknesses and ways to overcome it
- Continuous up-gradation of knowledge / skills not done
- Inadequate clients / contacts
- Lack of Practical experience
- Inadequate financial backing

Positioning – Where you want to be?

- In marketing, **positioning** is the process by which marketers try to create an image or identity in the minds of their target market for its product, brand or organization
- Need to position in the market to ensure that we get the right kind of work and the right kind of clients
- Since the bigger segment is virtually out of reach of a start-up business, identify whether you want to be in the small service provider segment or in the middle service provider segment
- **You can gradually and eventually grow from small to medium and then big!!!!**

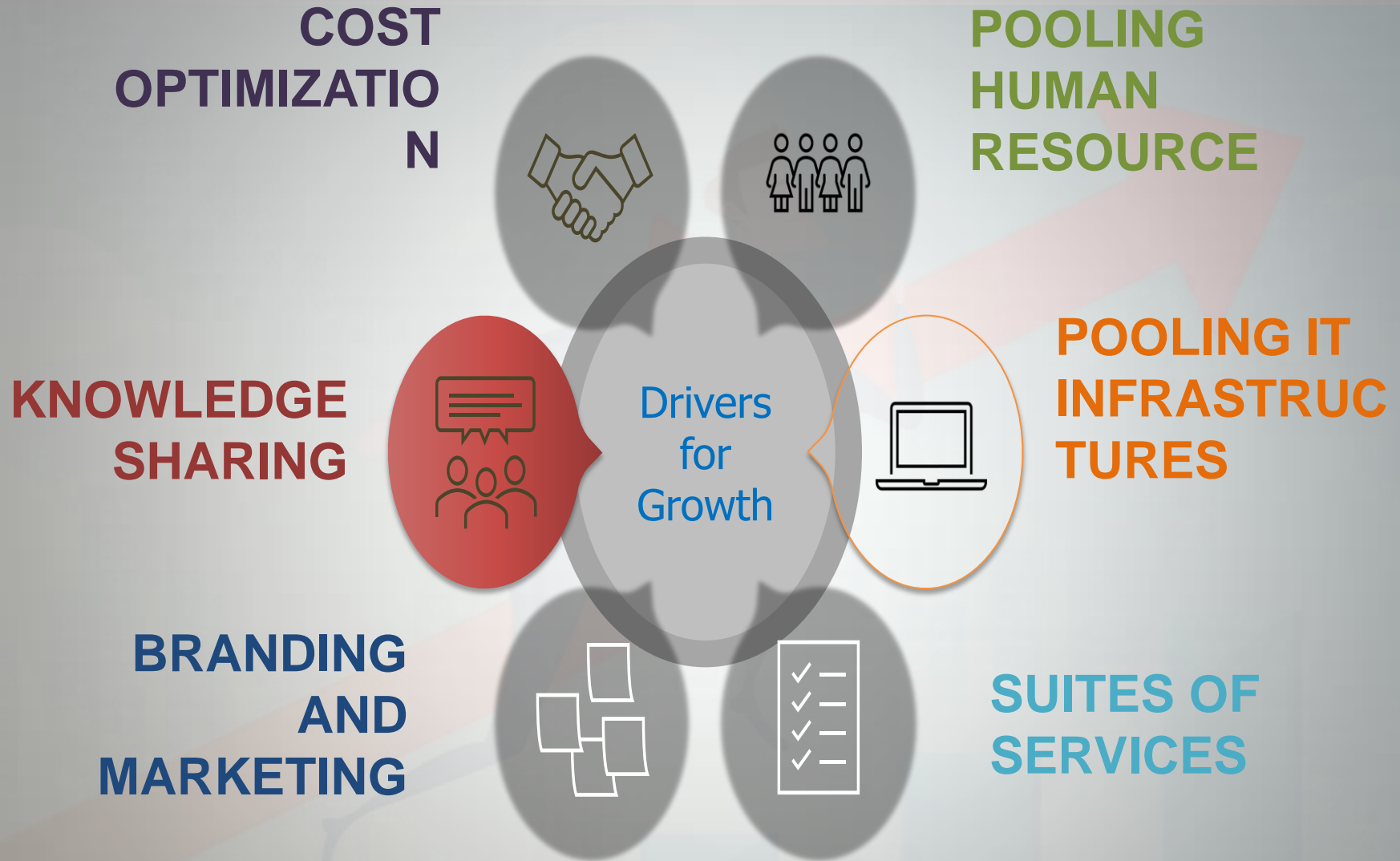




Coming together is a beginning, staying together is progress and working together is success

- Henry Ford

Leveraging Growth Using



Few years after the practice.

- Consider **merging** small firms which leads to specialization
- Each partner can look after a specific area.
- Increasing networks and client base.
- It also increases the capacity of the partners to absorb huge costs e.g., Personnel, IT Costs, overheads etc.
- Considering competition from the bigger firms with multinational presence, prospective clients' need, demographics and market trends, consider networking and merger

Growth Strategies

- Networking
- Merger and Demerger
- Practice in a corporate form



Networking

- Network amongst two or more firms registered with ICAI.
- Object -use the collective resources of affiliates for execution of professional services of one or more types at one and/or at multi-locational points
- Resources -- financial, technical and other logistic support required to execute
- Stepping stone for the mergers and acquisitions of the firms
- Once one is comfortable with networking one can go for bigger partnership firms & get the advantage of the big work to follow.
- Helps the firms to build competitive advantage over others, also be able to build up brands.
- Survival of small firms depends on their ability to re-engineer. Networking is one of the ways of re-engineering.

Networking – Advantages/ Disadvantages

Advantages

National / Global presence

Common & Professional branding

Technical Support

Knowledge Sharing

Quality Enhancements

Referral from all over the world/ Country

Clients can be serviced all over the globe

Competitive advantage

Less intrusive than merger

Disadvantages

Limited 'Quality review' process

Inability to get “big work” as consolidated strength i.e. network may not be approved by regulatory authorities like CAG, SEBI, RBI etc

Work given to “Non – network CA friends” due to poor quality of some network firms

Lack of mindset to merge in long run

Consensus building is very time consuming

Merger and Demerger

- For growth of CA firms- desirable that the firms begin with networking and then mature to mergers.
- Mergers should be affected to develop core competencies and to render professional services of a larger range spread over bigger geographical area. A merged big entity will always be superior to a network arrangement.
- Demerger can be demanded within a period of 5 years from the date of merger
- Demerged Firm is entitled to practice in its old trade name, which existed at the time of merger.

Practice in Corporate Form

- To empower the members to face the emerging challenges in the service sector as well as to equip them for the opportunities in the non-audit service area, the Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate.
- The body corporate should be engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council



Practice & Technology

Practice & Technology – Future Opportunities

- Most Important is to **UPGRADE**
- Robotics is driving business
- Harness technology to improve efficiency of current practice area
 - ✓ Increase coverage / Speed up in Internal / External audit
 - ✓ Income Tax Filings
 - ✓ Use software to solve administration problems
 - ✓ Use of cloud computing for saving data and thereby reducing cost of physical space
- Requisites for data driven practice
 - ✓ Acquire good technical skills
 - ✓ Develop environment to attract tech-savvy millennials
- Increased Training and soft-skill development (Webinars/Seminars)
- With uberisation, relevance of office place is losing. Develop concept of work from home,& Flexi-time
- Knowledge Management Database
- IT policies
- IT Network securities and Anti-viruses
- Localization of Data
- Right to Privacy is new fundamental right
- Data/ Knowledge is freely available which has changed CA's role of business

Practice & Technology – Human Machine Collaboration

Information System Audit

- ✓ Examining of Controls within IT structure
- ✓ Examining data integrity
- ✓ ITGC
- ✓ Migration Audit
- IT Advisory
 - ✓ Benchmarking
 - ✓ System Development
- Cybersecurity Services
 - ✓ Detection of attacks on accounting system
 - ✓ Designing of program to respond attacks
- ✓ Restoration of system after attacks
- ✓ Cyber Checklist
- Role in MIS for CFO's and CXO's
 - ✓ Financial Planning and analysis (Data driven modelling)
 - ✓ Developing MIS for CFOs and CXOs
- Assurance
 - ✓ Increase in extent of coverage
 - ✓ Better Sampling
 - ✓ Cost Effective Risk based audit by using data analytics tools
- Digital Forensics – Branch of Forensics encompassing computer crimes

Practice & Technology – Future Opportunities

TeamMate®

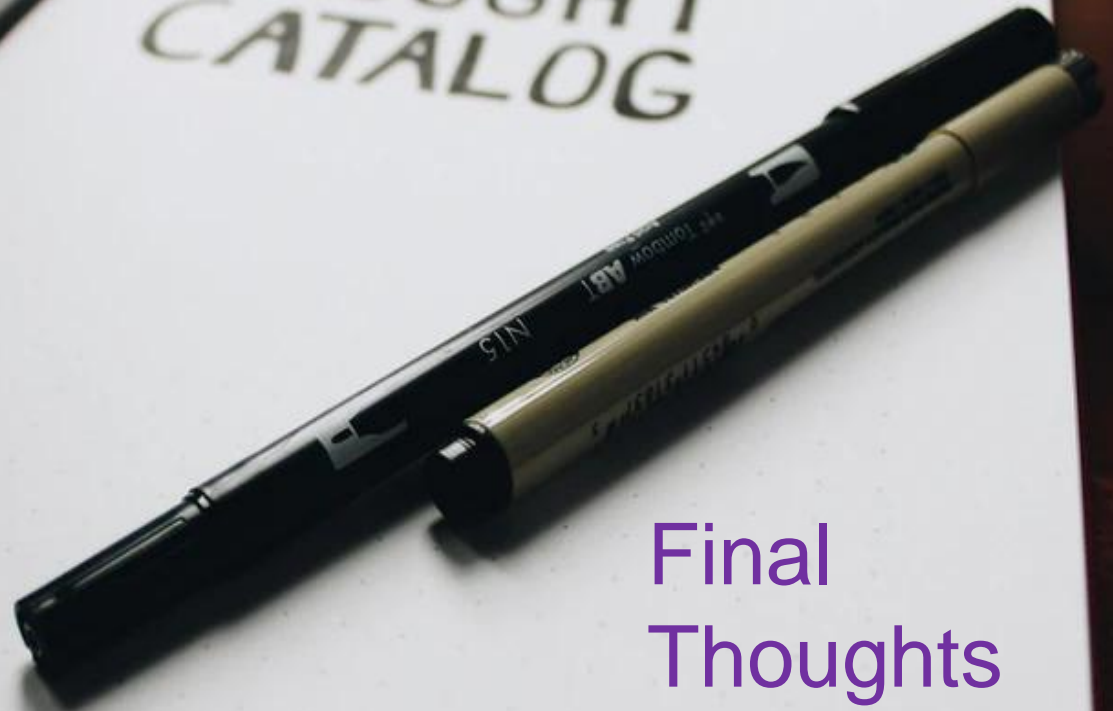


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THOUGHT CATALOG



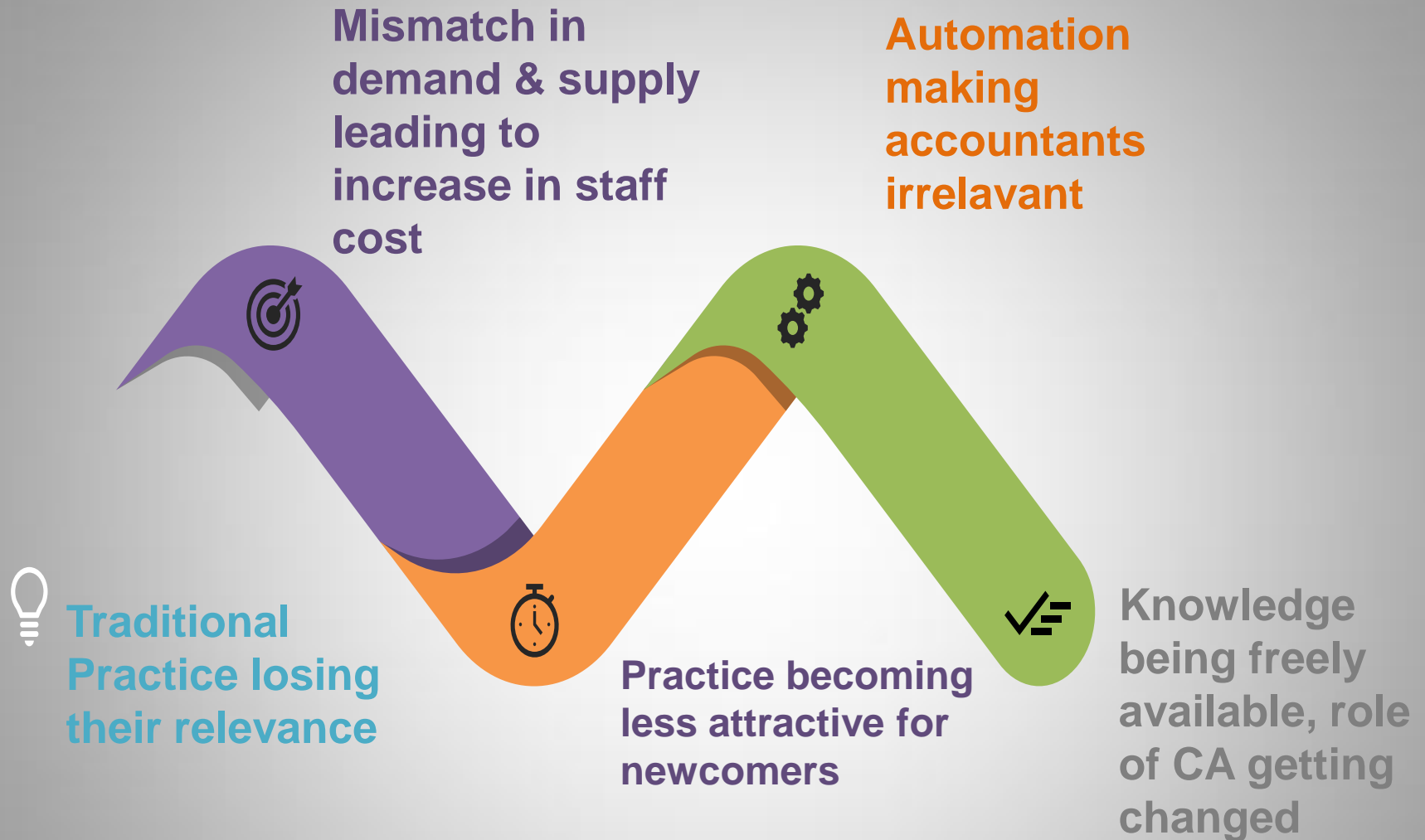
Final
Thoughts

Qualities of Successor for Succession of CA Firm

- Technical Skills
- Acceptability by All
- Visibility in Professional and Social Circles
- Decision Making Capability
- Rainmaker
- Long Term Vision
- Long Term ability to look beyond own area of expertise vision

* Presented by CA Shariq Contractor in BCAS Power Summit 2022

What future holds for us ?

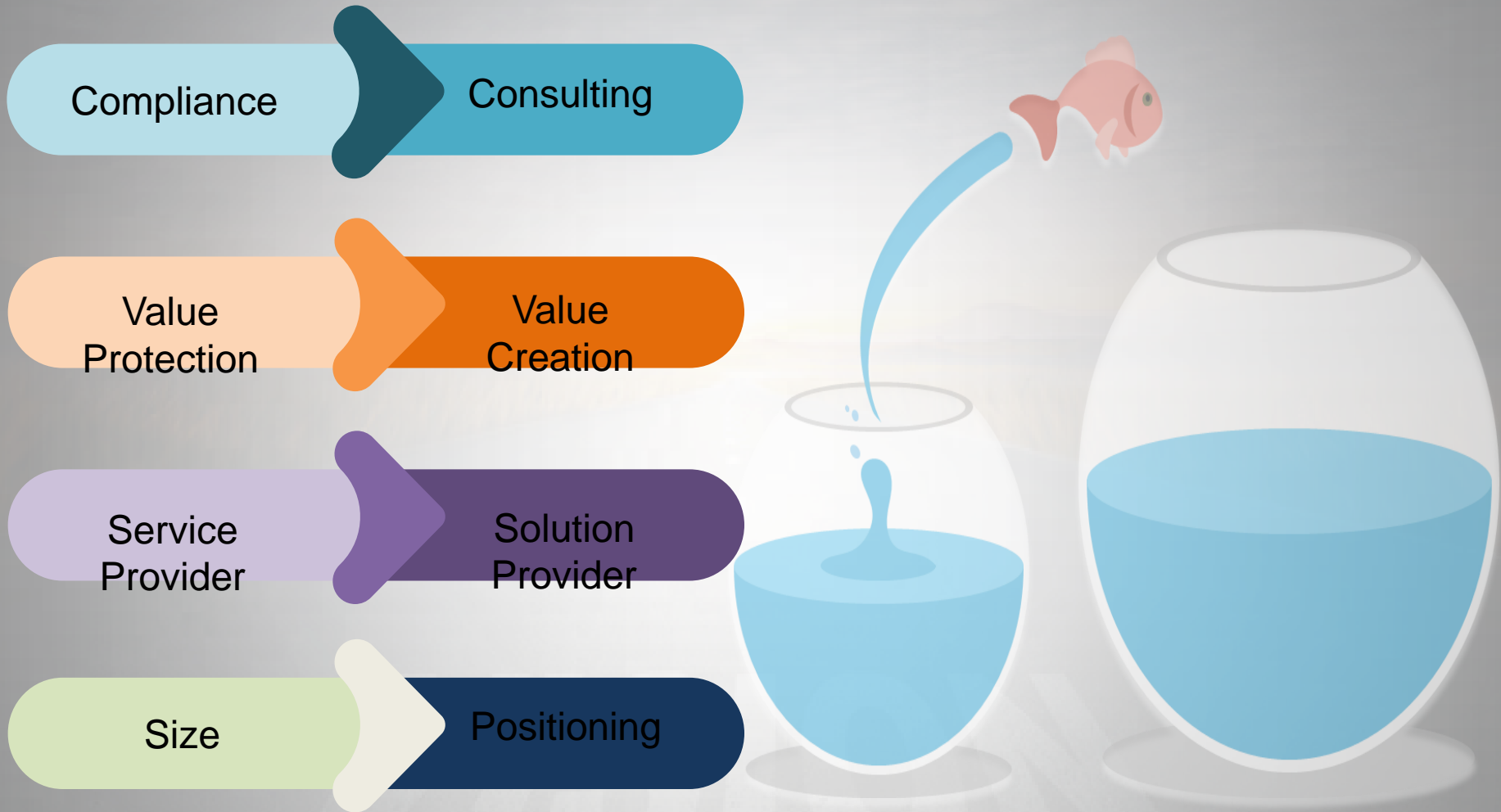



Asset Management for Growth

Achieving a good income statement result is a necessary condition for professional firm success, but it is far from a sufficient criterion. To have been judged a good year, a firm must not only achieve its volume and profit goals but do so in a way that both builds new skills and strengthens client relations.



Vision





Continuous learning is the
minimum requirement for
success in any field.

Brian Tracy

“ quote fancy

CA Nilesh Vikamsey

Technical Session - IV

Topice : Practice Management
Strategies & Way Forward



CA. Umesh Sharma
Central Council Member, ICAI
Mumbai

Day 2

Friday



ग्यान इशाला
SCALING TO NEW HEIGHTS
19th August 2022

| TIMINGS | SESSION/TOPICS | RESOURCE PERSON |
|---------------------|---|--|
| 10.00 AM - 11.30 AM | TECHNICAL SESSION-I Schedule III Important Changes & CARO 2020 | CA. P.R. Ramesh |
| 11.30 AM - 11.45 AM | TEA BREAK | |
| 11.45 AM - 01.15 PM | TECHNICAL SESSION-II Sec 143 to Sec 148A of Income Tax Act 1961 | CA. T.S. Ajai |
| 01.15 PM - 2.15 PM | LUNCH BREAK | |
| 2.15 PM - 3.45 PM | TECHNICAL SESSION-III Automation for Small & Medium Firms | CA. Premnath D. CA.Siva Prasad Annavarapu & CA. Saran Kumar U |
| 3.45 PM - 4.00 PM | TEA BREAK | |
| 4.00 PM - 5.30 PM | TECHNICAL SESSION-IV Litigative Issues in GST | CA Satish Saraf |

Registration Fee
(Per Participant)

Members

Fee

₹. 1500/- + GST

Non - Members

Fee

₹. 2000/- + GST



Technical Session - I

Topice :

Schedule III Important Changes & CARO

2020



CA. P. R. Ramesh

Hyderabad

Schedule III Important Changes & CARO 2020

by CA PR Ramesh

SCHEDULE III

DIVISION I

- For companies, whose financial statements are required to comply with Companies (**Accounting Standards**) Rules, 2006

DIVISION II

- For companies whose financial statements are required to comply with Companies (**Indian Accounting Standards**) Rules, 2015

DIVISION III

- For **NBFCs** whose financial statements are required to comply with Companies (**Indian Accounting Standards**) Rules, 2015

History of CARO

How it evolved

Manufacturing and Other Companies (Auditor's Report) Order, 1975

- MAOCARO, 1975 was the first Order to include certain specific matters in auditor's report
- When MAOCARO, 1975 was issued, auditing standards had not been formulated in India;
- Auditors simply carried out additional procedures to issue the report

Manufacturing and Other Companies (Auditor's Report) Order, 1988

- MAOCARO, 1988 superseded MAOCARO, 1975
- This applied to certain class of companies in manufacturing, service, financing, etc.
- Had 20 clauses for manufacturing, 3 additional clauses for service, 1 additional clause for trading and 3 additional clauses for financing companies

CARO 2003 (amended in 2004)

- Companies (Auditor's Report) Order (CARO), 2003 – this superseded MAOCARO and rationalized various clauses from MAOCARO
- This had 21 clauses

CARO 2015

- The first CARO under new Companies Act, 2013
- This version had 12 clauses to report

CARO 2016

- Was applicable for FY beginning on or after April 1, 2015
- This has 16 clauses presently

Guiding principles for changes to CARO 2016

Matters to be considered by auditors, which otherwise would normally not be focused upon either due to materiality or other considerations

Explicit assertions to be made by auditors on certain audit procedures

Consistency of reporting in CARO - formats of reporting provided for certain clauses



Based on recommendations by RD, RoC, etc.

Changing needs of the business stakeholders' expectations

Based on representations by industry and bankers

CARO 2020 Vs. CARO 2016

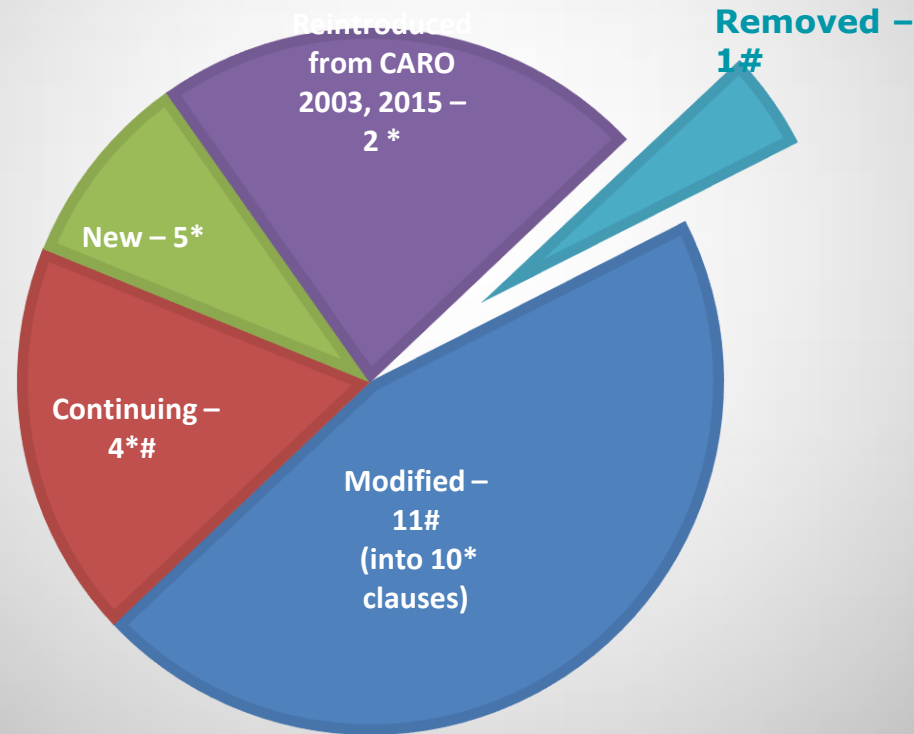
- Broad Analysis

Summary of changes

CARO 2016 VS CARO 2020

CARO 2016 – 16 clauses

*** CARO 2020 – 21 clauses**



Overview

| Continuing clauses (4) | Clauses with modifications (10) | New Clauses / Re-introduced (7) | Removed (1) |
|---|--|--|---|
| Clause (iv) loans, investments, guarantees, and security – Sec. 185 & 186 | Clause (i) Property, Plant & Equipment & Intangible assets | Clause (viii) Transactions not recorded in the books of accounts. | Managerial remuneration (earlier Clause (xi)) |
| Clause (vi) Maintenance of cost records | Clause (ii) Physical Verification of Inventory and Working capital | Clause (xiv) Internal audit system (Reintroduced from CARO 2003) | |
| Clause (viii) Related party transactions | Clause (iii) Repayment of loans granted by Company | Clause (xvii) Cash losses (Reintroduced from CARO 2003, 2015) | |
| Clause (xv) Non cash transactions. | Clause (v) Acceptance of Deposits | Clause (xviii) Statutory Auditor resignation | |
| | Clause (vii) Default in payment of statutory dues. | Clause (xix) Ability of Company to meet its liabilities. | |
| | Clause (ix) Default in repayment of loans or other borrowings | Clause (xx) CSR – Transfer of unspent amount to fund. | |
| | Clause (x) Application of funds raised | Clause (xxi) CFS : reference to negative remarks in companies included in CFS's CARO | |
| | Clause (xi) Reporting of fraud | | |
| | Clause (xii) Nidhi Company | | |
| | Clause (xvi) Registration with | | |

Summary of changes

CARO 2020 – Sub-clause vis-à-vis CARO 2016

| CARO 2020 (Clauses) | CARO 2016 (Sub clauses) | Addition | Deletion | CARO 2020 (Sub clauses) |
|---|----------------------------------|----------|----------|----------------------------------|
| Clause (i) PPE & Intangible assets | 3 | 2 | - | 5 |
| Clause (ii) Inventory | 1 | 1 | - | 2 |
| Clause (iii) repayment of loans granted by Company | 3 | 3 | - | 6 |
| Clause (iv) loans, investments, guarantees, & security – Sec. 185 & 186 | 1 | - | - | 1 |
| Clause (v) Acceptance of Deposits | 1 | - | - | 1 |
| Clause (vi) Maintenance of cost records | 1 | - | - | 1 |
| Clause (vii) Default in payment of statutory dues | 2 | - | - | 2 |
| Clause (viii) Transactions not recorded in the books of accounts. | Introduced in CARO 2020 | 1 | - | 1 |

Summary of changes

CARO 2020 – Sub-clause vis-à-vis CARO 2016

| CARO 2020 (Clauses) | CARO 2016 (Sub clauses) | Addition | Deletion | CARO 2020 (Sub clauses) |
|---|------------------------------------|----------|----------|----------------------------------|
| Clause (ix) Default in repayment of loans or other borrowings | 1 | 5 | - | 6 |
| Clause (x)* Application of funds raised | 1 | 1 | - | 2 |
| Clause (xi) Reporting of fraud | 1 | 2 | - | 3 |
| Clause (xii) Nidhi Company | 1 | 2 | - | 3 |
| Clause (xiii) Related party transactions | 1 | - | - | 1 |
| Clause (xiv) Internal audit system | Re-introduced from CARO 2003 | 2 | - | 2 |
| Clause (xv) Non-cash transactions | 1 | - | - | 1 |
| Clause (xvi) Registration with RBI | 1 | 3 | - | 4 |
| Clause (xvii) Cash losses | Re-introduced from CARO 2003, 2015 | 1 | - | 1 |

***Clause (xiv) & (ix) of CARO 2016 has been merged into one clause, Clause (x)**

Summary of changes

CARO 2020 – Sub-clause vis-à-vis CARO 2016



| | | | | |
|--|-------------------------|-----------|-------------|-----------|
| Clause (xviii) Resignation of statutory auditors | Introduced in CARO 2020 | 1 | - | 1 |
| Clause (xix) Ability of Company to meet its liabilities. | Introduced in CARO 2020 | 1 | - | 1 |
| Clause (xx) CSR – Transfer of unspent amount to fund. | Introduced in CARO 2020 | 2 | - | 2 |
| Clause (xxi) reference to negative remarks in companies included in CFS's CARO | Introduced in CARO 2020 | 1 | - | 1 |
| Sub-clauses | 21 | 28 | (2)* | 47 |

*** Represents deletion of clause (xi) of 2016 and merger of clause (ix) & (xiv) of 2016 into clause (x) of 2020**

CARO 2020 summary as mapped with the revised Schedule III – *a bird's eye view*

| S. No | Clause No | Short description | Schedule III |
|--|-----------|--|------------------------|
| 1 | 3(i)(a) | Maintenance of proper records – PPE, intangible assets | ✓ |
| 2 | 3(i)(b) | Physical verification of PPE and related material discrepancies | |
| 3 | 3(i)(c) | Title deeds of immovable properties | ✓ |
| 4 | 3(i)(d) | Revaluation of PPE, intangible assets – threshold (10%) | ✓ |
| 5 | 3(i)(e) | Proceedings related to benami property and related disclosure | ✓ |
| 6 | 3(ii)(a) | Physical verification of inventory (including coverage and procedures), related discrepancies – threshold (10%) | |
| 7 | 3(ii)(b) | Working capital limits in excess of Rs. 5 crores in the aggregate, submission of quarterly returns and its agreement with books | ✓ |
| 8 | 3(iii)(a) | Investments, guarantees, security, loans and advances in the nature of loans to any party, secured or unsecured, disclosure separately for subsidiaries, joint ventures and associates; and others | * |
| 9 | 3(iii)(b) | Terms of investments, guarantees, security, loans and advances in the nature of loans – whether prejudicial to the company's interest | * |
| 10 | 3(iii)(c) | Loans and advances in the nature of loans – regularity of repayments | |
| 11 | 3(iii)(d) | Overdue more than ninety days and whether reasonable steps taken for recovery | |
| 12 | 3(iii)(e) | Whether fresh loans granted to settle existing loans given to same parties, amounts and proportion | |
| 13 | 3(iii)(f) | Loans or advances in the nature of loans either repayable on demand or having no terms or period of repayment, amount, proportion, loans to promoters, related parties | ✓ |
| Clause 3(iii)(a) and (e) not applicable for a Company whose principal business is to give loans | | | Modification in clause |
| | | | New Clause |
| * Disclosures required under Section 186(4) of the Companies Act, 2013 applicable for all the Companies other than banking company, insurance company, housing finance company when provided in the ordinary course of its business or companies engaged in the business of financing or providing | | | No change in clause |

CARO 2020 summary as mapped with the revised Schedule III – a bird's eye view

| S. No | Clause No | Short description | Schedule III |
|-------|-----------|---|------------------------|
| 14 | 3(iv) | Loans, investments, guarantees, security, whether provisions of sections 185 and 186 have been complied with, else to provide details | |
| 15 | 3(v) | Acceptance of deposits – sections 73 and 76 of the Companies Act, 2013 | # |
| 16 | 3(vi) | Maintenance of cost records | # |
| 17 | 3(vii)(a) | Depositing of undisputed statutory dues | |
| 18 | 3(vii)(b) | Disclosure for all statutory dues under dispute | |
| 19 | 3(viii) | Recording of unrecorded income where surrendered or disclosed in tax assessments | ✓ |
| 20 | 3(ix)(a) | Default in repayment of loans or other borrowings or interest to any lender | ^ |
| 21 | 3(ix)(b) | Whether company is declared willful defaulter by any bank or financial institution or other lender | ✓ |
| 22 | 3(ix)(c) | Whether term loans applied for purpose for which obtained, where not, amount so diverted and purpose | ✓ |
| 23 | 3(ix)(d) | Funds raised on short term used for long term purpose, nature and amount | |
| 24 | 3(ix)(e) | Whether company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, joint ventures or associate companies, to provide details, and report on defaults | Modification in clause |
| 25 | 3(ix)(f) | Whether company raised loans on pledge of securities held in subsidiaries, joint ventures, associates, to provide details, and report on defaults | New Clause |
| 26 | 3(x)(a) | Application of moneys raised including debt instruments | No change in clause |
| 27 | 3(x)(b) | Compliance with sections 42 and 62 of the Companies Act 2013 relating | ✓ |

CARO 2020 summary as mapped with the revised Schedule III – a *bird's eye view*

| S. No | Clause No | Short description | Schedule III |
|---|--------------|---|------------------------|
| 28 | 3(xi)(a) | Fraud by or on the company, nature and amount involved | |
| 29 | 3(xi)(b) | Whether any report filed under section 143(12) of the Companies Act, 2013 | # |
| 30 | 3(xi)(c) | Whether auditor has considered whistle blower complaints | |
| 31 | 3(xii)(a) | Nidhi company – net owned funds | |
| 33 | 3(xii)(b) | Maintenance of unencumbered term deposits by Nidhi companies | |
| 33 | 3(xii)(c) | Whether any default in payment / repayment of interest on deposits | # |
| 34 | 3(xiii) | Compliance with sections 177 and 188 of the Companies Act, 2013 and disclosure of related parties | # |
| 35 | 3(xiv)(a) | Internal audit commensurate with size and nature of its business | |
| # To be disclosed in the Report of Board of Directors | 36 3(xiv)(b) | Whether internal audit reports for the period were considered by the auditors | Modification in clause |
| | 37 3(xv) | Non-cash transactions with directors or persons connected with him | New Clause |
| 38 | 3(xvi)(a) | Registration under section 45-IA of the RBI Act | No change in clause |

CARO 2020 summary as mapped with the revised Schedule III – *a bird's eye view*

| S. No | Clause No | Short description | Schedule III |
|-------|-----------|---|--------------|
| 42 | 3(xvii) | Whether cash losses incurred in the financial year and preceding year, amount | |
| 43 | 3(xviii) | Auditor taking into consideration issues, objections, concerns raised by outgoing auditors | |
| 44 | 3(xix) | On basis of financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information, management plans, reporting on material uncertainty by the auditor and ability to meet liabilities existing at the balance sheet date as and when they fall due within a period of one year from the balance sheet date | ✓ |
| 45 | 3(xx)(a) | Transfer of unspent moneys to a Fund in the case of other than ongoing CSR projects – Section 135(5) of the Companies Act, 2013 | ✓ |
| 46 | 3(xx)(b) | Transfer of unspent moneys to a special account in the case of ongoing CSR projects – Section 135(6) of the Companies Act, 2013 | ✓ |
| 47 | 3(xxi) | Qualifications or adverse remarks by auditors of components included in the consolidated financial statements | |
| | | No change in clause | 10 |
| | | Modification to clause | 12 |
| | | New clause | 25 |

CARO 2020

Clause-wise Analysis

Companies (Auditor's Report) Order, 2020

Clause

Description

Property, Plant & Equipment and Intangible Assets

Clause 3(i)

- Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment; **[paragraph 3(i)(a)(A)]**
- Whether the company is maintaining proper records showing full particulars of intangible assets; **[paragraph 3(i)(a) (B)]**
- Whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account; **[paragraph 3(i)(b)]**
- Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:- **[paragraph 3(i)(c)]**

| Description of property | Gross carrying value | Held in name of | Whether promoter, director or their relative or employee | Period held – indicate range, where appropriate | Reason for not being held in name of company* |
|-------------------------|----------------------|-----------------|--|---|---|
| - | - | - | - | - | *also indicate if in dispute |

Companies (Auditor's Report) Order, 2020

| Clause | Description |
|--|---|
| Property, Plant & Equipment and Intangible Assets (Cont'd...) Clause 3(i) | <ul style="list-style-type: none"> ▪ Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets [paragraph 3(i)(d)] ▪ whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statement [paragraph 3(i)(e)] |

Overview of change:

- The term “fixed assets” changed to “property, plant and equipment” in line with the amendments to the accounting standards. Intangible Assets specifically included. ‘Intangible assets’ added to the requirements.
- Format for disclosure of immovable properties provided for consistency in reporting.
- New requirement to disclose change in value on account of revaluation more than 10% for each class is now required to be reported.
- New reporting about any proceedings against the Company for holding Benami property.

Companies (Auditor's Report) Order, 2020

Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment [Clause 3(i)(a)(A)]

Key Considerations:

- This clause requires the auditor to comment as to whether the company is maintaining **proper records** showing full particulars, including **quantitative details and situation** of property, plant and equipment.
- Proper records are not defined. However, guidance note enunciates the key details that may be considered.
- With effect from April 1, 2023, the books of account and other relevant books and papers if maintained in electronic mode
the accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.
- The following should be considered for reporting under this clause :
 - Property, plant and equipment [AS 10 (Revised) and Ind AS 16, as applicable]
 - **Right of use (ROU) Assets** [Ind AS 116] ,
 - **Investment property** [Ind AS 40] &
 - **Non-current assets held for sale and Discontinued Operations** [Ind AS 105]

Requirements as per Revised Schedule III :

- Prescribed bucket wise ageing schedule for CWIP for both Projects in progress and Projects temporarily suspended
- For CWIP, where completion is overdue or has exceeded its cost compared to the its original plan,
“Completion
Schedule” including the expected period of completion to be given

Whether the company is maintaining proper records showing full particulars of intangible assets;[Clause 3(i)(a) (B)]

Key Considerations:

- This clause requires the auditor to comment as to whether the company is maintaining proper records showing full particulars of intangible assets i.e. AS 26, “Intangible Assets” and Ind AS 38, “Intangible Assets”.
- Illustrative list of type of intangibles and the documentation requirements detailed in the guidance note.
- Proper records are not defined. However, guidance note enunciates the key details that may be considered.
- Auditor may **also have to consider applicable documentation requirements** as laid down in
 - Copyright Act, 1957,
 - Patents Act, 1970,
 - Trade marks Act, 1999,
 - Designs Act, 2000.
 - Information Technology Act, 2000 and so on.

Requirements as per Schedule III

- Prescribed bucket wise ageing schedule for Intangible assets under development for both Projects in progress and Projects temporarily suspended
- For Intangible assets under development, where completion is overdue or has exceeded its cost compared to the its original plan, “Completion Schedule” including the expected period of completion to be given.

Whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account [Clause 3(i)(b)]

Key Considerations:

- Requires the auditor to comment whether the PPE of the company have been physically verified by the management at reasonable intervals and whether any material discrepancies were noticed on such verification and if so, whether those discrepancies have been properly dealt with in the books of account.
- Physical verification of the assets is the responsibility of the management and, therefore, has to be carried out by the management itself and not by the auditor. It is necessary that the auditor satisfies himself that such verification was done and that there is adequate evidence on the basis of which he can arrive at such a conclusion. The auditor may prefer to observe the verification, particularly when verification of all assets can be made by the management on a single day or within a relatively short period of time.
- If, however, verification is a continuous process or if the auditor is not present when verification is made, then he should examine the instructions issued to the staff in writing and the working papers of the staff to substantiate the fact that verification was done & to determine the name and competence of the person who did the verification.
- An annual verification may be reasonable, it may be impracticable to carry out the same in some cases. Even in such cases, the verification programme should be such that all assets are verified at least once in every three years.

Companies (Auditor's Report) Order, 2020

Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company[Clause 3(i)(c)]

Key Considerations:

- Requires the auditor to comment whether the **title deeds of all the immovable properties** (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held **in the name of the company**, if not, provide the details thereof in the format prescribed.
- The auditor **need not report in respect of other immovable properties not classified as PPE**, as they are outside the scope covered under this clause such as inventories of immovable property for a real estate company, Transfer Development Rights (TDRs), plant and machinery embedded in land, etc.,.
- **Title deeds** mean a legal deed or document constituting evidence of a right, especially to the **legal ownership** of the immovable property. In case of **leased assets**, title deeds would imply the **lease agreements and related documents**.
- The auditor should carry out detailed examination in the cases where immovable property is transferred as a result of **conversion of partnership firm or limited liability partnership into company or amalgamation of companies**, as in such cases title deeds may be in the name of the erstwhile entity.

Companies (Auditor's Report) Order, 2020

Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company

Requirements as per Revised Schedule III :

- The company shall provide the details of all the immovable property (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the company in the format given below in Notes to Accounts.

| Relevant line item in the Balance sheet | Description of item of property | Gross carrying value | Title deeds held in the name of | Whether title deed holder is promoter, director or relative # of promoter/director or employee of promoter/director | Property held since which date | Reason for not being held in the name of the company** |
|---|---------------------------------|----------------------|---------------------------------|---|--------------------------------|--|
| PPE - | Land Building | - | - | - | - | **also indicate if in dispute |
| Investment property - | Land Building | | | | | |
| Non-current asset held for sale - | Land Building | | | | | |

- Registration of charges or satisfaction yet to be registered with ROC beyond statutory period, details and reasons thereof to be disclosed.
- Schedule III to the Act requires the management to provide disclosure of details of title deeds of immovable properties (excluding leased properties) not held in the name of the company in the prescribed format and to disclose company's share, if jointly held. The auditor should review such disclosure before making comment under this clause.

Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company

Interplay between CARO and IND AS:

- Situations may arise wherein lessor has obtained the land and land & building under long-term lease and has given on sub-lease to other party. However, in such case, to meet the objectives of reporting under this clause, the auditor need not verify executed lease deed in favour of lessor to ascertain whether the title of those long-term leasehold immovable properties relates to lessor. The fact that such a sub-lease transaction has been entered, may be disclosed.
- It may be noted that no direct responsibility is cast on the auditor for reporting in case of properties where company is lessee and lease agreements are duly executed in favour of lessee. However with respect to cases where there are discrepancies in lease agreements or it is not duly executed, it shall be prudent to include in the report, facts of any case where the company has taken immovable properties on lease but lease contract is not formal or is not executed in favour of lessee or not duly executed in any other manner
- In case of companies required to comply with Ind AS, it may be noted that in case of right of use (ROU) assets covered under Ind AS 116, where the auditee, under a lease agreement, obtains the right to use an asset, the same also should be considered by the auditor for reporting under this clause. In case of companies required to comply with Ind AS, it may also be noted that investment property (as defined under Ind AS 40) and non-current assets held for sale (as defined under Ind AS 105) will also be considered by the auditor for reporting under this clause.

Companies (Auditor's Report) Order, 2020

Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;[Clause 3(i)(d)]

Key Considerations:

- **Revaluation of assets** is the process by which the carrying value of such assets is adjusted upwards or downwards in response to major changes in its fair market value. The process of revaluation may be carried out at sufficient regularity such that the carrying amount does not differ materially from the fair value.
- This clause would be limited to revaluation model since under cost model revaluation is not permitted.

Requirements as per Revised Schedule III – applicable from 1st day of April, 2021:

- Reconciliation of gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing amount of change due to revaluation (if change $\geq 10\%$ in aggregate of the net carrying value for PPE and Intangible assets. This is in addition to other prescribed disclosures which we have been hitherto disclosing.
- Whether Fair Value (FV)/ revaluation is based on the valuation by a register valuer as defined under Rule 2 of The Companies (Registered Valuers and Valuation) Rules, 2017 for the following:
 - Investment Property (FV)
 - PPE
 - Intangible assets

Companies (Auditor's Report) Order, 2020

Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;[Clause 3(i)(d)]

Interplay between CARO and IND AS:

- It may be noted that reporting under this clause would be limited to revaluation model since under cost model revaluation is not permitted.
- It may be noted that for the purpose of reporting under this clause, revaluation shall not include:
 - Fair valuation of PPE upon first time adoption of Ind AS.
 - Remeasurements (i.e., changes in value due to interest or foreign exchange rates).
 - Changes to ROU assets due to lease modification as per Ind AS 116

Companies (Auditor's Report) Order, 2020

Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements; [Clause 3(i)(e)]

Key Considerations:

- It may be noted that this clause refers to Prohibition of **Benami Property Transactions (Prohibition) Act, 1988.**
- The Initiating Officer **collects the material** during the investigation of suspicious benami transaction, and based on such material in his possession, if he has reason to believe that any **person is benamidar** in respect of the property, then he has to **record the reasons in writing** and then **issue a show cause notice** to such benamidar asking why the property should not be treated as benami property.

Requirements as per Revised Schedule III:

- Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-
 - (a) Details of such property, including year of acquisition, (b) Amount thereof, (c) Details of Beneficiaries, (d) If property is in the books, then reference to the item in the Balance Sheet, (e) If property is not in the books, then the fact shall be stated with reasons, (f) Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided, (g) Nature of proceedings, status of same and company's view on same.
- The auditor should review such disclosures before making comment under this clause

| Clause | Description |
|--|--|
| Details of Inventory and Working Capital Clause 3(ii) | <ul style="list-style-type: none"> Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account; [Paragraph 3(ii)(a)] Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details; [Paragraph 3(ii)(b)] |

Overview of change:

- Need to comment on the appropriateness of coverage and procedure of PV.
- Threshold of 10% for each class of inventory for reporting of discrepancies .
- Requirement to disclose if sanction of working capital limits in excess of 5 Crores rupees, in aggregate, from banks and financial institutions on the basis of security of current assets and whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the company.

Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account; [Clause 3(ii)(a)]

Key Considerations:

- Requires the auditor to comment whether the management has conducted physical verification of inventory at **reasonable intervals**, and whether the coverage and procedure of such verification by the management is **appropriate**.
- This clause also requires the auditor to comment on **whether any discrepancies of 10% or more in the aggregate for each class of inventory** were noticed and if so, whether they have been properly dealt with in the books of account.
- There are **two principal methods** of Physical Verification (PV) of inventories:
 - **Periodic physical verification method** - PV of inventories is carried out at a single point of time, usually at the year-end or at a selected date just prior to or shortly after the year-end.
 - **Continuous physical verification method**, PV of inventories is carried out throughout the year, with different items of inventory being physically verified at different points of time.

Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details; [Clause 3(ii)(b)]

Key Considerations:

- It may be noted that for the purpose of reporting under this clause, the auditor is required to **check the working capital sanctioned limit and not its utilisation.**
- The auditor should determine the **sanctioned limit with reference to the sanction letter issued by banks** or financial institutions and relevant agreements executed with them.
- The **utilization may be less than the sanctioned limit of five crore rupees** but such cases will also be covered for the purpose of reporting.
- This clause **does not require reporting where such limits are unsecured or sanctioned on the basis of assets other than current assets.**

Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

Requirements as per Revised Schedule III :

- Where the Company has not used the borrowings from bank and financial institutions for the specific purpose for which it was taken at the balance sheet date, the Company shall disclose the details of where they have been used
- Where the company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:
 - (a) Whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
 - (b) If not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed
 - (c) CARO 2020 prescribes reporting relating to sanctioned working capital limits in excess of five crore rupees, in aggregate. However, disclosure requirements under Schedule III to the Act are not limited to working capital limits but cover all borrowings. Further, no monetary threshold has been prescribed under Schedule III to the Act while making this disclosure. The auditor should review such disclosures before making comment under this clause.

Companies (Auditor's Report)

| Clause | Description |
|---|---|
| Details of investments, any guarantee or security or advances or loans given | Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so, |
| Clause 3(iii) | <p>a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate [Paragraph 3(iii)(a)]</p> <p>A. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;</p> <p>B. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;</p> <p>b) whether the investments made, guarantees provided , security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest; [Paragraph 3(iii)(b)]</p> |

Companies (Auditor's Report)

| Clause | Description |
|--|--|
| Details of investments, any guarantee or security or advances or loans given | c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; [Paragraph 3(iii)(c)] |
| Clause 3(iii) | d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest; [Paragraph 3(iii)(d)] |
| | e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the over dues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans]; [Paragraph 3(iii)(e)] |
| | f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013; [Paragraph 3(iii)(f)] |

Companies (Auditor's Report)

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties indicate[Clause 3(iii)(a)]

Key Considerations:

The duty of the auditor, under this clause, is to determine whether the company during the year has made investments in, provided any guarantee or security or granted any loans/advances in nature of loans secured or unsecured to companies, firms, limited liability partnerships or any other parties. If the company has done so, the auditor should report on the matters specified in clauses 3(iii)(a) to 3(iii)(f).

- **Separate disclosure required** for loans, advances and guarantees or security **during the year** to **subsidiary, JV, associates and others**. The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to be indicated.
- The disclosures to be given where fresh loans are granted to settle the over dues of existing loans given to same parties.
- Loans granted, which are repayable on demand/without any repayment schedule to be disclosed, along with the aggregate amount of loans granted to Promoters, related parties also to be reported.
- **Specific exemption** provided for reporting to Companies whose **principal business is to give loans**
- Auditors needs to verify all loans & advances in nature of loan renewals, extension, fresh issuance against loans due during the year.
- Auditors **need to carefully assess all parties to whom loans are given in which directors are interested**.

Companies (Auditor's Report) Order, 2020

Details of investments, any guarantee or security or advances or loans are not prejudicial to the company's interest. [Clause 3(iii)(b)]

Key Considerations:

- This clause covers **determination of terms and conditions** at the time of the grant of the loans and advances in nature of loans or investment made or provided a guarantee or given a security.

In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular. [Clause 3(iii)(c)]

Key Considerations:

- This clause requires the auditor to report upon the stipulation of schedule of **repayment of principal and payment of interest and on regularity** of repayments of principal amount of loans/advances in nature of loans and receipts of interest thereon.
- The guidance note provides the suggested format.

If the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable step have been taken by the company for recovery of the principal and interest; [Clause 3(iii)(d)]

Key Considerations:

- This clause requires the auditor to state the total amount **overdue for more than ninety days** and whether reasonable **steps have been taken by the company** for recovery of the principal and interest.

Companies (Auditor's Report) Order, 2020

Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans]; [Clause 3(iii)(e)]

Key Considerations:

This clause is a **new reporting requirement**. This clause requires reporting in respect of loan or advance in the nature of loan granted which has fallen **due during the year** and has been **renewed or extended or fresh loans granted** to **settle the over dues of existing** loans given to the same parties.

This clause is inserted to **identify instances of 'ever greening'** of loans/advances in nature of loans.

Whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013; [Clause 3(iii)(f)]

Key Considerations:

- This clause is a **new reporting requirement**. This clause requires reporting of the gross amount in respect of loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment.

Companies (Auditor's Report)

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties

Requirements as per Revised Schedule III :

- Following disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013,) either severally or jointly with any other person, that are: (a) repayable on demand or (b) without specifying any terms or period

| Type of Borrower | Amount of loan or advance in the nature of loan outstanding | Percentage to the total Loans and Advances in the nature of loans |
|------------------|---|---|
| Promoters | | |
| Directors | | |
| KMPs | | |
| Related Parties | | |

- Relationship with struck off Companies under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956 including name of struck off company, nature of transactions, balance outstanding and relationship with the struck off Company, if any, to be disclosed
- Compliance with number of layers of Companies – Where the Company has not complied with the number of layers u/s 2(87) of the Companies Act, 2013 read with the Companies (restriction of number of layers) Rules, 2017, the name and CIN of the Companies beyond the specified layers and the relationship or extent of holding of the Company in such downstream Companies shall be disclosed.

Companies (Auditor's Report)

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties,

Requirements as per Revised Schedule III :

- Where Company has advanced or loaned or invested funds (either borrowed funds or share premium or any other source or kind of funds) to any other person or entities, including foreign entities (intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (Ultimate Beneficiaries) or
 - (i) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries the Company shall disclose the following:
 - Date and amount of fund advances or loaned or invested in Intermediaries with complete details of each intermediary
 - Date and amount of fund further advanced or loaned or invested by such Intermediaries to other Intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and the Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act 2002.

Companies (Auditor's Report)

Order 2020

| Clause | Description |
|--|---|
| Clause 3(iv) Compliance in respect of a loan to Directors and Investments made by the company | <ul style="list-style-type: none">• In respect of loans, investments, guarantees, and security, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof; |
| Clause 3(v) Compliance in respect of Deposits accepted | <ul style="list-style-type: none">▪ In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the company has followed:<ul style="list-style-type: none">• Complied with the provisions prescribed for accepting deposits under section 73 to 76 of the Companies Act, 2013.• The nature of contraventions, if the above provisions are not followed.• Complied with any order passed by RBI, NCLT or any court or tribunal. |
| Clause 3(vi) Maintenance of Costing Records | <ul style="list-style-type: none">▪ whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained |

If the company has given any loans to directors or any other person in whom the director is interested, or made any investments, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof; [Clause 3(iv)]

Key Considerations:

- The auditor is required to report on the compliance of section 185 of the Companies Act, 2013 which lays down certain restrictions with regard to the granting of loans to Directors in order to monitor their working.
- The provisions of Section 185 shall not apply to a private company:
 - (i) in whose share capital no other body corporate has invested any money;
 - (ii) if the borrowings of such a company from banks and financial institutions or any body corporate is less than twice of its paid up share capital or fifty crores, whichever is lower; and
 - (iii) such a company has no default in repayment of such borrowings subsisting at the time of making such transaction. [vide Notification No. GSR 464(E) dated 5th June 2015]
- The auditor is also required to report on the compliance of section 186 of the Companies Act, 2013 which governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person or other body corporate and acquiring securities of any other body corporate by a company.

Companies (Auditor's Report)

If the company has given any loans to directors or any other person in whom the director is interested, or made any investments, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof; [Clause 3(iv)]

Requirements as per Revised Schedule III :

- Following disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013,) either severally or jointly with any other person, that are: (a) repayable on demand or (b) without specifying any terms or period of repayment

| Type of Borrower | Amount of loan or advance in the nature of loan outstanding | Percentage to the total Loans and Advances in the nature of loans |
|------------------|---|---|
| Promoters | | |
| Directors | | |
| KMPs | | |
| Related Parties | | |

- Relationship with struck off Companies under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956 including name of struck off company, nature of transactions, balance outstanding and relationship with the struck off Company, if any, to be disclosed
- Compliance with number of layers of Companies – Where the Company has not complied with the number of layers u/s 2(87) of the Companies Act, 2013 read with the Companies (restriction of number of layers) Rules, 2017, the name and CIN of the Companies beyond the specified layers and the relationship or extent of holding of the Company in such downstream Companies shall be disclosed.

Companies (Auditor's Report)

If the company has given any loans to directors or any other person in whom the director is interested, or made any investments, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof; [Clause 3(iv)]

- Where Company has advanced or loaned or invested funds (either borrowed funds or share premium or any other source or kind of funds) to any other person or entities, including foreign entities (intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (Ultimate Beneficiaries) or
 - (ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries the Company shall disclose the following:
 - Date and amount of fund advances or loaned or invested in Intermediaries with complete details of each intermediary
 - Date and amount of fund further advanced or loaned or invested by such Intermediaries to other Intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and the Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act 2002.

Companies (Auditor's Report) Order, 2020

In case the company has accepted deposits or deemed deposits, whether the company has followed Complied with the provisions prescribed for accepting deposits under section 73 to 76 of the Companies Act, 2013. The nature of contraventions, if the above provisions are not followed. Complied with any order passed by RBI, NCLT or any court or tribunal. [Clause 3(v)]

Key Considerations:

- Required to comment on compliance by the company with regard to all the matters specified in sections 73 to 76 of the Act and the aforesaid rules and not merely to the limits of the deposits.
- Required to comment on the efficacy of the internal controls instituted by the company so that the deposits accepted by the company remain within the limits.
- The auditor should also enquire from the management about any order passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal for contravention of these sections or any other relevant provision(s) of the Act and the relevant rules.

Companies (Auditor's Report)

In case the company has accepted deposits or deemed deposits, whether the company has followed Complied with the provisions prescribed for accepting deposits under section 73 to 76 of the Companies Act, 2013. The nature of contraventions, if the above provisions are not followed. Complied with any order passed by RBI, NCLT or any court or tribunal. [Clause 3(v)]

Requirements as per Revised Schedule III

- If the Company is a declared willful defaulter by any bank or financial institution or lender - then date of declaration as willful defaulter and details of defaults (nature and amount) to be disclosed.
- Relationship with struck off Companies under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956 including name of struck off company, nature of transactions, balance outstanding and relationship with the struck off Company, if any, to be disclosed
- Where Company has received any fund from other person or entities including foreign entities (Funding party)) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or
 - (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries the Company shall disclose the following:
 - Date and amount of fund received from funding parties with complete details of each funding party
 - Date and amount of fund further advanced or loaned or invested by other Intermediaries or ultimate beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and the Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act 2002.

Companies (Auditor's Report) Order, 2020

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained. [Clause 3(vi)]

Key Considerations:

- The Companies (Cost Records and Audit) Rules, 2014 has defined “cost records” as books of account relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act, and these rules
- Section 148(2) of the Act, also provides that where, in the opinion of the **Central Government**, it is **necessary** to do so it may by order, **direct that the audit of cost records of class of companies**, which are covered under Section 148(1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.

Order, 2020

| Clause | Description |
|---|---|
| Clause 3(vii) Deposit of Statutory Liabilities | <ul style="list-style-type: none">▪ Whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; [Paragraph 3(vii)(a)]• Where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute); [Paragraph 3(vii)(b)] |
| Clause 3(viii) Unrecorded Income | <ul style="list-style-type: none">▪ Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has |
| Overview of change – Clause 8 | |
| <ul style="list-style-type: none">• In case of unrecorded transactions identified as part of tax assessments under Income Tax Act, auditors now need to report whether such previously unrecorded income has now been properly recorded | |

Companies (Auditor's Report) Order, 2020

Whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; [Clause 3(vii)(a)]

Key Considerations:

- This clause requires the auditor to report upon the regularity of the company in depositing undisputed statutory dues including GST, PF, ESI, income-tax, sales-tax, service tax, duty of custom, duty of excise, value added tax, cess and any other statutory dues to appropriate authorities. Also state the extent of arrears outstanding at the end of financial year outstanding for more than six months.
- It may be noted that the auditor has to report on the regularity of deposit of statutory dues irrespective of the fact whether or not there are any arrears on the balance sheet date;

Where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute); [Clause 3(vii)(b)]

Key Considerations:

- Requires that in case of **disputed statutory dues**, the amounts involved should be stated along with the forum where the dispute is pending. Therefore, even **minor amounts would be required to be reported** under this clause.
- The auditor should report in a manner so that the reader is able to understand the dispute and the amount involved therein.

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year. [Clause 3(viii)]

Key Considerations:

- This clause is a **new reporting requirement**. Reporting under this clause shall be applicable only when the transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the income tax assessments.
- If **yes**, then the auditor shall also report on **proper recording of the same in the books of account** during the year.

Requirements as per Revised Schedule III :

In the Statement of Profit and Loss, 'paragraph 7.

Additional information', following to be inserted after item 'k-details of items of exceptional nature':

- Details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme.
- State whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Companies (Auditor's Report)

| Clause | Description |
|--|--|
| Clause 3(ix) Default in Repayment of Borrowings | <p>a. Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported [paragraph 3(ix)(a)]</p> <p>b. Whether the company is a declared wilful defaulter by any bank or financial institution or other lender [paragraph 3(ix)(b)]</p> <p>c. Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported; [paragraph 3(ix)(c)]</p> <p>d. Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated; [paragraph 3(ix)(d)]</p> <p>e. Has the company raised any money from any person or entity for the account of or to pay the obligations of its associates, subsidiaries or joint ventures. The details of the money raised with the description of the transactions and the amounts in each case. [paragraph 3(ix)(e)]</p> <p>f. Has the company raised any loans during the year by pledging securities held in their subsidiaries, joint ventures or associate companies. The details of such loans and also the default in the repayment of the loans has to be reported [paragraph 3(ix)(f)]</p> |

Companies (Auditor's Report) Order 2020

Overview of change – Clause 3(ix)

- Disclosure under sub-clause (a) extended to all loans taken, including the payment of interest thereon. Specific format of disclosure has been provided to ensure consistency in reporting
- Additional reporting requirement to include if the company is a willful defaulter.
- Sub-clauses (c) and (d) were part of CARO 2003 earlier and have now been re-introduced
- Funds taken to meet obligations of subsidiaries, JVs or associates now needs to be reported
- Funds raised based on pledge of securities held in subsidiaries, JVs or associates to be disclosed

Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, then follow below considerations and audit procedures:[Clause 3(ix)(a)]

Key Considerations:

- Under this clause, the auditor is required to report whether the **company has defaulted in repayment** of loans or other borrowings or in the payment of interest thereon to any lender.
- The **format prescribed** by this clause also requires reporting on default in repayment of loans or other borrowings taken from the financial institutions and/or interest thereon.

Requirements as per Revised Schedule III

- Under the heading 'Non current liabilities',
 - In sub-heading 'borrowings' - 'Long term maturities of finance lease obligations' shall be omitted
- Under the heading 'Current liabilities'
 - In sub-heading 'borrowings' – 'Current maturities of Long Term borrowings' shall be disclosed separately
 - In sub-heading 'other financial liabilities' – 'current maturities of long term debt' and 'current maturities of finance lease obligation' shall be omitted.
- Under the heading 'Non-current liabilities' and 'Current Liabilities', in sub item '(a) Finance Liabilities', after (i) Borrowings, '(ia) Lease Liabilities has to be inserted'.
- Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Companies (Auditor's Report) Order

Whether the company has been declared a wilful defaulter by any bank or financial institution or any other lender. [Clause 3(ix)(b)]

Key Considerations:

- The auditor is required to report whether the company has been declared as a wilful defaulter by any bank or financial institution or any other lender. It is clarified that such declaration should be restricted to the relevant financial year under audit till the date of audit report.
- Reserve Bank of India has defined that a "wilful default" would be deemed to have occurred if any of the following events is noted:-
 - (i) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
 - (ii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
 - (iii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
 - (iv) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable or immovable property given by him or it purpose of securing a term loan without the knowledge of banker/lender.

Companies (Auditor's Report) Order

Whether the company been declared a wilful defaulter by any bank or financial institution or any other lender.

Requirements as per Revised Schedule III :

2020

- Where a company is a declared wilful defaulter by any bank or financial Institution or other lender, following details shall be given,
namely:- (a) date of declaration as wilful defaulter,
(b) details of defaults (amount and nature of defaults).

“wilful defaulter” here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Companies Act, 2013) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India.

Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported [Clause 3(ix)(c)]

Key Considerations:

- Term loans normally have a fixed or pre-determined repayment schedule. In the common parlance of the expression, loans with repayment period beyond 36 months are usually known as term loans. Cash credit, overdraft and call money accounts/deposits are therefore not covered by the expression “Term Loans”.
- RBI vide its master circular defined Diversion of funds as:
 - a. utilisation of short-term working capital funds for long term purposes not in conformity with the terms of sanction;
 - b. deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned.
 - c. transferring borrowed funds to the subsidiaries / Group companies or other corporates by whatever modality and so on.

Requirements as per Revised Schedule III :

- Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used. However, disclosures under Schedule III to the Act are not limited to term loans but cover all borrowings. Further, disclosures under Schedule III to the Act have been prescribed only for borrowings from banks and financial institutions.

Companies (Auditor's Report) Order

Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported [Clause 3(ix)(c)]

2020

Interplay between CARO and Ind AS

- It may happen that under Ind AS framework, certain term loans may either be classified as equity or may be compound instruments and, therefore, are split into equity and debt components.
- It is clarified that the basic character of such loans is debt and accordingly the auditor should consider utilization of entire amount for the purpose of reporting under this clause irrespective of the accounting treatment

Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;. [Clause 3(ix)(d)]

Key Considerations:

- The auditor should determine the **long-term sources and the long-term application of funds** by a company using the data contained in the financial statements. If the quantum of long- term funds of a company is not significantly different from the long-term application of funds, it is an indication that the long-term assets of the company are financed from the long- term sources.

Requirements as per Revised Schedule III

- To be disclosed separately: Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case; [Clause 3(ix)(e)]

Key Considerations:

- For the purpose of this clause, definitions of subsidiary, associate or joint venture will be as per provisions of the Companies Act 2013.
- Entity will include banks, financial institutions, company, limited liability partnership, trust, government, or others irrespective of the legal form.
- **Funds will include both long term and short-term funds.**

Requirements as per Revised Schedule III:

- To be disclosed separately: - Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.
- Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries,

Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case; [Clause 3(ix)(e)]

The company shall disclose the following:-

- i. date and amount of fund received from Funding parties with complete details of each Funding party.
- ii. date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries' or ultimate beneficiaries.
- iii. date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- iv. declaration that relevant provisions of the FEMA and Companies Act has been complied with for such transactions and the transactions are not violative of the PMLA.

Companies (Auditor's Report) Order, 2020

Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised; [Clause 3(ix)(f)]

Key Considerations:

- Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies;
- If yes, give details of such loans; and Report if the company has defaulted in repayment of such loans raised including nature of security and its amount (as per the carrying value in the financial statements).
- The auditor is not required to give details of default in respect of loans raised by the company as the defaults are in any case required to be reported under clause 3(ix)(a) for all lenders. Under this clause, therefore, the auditor is merely required to state yes or no for defaults.

Requirements as per Revised Schedule III:

- If the Company is a declared willful defaulter by any bank of financial institution or lender - then date of declaration as willful defaulter and details of defaults (nature and amount) to be disclosed

Companies (Auditor's Report)

| Clause | Description |
|---|---|
| Clause 3(x) Funds raised and utilization | <ul style="list-style-type: none"> Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported; [Paragraph 3 (x)(a)] Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance; [Paragraph 3 (x)(b)] |

Overview of change:

- Clause (ix) & (xiv) of CARO 2016 are merged in Clause (x)(a) & (x)(b) in CARO 2020.
- The scope of clause (x) of CARO 2020 is reduced to report on IPO & FPO as term loans are covered under Clause (ix)(c) of CARO 2020.
- Optionally convertible debentures are also now included for disclosure As per the new guidance note “debt securities” means non-convertible debt securities with a fixed maturity period which create or acknowledge indebtedness and includes debentures, bonds or any other security whether constituting a charge on the assets/ properties or not, but excludes security receipts, securitized debt instruments, money market instruments regulated by the RBI, and bonds issued by the Government or such other bodies as may be specified by the Board.
- Compliance with section 62 dealing with the ‘further issue of capital’ now made mandatory.

Companies (Auditor's Report) Order

Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported[Clause 3(x)(a)]

Key Considerations:

- The auditor is required to report whether moneys raised by the company by way of **initial public offer or further public offer (including debt instruments) during the year have been applied for the purposes for which those were raised.**
- In case the company has made an initial public offer or further public offer (including debt instruments) the auditor is **required to report upon the disclosure of end-use of the money by the management in the financial statements** together **with delays or default** and subsequent rectification.
- The auditor is also required to state whether he has **verified the disclosure made by the management** in this regard.
- An examination of the offer document would provide the auditor an understanding of the proposed end use of money raised from public.

Companies (Auditor's Report) Order

Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported[Clause 3(x)(a)]

Requirements as per Revised Schedule III

- Where Company has received any fund from other person or entities including foreign entities (Funding party)) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (Ultimate Beneficiaries) or
 - (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries the Company shall disclose the following:
 - Date and amount of fund received from funding parties with complete details of each funding party
 - Date and amount of fund further advanced or loaned or invested by other Intermediaries or ultimate beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and the Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act 2002

Companies (Auditor's Report) Order

Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance; [Clause 3(x)(b)]

Key Considerations:

- No fresh offer or invitation of private placement shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company.
- A company making an offer or invitation on private placement shall allot its securities within sixty days from the date of receipt of the application money for such securities and
- If the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within fifteen days from the expiry of sixty days and
- If the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve percent per annum from the expiry of the sixtieth day.

Companies (Auditor's Report) Order

Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;

Key Considerations (Cont'd...):

- Also monies received on application under private placement shall be kept in a separate bank account in a scheduled bank and shall not be utilized for any purpose other than
 - (a) for adjustment against allotment of securities; or
 - (b) for the repayment of monies where the company is unable to allot securities.
- No company issuing securities under section 42 of the Act shall release any public advertisements or utilize any media, marketing or distribution channels or agents to inform the public at large about such an offer.
- The company making any allotment of securities under section 42 of the Act shall file with the Registrar a return of allotment in Form PAS-3 within fifteen days from the date of allotment, including the details of all allottees, with their full names, addresses, number of securities allotted and such other relevant information as may be prescribed.

Companies (Auditor's Report) Order

Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;

Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year.

- In case the requirements of section 42 and section 62 of the Act and Rules framed in this regard are not complied with, the auditor should report incorporating following details.

| Nature of securities viz. Equity shares/ Preference shares/ Convertible debentures | Type of issue (preferential allotment or private placement) | Amount Involved | Nature of non- compliance |
|--|--|--------------------|---------------------------------|
| | | | |
| | | | |

Companies (Auditor's Report)

| Clause | Description |
|---|---|
| Clause 3(xi) Fraud | <ul style="list-style-type: none">▪ Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; [Paragraph 3 (xi)(a)]▪ Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government; [Paragraph 3 (xi)(b)]▪ Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company; [Paragraph 3 (xi)(c)] |

Overview of change:

- Removed words “by its officers or employees” primarily to widen the scope of the clause which now covers any frauds on the Company.
- For example, a fraud against the company by a customer / vendor also would be required to be reported under this clause.
- Auditors now need to explicitly report on whether the whistle-blower complaints were considered during the audit

Companies (Auditor's Report)

Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated[Clause 3(xi)(a)]

Key Considerations:

- The responsibilities of the auditor have been widened by removing the words “officers or employees”.
- This clause requires the auditor to report whether **any fraud has been noticed or reported either on the company or by the company during the year** and is not limited to frauds by the officers or employees of the company.
- The auditor is required to state the amount involved and the nature of fraud.
- This clause does not require the auditor to discover such frauds **on the company and by the company**.
- The scope of auditor’s inquiry under this clause is restricted to frauds **‘noticed or reported’ during the year**.
- The auditor is required to report separately on the nature and amount involved for
 - (i) fraud on the company
 - (ii) fraud by the company.

Companies (Auditor's Report) Order

Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated

Key Considerations (Cont'd...):

2020

- **Fraudulent financial reporting** involves intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users.
- Two types of intentional misstatements are relevant to the auditor's consideration of fraud - misstatements resulting from **fraudulent financial reporting** and misstatements resulting from **misappropriation of assets**.
 - Fraudulent financial reporting may be **committed by the company** because management is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target particularly when the consequences to management of failing to meet financial goals can be significant.
 - **Misappropriation of assets** involves the theft of an entity's assets.
- The auditor must appreciate that a **perceived opportunity** for the above may exist when an individual believes internal control could be circumvented.
- While planning the audit, the auditor should discuss with other members of the audit team , about the susceptibility of the company to material misstatements in the financial statements resulting from fraud

Companies (Auditor's Report) Order

Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated[Clause 3(xi)(a)]

Requirements as per Revised Schedule III:

- Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-
 - Profit or loss on transactions involving Crypto currency or Virtual currency
 - Amount of currency held as at the reporting date
 - Deposits or advances from any person for the purpose of trading or investing in Crypto Currency or virtual currency

Companies (Auditor's Report)

Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company[Clause 3(xi)(c)]

Key Considerations :

- This is a **new reporting requirement** in the Order and requires the auditor to consider whistle blower complaints, If any, received by the company **during the year** (emphasis applied) under audit.
- The **auditor is not required to consider whistle-blower complains pertaining to earlier years**
- The establishment of whistle blower mechanism is not mandatory for all companies and therefore the auditor should consider the requirements prescribed in the Act and in SEBI LODR Regulations in this regard.
- In case of a listed company, the auditor should also examine whether vigil mechanism/ whistle blower policy has been established in accordance with the requirements of section 177 of the Act and Regulation 4(2)(d) of SEBI LODR Regulations.

Further, the auditor should consider the frauds noticed or reported while performing audit.

- In case of a listed company, the auditor should also examine whether vigil mechanism has been established in accordance with the requirements of section 177 of the Act and Regulation 4(2)(d) of SEBI LODR Regulations
- The auditor should enquire from the management about investigation of all **whistle blower complaints received and the findings**, if any.
- The auditor shall review the minutes of audit committee and board meetings to identify whistle blower complaints, if any.
- Although fraud is a broad legal concept, the auditor is concerned with fraudulent acts that cause a **material misstatement in the financial statements**.

Companies (Auditor's Report)

| Clause | Description |
|---|--|
| Clause 3(xii) Compliance by a Nidhi company | <p>(a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;</p> <p>(b) whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;</p> <p>(c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;</p> |
| Clause 3(xiii) Compliance on transactions with Related Parties | <p>Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;</p> |
| Clause 3(xiv) Internal Audit System | <p>a) whether the company has an internal audit system commensurate with the size and nature of its business;</p> <p>(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;</p> |

Companies (Auditor's Report)

Auditors to report compliance with provisions applicable to a Nidhi company: Maintaining of net owned funds to deposit ratio of 1:20 for meeting liabilities; Maintaining 10% term unencumbered deposits for meeting liabilities; Details of any default in payment of interest on deposits or repayment of for any period. [Clause 3(xii)]

Key Consideration:

- The auditor to report whether, in the case of a Nidhi Company, net-owned funds to deposit liability ratio is **more than 1:20** and the **Nidhi Company is maintaining ten per cent unencumbered** term deposits as specified in the Nidhi Rules 2014 to meet out the liability and
- whether there has been **any default in payment of interest on deposits or repayment** thereof for any period and if so, the details thereof.
- The auditor should note that as such a Nidhi Company **can accept deposits not exceeding twenty times** of its net owned funds as per last audited balance sheet.
- Nidhi Company shall, within a period of one year from the date of its incorporation, ensure that it has—
 - (i) not less than two hundred members;
 - (ii) net owned funds of ten lakh rupees or more;
 - (iii) unencumbered term deposits of not less than ten percent of the outstanding deposits as specified in Rule 14; and
 - (iv) ratio of net owned funds to deposits of not more than 1:20.
- Nidhi Company shall file half yearly return with the Registrar in Form NDH-3 along with prescribed fee within thirty days from the conclusion of each half year duly certified by a company secretary in practice or chartered accountant in practice or cost accountant in practice.

Companies (Auditor's Report) Order

Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, where applicable and the details have been disclosed in the financial statements etc., as required by the applicable accounting standards; [Clause 3(xiii)]

Key Consideration:

- The duty of the auditor under this clause is to report:
 - (i) Whether **all transactions** with the related parties are in **compliance** with sections 177 and 188 of the Companies Act, 2013
 - (ii) Whether **related party disclosures** as required by AS 18 or Ind AS 24 (as may be applicable) are disclosed in the financial statements.
- Section 188 of the Act is **applicable to all classes of companies** (including private companies). The Act envisages the approval of Board of Directors and/or the approval of the shareholders (by way of resolution passed in the general meeting of the company), as the case may be, in accordance with the provisions of section 188. However:
 - (i) **Approval** of shareholders by way of resolution is **not required** for transactions entered into between **holding company and its wholly owned subsidiary** whose accounts are **consolidated** with such holding company and placed before the shareholders at the general meeting for approval.
 - (ii) Approval of the Board of Directors and shareholders is not required in respect of related party transactions entered into by the company in its **ordinary course of business** and on an **arm's length basis**.

Companies (Auditor's Report) Order

Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, where applicable and the details have been disclosed in the financial statements etc., as required by the applicable accounting standards; [Clause 3(xiii)]`

Requirements as per Revised Schedule III

- Under the heading 'D. Equity', in sub-heading 'I. Equity Share Capital', after item (I), the shareholding of Promoters to be inserted.
- Where Company has received any fund from other person or entities including foreign entities (Funding party)) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (Ultimate Beneficiaries) or
 - (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries the Company shall disclose the following:
 - Date and amount of fund received from funding parties with complete details of each funding party
 - Date and amount of fund further advanced or loaned or invested by other Intermediaries or ultimate beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and the Companies Act, 2013 have been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act 2002.
- Following disclosures shall be made where loans or advances in nature of loans are granted to promoters, directors, KMPS and the related parties (defined under the Companies Act, 2013), either severally or jointly with any other person.
 - a) Repayable on demand or
 - b) Without specifying any terms of

Companies (Auditor's Report) Order

Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, where applicable and the details have been disclosed in the financial statements etc., as required by the applicable accounting standards; [Clause 3(xiii)]`

Interplay between CARO and IND AS

- The disclosure requirements as per AS 18 or Ind AS 24 (as may be applicable) need to be checked.
- There are certain specific additional requirements in respect of Ind AS 24, where the issues like significant influence, close members of key management personnel's (KMP) family who has significant influence / control over entity also need to be carefully documented

Companies (Auditor's Report) Order, 2020

Whether the company has an internal audit system commensurate with the size and nature of its business; [Clause 3(xiv)]

Key Considerations :

- Requires the auditor to comment whether the company has an internal audit system commensurate with the size and nature of its business.
- This clause has a mandatory application for the listed companies irrespective of the size of paid-up share capital, turnover, borrowings or deposits.
- In respect of unlisted companies, section 138 prescribes the limits for having internal audit system as follows:
 - (i) in case of private limited companies if the :
 - turnover is greater than rupees or equal to two hundred crores during the previous FY
 - (or)
 - outstanding loans/ borrowings from banks/public financial institutions are greater than or equal to one hundred crore rupees at any time during the previous FY
 - (ii) in case of unlisted public limited companies if the:
 - paid up share capital is greater than or equal to rupees fifty crores during the previous FY
 - (or)
 - turnover is greater than or equal to rupees two hundred crores during previous FY
 - (or)
 - outstanding loans/ borrowings from banks/public financial institutions are greater than or equal to one hundred crore rupees at any time during the previous FY
 - (or)
 - outstanding deposits are greater than or equal to twenty five crore rupees at any time during the previous FY

Companies (Auditor's Report) Order

Whether the company has an internal audit system commensurate with the size and nature of its business;

Key Considerations (Cont'd...):

2020

- As per section 138 of the Act read with Rule 13 of the Companies (Accounts) Rules, 2014, internal auditor may be either an **individual or a partnership firm or a body corporate** who shall be a chartered accountant or a cost accountant, (whether engaged practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.
- Internal auditor **may or may not be an employee of the company.**
- The audit committee of the company or the Board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- Generally internal audit function includes the following activities with regard to the entity:
 1. Evaluation of internal controls.
 2. Examination of financial and operational information.
 3. Review of operating activities.
 4. Review of compliance with laws and regulations.
 5. Evaluation of risk management and governance practices
- The audit committee of the company or the Board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

Whether the company has an internal audit system commensurate with the size and nature of its business;

Key Considerations (Cont'd...):

2020

- The auditor should evaluate the size of the internal audit department in considering the adequacy of internal audit system, it is necessary to consider the nature of the business of the company, the number of operating locations.
- Reporting responsibility of the internal auditor - It is expected that the internal auditor would report to those charged with governance reason being, the **higher the level** to which the internal auditor **reports**, the **greater would be the independence** of the internal auditor.
- In case of listed companies, compliance of provisions of SEBI LODR Regulations with regard to review of internal audit function by audit committee and the presence of head of internal audit in the audit committee meeting shall also be verified.

Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

Key Considerations:

- Requires the auditor to comment **whether the reports of the internal auditors** for the period under audit were considered by the statutory auditor.
- Compliance with SA 610(Revised), **“Using the Work of Internal Auditors”**, is mandatory for the statutory auditor if he considers the work done by the internal auditor for his audit purposes.

Companies (Auditor's Report)

| Clause | Description |
|--|--|
| Clause 3(xv) Non-Cash Transactions | <ul style="list-style-type: none">Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with; |
| Clause 3(xvi) Registration under Section 45-IA of RBI Act, 1934 | <ul style="list-style-type: none">Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained; [Paragraph 3 (xvi)(a)]Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934; [Paragraph 3 (xvi)(b)]Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria; [Paragraph 3 (xvi)(c)]Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group; [Paragraph 3 (xvi)(d)] |

Companies (Auditor's Report) Order

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with:[Clause 3(xv)]

Key Considerations:

- Requirement to comment whether the company has entered into **any non-cash transactions with directors or persons connected with him** and if so, whether the provisions of section 192 of Companies Act have been complied with.
- According to Section 192 of the Act, No company shall enter into an arrangement by which—
 - a) a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or
 - b) the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected,

unless prior approval for such arrangement is accorded by a resolution of the company in general meeting and if the director or connected person is a director of its holding company, approval under this sub-section shall also be required to be obtained by passing a resolution in general meeting of the holding company.
- The notice for approval of the resolution by the company or holding company in general meeting shall include the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a **registered valuer**.
- Any arrangement entered into by a company or its holding company in contravention of the provisions of this section shall be voidable at the instance of the company subject to exceptions.

Companies (Auditor's Report) Order,

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with; [Clause 3(xv)]

Key Considerations (Contd.):

- Arrangements, as discussed herein above, can only be entered by the company on fulfillment of the conditions laid out in section 192 of the Act which are as under:
 - The company should have obtained prior approval for such arrangement through a resolution of the company in general meeting.
 - In case the concerned director or the person connected therewith, is also a director of its holding company, a similar approval should have been obtained by the holding company through a resolution at its general meeting.
- The reporting requirements under this clause are in two parts.
 - The first part requires the auditor to report on whether the **company has entered into any non-cash transactions** with the directors or any persons connected with such director/s.
 - The second part of this clause requires the auditor to report whether the **provisions of section 192 of the Act have been complied with.**

Companies (Auditor's Report) Order,

Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained. [Clause 3(xvi)(a)]

Key Consideration:

- The **registration is required** where the company is engaged in the business of **a non-banking financial institution** (as defined in section 45-I(a) of the Reserve Bank of India Act, 1934) as its **principal business**.
- A non-banking financial company (NBFC) is a company registered under the Act, engaged in the business of loans and advances, acquisition of shares/stocks/bonds/ debentures/ securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
- Financial activity as principal business is when a company's **financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income**. The term principal business is not defined by the Reserve Bank of India Act.

Companies (Auditor's Report) Order,

Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934. [Clause 3(xvi)(b)]

Key Audit Consideration :

- This clause is an extension of the clause 3(xvi)(a) and **requires reporting** on whether the company is carrying on Non-Banking Financial or **Housing Finance activities** without a **valid Certificate of Registration from the Reserve Bank of India**.
- A "housing finance institution" includes every institution, whether incorporated or not, which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly.
- As per the guidance note the housing finance companies are defined under the RBI Circular on “Review of regulatory framework for Housing Finance Companies (HFCs)” dated October 22, 2020 .
- The registering authority for Housing Finance companies has been National Housing Bank. However, based on the amendments made to the Housing Finance Bank Act, 1987 through the Finance (No.2) Act, 2019 such registration in future is to be done by RBI.

Companies (Auditor's Report) Order,

Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.
[Clause 3(xvi)(c)]

Key Audit Consideration :

- The auditor is required to examine whether the company is engaged in the business which attracts the **requirement of registration as Core Investment Company.**
- As per RBI Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016), these directions shall apply to every Core Investment Company (CIC), which is a non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet:-
 - (i) it holds **not less than 90% of its net assets** in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;
 - (ii) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trust only as sponsor constitute **not less than 60% of its net assets** as mentioned in clause (i) above.
 - (iii) It does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.
 - (iv) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the Reserve Bank of India Act, 1934 subject to exceptions.

Companies (Auditor's Report)

Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria. [Clause 3(xvi)(c)]

Key Audit Consideration(Contd.):

- Core Investment companies having total assets of not less than **Rs.100 Crores** either individually or in aggregate along with other CICs in the Group and which raises or Holds **public funds** are categorized as **Systematically Important Core Investment Company (CIC-ND-SI)**. Such companies are required to apply to **RBI for grant of certificate of registration.**
- Every CIC shall apply to the RBI for grant of certificate of registration **within a period of three months** from the date of becoming a CIC-ND-SI.
- Companies that do not fulfil the above criteria and do not have access to public funds are exempted from registration requirement with RBI. However, these CICs exempted from registration with the RBI shall pass a **Board Resolution** that it will not, in the future, access public funds.

Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group; [Clause 3(xvi)(d)]

Key Considerations:

Requires the auditor to report whether there is more than one CIC as part of the Group and if there are more than one CIC in the Group the number of CICs shall be indicated in the report.

Companies (Auditor's Report)

2016-2020

| Clause | Description |
|--|---|
| Clause 3(xvii) Cash Losses | <ul style="list-style-type: none">▪ <i>Has the company incurred any cash losses in the financial year and the immediately preceding financial year, if so, the amount of cash losses incurred to be reported.</i> |
| Clause 3(xviii) Resignation of Statutory Auditors | <ul style="list-style-type: none">▪ <i>Whether during the year, has there been any resignation of statutory auditors,</i>▪ <i>if yes, has the incoming auditor considered the objections, issues or concerns raised by the outgoing auditors</i> |

Overview of change:

- Clause 17 on reporting on cash losses has been re-introduced from CARO 2015
- Auditor to report cash losses from the statement of cash flow as included in financial statement for the current year.
- Clause 18 mandates the auditor to consider the issues / objections / concerns raised by the outgoing auditor during the course of the audit
- Auditor to review the issues, reasons or concerns mentioned for resignation by the previous auditor. (The same is a normal practice considering the provisions of SA 210 issued by ICAI)

Companies (Auditor's Report) Order

Has the company incurred any cash losses in the financial year and the immediately preceding financial year, if so, the amount of cash losses incurred to be reported[Clause 3(xvii)]

Key Considerations:

2020

This clause is applicable to all companies. This clause requires the auditor to report:

- Whether the company has incurred cash losses during the period covered by the audit report and in the immediately preceding financial year.
- If so, the auditor is required to report amount of cash losses for the period covered under audit and immediately preceding financial year.
- The auditor would need to determine the figure of cash losses for the period covered by the audit report and for the financial year immediately preceding the period covered by the audit report.
- The figure of cash losses would be the net profit/loss after taxes (PLAT) / profit or loss (excluding other comprehensive income) shown by the statement of profit and loss as per AS and Ind AS respectively adjusted for the effects of transactions of non-cash nature such as depreciation, amortization, impairment loss or its reversal etc. Such net profit/loss after tax would require adjustment for non-cash items such as deferred tax income/expense, foreign exchange gain/loss, fair value changes for determination of cash losses etc.
- However the above mentioned amount of net profit/loss after tax should however not be adjusted for items of expenses of contingent nature such as claims not acknowledged as due by the company, Demand for tax liability for which provision has been made in the financial year but which has been appealed against by the company etc.

Companies (Auditor's Report) Order 2020

Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors; [Clause 3(xviii)]

Key Considerations:

- This is a **new reporting requirement** in the Order wherein the auditor is required to report if there has been any **resignation of the statutory auditors** during the year.
- This clause is applicable where new auditor ('incoming auditor') is appointed during the year to fill a casual vacancy caused by resignation of the auditor created in the office of the previous auditor under section 140(2) of the Act.
- When an incoming auditor is appointed by an entity, the incoming auditor, prior to accepting the position as auditor in accordance with the requirements of ICAI Code of Ethics, is required to **communicate with the previous auditor** to know the reasons for the change in order to be able to safeguard his own interest.
- Section 140(2) of the Act read with Rule 8 of the Companies (Audit and Auditors) Rules 2014 requires the auditor who has resigned from the company to file within a period of thirty days from the date of resignation,

Companies (Auditor's Report)

| Clause | Description |
|---|--|
| Clause 3(xix) Material Uncertainty | On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date; |

Overview of change:

- The text of the clause captures some of the elements of **Standard on Auditing 570 - Going Concern**
- Auditor to examine the Liabilities that fall due within a period of one year from Balance sheet date.
- Need to consider current assets, current liabilities ratio, budget for the coming year approved by board, etc. in assessment
- Discuss with the Management to identify the subsequent events and whether it has any material impact.

Companies (Auditor's Report) Order,

Existence of any material uncertainty on the date of the audit report[Clause 3(xix)]

Key Considerations :

- Required to report whether the auditor is of the opinion that **no material uncertainty exists as on the date of the audit report** about the company's capability of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.
- As per SA 570(Revised), Going Concern, **the auditor's responsibilities are to obtain sufficient appropriate audit evidence** regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude.
- Based on the audit evidence obtained, whether a **material uncertainty exists** about the entity's ability to continue as a going concern.
- If the **main audit report** contains a paragraph on "**material uncertainty** related to going concern or key audit matter on going concern indicators", it should be **duly considered while making comment** under this clause.
- The test of existence of material uncertainty is to be done as on the **date of audit report for the position of liabilities existing at the date of balance Sheet.**

Companies (Auditor's Report) Order

Existence of any material uncertainty on the date of the audit report

Requirements as per Revised Schedule III:

2020

- Following Ratios to be disclosed in Notes to Accounts:

- a) Current Ratio
- b) Debt-Equity Ratio
- c) Debt Service Coverage Ratio
- d) Return on Equity Ratio
- e) Inventory turnover Ratio
- f) Trade Receivables Turnover Ratio
- g) Trade Payables Turnover Ratio
- h) Net Capital Turnover Ratio
- i) Net Profit Ratio
- j) Return on Capital Employed
- k) Return on Investment

The company is required to explain the items included in numerator and denominator for computing the above ratios. Further explanation is to be provided for any change in the ratio by more than 25% as compared to the ratio of preceding year.

Schedule III (Division III) to the Act requires disclosure of following ratios:

Capital to risk-weighted assets ratio (CRAR)

Tier I CRAR

Tier II CRAR

Liquidity Coverage Ratio

Companies (Auditor's Report) Order, 2020

| Clause Reference No | Description |
|--|---|
| Clause 3(xx) Transfer to fund specified under Schedule VII of Companies Act, 2013 | a) whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act; (b) whether any amount remaining unspent under subsection (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act |
| Overview of change: | |
| <ul style="list-style-type: none">• Mandated disclosures as per second proviso to sub-section (5) of section 135 'CSR' now included in CARO• Report non compliance if unspent amount not transferred. | |
| | |

Companies (Auditor's Report) Order,

With respect to obligations under Corporate Social Responsibility, whether the company has transferred the unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of 6 months from the expiry of the financial year. [Clause 3(xx)]

Key Considerations:

- This clause requires the auditor to comment whether the company has **transferred the unspent amount**, to a fund within a period of **six months** of the expiry of the financial year.
- As per Section 135 of the Companies Act, 2013, every company having **net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more** during the immediately preceding financial year shall constitute a **Corporate Social Responsibility Committee** of the Board.
- The Corporate Social Responsibility Committee shall,
 - a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
 - b) recommend the amount of expenditure to be incurred on the activities referred to in clause(a); and
 - c) monitor the Corporate Social Responsibility Policy of the company from time to time.

Companies (Auditor's Report) Order,

With respect to obligations under Corporate Social Responsibility, whether the company has transferred the unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of 6 months from the expiry of the financial year.

Key Considerations (Contd.):

- The Board of every company referred to in sub-section (1) of section 135 of the Act, shall ensure that the company spends, in every financial year, **at least two per cent of the average net profits of the company made during the three immediately preceding financial years** or
- The second proviso to sub-section (5) of Section 135 requires that if the company **fails to spend such amount**, the Board shall, in its report, specify the reasons for not spending the amount and,
- unless the unspent amount relates to any ongoing project, transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

Companies (Auditor's Report)

With respect to obligations under Corporate Social Responsibility, whether the company has transferred the unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of 6 months from the expiry of the financial year.

Requirements as per Revised Schedule III:

- Where the company covered under section 135 of the Companies Act, the following shall be disclosed with regard to CSR activities:-
 - (i) amount required to be spent by the company during the year,
 - (ii) amount of expenditure incurred,
 - (iii) shortfall at the end of the year,
 - (iv) total of previous years shortfall,
 - (v) reason for shortfall,
 - (vi) nature of CSR activities,
 - (vii) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
 - (viii) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately.
- The auditor shall also compare and cross check the disclosures made by the management, in the financial statements with regard to CSR spending, as per the requirements of Schedule III to the Act.

Companies (Auditor's Report) Order,

Whether any amount which remains unspent has been transferred to a special account in accordance with provisions of section 135 of the Companies Act, 2013.

Key Considerations :

- This clause requires the auditor to comment whether the company has transferred the unspent amount in respect of any “ongoing projects”, to a special account within a period of thirty days from the end of the financial year in compliance with the provision of sub-section (6) of section 135 of the Act.
- Such account is to be opened by the company in any **scheduled bank** to be called the Unspent Corporate Social Responsibility Account.
- Such amount shall be spent by the company towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

Companies (Auditor's Report)

Order 2020

| Clause Reference No | Description |
|---|--|
| Clause 3(xxi) Qualifications or Adverse Auditor remarks in other group companies | Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks. |

Applicability of CARO to Consolidated Financial Statements:

- The Order specifically provides that it shall not apply to the auditor's report on consolidated financial statements **except for clause (xxi)** of paragraph 3.
- This means that the **auditor will need to give a CARO report on the consolidated financial statements with respect to clause (xxi) only.**
- Thus, the auditor is not required to report on rest of the clauses of paragraph 3.

Concept of materiality :

- Principal auditor is **not required to reevaluate materiality** from consolidated perspective for the purpose of **qualification / adverse remark** made by every individual component.
- Qualifications / adverse remarks given in the **parent company's standalone CARO report** along with the qualification / adverse remarks given by the **component auditor** are required to be included while reporting on consolidated financial statements

In case there have been any qualifications or adverse remarks in the audit reports issued by the respective auditors in case of companies included in the consolidated financial statements, to indicate the details of the companies and the paragraph numbers of the respective CARO reports containing the qualifications or adverse remarks[Clause 3(xxi)]

Key Considerations:

- This clause requires the auditor to comment whether there have been any qualifications or adverse remarks by the respective auditors (“component auditors”) in the Companies (Auditor’s Report) Order (CARO) reports of the companies included in the consolidated financial statements.
- Reporting under this clause is only required for those entities included in the consolidated financial statements to whom CARO 2020 is Applicable
- It should not, however, be assumed that every unfavorable comment under the Order would necessarily result in a modification in the report under sub-sections (2) and (3) of section 143 of the Act.
- Firstly, the unfavorable comment may be regarding a matter which has no relevance to a true and fair view presented by the financial statements, for example, the failure of the company to deposit provident fund dues in time or to comply with the requirements regarding acceptance of public deposits. Secondly, while the non-compliance may be material enough to warrant an unfavorable comment under the Order, it may not be material enough to affect the true and fair view presented by the financial statements.
- Finally, the non-compliance may be in an area which calls for remedial action on the part of the management, and may be important for that reason, but may not be sufficiently important in the context of the report under subsections (2) and (3) of section 143 of the Act. In deciding, therefore, whether a modification in the report under sub-sections (2) and (3) of section 143 of the Act is necessary, the auditor should use his professional judgement in the facts and circumstances of each case.

Amendments to Schedule III of Companies Act, 2013 – Division II

Amendments to Schedule III of the Companies Act, 2013 - MCA



These amendments have been presented broadly under the following categories:

- Additional disclosures in the financial statements to align with CARO 2020-
- Other key disclosures-
- Regrouping / Others in the financial statements-

Applicable for the financial years beginning on or after April 1, 2021

| Additional disclosures in the financial statements to align with CARO 2020 | Division I | Division II | Division III |
|--|------------|-------------|--------------|
| Title deeds of immovable property not held in the name of the Company | ✓ | ✓ | ✓ |
| Whether revaluation, if any, of property, plant and equipment and intangible assets is based on the report of registered valuer including disclosure of amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment and Intangible assets) | ✓ | ✓ | ✓ |
| Proceedings over holding any benami property | ✓ | ✓ | ✓ |
| For borrowings on the basis of security of current assets: Whether quarterly returns or statements filed with banks or financial institutions are in agreement with the books of accounts. If not, summary of reconciliation and reasons of material discrepancies, if any. | ✓ | ✓ | ✓ |
| Loans or Advances in the nature of loans, granted to promoters, directors, KMPs and the related parties which are either repayable on demand or without specifying any terms or period of repayment. | ✓ | ✓ | ✓ |
| Utilisation of borrowings for the purposes other than for which it was taken | ✓ | ✓ | ✓ |
| If a Company is declared willful defaulter, date of such declaration and details of defaults | ✓ | ✓ | ✓ |
| Ratios *, explanation if change is more than 25% | ✓ | ✓ | ✓ |
| Details of any undisclosed income | ✓ | ✓ | ✓ |

(e) Inventory turnover ratio, (f) Trade Receivables turnover ratio, (g) Trade payables turnover ratio, (h) Net capital turnover ratio, (i) Net profit ratio, (j) Return on Capital employed, (k) Return on investment

For Division III: (a) Capital to risk-weighted assets ratio (CRAR), (b) Tier I CRAR, (c) Tier II CRAR, (d) Liquidity Coverage Ratio

Amendments to Schedule III of the Companies Act, 2013 – MCA

These amendments have been presented broadly under the following categories:

- Additional disclosures in the financial statements to align with CARO 2020-
- Other key disclosures-
- Regrouping / Others in the financial statements-

| Other key disclosures | Division I | Division II | Division III |
|--|------------|-------------------|--------------|
| Prior period errors, if any: Statement of changes in equity to separately disclose the effect thereof and restated balance | X | ✓ | ✓ |
| Shareholding of promoters | ✓ | ✓ | ✓ |
| Trade Payables ageing schedule (from due date of payment/ date of transaction), payable to MSME and others, disputed dues- MSME and disputed dues- others | ✓ | ✓ | ✓ |
| Trade receivables ageing schedule (from due date of payment/ date of transaction), disputed and undisputed | ✓ | ✓ | ✓ |
| Ageing schedule for Capital work-in progress, intangible assets under development | ✓ | ✓ | ✓ |
| For CWIP and Intangible assets under development whose completion is overdue or has exceeded its cost compared to its original plan, completion schedule to be given. Any projects suspended to be disclosed separately. | ✓ | ✓ | ✓ |
| Fair valuation of investment property for disclosure purpose to be based on the valuation by a registered valuer | X | ✓ | ✓ |
| Relationship with Struck off Companies | ✓ | ✓ | ✓ |
| Delay in registration of charges or satisfaction with Registrar of Companies - details and reasons | ✓ | ✓ | ✓ |
| Compliance with number of layers of companies | ✓ | ✓ | ✓ |
| Compliance with approved Scheme(s) of Arrangements "in accordance with the Scheme" and "in accordance with accounting standards" | ✓ | ✓ | ✓ |
| Details of funds, guarantee, security etc. given to / taken from Intermediaries for onward utilisation by Ultimate Beneficiaries | ✓ | ✓ | ✓ |
| Details of trading or investment in Crypto Currency or Virtual Currency | ✓ | ✓ | ✓ |
| Mandatory Rounding off amounts in the financial statements | ✓ | Already mandatory | |
| Unit of measurement for rounding off to be selected depending on the total income of the Company | ✓ | ✓ | ✓ |
| Details of Corporate Social Responsibility activities | ✓ | ✓ | ✓ |

Amendments to Schedule III of the Companies Act, 2013 - MCA

These amendments have been presented broadly under the following categories:

- Additional disclosures in the financial statements to align with CARO 2020-
- Other key disclosures-
- Regrouping / Others in the financial statements-

| Regroupings / Others | Division I | Division II | Division III |
|--|------------|-------------|--------------|
| Current maturities of long-term debt: from other current liabilities to short-term borrowings | ✓ | X | X |
| Current maturities of long-term debt: from other financial liabilities to borrowings | X | ✓ | X |
| Security deposits: from Long-term loans and advances to Other non-current assets | ✓ | X | X |
| Security deposits: from Loans to Other Financial Assets | X | ✓ | X |
| Revenue from Operations: Insertion of new item "Grants or donations received (relevant in case of section 8 companies only)" | ✓ | ✓ | X |
| Financial Liabilities: Insertion of "(ia) Lease liabilities" under Financial liabilities | X | ✓ | X |
| Intangible assets: Under sub-heading "Non-current assets", the words "Intangible asset" are inserted after the words "Property, Plant and Equipment" | ✓ | X | X |
| Property, Plant and Equipment: Under sub-heading "Non-current assets", for the words "Tangible Assets", the words "Property, Plant and Equipment" are substituted. | ✓ | X | X |
| 'Turnover' to be renamed as 'Total Income' | ✓ | X | X |

Division I: Financial Statements for a company whose Financial Statements are required to comply with the Company

Division II: Financial Statements for a company other than NBFCs whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

Division III: Financial Statements for a Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

The Companies need to prepare early as the aforesaid information for FY 20-21 will be required to be used as comparative information for

**CHANGES IN BALANCE SHEET AND
ITS NOTES
(DIVISION II)**



Trade receivables (Current & Non-current)

Original Requirement as per Schedule III

- Trade receivables were required to be classified and disclosed
- under the following heads:
 - Secured, considered good
 - Unsecured, considered good
 - Doubtful (after deducting expected credit loss)

Requirement as per amendment to Schedule III

- Now, ageing of trade receivables is required to be disclosed along with categorisation of undisputed receivables and disputed outstanding receivables further bifurcated on the basis of expected recoverability (i.e. considered good and considered doubtful). The format of ageing is prescribed by the notification shown in the

Prescribed format for ageing as per amendment to Schedule III

| Particulars | Outstanding for the following period from <u>due date of payments</u> .* | | | | | Total |
|--|--|-----------------|-----------|-----------|-------------------|-------|
| | Less than 6 months | 6 months-1 year | 1-2 years | 2-3 years | More than 3 years | |
| (i) Undisputed Trade Receivables - Considered Good | | | | | | |
| (ii) Undisputed Trade Receivables - which have significant increase in credit risk | | | | | | |
| (iii) Undisputed Trade Receivables - credit impaired | | | | | | |
| (iv) Disputed Trade Receivables - Considered Good | | | | | | |
| (v) Disputed Trade Receivables - which have significant increase in credit risk | | | | | | |



Implication on financial reporting

Information required

- While ageing analysis for receivables would generally be carried out, specific information in the required format may have to be tailored.

* Availability of information directly from the system in the required buckets for ageing needs to be reviewed, since no such disclosure is made previously.

- Important to capture 'due date' as ageing is based on due date.

- Details of disputed receivables to be tracked & obtained from Legal teams



Technology

Process



Other Teams

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Trade Payables (Current & Non- current)

Original Requirement as per Schedule III

- Trade payable dues to Micro, Small, Medium Enterprises (MSME) and other than MSME were required to be disclosed on the face of the Balance Sheet.

Requirement as per amendment to Schedule III

- Now, ageing of trade payables is required to be disclosed along with the details of any disputed outstanding dues. The format of ageing is prescribed by the notification, shown in the section below.

Prescribed format for ageing as per amendment to Schedule III

| Particulars | Outstanding for the following period from <u>due date of payments</u> :* | | | | Total |
|-----------------------------|--|-----------|-----------|-------------------|-------|
| | Less than 1 year | 1-2 years | 2-3 years | More than 3 years | |
| (i) MSME | | | | | |
| (ii) Others | | | | | |
| (iii) Disputed dues – MSME | | | | | |
| (iv) Disputed dues – Others | | | | | |

* In the absence of due date of payment, above disclosure to be provided from the date of the transaction. Unbilled dues shall be disclosed separately.

Implication on financial reporting

- While ageing analysis for payments would generally be carried out, specific information in the required format may have to be tailored.
- To consider how ad-hoc payments are dealt with.

Information required

- Availability of information directly from the system in the required buckets for ageing needs to be reviewed, since no such disclosure is made previously.
- Important to capture 'due date' as ageing is based on due date.
- Details of disputed dues to be tracked & obtained from Legal/Procurement teams.

Impact



Technology



Process



Other Teams



Capital Work in Progress and Intangible Assets under development

Requirement as per amendment to Schedule III

- Disclosures related to ageing of Capital Work-in-progress (CWIP) and Intangible assets under development (IAUD) and any CWIP or IAUD which has exceeded its originally planned cost or completion schedule need to be given. CWIP and IAUD are to be disclosed in separate schedules. Format of CWIP/IAUD ageing and completion schedules are shown below: (Amount in Rs.)

| CWIP/ IAUD | Amount in CWIP / IAUD for a period of | | | | Total* |
|--------------------------------|---------------------------------------|-----------|-----------|-------------------|--------|
| | Less than 1 Year | 1-2 years | 2-3 years | More than 3 years | |
| Project in progress | | | | | |
| Projects temporarily suspended | | | | | |

*Total should tally with CWIP shown on balance sheet

Completion schedule format* where CWIP/IAUD is overdue or exceeded its original plan cost:

| CWIP / IAUD | To be completed in | | | |
|-------------|--------------------|-----------|-----------|-------------------|
| | Less than 1 Year | 1-2 years | 2-3 years | More than 3 years |
| Project 1 | | | | |
| Project 2 | | | | |

*Details of projects where activity has been suspended shall be given separately

Information required

- Ageing report as per dates, on which assets are put in CWIP / IUAD along with amounts are required, to be reported for each project as per above ageing buckets.
- Completion schedule, expected completion dates of assets and expected cost to be incurred forming part of CWIP / IAUD would be needed.

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Implication on financial reporting

- Teams would need to verify if ageing can be extracted from the system or would it require manual work.
- Disclosure of temporarily suspended projects would trigger impairment analysis.
- Though not mandated, depending up the quantum or relevance, explanation for overdue or overrun or suspended project may become necessary.



Technology



Process



Title deed of immovable property

Requirement as per amendment to Schedule III

- Title deeds of immovable property (excluding leased properties under executed lease agreements) not held in the name of the company, a new disclosure requirement under the head additional regulatory information, is required to be provided in the notes to the balance sheet. The details to be given in the prescribed format which, inter alia, would include details of title deed held in the name of, held since date, reasons for not being held in the name of the company, etc. The table below is for illustrative purposes showing the sample format that may be used.

Table 1: (Amount in Rs.)

| Relevant line item in the Balance Sheet | Description of item of property | Gross Value of property | Title deed held in the name of | Whether title deed holder is a promoter, director or relative* of promoter*/director or employee of promoter/director | Property held since which date | Reason for not being held in the name of the company** |
|--|---------------------------------|-------------------------|--------------------------------|---|--------------------------------|--|
| PPE | Land | - | - | - | - | |
| | Building | - | - | - | - | |
| Investment | Land | - | - | - | - | |
| *Relative/ Promoter here means relative / promoter as defined in the Companies Act, 2013 | | | | | | |
| **also indicate if the property is in dispute | | | | | | |



Implication on financial reporting

- The above details are also required by auditor as a part of the CARO reporting in Clause 3(i)(c) of CARO 2020.
- Though the disclosure is for those cases only where 'Title deed is not held in the name of the Company', information & documents for all immovable properties would need to be compiled & shared for verification by Auditor.

Information required

- Availability of original copy of Title deeds, i.e., document constituting evidence to right or of legal ownership.
- If pledged, obtain confirmation from lenders/ online records.
- In case of lost documents, certified copies or details of FIRs filed may be produced.
- If disputed, legal determination to be sought.



Process



Other Teams

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Disclosure related to revaluation of asset

Original Requirement as per Schedule III

- A reconciliation of gross and net carrying amount at the beginning and end of the reporting period, along with other separate line items including additions, disposals, acquisitions including through business combinations and other

Note: Revaluation does not include:

- fair valuation of PPE on first time adoption of Ind AS;
- re-measurements (i.e., changes in value due to interest or foreign exchange rates) &
- lease modifications

Requirements as per amendment to Schedule III

The amendment requires that **amount of change due to revaluation** (if change is 10% or more in the aggregate of the net carrying value of each class of PPE or intangible asset) should be additionally disclosed in the schedule.

Implication and Information required

- In the event of revaluation, the company would need to highlight the effect due to revaluation, subject to condition of revaluation amounting to 10% or more of the net carrying value of the class of asset.
- This is also required to be reported in CARO, 2020 under clause 3(i)(d)



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Disclosure related valuation by a registered valuer

Requirement as per amendment to Schedule III

The Company shall disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) or revaluation of PPE/ Right of Use Assets/Intangible Assets is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017 by way of a separate note.

Implication and Information required

- In case of fair valuation of investment property, the details of valuation rule 2 may ideally be obtained from the engagement letter signed with the appointed valuer.

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Share capital

Original Requirement as per Schedule

III

- Currently, the shareholding of the shareholders holding more than 5% of the shares is required to be disclosed in the notes.

Format for disclosure of shares held by promoters

| Shares held by promoters* at the end of the year | | | | % change during the year*** |
|--|---------------|-----------------|-------------------|-----------------------------|
| S. No. | Promoter name | No. of shares** | % of total shares | |
| Total | | | | |

* Promoter here means promoter as defined in the Companies Act, 2013

** Details shall be given separately for each class of shares

*** Percentage change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue



Implication on financial reporting

- Additional details related to Promoters' holding and movement during the year shall be disclosed in the FS in the note pertaining to equity share capital.

Requirement as per amendment to Schedule

III

- The amendment required that a company shall now be required to disclose the shareholding of all promoters including the number of shares and the percentage of shares as shown in the format below in the Notes to Equity.

Information required

- The details of promoters' holdings and movement can be obtained from Secretarial Records maintained by the company.

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Other
Teams



Processes



Loans to Promoters, Directors, KMP and Related Parties

Requirement as per amendment to Schedule III

- Where the company makes any loan and advances to the promoters, directors, KMPs and other related parties either jointly or severally and such loan/ advances so given are either in the nature of a loan/ advance repayable on demand or without any specific terms or period of repayment, the details of such loans shall be disclosed separately in the prescribed format below.

Format for disclosing loans to Promoters, Directors, KMP and Related Parties

| Type of Borrower | Amount of loan or advance in the nature of loan outstanding | Percentage to the total Loans and Advances in the nature of loans |
|------------------|---|---|
| Promoter | | |
| Director | | |
| KMPs | | |
| Related Parties | | |

Implication on financial reporting

- The above table would need to be disclosed in the Notes of the financials statement as a separate note. Further, clause 3(iii)(f) of CARO, 2020 requires auditors to report on loans to promoters.
- Considering that there are intercompany Loans, this disclosure would be required to be manually prepared.

Information required

- Details of total loans given to Promoters, Directors, KMPs and Related companies. These details would form part of secretarial records.
- The details can be cross verified from the related party note in the FS.



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Other
Teams



Processes



Classification changes in balance sheet

Requirement as per amendment to Schedule III

Schedule III amendments has following reclassifications in the balance sheet for more logical presentation:

1. Current maturities of non-current borrowings:

- To disclose 'current maturities of long-term borrowings' under the heading '**Short-term borrowings**' schedule.
- Earlier it was disclosed under 'current liabilities' head.

2. Other financial assets:

To disclose 'other financial assets' in the notes. This is a new requirement, and it will include following line items:

- Security deposits
- Bank deposits for more than 12 months maturity
- Others (to be specified)

Security Deposits (that meet the definition of Financial Asset), have been **earlier** classified under '**Other Financial Assets**' hence no change in the same

3. Lease liabilities

- To disclose current and non-current portion of lease liabilities under the head 'current and non-current financial liabilities' on the **face of the balance sheet**.
- The present classification is in line with the amendment requirement.

Earlier, rounding off criteria to nearest hundreds, thousands, lakhs, millions or crores in the financial

Implication on financial reporting

has

Information required

The classification of items in balance sheet will be made as required by Schedule III and above amendments will result into more logical presentation.

Security deposits are already shown under other Non-current/current Financial assets and Lease Liabilities are already being shown on the face of balance sheet under current and non current financial liability. Hence, no change will be required for the same.

Classification / grouping change will result in changing the Chart of Accounts mapping across the Group.

The information required for reclassification has to be verified for comparative periods as well.

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CHANGES IN STATEMENT OF PROFIT & LOSS (DIVISION II)

Requirement as per amendment to Schedule III or Schedule III



Undisclosed income

The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961, unless there is immunity for disclosure under any scheme whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Implication and Information required

- The amendment details are required by auditor as a part of the CARO reporting in Clause 3(viii) of CARO 2020.
- The information may be obtained from review of the tax assessment orders.
- Relevant to consider restatement implications, if pertaining to earlier years.



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Other
Teams



Corporate Social Responsibility

Where the company is covered under section 135 of the Companies Act, the following shall be disclosed with regards to CSR activities:-

- a) amount required to be spent by the company during the year,
- b) amount of expenditure incurred,
- c) shortfall at the end of the year,
- d) total of previous years shortfall,
- e) reason for shortfall,
- f) nature of CSR activities,
- g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
- h) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.



Implication and Information required

- This is a new disclosure required under the head 'additional information' in the notes to the statement of profit and loss.
- The shortfall of CSR amount have to be spent in subsequent years in addition to disclosure in FS, unlike earlier, where just a disclosure in Director's report was warranted for unspent amount.



Information required

These requirements are included as part of CARO reporting by the auditor in Clause 3(xx) of CARO 2020.

OTHER CHANGES IN DISCLOSURES (DIVISION II)



Disclosure related to prior period equity in SOCIE

Original Requirement as per Schedule III

For equity share capital, following items were required to be disclosed:

Balance at the beginning of the current period

Changes in equity share capital during the current year

Balance at the end of the current reporting period

Requirements as per amendment to Schedule III

Amendment requires to disclose **additional line items** in the statement of changes in equity (SOCIE) such as:

- Changes in equity share capital due to prior period errors and
- Restated balance at the beginning of the current reporting period.

Implication and Information required

- Though, previous years figures have been incorporated now in Schedule III, generally companies have already been disclosing the previous year figures.
- Additional line items will need to be added in equity share capital table in SOCIE.



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Processes

Additionally, the entire



Disclosure changes in SOCIE for retained earnings / reserves and surplus

Requirement as per amendment to Schedule III

As per amendment, Remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss (FVTPL) **shall** be recognized as a part of retained earnings with separate disclosure of such items along with the relevant amounts in the Notes or shall be shown as a **separate column under Reserves and Surplus.**

Earlier this information could be given only as a note.

Implication and Information required

- The following items shall be disclosed separately in the statement of changes in equity:
- Remeasurement of defined benefit plans
- FV changes relating to own credit risk of financial liabilities designated at FVTPL



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Processes



Quarterly Returns and summary reconciliations filed with banks

Requirement as per amendment to Schedule III

If the Company has taken any loans from banks/ Financial Institutions (FI) on the basis of security of current assets like inventories, it shall disclose the following:

- whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are **in agreement** with the books of accounts;
- if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

 This reporting will also be done by auditors under CARO 2020 for borrowings in excess of Rs. 5 crores.

Requirement as per amendment to Schedule III

The Company shall disclose if it has made any **disbursement of funds** (either borrowed funds or share premium or any other sources or kind of funds) by way of **advance, loan, investment, guarantee or security** to any person/ entity being an ultimate beneficiary through any intermediary. Intermediary can also be a foreign entity, **under an understanding (whether written or otherwise) with the intermediary.**

Similar disclosure shall also be made pertaining to any receipt of funds in the aforesaid manners by the company as an intermediary for further disposal of the same to any person/ entity being ultimate beneficiary.

The details to be disclosed shall include

- the **date, amount**, details of the **intermediary** and the **ultimate beneficiary**
- a **declaration** to the effect that it is in compliance with the

Implication and Information required

- Bank / FI wise returns to be obtained & verified with Quarterly TB data.
- Possibly because of the time lag between closure of books & submission of returns, reconciliation for variation, is likely to be common (for earlier period data) Going forward, process **Impact** lengthened to match the time, before submission.

Process Other Teams

Implication on financial reporting

- Where a company is involved in such a transaction, it would need to disclose the details mentioned along with the declaration in the Notes to Accounts.
- Tracking of money trail can be a difficult task & will need involvement of senior management to identify such transactions **Impact** these are generally executive decisions.

Process Other Teams



Details of benami properties

Requirement as per amendment to Schedule III

Schedule III

Where any proceedings have been initiated or pending against the company for holding any benami property under the **Benami Transactions (Prohibition) Act, 1988 (45 of 1988)** and rules made thereunder, the company shall disclose:

- a) details of the property
- b) Amount
- c) details of beneficiaries
- d) If property is in the books, then reference to the item in the Balance Sheet
- e) If property is not in the books, then the fact shall be stated with reasons
- f) details of the proceedings against the company (if any) including its nature, status and the views of the company on the same.

If the company or the same company is declared a willful defaulter by Financial Institution

Requirement as per amendment to Schedule III

Where a company is a declared willful defaulter by any bank or financial Institution or other lender, following details shall be given:

- a) Date of declaration as willful defaulter
- b) Details of defaults (amount and nature of defaults)

Implication and Information required

- In the event the company holds any benami property, the mentioned details of the property would need to be disclosed in the Notes to accounts.
- This reporting will also be done by auditors under CARO 2020.



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Requirement as per amendment to Schedule III



Registration of charges

Disclosure of charges or satisfaction yet to be registered with the Registrar of Companies (ROC) beyond the statutory period is required to be given along with details and reasons thereof.

Implication and Information required

Information to be reported may be obtained from secretarial records.



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Processes



Other Teams



Utilization of borrowed funds

Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Implication and Information required

- Specific tracking for utilization of funds to match the purpose it was taken.



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Processes



Technology



Crypto currency or virtual currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:
Profit or loss on transactions involving Crypto currency or Virtual Currency

Amount of currency held as at the reporting date

Deposits or advances from any person for the purpose of trading or investing in Crypto Currency / virtual currency

Implication and Information required

If the company invests in virtual currency, required disclosures have to be given in the Notes to balance sheet.

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Process



Compliance with approved scheme of arrangements

Requirement as per amendment to Schedule III

Where the Scheme of Arrangements has been approved by the Competent Authority in terms of sections 230 to 237 of the Companies Act, 2013, the company shall disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the Company 'in accordance with the Scheme' and in accordance with 'accounting standards' and any deviation in this regard shall be explained.

Implication and Information required

When any Scheme of Arrangements (such as with creditors or members, or when enforced by tribunal, in the event of mergers and amalgamations) takes place, the additional disclosure mentioned is required to be given in the Notes to accounts.



 Impact



Processes



Other Teams



Compliance with number of layers of companies as per the Act

Requirement as per amendment to Schedule III

Where the company has not complied with the number of layers prescribed under clause (87) of section 2 of the Act read with the Companies (Restriction on number of Layers) Rules, 2017, which requires that not more than 2 layers shall be allowed for subsidiaries,

- the name and CIN of the companies beyond the specified layers and
- the relationship or extent of holding of the company in such downstream companies shall be disclosed.



Implication and Information required

- This note would be disclosed in the Notes to accounts of the main holding company where there are **more than 2 layers** of subsidiaries.
- The Group Structure will enable easy identification of such instances.

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Requirement as per amendment to Schedule III

- Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the details as mentioned in the format prescribed, replicated below.

Format for disclosure of relationship:

| Name of struck off Company | Nature of transactions with struck-off Company | Balance outstanding | Relationship with the Struck off company, if any, to be disclosed |
|----------------------------|--|---------------------|---|
| | Investments in securities | | |
| | Receivables | | |
| | Payables | | |
| | Shares held by struck off company | | |
| | Other outstanding balances (to be specified) | | |

Implication on financial reporting

- The above information may need to be manually verified for each company forming part of each of the classes of parties and disclosed, if applicable, in the Notes to Accounts of the company.
- Going forward, the Procurement/ Sales/ Treasury process be modified at the Vendor/Customers/ Investees to identify such companies at the initiation/ selection or Master set up phase.

Information required

- An exhaustive list of Investee companies, vendors, customers and investors along with details of companies where outstanding balances exist would need to be identified.
- The above list would need to be compared against the companies whose names have been struck off by the Registrar of Companies. This can be found in the MCA portal in the following link https://www.mca.gov.in/MinistryV2/companies_struckoff_248.html



Processes



Technology



Other Teams

c

THANK YOU

Technical Session - II

Topice : Sec 143 to Sec 148A of Income

Tax Act 1961



CA. T.S. Ajai
Hyderabad

ASSESSMENT AND REASSESSMENT

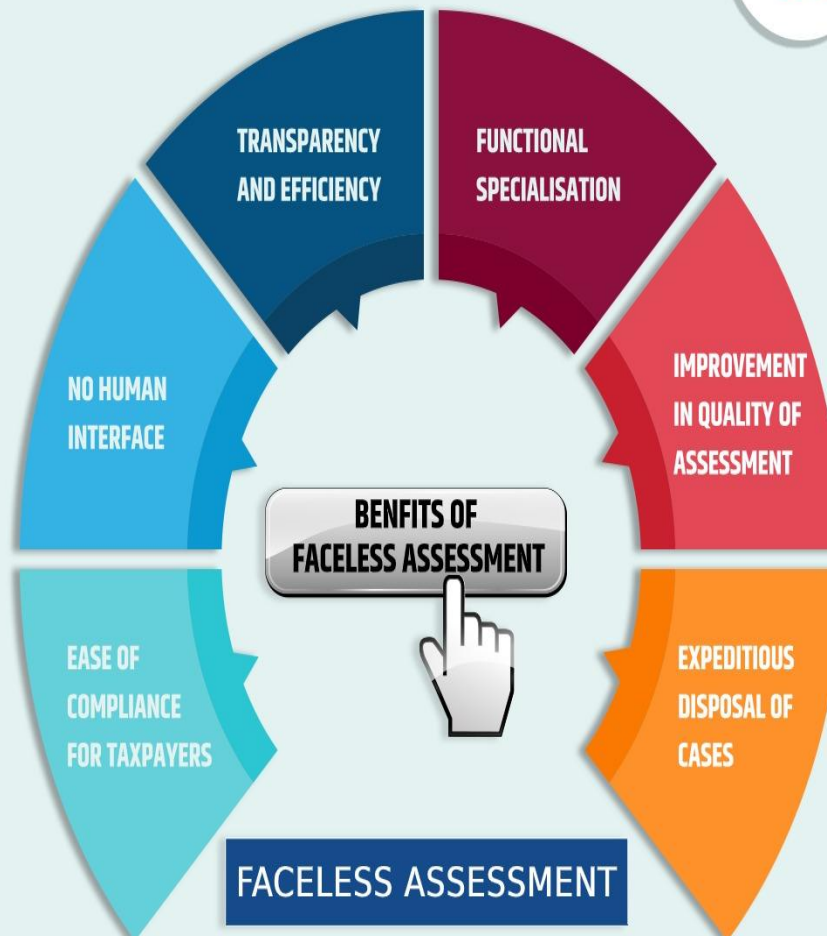
CA T S AJAI

FACELESS ASSESSMENT

EVOLUTION OF FACELESS ASSESSMENT

- The Central Government to impart greater efficiency, transparency and accountability by—
 - (a) eliminating the interface between the Assessing Officer and the assessee in the course of proceedings to the extent technologically feasible;
 - (b) optimising utilisation of the resources through economies of scale and functional specialisation;
 - (c) introducing a team-based assessment with dynamic jurisdiction, in the assessment of total income u/s 143(3) or 144 , introduced a Scheme , by virtue the powers u/s 143(3A) and (3B), called the Faceless Assessment Scheme , 2019.
- The Scheme was made operational as “Faceless Assessment Scheme 2019, from 13th August, 2020 by the Honourable Prime Minister Shri. Narendra Modi by launching the “Honouring the Honest” portal.
- A new section 144B was also inserted w.e.f. 01.04.2021 to provide for Faceless Assessment.

#HonoringTheHonest



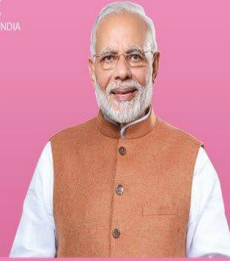
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Faceless Assessment

**A NEW ERA
OF TRUST,
TRANSPARENCY
& TAX**

T FOR TRUST!



#HonoringTheHonest

FEATURES



Selection only through system using data analytics & AI



Abolition of territorial jurisdiction



Automated random allocation of cases



Central issuance of notices with Document Identification No. (DIN)



No physical interface, No need to visit income tax office

Team-based assessments and Team-based review

Draft assessment order in one city, review in another city & finalisation in third city

EXCEPTIONS

CASES RELATING TO:

- Serious frauds, Major Tax Evasion, Sensitive & Search matters
- International tax
- Black Money Act & Benami Property



Date: 13th August, 2020

FACELESS CENTRES



FACELESS ASSESSMENT AND APPEAL

- **CCIT CENTRES**
- **OTHER OFFICES**

OBJECTIVES

- Imparting greater efficiency, transparency and accountability
- Eliminating physical interface between the taxpayer and tax officers

FEATURES

- Selection only through system using data analytics and AI
- Dynamic Jurisdiction – abolition of territorial jurisdiction
- Automated random allocation of cases.
- Central issuance of notices with Document Identification No. (DIN)
- No physical interface, No need to visit income tax office
- Team-based assessments and Team-based review
- Draft assessment order in one city, review in another city and finalisation in third city
- Objective, fair and just order
- 2/3rd of the manpower is utilised for faceless and balance for other functions

FACELESS ASSESSMENT

EVOLUTION OF FACELESS ASSESSMENT

- The Faceless Assessment Scheme 2019 faced several challenges , legal, technical, operational and administrative.
- However, the Government was firm in its resolve to make the Scheme successful and hence revamped the scheme by taking into account and addressing every concern expressed by every stakeholder and also the judicial view expressed in the various cases challenging the Scheme.
- Accordingly a new and simplified version of the Faceless Assessment is now introduced by the Finance Act, 2022 by inserting new section 144B w.e.f. 01.04.2022.

FACELESS ASSESSMENT

- The following schemes/ notifications have also been made to put in place the new system of Faceless Assessment :
1. 61/2020 - Dated: 10-6-2022 - Section 120(1) (2) and (5) of the Income-Tax Act, 1961 – Jurisdiction of Income tax Authorities - Jurisdiction to exercise of power of Assessing officer (AO) - Jurisdiction to conduct of Faceless Assessment proceedings Supersession of Notification No. 23/2021 dated 31st March, 2021
 2. 55/2022 - Dated: 27-5-2022 - Directions for implementation of Faceless Penalty Scheme - Seeks to amend Notification No. 03/2021 dated 12 January 2021
 3. 19/2022 - Dated: 30-3-2022 - Faceless Inquiry or Valuation Scheme, 2022
 4. 18/2022 - Dated: 29-3-2022 - e-Assessment of Income Escaping Assessment Scheme, 2022
 5. 15/2022 - Dated: 28-3-2022 - Faceless Jurisdiction of Income-tax Authorities Scheme, 2022.

FACELESS ASSESSMENT

EXCLUDED CASES

- All assessment orders (u/s 143(3)/ 144/147) will be made by the National Faceless Assessment Centre (NFAC) , under the Faceless Assessment Scheme u/s 144B as above, except
 - i) Assessment orders in cases assigned to Central charge
 - ii) Assessment orders in cases assigned to International Tax Charges and
 - iii) The CBDT is empowered u/s 119 of the Act to exclude any other cases from the faceless scheme. Accordingly the CBDT vide order dated 06.09.2021 excluded, “ Assessment orders in cases where pendency could not be created on ITBA because of technical reasons or cases not having a PAN as the case may be”. (It is hoped that this is a temporary exclusion for administrative reasons).

FACELESS ASSESSMENT

TRANSFER OUT OF FACELESS SCHEME

- Further, u/s 144B (8) the PCIT or PDG in charge of NFAC at any stage of the assessment, if considered necessary, may transfer the case to the AO having jurisdiction over such case, with the prior approval of the Board.
- Further, u/s 144B(7) the PCIT or PDG in charge of NFAC shall in accordance with the procedure laid down by the Board in this regard, in a case he considers appropriate, make reference to the PCIT having jurisdiction over the case to invoke the provisions of Special Audit u/s 142(2A) of the Act and further transfer the case u/s 144B(8) to the AO having jurisdiction over the case.
- The CBDT vide F. No.225/97/2021 /ITA-II | Dated: 6th September, 2021 has laid down the Procedure for handling of assessment by Jurisdictional Assessing Officers in respect of assessments/penalties transferred out of Faceless Assessment u/s 144B(8) of the Income-tax Act, 1961/Faceless Penalty Scheme, 2021 respectively. The above instructions lay emphasis to continue the assessment as far as possible electronically and by taking into account the proceedings so far conducted by NFAC.

FACELESS ASSESSMENT

FUNCTIONS ALLOCATED TO JAO

- The CBDT vide F. No.173/165/2020 -ITA-I dated 14th August ,2020 has issued guidelines that the filed formation outside NFAC , will perform the following functions in faceless manner to the extent possible:-
 - a) Taxpayer outreach and taxpayer education.
 - b) Taxpayer facilitation.
 - c) Rectification proceedings.
 - d) Grievance handling.
 - e) Demand Management.
 - f) Collection and Recovery of taxes.
 - g) Audit functions including handling matters pertaining to Revenue and Internal Audit and taking remedial actions.

FACELESS ASSESSMENT

FUNCTIONS ALLOCATED TO JAO

- h) Judicial functions including giving effect to the appellate orders of CsIT (A), ITAT, High Court, Supreme. Court, Settlement commission; preparing scrutiny reports and filing of appeal wherever considered necessary; defending writ petitions; recommendation of SLPs etc.
- i) Statutory powers under section 263 / 264 of the IT Act, 1961.
- j) Prosecution and compounding proceedings and related court matters.
- k) Administrative, HRD and cadre control matters including related court
- l) Custody and management of Case records.
- m) Management and control of infrastructure.

STRUCTURE OF NATIONAL FACELESS ASSESSMENT

| UNIT | CENTER | FUNCTIONS |
|-------------------------------------|--------|--|
| National Faceless Assessment Centre | | A National Faceless Assessment Centre to facilitate the conduct of faceless assessment proceedings in a centralised manner |
| Assessment Units | | To perform the function of making assessment, which includes identification of points or issues material for the determination of any liability (including refund) under this Act, seeking information or clarification on points or issues so identified, analysis of the material furnished by the assessee or any other person, and such other functions as may be required for the purposes of making faceless assessment, and the term “assessment unit”, wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board |
| Verification Units | | To perform the function of verification, which includes enquiry, cross verification, examination of books of account, examination of witnesses and recording of statements, and such other functions as may be required for the purposes of verification and the term “verification unit”, wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board |
| | | Provided that the function of verification unit under this section may also be performed by a verification |

STRUCTURE OF NATIONAL FACELESS ASSESSMENT CENTER

| UNIT | FUNCTIONS |
|-----------------|--|
| Technical Units | To perform the function of providing technical assistance which includes any assistance or advice on legal, accounting, forensic, information technology, valuation, transfer pricing, data analytics, management or any other technical matter under this Act or an agreement entered into under section 90 or 90A, which may be required in a particular case or a class of cases, under this section and the term “technical unit”, wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board |
| Review Units | To perform the function of review of the income determination proposal assigned under sub-clause (b) of clause (xvi) of sub-section (1), which includes checking whether the relevant and material evidence has been brought on record, relevant points of fact and law have been duly incorporated, the issues requiring addition or disallowance have been incorporated and such other functions as may be required for the purposes of review and the term “review unit”, wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board |

PROCEDURE OF FACELESS ASSESSMENT PROCESS

SELECTION AND ISSUE OF NOTICE

144B(1) Notwithstanding anything to the contrary contained in any other provision of this Act, the assessment, reassessment or recomputation under sub-section (3) of section 143 or under section 144 or under section 147, as the case may be, with respect to the cases referred to in sub-section (2), shall be made in a faceless manner as per the following procedure, namely:-

- (i) the National Faceless Assessment Centre shall assign the case selected for the purposes of faceless assessment under this section to a specific assessment unit through an automated allocation system;
- (ii) the National Faceless Assessment Centre shall intimate the assessee that assessment in his case shall be completed in accordance with the procedure laid down under this section;
- (iii) a notice shall be served on the assessee, through the National Faceless Assessment Centre, under sub-section (2) of section 143 or under sub-section (1) of section 142 and the assessee may file his response to such notice within the date specified therein, to the National Faceless Assessment Centre which shall forward the same to the assessment unit;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PROCESS BY ASSESSMENT UNIT/VERIFICATION UNIT/TECHNICAL UNIT

- (iv) where a case is assigned to the assessment unit, under clause (i), it may make a request through the National Faceless Assessment Centre for-
- (a) obtaining such further information, documents or evidence from the assessee or any other person, as it may specify;
 - (b) conducting of enquiry or verification by verification unit;
 - (c) seeking technical assistance in respect of determination of arm's length price, valuation of property, withdrawal of registration, approval, exemption or any other technical matter by referring to the technical unit;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PROCESS BY ASSESSMENT UNIT/VERIFICATION UNIT/TECHNICAL UNIT

(v) where a request under sub-clause (a) of clause (iv) has been initiated by the assessment unit, the National Faceless Assessment Centre shall serve appropriate notice or requisition on the assessee or any other person for obtaining the information, documents or evidence requisitioned by the assessment unit and the assessee or any other person, as the case may be, shall file his response to such notice within the time specified therein or such time as may be extended on the basis of an application in this regard, to the National Faceless Assessment Centre which shall forward the reply to the assessment unit;

(vi) where a request,-

(a) for conducting of enquiry or verification by the verification unit has been made by the assessment unit under sub-clause (b) of clause (iv), the request shall be assigned by the National Faceless Assessment Centre to a verification unit through an automated allocation system; or

(b) for reference to the technical unit has been made by the assessment unit under sub-clause (c) of clause (iv), the request shall be assigned by the National Faceless Assessment Centre to a technical unit through an automated allocation system;

(vii) the National Faceless Assessment Centre shall send the report received from the verification unit or the technical unit, as the case may be, based on the request referred to in clause (vi) to the concerned assessment unit;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

OPPORTUNITY BEFORE BEST JUDGMENT ASSESSMENT

(viii) where the assessee fails to comply with the notice served under clause (v) or notice issued under sub-section (1) of section 142 or the terms of notice issued under sub-section (2) of section 143, the National Faceless Assessment Centre shall intimate such failure to the assessment unit

(ix) the assessment unit shall serve upon such assessee, as referred to in clause (viii), a notice, through the National Faceless Assessment Centre, under section 144, giving him an opportunity to show-cause on a date and time as specified in such notice as to why the assessment in his case should not be completed to the best of its judgment;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

OPPORTUNITY BEFORE BEST JUDGMENT ASSESSMENT

(x) the assessee shall, within the time specified in the notice referred to in clause (ix) or such time as may be extended on the basis of an application in this regard, file his response to the National Faceless Assessment Centre which shall forward the same to the assessment unit;

(xi) where the assessee fails to file response to the notice served under clause (ix) within the time specified therein or within the extended time, if any, the National Faceless Assessment Centre shall intimate such failure to the assessment unit;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

ILD, SCN AND OPPORTUNITY TO REBUT

- (xii) the assessment unit shall, after taking into account all the relevant material available on the record, prepare, in writing,-
 - (a) an income or loss determination proposal, where no variation prejudicial to assessee is proposed and send a copy of such income or loss determination proposal to the National Faceless Assessment Centre; or
 - (b) in any other case, a show cause notice stating the variations prejudicial to the interest of assessee proposed to be made to the income of the assessee and calling upon him to submit as to why the proposed variation should not be made and serve such show cause notice, on the assessee, through the National Faceless Assessment Centre;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

ILD, SCN AND OPPORTUNITY TO REBUT

(xiii) the assessee shall file his reply to the show cause notice served under sub-clause (b) of clause (xii) on a date and time as specified therein or such time as may be extended on the basis of an application made in this regard, to the National Faceless Assessment Centre, which shall forward the reply to the assessment unit;

(xiv) where the assessee fails to file response to the notice served under sub-clause (b) of clause (xii) within the time specified therein or within the extended time, if any, the National Faceless Assessment Centre shall intimate such failure to the assessment unit;

(xv) the assessment unit shall, after considering the response received under clause (xiii) or after receipt of intimation under clause (xiv), as the case may be, and taking into account all relevant material available on record, prepare an income or loss determination proposal and send the same to the National Faceless Assessment Centre;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

RISK MANAGEMENT STRATEGY AND AI TOOLS BY NFAC

(xvi) upon receipt of the income or loss determination proposal, as referred to in sub-clause (a) of clause (xii) or clause (xv), as the case may be, the National Faceless Assessment Centre may, on the basis of guidelines issued by the Board,-

(a) convey to the assessment unit to prepare draft order in accordance with the income or loss determination proposal, which shall thereafter prepare a draft order; or

(b) assign the income or loss determination proposal to a review unit through an automated allocation system, for conducting review of such proposal;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

REVIEW BY REVIEW UNIT

(xvii) the review unit shall conduct review of the income or loss determination proposal assigned to it by the National Faceless Assessment Centre, under sub-clause (b) of clause (xvi), whereupon it shall prepare a review report and send the same to the National Faceless Assessment Centre;

(xviii) the National Faceless Assessment Centre shall, upon receiving the review report under clause (xvii) forward the same to the assessment unit which had proposed the income or loss determination proposal;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

DRAFT ASSESSMENT ORDER

- (xix) the assessment unit shall, after considering such review report, accept or reject some or all of the modifications proposed therein and after recording reasons in case of rejection of such modifications, prepare a draft order;
- (xx) the assessment unit shall send such draft order prepared under sub-clause (a) of clause (xvi) or under clause (xix) to the National Faceless Assessment Centre;
- (xxi) in case of an eligible assessee, where there is a proposal to make any variation which is prejudicial to the interest of such assessee, as mentioned in sub-section (1) under section 144C, the National Faceless Assessment Centre shall serve the draft order referred to in clause (xx) on the assessee;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

FINAL ASSESSMENT ORDER

(xxii) in any case other than that referred to in clause (xxi), the National Faceless Assessment Centre shall convey to the assessment unit to pass the final assessment order in accordance with such draft order, which shall thereafter pass the final assessment order and initiate penalty proceedings, if any, and send it to the National Faceless Assessment Centre;

(xxiii) upon receiving the final assessment order as per clause (xxii), the National Faceless Assessment Centre shall serve a copy of such order and notice for initiating penalty proceedings, if any, on the assessee, along with the demand notice, specifying the sum payable by, or refund of any amount due to, the assessee on the basis of such assessment;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PROCEDURE IN THE CASE OF TP CASES

(xxiv) where a draft order is served on the assessee as referred to in clause (xxi), such assessee shall,-

(a) file his acceptance of the variations proposed in such draft order to the National Faceless Assessment Centre; or

(b) file his objections, if any, to such variations, with-

(I) the Dispute Resolution Panel, and

(II) the National Faceless Assessment Centre, within the period specified in the sub-section (2) of section 144C;

(xxv) the National Faceless Assessment Centre shall,-

(a) upon receipt of acceptance from the eligible assessee; or

(b) if no objections are received from the eligible assessee, within the period specified in sub-section (2) of section 144C, intimate the assessment unit to complete the assessment on the basis of the draft order;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PROCEDURE IN THE CASE OF TP CASES

(xxix) the assessment unit shall, in conformity with the directions issued by the Dispute Resolution Panel under sub-section (5) of section 144C, complete the assessment within the time allowed in sub-section (13) of section 144C and initiate penalty proceedings, if any, and send a copy of the assessment order to the National Faceless Assessment Centre;

(xxx) the National Faceless Assessment Centre shall, upon receipt of the assessment order referred to in clause (xxvi) or clause (xxix), as the case may be, serve a copy of such order and notice for initiating penalty proceedings, if any, on the assessee, along with the demand notice, specifying the sum payable by, or the amount of refund due to, the assessee on the basis of such assessment;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PROCEDURE IN THE CASE OF TP CASES

(xxvi) the assessment unit shall, upon receipt of intimation under clause (xxv), pass the assessment order, in accordance with the relevant draft order, within the time allowed under sub-section (4) of section 144C and initiate penalty proceedings, if any, and send the order to the National Faceless Assessment Centre;

(xxvii) where the eligible assessee files objections with the Dispute Resolution Panel, under sub-clause (b) of clause (xxiv), the National Faceless Assessment Centre shall send such intimation along with a copy of objections filed to the assessment unit;

(xxviii) the National Faceless Assessment Centre shall, in a case referred to in clause (xxvii), upon receipt of the directions issued by the Dispute Resolution Panel under sub-section (5) of section 144C, forward such directions to the assessment unit;

(xxxi) the National Faceless Assessment Centre shall, after completion of assessment, transfer all the electronic records of the case to the Assessing Officer having jurisdiction over the said case for such action as may be required under the provisions of this Act;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

COMMUNICATIONS

5) All communications,-

(i) among the assessment unit, review unit, verification unit or technical unit or with the assessee or any other person with respect to the information or documents or evidence or any other details, as may be necessary for the purposes of making a faceless assessment shall be through the National Faceless Assessment Centre;

(ii) between the National Faceless Assessment Centre and the assessee, or his authorised representative, or any other person shall be exchanged exclusively by electronic mode; and (iii) between the National Faceless Assessment Centre and various units shall be exchanged exclusively by electronic mode:

Provided that the provisions of this sub-section shall not apply to the enquiry or verification conducted by the verification unit in the circumstances as may be specified by the Board in this behalf.

PROCEDURE OF FACELESS ASSESSMENT PROCESS

PERSONAL HEARING

(vii) in a case where a variation is proposed in the income or loss determination proposal or the draft order, and an opportunity is provided to the assessee by serving a notice calling upon him to show cause as to why the assessment should not be completed as per such income or loss determination proposal, the assessee or his authorised representative, as the case may be, may request for personal hearing so as to make his oral submissions or present his case before the income-tax authority of the relevant unit;

(viii) where the request for personal hearing has been received, the income-tax authority of relevant unit shall allow such hearing, through National Faceless Assessment Centre, which shall be conducted exclusively through video conferencing or video telephony, including use of any telecommunication application software which supports video conferencing or video telephony, to the extent technologically feasible, in accordance with the procedure laid down by the Board;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

RECORDING OF STATEMENTS ETC

ix) subject to the proviso to sub-section (5), any examination or recording of the statement of the assessee or any other person (other than the statement recorded in the course of survey under section 133A) shall be conducted by an income-tax authority in the relevant unit, exclusively through video conferencing or video telephony, including use of any telecommunication application software which supports video conferencing or video telephony, to the extent technologically feasible, in accordance with the procedure laid down by the Board;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

CBDT TO PROVIDE VC FACILITIES

x) the Board shall establish suitable facilities for video conferencing or video telephony including telecommunication application software which supports video conferencing or video telephony at such locations as may be necessary, so as to ensure that the assessee, or his authorised representative, or any other person is not denied the benefit of faceless assessment merely on the consideration that such assessee or his authorised representative, or any other person does not have access to video conferencing or video telephony at his end;

PROCEDURE OF FACELESS ASSESSMENT PROCESS

STANDARD OPERATING PROCEDURES

In order to ensure uniform implementation of the Faceless Assessment and to address all practical issues , the NFAC has vide NaFAC/Delhi/CIT-1/2022-23/112/92 dated 03.08.2022 issued Standard Operating Procedure (SOP) for Assessment Unit (AU), Verification Unit (VU), Technical Unit (TU) and Review Unit (RU) under the Faceless Assessment provisions of Section 144B(6)(xi) of the Incometax Act. The said SOPs are exhaustive and comprehensive.

PROCEDURE OF FACELESS ASSESSMENT PROCESS

REVISED FORMATS AND TEMPLATES TO FACELESS ASSESSMENT UNITS

The resolve of the government can be seen from the fact that the first phase of changes in ITBA functionalities for Faceless Assessment due to amendments in Section 144B by Finance Act, 2022 have already been rolled by NFAC vide NaFAC/Delhi/CIT-I/2021-22/105 /49 | Dated 14/06/2022.

It is surprising to note nearly 30 templates such as letters to assessee, SCN, MOM of VC and reports such as Review Report, Verification Report etc have been deployed providing a high level of uniformity and efficiency in the functioning of the Faceless Assessment Units.

REASSESSMENT OF INCOME ESCAPING ASSESSMENT

BACKGROUND

- The provisions relating to reassessment of have been a potent weapon in the hands of tax administrators to bring to tax income which has escaped assessment. The reassessments have always been a matter of distrust by the tax department while the taxpayers felt it as hardship. Over the years, the law has been amended many times and has also been influenced by the decisions of various courts, but still failed to achieve the balance between the tax department and genuine taxpayers. Keeping in view the large scale of reforms of Direct Taxes and to balance the “Distrust Vs Hardship” the government has brought in sweeping amendments relating to “reassessments” through the Finance Act, 2021.
- For the sake of clarity, the provisions of Section 147,148, 149 and 151, before amendment by the Finance Act 2021, and applicable for re assessments made on or before 01.04.2021 are referred in this presentation as “old regime”.
- The provisions of Section 147,148,148A, 149 and 151 as substituted by the Finance Act, 2021 and applicable for re assessments made on or after 01.04.2021 are referred in this presentation as new regime.

REASSESSMENT OF INCOME ESCAPING ASSESSMENT

BACKGROUND

- The Finance Act 2022 has further amended the provisions relating to the new regime, that is Sections 148, 148A and 149 w.e.f. 01.04.2022. The Explanation 2 to Section 148 and first proviso to Section 149 have been amended retrospectively w.e.f. 01.04.2021, the reason and impact of which we shall discuss in the appropriate place below. New Section 148B and Section 149(1A) have been inserted w.e.f. 01.04.2022.
- Provisions of Section 150 relaxing the bar on the time limits u/s 148 or 149, in cases of appeal etc as provided therein, are not amended and remain the same both under the “old regime” and “new regime”.

SCHEME OF REASSESSMENT UNDER THE OLD REGIME

RECAP OF OLD REGIME

- If the AO has “reason to believe” that any income chargeable to tax has escaped assessment he may subject to Section 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings for the assessment year concerned. - Section 147.
- No reopening of assessment is permitted, after the expiry of four years from the end of the relevant assessment year, if (i) the assessee has filed return of income u/s 139 or 142(1) , (ii) the assessee has disclosed fully and truly all material facts necessary for his assessment for that assessment year and (iii) the assessment had been completed u/s 143(3). – First proviso to Section 147.

SCHEME OF REASSESSMENT UNDER THE OLD REGIME

RECAP OF OLD REGIME

- The expression “income chargeable to tax which has escaped assessment” was not defined anywhere. However, Explanation 2 to Section 147 listed 10 specific instances which were deemed to be income which has escaped assessment.
- The AO before making the assessment should (i) record the reasons for issuing a notice to assess or re assess or recompute the income u/s 147 and (ii) issue notice to the assessee requiring the assessee to furnish a return of income for that assessment year, which return shall be treated as a return filed u/s 139.- Section 148.

SCHEME OF REASSESSMENT UNDER THE OLD REGIME

RECAP OF OLD REGIME

- The notice u/s 148 cannot be issued beyond 4 years if the income escaping assessment is less than Rs 1 lacs and beyond 6 years if the income escaping assessment is more than Rs 1 lac. However, if the income escaping assessment relates to any asset located outside India (including financial interest in any entity) , the notice u/s 148 can be issued up to 16 years from the end of the relevant assessment year.- Section 149.
- A notice u/s 148 , can be issued by the AO up to four years from the end of the relevant assessment year, only when the Joint Commissioner is satisfied with the reasons recorded by the AO. A notice u/s 148 can be issued by the AO after four years from the end of the relevant assessment year only when Principal CIT/CCIT/ PCIT/CIT is satisfied with the reasons recorded by the AO.- Section 151.

SCHEME OF REASSESSMENT UNDER THE OLD REGIME

RECAP OF OLD REGIME

- The assessee is required to file a return of income in response to the notice u/s 148 within the time limit as per the notice. Once a return is so filed the assessee can ask the AO to provide him the “ reasons recorded in writing”. The assessee can thereafter entitled to challenge the re opening of assessment as not valid . The AO is required to dispose off such preliminary objections and then only proceed with the assessment. The above said right was granted by the Honourable Supreme Court , though the same is not provided under the statutory provisions, in the case of GKN Driveshafts (India) Ltd. vs. ITO 259 ITR 19 (SC).
- The AO is required to complete the re opened assessment, taking into account all the relevant materials, within the time limit prescribed u/s 153.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

NEW REGIME-W.E.F 01.04.2022

- If any income chargeable to tax has escaped assessment for any assessment year, the AO, may subject to the provisions of Section 148 to 153, assess or reassess such income recompute the loss or depreciation or any other allowance or deduction. - Section 147.
- The reopening of assessment is initiated by issue of notice u/s 148 requiring the assessee to furnish a return of income in respect of his income chargeable to tax , as if such return was required to be furnished u/s 139. – Section 148

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

INFORMATION AND INQUIRY BEFORE ISSUE OF NOTICE

- It is pertinent to note that under the new regime, as provided by the first proviso to Section 148, the notice u/s 148 can be issued only if there is “information with the AO which suggests that the income chargeable to tax has escaped assessment”.
- However, before issue of notice u/s 148 , the AO has to conduct an Inquiry, provide opportunity to the assessee and decide that it is a fit case for issue of notice u/s 148 , as provided by the newly inserted Section 148A.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

INFORMATION AND INQUIRY BEFORE ISSUE OF NOTICE

“Conducting inquiry, providing opportunity before issue of notice under section 148.

148A. The Assessing Officer shall, before issuing any notice under section 148,-

- (a) conduct any enquiry, if required, with the prior approval of specified authority, with respect to the information which suggests that the income chargeable to tax has escaped assessment;
- (b) provide an opportunity of being heard to the assessee, 2[****], by serving upon him a notice to show cause within such time, as may be specified in the notice, being not less than seven days and but not exceeding thirty days from the date on which such notice is issued, or such time, as may be extended by him on the basis of an application in this behalf, as to why a notice under section 148 should not be issued on the basis of information which suggests that income chargeable to tax has escaped assessment in his case for the relevant assessment year and results of enquiry conducted, if any, as per clause (a); (c) consider the reply of assessee furnished, if any, in response to the show-cause notice referred to in clause (b); (d) decide, on the basis of material available on record including reply of the assessee, whether or not it is a fit case to issue a notice under section 148, by passing an order, with the prior approval of specified authority, within one month from the end of the month in which the reply referred to in clause (c) is received by him, or where no such reply is furnished, within one month from the end of the month in which time or extended time allowed to furnish a reply as per clause (b) expires:

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

INFORMATION AND INQUIRY BEFORE ISSUE OF NOTICE

The enquire etc u/s 148A as above is not applicable to the following cases which are considered as “deemed escapement of income”, under explanation 2 to section 148:

(a) a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A in the case of the assessee on or after the 1st day of April, 2021; or

(b) the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner that any money, bullion, jewellery or other valuable article or thing, seized in a search under section 132 or requisitioned under section 132A, in the case of any other person on or after the 1st day of April, 2021, belongs to the assessee; or (c) the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner that any books of account or documents, seized in a search under section 132 or requisitioned under section 132A, in case of any other person on or after the 1st day of April, 2021, pertains or pertain to, or any information contained therein, 3[relate to, the assessee; or

(d) the Assessing Officer has received any information under the scheme notified under section 135A pertaining to income chargeable to tax escaping assessment for any assessment year in the case of the assessee.]

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

INFORMATION AND INQUIRY BEFORE ISSUE OF NOTICE

- The procedure laid down u/s 148A is an important safeguard to the assessee before the assessment is reopened. The principle of natural justice is fully taken care of since the assessee gets an opportunity to explain its case, and the AO is bound to decide on the contentions of the assessee, before issuing the notice of re assessment.
- Further, this would also avoid reckless reopening of assessments merely on the basis of “reasonable belief” of the AO, since under the new regime the basis of reopening of assessment shall be “Information with the AO which suggests that income chargeable to tax has escaped assessment”. There has to be tangible “Information with the AO” as opposed to “reasonable belief of the AO”

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

APPROVALS BY HIGHER AUTHORITIES

- It is noteworthy that both conducting of an inquiry u/s 148A(a) and passing of order u/s 148 A(d) require the prior approval of the Specified authority u/s 151. Similarly issue of notice u/s 148 also requires the prior approval of the specified authority. For these purposes specified authority means –
 - In case of reopening in less than 3 years, Principal Commissioner/ Principal Director/ CIT/ Director;- In case of reopening after 3 years, Principal Chief Commissioner/ Principal Director General/ CCIT/DG.

Thus the reopening of assessments have been made stringent with prior approval of higher authorities at every stage .

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

MEANING OF INCOME ESCAPING ASSESSMENT

- The expression “ Information with the AO.....assessment” has been defined in Explanation 1 to Section, extracted as below :

“ Explanation 1.-For the purposes of this section and section 148A, the information with the Assessing Officer which suggests that the income chargeable to tax has escaped assessment means,- (i) any information ~~flagged~~ in the case of the assessee for the relevant assessment year in accordance with the risk management strategy formulated by the Board from time to time; (ii) any audit objection to the effect that the assessment in the case of the assessee for the relevant assessment year has not been made in accordance with the provisions of this Act; or (iii) any information received under an agreement referred to in section 90 or section 90A of the Act; or (iv) any information made available to the Assessing Officer under the scheme notified under section 135A; or (v) any information which requires action in consequence of the order of a Tribunal or a Court.”

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

MEANING OF INCOME ESCAPING ASSESSMENT

DEEMED ESCAPMENT OF INCOME

- Explanation 2 to Section 148 providing for deemed escapement of income is also relevant, extracted as below :

“ Explanation 2.-For the purposes of this section, where,-

- (i) a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A, on or after the 1st day of April, 2021, in the case of the assessee; or (ii) a survey is conducted under section 133A, other than under sub-section (2A) of that section, on or after the 1st day of April, 2021, in the case of the assessee; or
- (iii) the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner, that any money, bullion, jewellery or other valuable article or thing, seized or requisitioned under section 132 or under section 132A in case of any other person on or after the 1st day of April, 2021, belongs to the assessee; or

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

MEANING OF INCOME ESCAPING ASSESSMENT

(iv) the Assessing Officer is satisfied, with the prior approval of Principal Commissioner or Commissioner, that any books of account or documents, seized or requisitioned under section 132 or section 132A in case of any other person on or after the 1st day of April, 2021, pertains or pertain to, or any information contained therein, relate to, the assessee,

the Assessing Officer shall be deemed to have information which suggests that the income chargeable to tax has escaped assessment in the case of the assessee [where] the search is initiated or books of account, other documents or any assets are requisitioned or survey is conducted in the case of the assessee or money, bullion, jewellery or other valuable article or thing or books of account or documents are seized or requisitioned in case of any other person “

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

TIME LIMITS FOR REOPENING

Another significant change under the new regime is the revamped time limits for reopening of assessments. New section 149 lays down the time limit for issue of notice u/s 148, the relevant portion of which is extracted below :

“ Time limit for notice.

149. (1) No notice under section 148 shall be issued for the relevant assessment year,-
(a) if three years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b) if three years, but not more than ten years, have elapsed from the end of the relevant assessment year unless the Assessing Officer has in his possession books of account or other documents or evidence which reveal that the income chargeable to tax, represented in the form of-(i) an asset;(ii) expenditure in respect of a transaction or in relation to an event or occasion; or
(iii) an entry or entries in the books of account which has escaped assessment amounts to or is likely to amount to fifty lakh rupees or more”

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

TIME LIMITS FOR REOPENING

Provided that no notice under section 148 shall be issued at any time in a case for the relevant assessment year beginning on or before 1st day of April, 2021, if [a notice under section 148 or section 153A or section 153C could not have been issued at that time on account of being beyond the time limit specified under the provisions of clause (b) of sub-section (1) of this section or section 153A or section 153C, as the case may be], as they stood immediately before the commencement of the Finance Act, 2021: (1st proviso to section 149(1))

- It is to be noted that clauses (ii) and (iii) of 149 (1) (b) as above, that is the cases of income escaping assessment represented by expenditure/ books of accounts have been added by the Finance Act, 2022 w.e.f. 01.04.2022. Prior to that only the case of asset was included by the Finance Act, 2021 w.e.f. 01.04.2021. Hence, for the AY 2021-22 the higher time limit of 10 years would not be applicable in respect of income escaping represented by expenditure/ entries in books of accounts. In any case the time limit would be only 6 years for the AY 2021-22 in view of the grandfathering under first proviso to Section 149, as discussed in the next point.
- It is to be noted that the maximum time limit for reopening assessment under the old regime was 6 years, whereas it has been enhanced to 10 years under the new regime if the income escaping assessment is more than 50 lacs. In order to provide a level playing field in respect of assessments prior to 01.04.2021 a grandfathering provision has been made to the effect that in respect of AY 2021-22 and any assessment year prior to that the maximum time limit shall be only 6 years. In effect this means that the assessment of any assessment year up to AY 2021-22 can be reopened , even under the new regime, only up to 6 years from the end of the relevant assessment year.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

TIME LIMITS FOR REOPENING

- Similarly in respect of Search conducted on or before 31st March, 2021, the reopening has to be done only under Section 153A/153C, which is restricted to 6 years.
- It is significant to note that no separate time limit for foreign assets , as existed under the old regime, has been prescribed u/s 149. This means that even in respect of foreign assets the time limit for reopening will be maximum 10 years from the end of the assessment year.
- If the investment in an asset or expenditure relating to income escaping assessment has been made in more than one year, then the notice u/s 149 for each of the relevant years in which the investment has been made or expenditure has been incurred.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

TIME LIMITS FOR REOPENING

- This would also mean that even if the income escaping assesment in each year is less than Rs 50 lacs but aggregates to more than 50 lacs , then the higher time limit of 10 years would be available. This is so because Section 149(1A) specifically provides so notwithstanding anything contained in Section 149(1).
- Time limit prescribed under section 149 of the Act shall exclude, the time or extended time allowed to the assessee to respond to show cause notice under section 148A(b); and any period during which the proceedings under section 148A are stayed by an order of any Court. If after excluding the aforesaid period, time available for passing order under section 148A(d) is less than 7 days, the remaining time shall be deemed to be extended to 7 days.
- The newly inserted Section 148B mandates that in Search and Survey cases, or cases arising out of Search and Survey (Deemed Information under Explanation 2 to Section 148) the assesment order u/s 147 can be made by an officer below the rank of JCIT only with the prior approval of Additional CIT or Additional Director or JCIT or Joint Director.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

IN A NUTSHELL,

“ Reason to believe “ has been dropped from Section 147. Hence any “ income which has escaped assesment” is now subject to reassessment.

Under the old regime before issue of notice only “ reason is to be recorded in writing”. Under the new regime there things are required :

- i) Information that income chargeable to tax has escaped assessment, which is fully centralised without any discretion to AO;
- ii) Procedure laid down u/s 148A has to be followed ; and
- iii) Prior approval of specified higher authority is to be obtained at every stage.

SCHEME OF REASSESSMENT UNDER THE NEW REGIME

The general time limit for issue of notice of reopening has been reduced to 3 years . A higher time limit of 10 years is available if the income escaping assessment is represented in the form of an asset/expedntiure in respect of a transaction or in relation to an event or occasion / or an entry in the book=s of account, and in all the above cases the income escaping assessment exceeds Rs 50 lacs.

The controversy regarding validity of the notices issued from 01.04.2021 to 30.06.2021, based on the general extension of time given by CBDT, is now resolved in view of the decision and directions of the Honourable Supreme Court in the case of Union of India Vs Ashish Agarwal (2022 SCC Online SC 543) and the CBDT Instruction no 1/2022 dated 11th May, 2022, issued to implement the same.

CONCLUSION

The effort of the tax department in bringing in transparency and efficiency, deployment of technology and speed of execution in legislating and implementing the legislation has resulted in the consistent high levels of Tax Collections despite the pandemic. We as professionals should match our efforts in equal measure and contribute to serving our clients with Integrity and be partners in Nation Building.

Technical Session - III

Topice : Automation for Small and
Medium Firms



CA. Premnath D
Hyderabad



**CA. Siva Prasad
Annavaarapu**
Guntur



CA. Saran Kumar U
Hyderabad

..for a
Better Practice

Digitization of CA Practice

CA D Premnath, Hyderabad
premnathd@gmail.com
9347556771

Session objective

“To use appropriate technology to provide effective tools for providing effective timely services to our clients.”

Is ICAI code & Standards applicable only for corporate clients/assurance engagements

<https://www.icaai.org/Resources.html?mod=3>

A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he

– Clause (7): does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

<https://resource.cdn.icaai.org/60018code-of-ethics-2020vol2.pdf>

Let's discuss

Pain Points Vs Pain killers

STRATIFICATION OF CA ACTIVITIES

| CA Activities | Tools |
|--|--|
| Transactions – Accounting – FS – Audit – Tax – Appeals | Pain of Data entry - Accounting Apps, Spreadsheets |
| FS – Analytics - Audit | Pain of redundancy/duplication – Spreadsheet |
| Taxations | Pain of Data entry - Apps |

- Based on combination of clients profile portfolio combination of products have to be preferred. Ideally reduce redundancy.
- Redundancy – Tax data in Excel, FS in excel and in tally, Reconciliation in tally and excel, Tax in apps, excel and multiple excels
- Slow and steady to adopt and develop new products no hurry
- Move into one platform or integrate – Excel to&fro Tax Apps to&fro Accounting

Exponential Risk Exposure

- **Conscious documentation protects or else digital footprints prove non compliance**
- **Integrated Information digital foot prints – Challenge & opportunities**
- **Surveillance through data integration**
- **Non Compliance to Ethical, Technical & Professional Standards**
- **Weak firm policies & procedures – Unstructured**
- **Weak Standard Quality Controls – Clients expectations**
- **Client's attitudes & behaviour**
- **Competition**

My Office Tools Vs Powerful Regulators

Client Tech Vs CA Tech Vs Govt Tech



August 22, 20

n., FCA 7

NFRA - AQR - ILFS FINANCIAL SERVICES LIMITED 2017-18 OF (IFIN)

“A key assertion that is made in this paragraph is that the audit was conducted in accordance with the SAs”; and that “If during a subsequent review of the audit process, it is found that some of the audit procedures detailed in the SAs were not in fact complied with, it may tantamount to the auditor making a deliberately false declaration in his report and the consequences for the auditor could be very serious indeed” (emphasis added).

Word “Failed” used 36 times

NFRA has also extensively studied the IT pr for their Audit File documentation. NFRA deficiencies that are systemic and structural in nature and arise from a complete disregard for basic principles of IT security in the software used. This makes the audit documentation completely unfit for the intended purpose.

“Professional skepticism” 16 times

“SA” referred 129 times

DHS
have

NFRA EXPERIENCE IN AUDIT QUALITY REVIEW

SA 240 – Pg 80

SA 200 – Professional Skepticism – Pg 73

SA 230 – Pg 141

SA 250 – Pg 140

SA 500, 530 – Pg 134

SA 705 – Pg 131

SA 560, 570 – Pg 127

SA 520 – Pg 105

SA 315 – Pg 111

SA 320 – Pg 93

SA 200 – Pg 100

SA 620 – Pg 71

SA 550 – Pg 41 - 45

**Management Estimations &
Judgements – Pg 55**

SC Judgement Amrapali Case

Pg 3 – Accounting Packages

Pg 3 – Auditors List

Pg 3 – Non Genuine Purchases

Pg 5 – Bogus Expenses

Pg 7 – Unsupported Cash Expenses

Pg 10 – Overstated Liabilities

ICAI DC

SHRI T.P. KRISHNA KUMAR, DIRECTOR OF INCOME TAX
(INVESTIGATION), KOCHI VS. CA. XXXXXXXX PARTNER M/S
XXXXXXXXXXXX, KOTTAYAM

- With respect to non-reporting in tax audit report u/s 44AB of the Income Tax Act, 1961 regarding violations of the provisions of Section 40A(3) involving expenditure exceeding Rs.20,000 otherwise than by crossed cheque. The client accepted the violation and paid the tax.
- The respondent has failed to bring the records of working papers in relation to software used for tracing of cash payments.
- Further no documentation for test checks conducted by him for verification of cash 20000 above payments.

CA DEFECTIVES

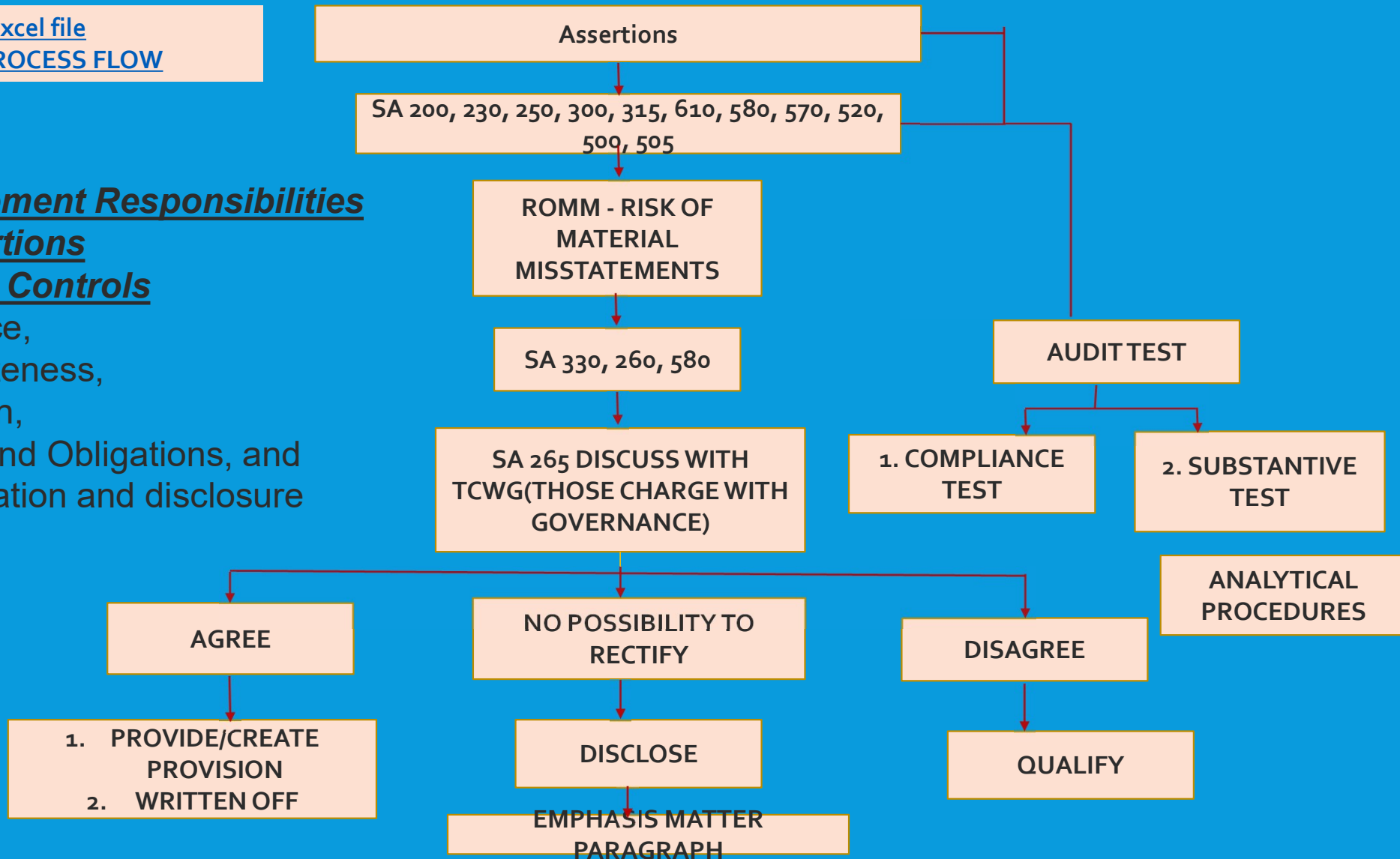
- Auditor's Independence
- Risk of Material Misstatement
- Communication with those charged with governance
- Going Concern
- Related Party Transactions
- Professional skepticism
- Sufficient Appropriate Audit Evidence
- Internal Controls
- Audit Documentation
- Engagement Quality Control Review (EQCR)

[Demo – Excel file](#)
AUDIT PROCESS FLOW

Management Responsibilities & Assertions

Internal Controls

Existence,
Completeness,
Valuation,
Rights and Obligations, and
Presentation and disclosure



AUDIT RISK & CONTROLS – EXTENT OF SYSTEM INTEGRATED AUDIT PROCEDURES

Planning

- Understand Scope
- Training
- Role Mapping

Execution

- Physical
- System
- System + Physical

Documentation

- Working Papers
- Reconciliation

Reporting

- SA700
- CARO
- IFC
- Others







TRADITIONAL APPROACH OF CA ACTIVITIES

| Causes & Challenges | Effect | Remediation |
|--|---|---|
| <p>Unstructured Workflow</p> <p>Dependence on skill of Audit Assistant</p> <p>Revisiting same work and working papers</p> <p>Communication Gaps and Time lapse</p> <p>Errors in copy and paste</p> <p>Limited knowledge of support staff in Standards of Auditing</p> <p>Data segregation, purging and storage</p> | <p>Impact quality</p> <p>Reputation</p> <p>Challenges in developing or structuring templates</p> <p>Training challenges</p> <p>Retaining man power</p> <p>Documentation challenges</p> <p>Data redundancy</p> | <p>Digitisation of process</p> <p>Structuring the unstructured</p> <p>Training</p> <p>Retaining man power</p> <p>Developing an ERP for all activities under one platform</p> <p>Knowledge sharing platforms</p> <p>Cloud versions</p> |


DIGITIZATION OF CA PRACTICE

| CA Activities | Tools |
|----------------------|---|
| Client Boarding | Tax app – single app – structured xl/googlesheet/cloud |
| Vouching | DMS, Google drive, onedrive, Tally, SAP |
| Verification | Zoho, Google, onedrive |
| Ledger Scrutiny | Tally, Ledger Vision, Spreadsheet |
| Analytics | Zohoone, Google sheet, Excel |
| Opinion Formation | Apps, spreadsheet |
| Reporting | Word, Mail merge, Excel |
| Documentation | Apps, Excel, PDF |
| Compliance Practice | Taxmann, Computax, Genius, Winman, etc |
| Integration of tools | Excel to&fro tally, Excel to&fro Tax software, anyaudit |
| Financial Reporting | Accounting Apps, Config management-ledger vision fusion |

Pain of Ledger Scrutiny/analysis


← → ↻ <https://ledgervision.in/features/>      

CTST Commentary - TaxA...

 [OVERVIEW](#) [FEATURES](#) [REPORTS](#) [RELEASES](#) [PRICING](#) [TEAM](#) [BLOGS](#) [FAQ](#) [LEDGERFUSION](#) [TRY IT FREE](#)


OUR FEATURES

Connect to tally 125 analysis is done in less than 2 minutes




Super Fast

Scrutiny Time Reduced from Days to Minutes




Secured Data

Run Scrutiny on your machine. Data remains within your IT setup




Seamless Tally Integration

No need to Export Data as Data is pulled using Tally Web Services




Scalable

Scrutiny can be done for any number of tally companies



Rules Coverage







125+ Accounting Principles are checked by our Rule Engine




Configurable

Configure Scrutiny as per your Accounting Style. Configuration can be reused in future scrutiny runs.

Pain of Sch III compilation

← → ↻ <https://ledgervision.in/contact/ledgerfusion/>      

CTST Commentary - TaxA...

 OVERVIEW FEATURES REPORTS RELEASES PRICING TEAM BLOGS FAQ **LEDGERFUSION** [TRY IT FREE](#)

Schedule 3 Automation Tool

Prepare Consolidated and Individual Balance Sheet in Schedule3, Firm etc. Format.

Try LedgerFusion

**Trial Version is Valid for 7 Days.*

Features:

- Automatic Preparation of Balance Sheet and Profit & Loss Account
- Automatic Preparation of Schedules, Notes, Annexures, Cash Flow etc.
- Tally Data is imported seamlessly into this tool
- Depreciation as per companies / income tax Act

Connect to tally within 5 minutes SCH III is prepared without manual support

Can Technical & Professional Standards be codified for system preventive controls



SAs – engagement - data collection – validation – analysis – observation – communication – reporting









Code/SQC – Independence - quality






Formats


SAs – engagement - data collection – validation – analysis – observation – communication – reporting - document

← → ↻ crococ.anyaudit.in/Navigation      


CTST Commentary - TaxA...


LOGGED IN USER : PREMNAH D


-- Select Assignment to work-- 


Latest Updates


What are you searching for? 


- My Office
- Assignment Management
- Office Management
- MIS Reports
- Settings


0 
Total Assignments


0 
My Favourites


0 
Milestones Due

0 
Milestones overdue

0 
Today Plans


0 
Plans Overdue

0 
Pending as Doer

0 
Pending as Approver

< Aug 2022 >

| SUN | MON | TUE | WED | THU | FRI | SAT |
|-----|-----|-----|-----|-----|-----|-----|
| 31 | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |



SAs – engagement - data collection – validation – analysis – observation – communication – reporting - documentation

← → ↻ crococa.anyaudit.in/Navigation

CTST Commentary - TaxA...

Command

LOGGED IN USER : PREMNATH D

-- Select Assignment to work--

SETTINGS

| | | |
|----------------------------------|---|--------------------------|
| Subscription Settings | ▪ Year | ▪ Checklist Rule |
| ▪ Market place | ▪ Publisher | ▪ Analytics Rules |
| ▪ Domain Logo | Financial Statement,Line Masters | ▪ Milestone - conPacks |
| ▪ Branch Office | ▪ BS Line items: Primary GAAP | ▪ Configuration Template |
| User Settings | ▪ BS Line items under Second GAAP | Audit Masters |
| ▪ Users | ▪ BS Line items: Additional GAAP | ▪ Financial Year |
| ▪ Groups Permissions for User | ▪ Shares | ▪ Audit Impacts |
| ▪ Permissions - Groups | ▪ ShareHolders | ▪ Audit Assertions |
| ▪ Contact Groups | ▪ Capacity and Processing | ▪ Standard Texts |
| ▪ Activity Permissions for Users | ▪ Remittance in Foreign Currency on account of Dividend | ▪ Classifier |
| ▪ Contact | ▪ Deferred Tax Assets/ Liabilities | ▪ Type of Risk |
| | | ▪ Type of Control |

0 Milestones overdue

0 Pending as Approver

RI SAT

5 6

12 13




14 15 16 17 18 19 20

<https://crococa.anyaudit.in/Accountingheads/accountingheads>

SAs – engagement - data collection – validation – analysis – observation – communication – reporting- documentation

← → ↻ 🔒 crco.anyaudit.in/Navigation

CTST Commentary - TaxA...

 Command   0

LOGGED IN USER : PREMNAH D

-- Select Assignment to work--

SETTINGS

| | | |
|---|----------------------------------|---------------------------------------|
| ▪ Users Groups | Selected Tax Assets/ Liabilities | ▪ Type of Control |
| ▪ External Users | ▪ Employee Benefits | ▪ Nature of Risk |
| Library/Assets/Files: Masters | Audit Tool Settings | ▪ Other Expert Agencies |
| ▪ Book-Category/SubCategory | ▪ CheckLists | ▪ Attachment Category |
| ▪ Asset-Category/SubCategory | ▪ Questionnaires | ▪ Master Variable |
| ▪ Add Subject | ▪ Agreements | ▪ Timelines |
| ▪ Add Location | ▪ Compliance Calendar | ▪ Clusters |
| ▪ Add Booksize | ▪ Accounting Policies | ▪ Standard text templates |
| ▪ Add Docket | ▪ Conditions | ▪ Accounting Heads |
| ▪ Add Docket Category-Document Category | ▪ Decisions | ▪ Leave Types |
| ▪ Storage | ▪ Reports | ▪ Relationship Types |
| | ▪ Annexures | ▪ Plan without Performance Report For |

0 Milestones overdue






0 Pending as Approver

Settings SAT




5 6

12 13

SAs – engagement - data collection – validation – analysis – observation – communication – reporting- documentation

← → ↺ crocacountyaudit.in/Navigation     

CTST Commentary - TaxA...

LOGGED IN USER : PREMATH D

-- Select Assignment to work--

REPORTS

Signment Reports

- Milestone Report
- Cluster Report
- Milestones Due Next week Report
- Milestones Overdue
- Assignment for Plans And Performance Report
- Day wise Plan Report
- Day wise Performance Report
- Plans without Performance
- Performance to be Approved

Office Reports

- Approval Report
- Bills to be Raised Report
- Pending Bills Report
- Asset Movement Report
- Not Available Assets
- Library Movement Report
- Not Available Books
- Docket Movement Report
- Not Available Dockets

User Reports







- Meeting Report
- Closed Assignments with No Bills Report
- Open Assignments
- Assignment Closed
- Login Approval Dailysheets Report
- Leave Report
- Team Dailysheet
- Snapshot of Myoffice

0 Milestones overdue




0 Pending as Approver

14 15 16 17 18 19 20


SAs – engagement - data collection – validation – analysis – observation – communication – reporting- documentation

← → ↻ crococ.anyaudit.in/Navigation      


CTST Commentary - TaxA...


 Command  


LOGGED IN USER : PREMNATH D


-- Select Assignment to work-- 


Latest Updates


What are you searching for? 

0 Total Assianments 

0 My Favouites 

0 Milestones Due 

0 Milestones overdue 

0 Pending as Approver 


MY OFFICE

- My Office
 - My Assignments
 - My Milestones
- My Plans
- My Score
- My DailySheet
- My Communication







Settings

Aug 2022




| SUN | MON | TUE | WED | THU | FRI | SAT |
|-----|-----|-----|-----|-----|-----|-----|
| 31 | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |



SAs – engagement - data collection – validation – analysis – observation – communication – reporting- documentation

← → ↺ crococ.anyaudit.in/Navigation      

CTST Commentary - TaxA...

LOGGED IN USER : PREMNATH D

-- Select Assignment to work--

What are you searching for?

My Office

0 Total Assignments

0 My Favourites

0 Milestones Due

0 Milestones overdue


0 Pending as Approver

OFFICE MANAGEMENT

- Office Management
 - Broadcast
 - Bill Received
 - Bill Paid
 - Expiry Remainder
 - Vault
 - UDIN
 - Library
 - Asset
 - Document Management System
 - PFM
 - Docket Creation
 - Plan & Performance
 - Call Log
 - Event
 - Leave
 - SMS
 - Todo

7 8 9 10 11 12 13

14 15 16 17 18 19 20



Finally Let us do what systems can't do

- In the absence of standard SOP, highly skilled qualified are doing standard jobs
- Highly skilled qualified are carrying out routine structured jobs like analysis, data entry, etc., which system can handle
- Banks employee non commerce staff for all routine tasks by computerising SOP, hence majority of staff are non commerce staff due to standardisation
- Develop SOP for each specific firm profile of activities as per ICAI standards
- Develop App as per SOP with proper config as per IS standards
- Train manpower
- Go live
- Keep tab on continuous updation

SOP developed as per SAs – engagement - data collection – validation – analysis – observation – communication – reporting- documentation, now integrated APP is ready for implementation.

Automation for Small & Medium Firms

by

CA Saran Kumar U

saran@chaireturn.com

+91 702-234-5678

Date: 19th August 2022

Data Storage and Retrieve

- On-site Server vs Cloud Server

Cloud Servers:

- Google Drive
- One Drive
- Drop Box

Data Analysis Tools

1. Microsoft Excel
2. Power BI
3. Tableau
4. Qlick View
5. IDEA
6. ACL
7. R & Python
8. SAS
9. KNIME
10. AlteryX



Microsoft Excel Latest Features

1. Data Types
2. Analyse
3. Pivot Tables
4. New Functions
 1. LET()
 2. HSTACK()
 3. VSTACK()
 4. UNIQUE()
 5. FILTER()
 6. UNIQUE()
 7. STOCKHISTORY()

The screenshot shows an Excel PivotTable with the following structure:

- Page/Filter Field:** CATEGORY (All)
- Data Field:** Sum of AMOUNT
- Row Field:** Product
- Column Field:** Customer

The data is organized into four columns: A&B Supermarkets, Big Foods, and Food Land. The rows list various products and their corresponding amounts.

| | Product | A&B Supermarkets | Big Foods | Food Land |
|----|-------------------------------|------------------|--------------|--------------|
| 6 | Camembert Pierrot | \$ 21,600.00 | \$ 12,872.00 | \$ 13,146.00 |
| 7 | Gnocchi di nonna Alice | \$ 13,500.00 | \$ 11,488.00 | \$ 18,204.00 |
| 8 | Gustaf's Knäckebröd | \$ 8,986.00 | \$ 12,865.00 | \$ 10,540.00 |
| 9 | Mascarpone Fabioli | \$ 19,300.00 | \$ 14,524.00 | \$ 14,502.00 |
| 10 | Mozzarella di Giovanni | \$ 26,558.00 | \$ 17,816.00 | \$ 19,466.00 |
| 11 | Singaporean Hokkien Fried Mee | \$ 17,756.00 | \$ 9,383.00 | \$ 7,920.00 |
| 12 | Wimmers gute Semmelknödel | \$ 7,671.00 | \$ 8,530.00 | \$ 13,314.00 |

Legend:

- Page/Report Filter Area (Red box)
- Row Axis Area (Blue box)
- Column Axis Area (Orange box)
- Data Area (Green box)

Automation for Small & Medium Firms

by

CA Saran Kumar U

saran@chaireturn.com

+91 702-234-5678

Date: 19th August 2022

Data Storage and Retrieve

- On-site Server vs Cloud Server

Cloud Servers:

- Google Drive
- One Drive
- Drop Box

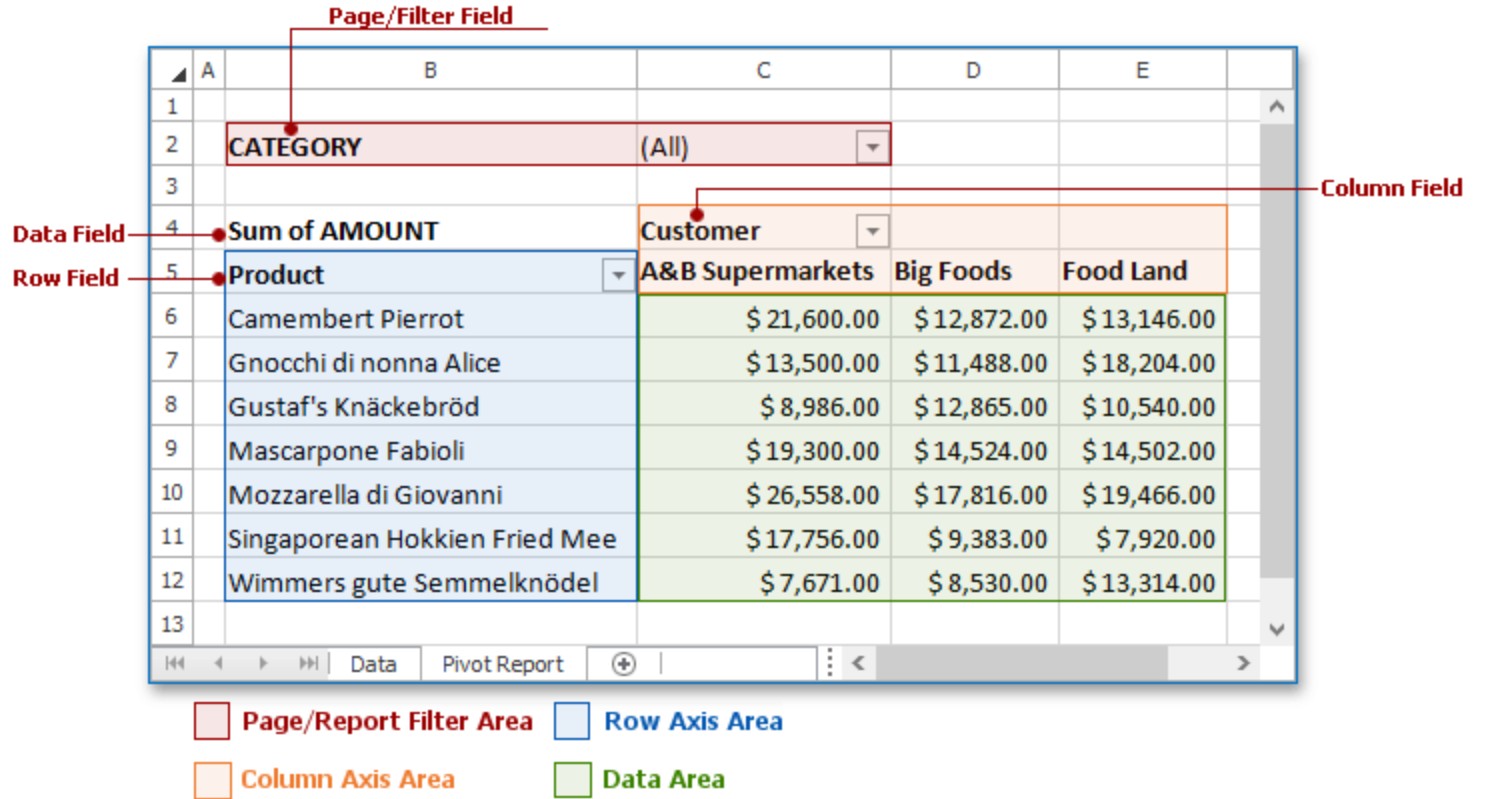
Data Analysis Tools

1. Microsoft Excel
2. Power BI
3. Tableau
4. Qlick View
5. IDEA
6. ACL
7. R & Python
8. SAS
9. KNIME
10. AlteryX



Microsoft Excel Latest Features

1. Data Types
2. Analyse
3. Pivot Tables
4. New Functions
 1. LET()
 2. HSTACK()
 3. VSTACK()
 4. UNIQUE()
 5. FILTER()
 6. UNIQUE()
 7. STOCKHISTORY()



Annotations in the image:

- Page/Filter Field:** CATEGORY (All)
- Data Field:** Sum of AMOUNT
- Row Field:** Product
- Column Field:** Customer

| | Product | A&B Supermarkets | Big Foods | Food Land |
|----|-------------------------------|------------------|--------------|--------------|
| 6 | Camembert Pierrot | \$ 21,600.00 | \$ 12,872.00 | \$ 13,146.00 |
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Legend:

- Page/Report Filter Area (Red)
- Row Axis Area (Blue)
- Column Axis Area (Orange)
- Data Area (Green)

ETL Concept



Extract

Retrieves and verifies data
from various sources



Transform

Processes and organizes
extracted data so it is usable



Load

Moves transformed data
to a data repository

General Audit Software

- IDEA
- ACL

Features:

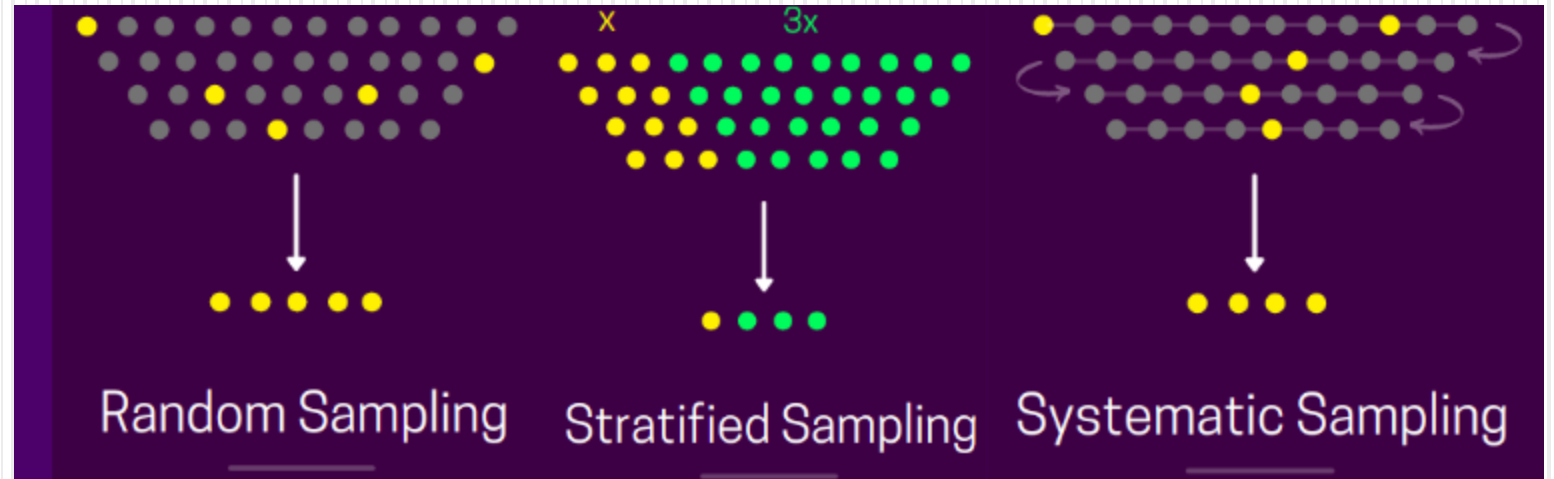
- GAP Detection
- Sampling
- Benford's Law

The screenshot displays the CaseWare IDEA software interface. The main window shows a data table titled 'Sample-Detailed Sales'. The table has columns for INV_NO, INV_DATE, SALESREP_NO, CUSTNO, PROD_CODE, UNIT_PRICE, QTY, SALES_BE_TAX, SALES_TAX, and SALES_PLUS_TAX. The data is organized into rows, with the first row highlighted in yellow. The interface includes a menu bar at the top with options like File, Home, Data, Analysis, View, Macros, SmartAnalyzer, and IDEAScripts. A toolbar below the menu bar contains various icons for data manipulation and analysis. On the left side, there is a 'File Explorer' pane showing a tree view of the project structure, including folders like 'Sample-Advanced Statistical ...', 'Sample-Authorization', 'Sample-Bank Transactions', 'Sample-Customers', 'Sample-Detailed Sales', 'Sample-Detailed Sales Previou...', 'Sample-Employees', 'Sample-Inventory', 'Sample-Payments', 'Sample-Sales Representatives', 'Sample-Suppliers', and 'Sample-Weblog'. The status bar at the bottom indicates 'Managed Project: Samples', 'Not connected to IDEA Server', 'Number of Records: 900', and 'Disk Space: 495.56 GB'.

| | INV_NO | INV_DATE | SALESREP_NO | CUSTNO | PROD_CODE | UNIT_PRICE | QTY | SALES_BE_TAX | SALES_TAX | SALES_PLUS_TAX |
|----|---------|------------|-------------|--------|-----------|------------|------|--------------|-----------|----------------|
| 1 | 1000047 | 21/07/2011 | 101 | 21254 | 05 | 5.99 | 72 | 431.28 | 43.13 | 474.41 |
| 2 | 1000054 | 17/03/2011 | 101 | 21256 | 05 | 5.99 | 63 | 377.37 | 37.74 | 415.11 |
| 3 | 1000115 | 10/06/2011 | 101 | 21257 | 05 | 5.99 | 1209 | 7,241.91 | 724.19 | 7,966.10 |
| 4 | 1000171 | 30/05/2011 | 101 | 21274 | 05 | 5.99 | 250 | 1,497.50 | 149.75 | 1,647.25 |
| 5 | 1000199 | 18/03/2011 | 101 | 21285 | 05 | 5.99 | 435 | 2,605.65 | 260.57 | 2,866.22 |
| 6 | 1000219 | 25/04/2011 | 101 | 21304 | 05 | 5.99 | 360 | 2,198.33 | 219.83 | 2,418.16 |
| 7 | 1000254 | 04/03/2011 | 101 | 21330 | 05 | 5.99 | 700 | 4,193.00 | 419.30 | 4,612.30 |
| 8 | 1000256 | 29/05/2011 | 101 | 21339 | 05 | 5.99 | 250 | 1,497.50 | 149.75 | 1,647.25 |
| 9 | 1000448 | 19/06/2011 | 101 | 21340 | 05 | 5.99 | 8 | 47.92 | 4.79 | 52.71 |
| 10 | 1000617 | 22/12/2011 | 101 | 21341 | 05 | 5.99 | 168 | 1,006.32 | 100.63 | 1,106.95 |
| 11 | 1000666 | 01/09/2011 | 101 | 21342 | 05 | 5.99 | 250 | 1,497.50 | 149.75 | 1,647.25 |
| 12 | 1000732 | 26/09/2011 | 101 | 21395 | 05 | 5.99 | 63 | 377.37 | 37.74 | 415.11 |
| 13 | 1000766 | 15/12/2011 | 101 | 21400 | 05 | 5.99 | 58 | 347.42 | 34.74 | 382.16 |
| 14 | 1000772 | 30/06/2011 | 101 | 21402 | 05 | 5.99 | 101 | 604.99 | 60.50 | 665.49 |
| 15 | 1000852 | 22/12/2011 | 101 | 21403 | 05 | 5.99 | 57 | 341.43 | 34.14 | 375.57 |
| 16 | 1000001 | 24/06/2011 | 102 | 21425 | 02 | 25.95 | 13 | 337.35 | 33.74 | 371.09 |
| 17 | 1000002 | 14/07/2011 | 102 | 21426 | 03 | 35.15 | 70 | 2,460.50 | 246.05 | 2,706.55 |
| 18 | 1000032 | 19/06/2011 | 102 | 21450 | 03 | 35.15 | 22 | 773.30 | 77.33 | 850.63 |
| 19 | 1000048 | 25/02/2011 | 102 | 21462 | 05 | 5.99 | 972 | 5,822.28 | 582.23 | 6,404.51 |
| 20 | 1000070 | 04/02/2011 | 102 | 21464 | 05 | 5.99 | 1052 | 6,301.48 | 630.15 | 6,931.63 |
| 21 | 1000089 | 30/01/2011 | 102 | 21466 | 05 | 5.99 | 1200 | 7,188.00 | 718.80 | 7,906.80 |
| 22 | 1000090 | 25/03/2011 | 102 | 21467 | 05 | 5.99 | 85 | 509.15 | 50.92 | 560.07 |
| 23 | 1000111 | 18/03/2011 | 102 | 21490 | 05 | 5.99 | 49 | 293.51 | 29.35 | 322.86 |
| 24 | 1000217 | 18/02/2011 | 102 | 21496 | 05 | 5.99 | 3818 | 22,869.82 | 2,286.98 | 25,156.80 |
| 25 | 1000220 | 21/05/2011 | 102 | 21444 | 05 | 5.00 | 297 | 1,497.50 | 149.75 | 1,647.25 |

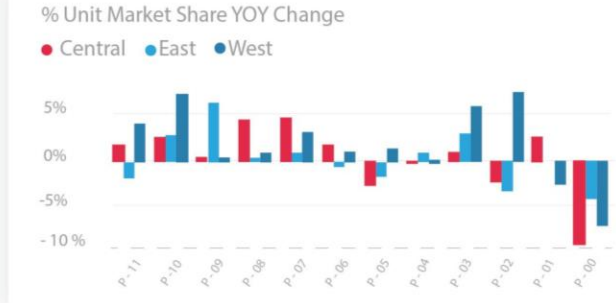
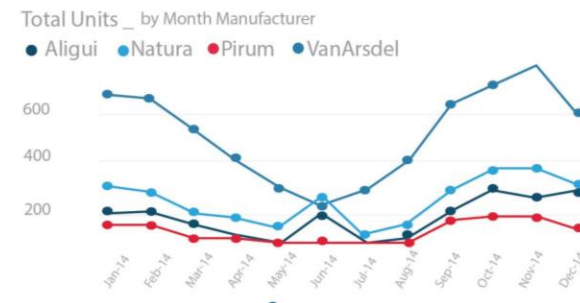
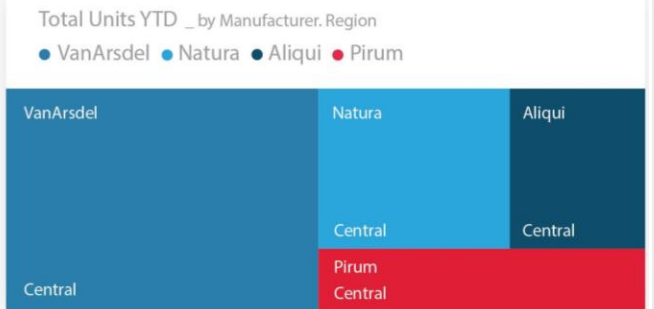
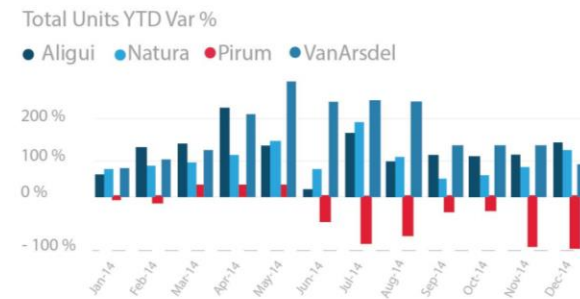
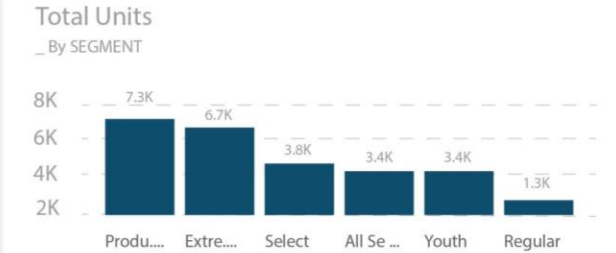
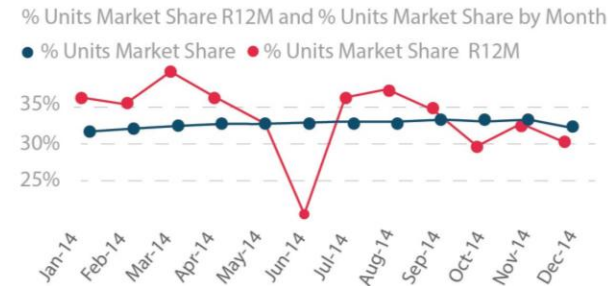
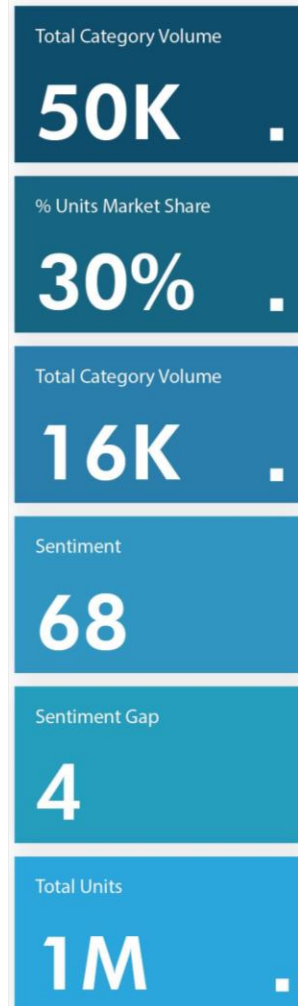
Sampling

- Traditional
 - Random
- Present
 - Systematic
 - Stratified Sampling
 - Scientific Sampling



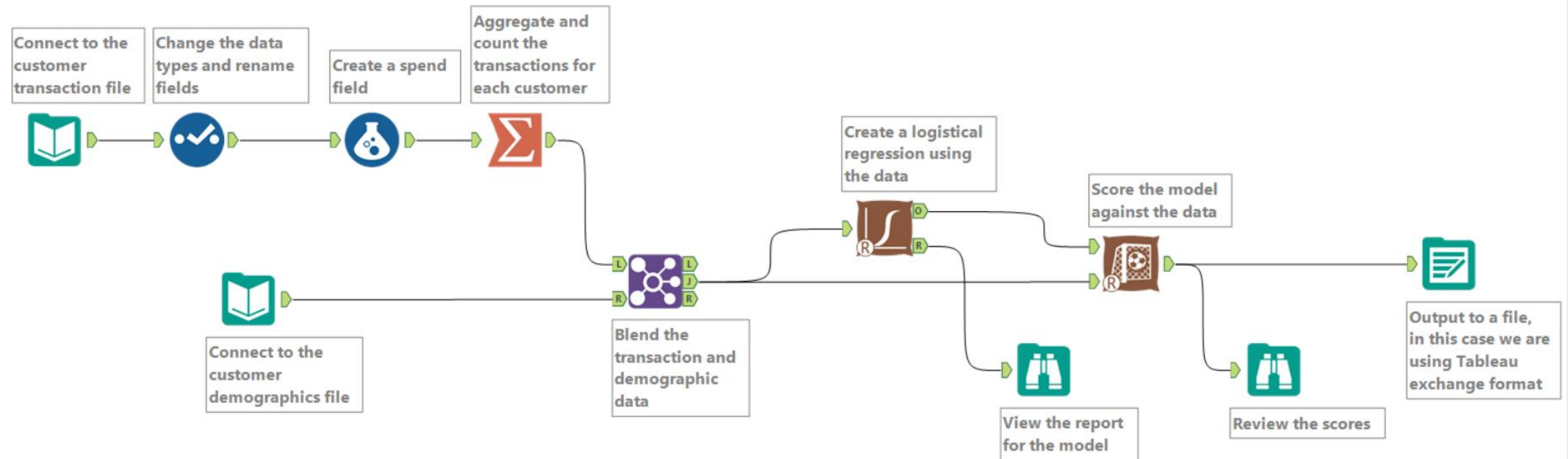
Data Visualisation Tools

- Power BI
- Tableau
- Qlick View



Data Modelling Tools

- Alteryx
- KNIME



Technical Session - IV

Topice : Litigative Issues in GST



CA. Satish Saraf
Hyderabad

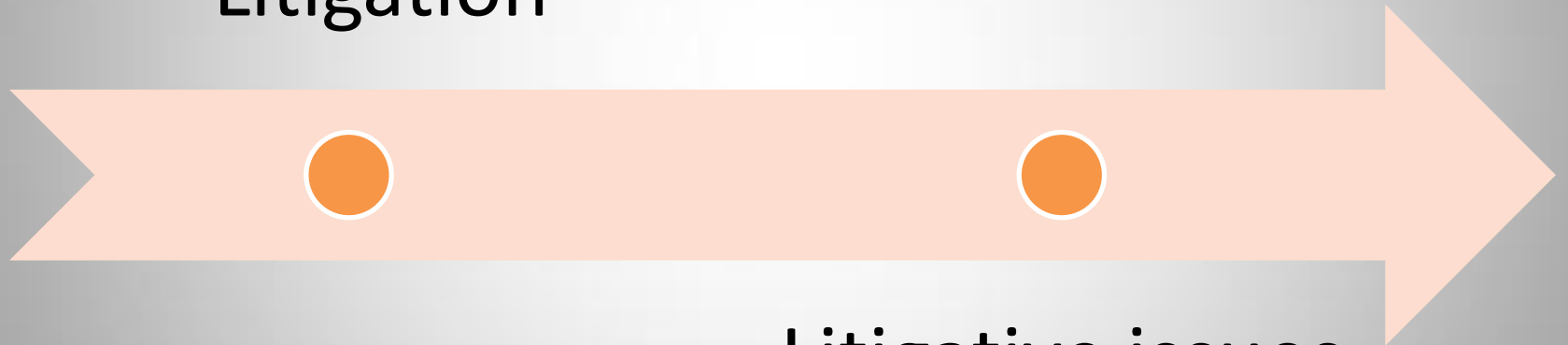


LITIGATIVE ISSUES IN GST

| CA Satish Saraf | Saraf Satish & Co | H S Tax Advisory Private Limited |

Agenda

Mitigation – via
– Litigation



Litigative issues
in GST Law



Mitigation – via - Litigation

Mitigation – via – Litigation

(Is Chartered Accountant suitable for GST litigation practice)

- What is especial about a Chartered Accountant
 - We possess the Knowledge of Audit, Accounts, Business & Law
- Essentials for CA in GST litigation practice
 - Knowledge of business & understanding of Law
 - Legal Precedence's / Notifications / Etc.....
 - Regular up-dation of issues decided by courts.
 - Working knowledge of Interpretation of Laws, Constitution Of India, CPC, CrPC, India Evidence Act, Contract Act & other allied laws.
 - Writing skills – able to communicate & ventilate the idea
 - Flair to mitigate issues with litigation
- Litigation Starts..... & ends
 - Reply to SCN, First Appeal, Tribunal, etc.
 - Briefing Advocates – High Court & Supreme Court
- Are we equipped with above skill set ?



Litigative issues in GST



GST on Directors' Remuneration

GST Provisions

- Schedule – III
 - Entry – 1: Services by an employee to the employer in the course of or in relation to his employment – Neither supply of Goods or Services
- Centra Tax Rate Notification No: 13/2017, Dt: 28-07-2017 – RCM
 - Entry – 6: Services supplied by a director of a company or a body corporate to the said company or the body corporate
 - Supplier: A director of a company or a body corporate
 - Recipient: The company or a body corporate located in the taxable territory
 - Rate of Tax: 18% (9% CGST + 9 SGST/UTT or 18% IGST)
- Treatment under Service Tax – Notification - 30/2012, Dt: 20-06-2012

Companies Act, 2013

- Director defined – Sec. 2(34) - "director" means a director appointed to the Board of a company
- Managing Director defined – Sec. 2(54) - "managing director" means a director who, by virtue of the articles of a company or an agreement with the company or a resolution passed in its general meeting, or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company and includes a director occupying the position of managing director, by whatever name called
- Types of Directors
 - Whole-time Director, Managing Director, Independent Director, Nominee Director, etc.
- Categories of Directors
 - Executive Director & Non-executive Director

Is Director – employee of the company

- Rate notification cannot change the essence of contractual obligations and nature of activity.
- CIT Vs. L. Armstrong Smith – (1946) 14 ITR 606 (Bom)
 - Held – Director remuneration is taxable under the head “Income from Salary” and not under the head “Income from Business or Profession”.
- Ram Pershad Vs. CIT – (1972) 2 SCC 696 (SC)
 - Held – Director remuneration is in the nature of salary and not business income. Whether a Director is a employee or not would depend on the AOA and the terms of employment.
- ESI Corporation Vs. Appex Engineering (P) Ltd – (1988) 1 Comp LJ 10 (SC)
 - Held – MD of the company is employee for the purpose of ESI Act, 1946
- CIT Vs. M. S. P. Rajes – (1993) 77 Comp Cases 402 (Kar)
 - Held – Remuneration received by the Mng. Dir. is taxable under the head “Salary”

Directors' Remuneration in Service Tax

- Allied Blenders and Distillers (P) Ltd Vs. CCE – 24 GSTL 207 (Mum – CESTAT)
 - Held – Company complied PF, PT, TDS u/s.192 towards Whole Time Directors Salary – Not required to pay Service Tax.
- NRB Industrial Bearings (P) Ltd Vs. CCE – Appeal No: ST/87483/2018, Dt: 07-08-2019
 - Held – MD is paid remuneration in terms of MOA & AOA - ST is not payable
- Rent Works (I) (P) Ltd Vs. CCE – 56 GSTL 65 (Mum-CESTAT)
 - Held – Remuneration paid to Foreign Directors was treated as Salary under IT Act – Not liable for Service Tax.
- PCM Cement Concrete (P) Ltd Vs. CCE – 9 GSTL 391 (Kol-Trib)
 - Held – Consideration paid to Whole Time Director is not liable to Service Tax due to existence of employer – employee relationship.

Directors' Remuneration in GST

- Rajasthan – AAR – Clay Crafts India (P) Ltd – 35 GSTL 580
 - Held - Directors are not the employees of the company, irrespective under what head the remuneration is paid – RCM Applicable
- Karnataka – AAR – Alcon Consulting Engineers (I) (P) Ltd – 30 GSTL 678
 - Held – Services provided by Directors to the Company are not covered under Schedule – III as the director is not the employee of the company, hence liable for RCM.
- Karnataka – AAR – Anil Kumar Agarwal – 81 GST 465 / 36 GSTL 596
 - Held – For the purpose of calculation of ATO – Salary of Executive Director not to be included in ATO – Salary of Non-executive Director to be considered for ATO.

Circular issued by Board

- Central Tax Circular No: 140/10/2020, Dt: 10-06-2020.
 - Leviability of GST on remuneration paid by companies to the independent directors or those directors who are not the employee of the said company
 - Accordingly, it is hereby clarified that the remuneration paid to such independent directors, or those directors, by whatever name called, who are not employees of the said company, is taxable in hands of the company, on reverse charge basis.
 - Leviability of GST on remuneration paid by companies to the directors, who are also an employee of the said company
 - Accordingly, it is clarified that the part of Directors' remuneration which are declared as "Salaries" in the books of a company and subjected to TDS under Section 192 of the IT Act, are not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III of the CGST Act, 2017.
- This Circular clarified:
 - Discrimination of directors responsibility as Independent director Vs. other than independent director
 - Director provided services to company as individual (otherwise in the capacity of director), for example renting of immovable property to the company. Doctor in corporate hospital acting as director and also a regular consulting doctor.



GST on License fee charged by
Government & Local Authorities

Provisions in GST

- Central Tax Rate Notification 13/2017, Dt: 28-06-2017
- Entry No: 5
 - Services supplied by Central Government, State Government, Union Territory or Local Authority to a Business entity excluding:
 - Services of Department of Post
 - Services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport
 - Transportation of goods or passengers.
 - Supplier: Central Government, State Government, Union Territory or Local Authority
 - Recipient: Any Business entity located in taxable territory
 - Rate of Tax: 18% (9% CGST + 9% SGST/UTT or 18% IGST)

Fee - Tax

- License Fee, Royalty, Permit, Permission etc.
- These are Fee or Tax
- Statutory Fee & Regulatory Fee
- Quid pro quo is absent - Tax or Fee

Jurisprudence on Fee & Tax

- Corporation of Calcutta & anr. Vs. Liberty Cinema – AIR 1965 SC 1107
 - Held - Quid pro quo is must in case of fee, in the absence of it, the same will be levy of tax. Mutation Fee paid to municipality is treated as tax.
- Commissioner, Hindu Religious Endowment, Madras Vs. Sri Lakshmindra Thirtha Swamiar – (1954) 1 SCR 1005 (SC)
 - Held – Levying of fee is only a particular form of the exercise of the taxing power of state.
- CCE Vs. Chhata Sugar Co., Ltd. – (2004) 3 SCC 466 (SC)
 - Held – Nomenclature used by the legislatures is of no consequence in deciding as to whether the levy is tax or fee.
- Calcutta Municipal Corporation Vs. Shrey Mercantile – AIR 2005 SC 1879
 - Held - ..That if earning of revenue rather than regulation or provision of service is the predominant factor for levy, it becomes a 'tax' rather than 'fee'.

Disputes on Fee in GST

- Liquor License Fee
- Telecome License Fee
- Casino Fee
- Mining License Fee
- Building Construction Permission Fee
- Shops & Establishments Fee

All the above are factored by the trade in their Sale
Price



Valuation under GST

Provisions in GST

- Sec. 15 – Value of Taxable Supply
 - (1) Value of a supply of goods or service or both shall be the transaction value, which is the price **actually paid or payable** for the said supply of goods or service or both where the supplier and recipient of the supply are not related and the price is sole consideration for the supply.
- Essential Ingredients to invoke Valuation Rules
 - Price is not sole consideration
 - Parties are related
- Inclusions in transaction value
- Exclusions in transaction value
- Related parties

Valuation Rules in GST

- When Consideration is not wholly in money
 - Open Market value
 - Like kind and quality
 - Rule 30 & Rule 31
- When parties are related
 - Open Market value
 - Like kind and quality
 - Rule 30 & Rule 31
- Valuation when supplied through agent
- Valuation on cost method
- Residual method

Jurisprudence on Valuation

- Govind Saran Ganga Saran Vs. Commissioner of Sales Tax – (1985) 60 STC 1 (SC)
 - Held – The machinery provisions for assessment / computation provision is a *sin qua non* for operability of the charging provision otherwise charge of tax itself will fail. In other words, the charge of tax depends upon the clarity of the valuation provisions.

Issue - Post supply discount

- Conditions:
 - Post Sale Discount is given in terms of an agreement
 - GST attributable for Credit note is reversed by the recipient
- Central Tax Circular No: 91/11/2019, Dt: 07-03-2019
 - Free sample as gifts – No ITC
 - Buy one get one free – No issue
 - Target based discounts – Recipient to ITC Reversal
 - Second or Subsequent discount – Comply Sec. 34(1)
- Central Tax Circular No: 105/24/2019, Dt: 28-06-2019
 - On several representations from trade this circular is withdrawn by the Board.

Issues on Valuation

- Price escalation post supply
- Valuation of related party supply of Goods & Services
- Notional Interest on Security deposits
- Reimbursement to pure agent



Anti-Profiteering

GST Provisions

171. Anti-profiteering measure.—(1) Any reduction in rate of tax on any supply of goods or services **or** the benefit of input tax credit shall be passed on to the recipient by way of **commensurate reduction** in prices.

(2) The Central Government may, on recommendations of the Council, by notification, constitute an Authority, or empower an existing Authority constituted under any law for the time being in force, to examine whether input tax credits availed by any registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in the price of the goods or services or both supplied by him.

(3) The Authority referred to in sub-section (2) shall exercise such powers and discharge such functions as may be prescribed.

[(3A) Where the Authority referred to in sub-section (2), after holding examination as required under the said sub-section comes to the conclusion that any registered person has profiteered under sub-section (1), such person shall be liable to pay penalty equivalent to ten per cent. of the amount so profiteered:

Provided that no penalty shall be leviable if the profiteered amount is deposited within thirty days of the date of passing of the order by the Authority.

Explanation.—For the purposes of this section, the expression "profiteered" shall mean the amount determined on account of not passing the benefit of reduction in rate of tax on supply of goods or services or both or the benefit of input tax credit to the recipient by way of commensurate reduction in the price of the goods or services or both.] Finance

National Anti-Profiteering Authority - NAA

- Constitution of NAA
 - Chairman – rank equal to Secretary to Govt. of India
 - Four Technical members – Commissioner of State Tax or Central Tax
- Duties of NAA & Tenure
 - Reduction in price
 - Return amount to recipient or consumer welfare fund
 - Levy of penalty
 - Cancellation of registration
 - Initially – 2 years, further extended by 2 + 2 years – NAA may become permanent
- No Appellate authority against the orders of NAA
- Powers to determine the methodology and procedure
 - Gwalior Rayon Co Vs. AC-Sales Tax – AIR – 1974 – SC – 1660
 - Excessive delegation

National Anti-Profiteering Authority - NAA

- NAA Vis-à-vis Article 19(1)(g)
 - Aim of Article 19(1)(g)
 - Nazeria Motor Services Vs. State of AP – (1970) AIR SC 1864
 - Held – Mere reduction of profit does not render any statute as unreasonable and violative of Article 19(1)(g)
- Scope of Investigate powers
 - Sapphire Foods Vs. UOI – SCA No: 7907 of 2020 (Guj)
 - Held – NAA to limit their investigate powers to the product in question only and not to widen the ambit of their investigation.
- Arbitrary methodology of NAA
 - Jubilant Foodworks Vs. UOI – (2019) 31 GSTL J90 (Del)
 - Held – Granted interim on – tax payer made a prima facie case – Lack of methodology

Orders of NAA

- McDonalds
- Hindustan Unilever
- Lifestyle International (P) Ltd
- TTK Prestige Limited
- N P Foods
- Aparna Construction
- Kunj Lab Marketing (P) Ltd



Rate Notifications and
Definitions therein

GST Provisions

- **9. Levy and collection.**—(1) Subject to the provisions of sub-section (2), there shall be levied a tax called the **central goods and services tax** on all intra-State supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under section 15 and **at such rates, not exceeding twenty per cent., as may be notified by the Government on the recommendations of the Council** and collected in such manner as may be prescribed and shall be paid by the taxable person.

Article 265 of COI

- Article 265 - Taxes not to be imposed save by Authority of law
 - No Tax Shall be levied or collected except by authority of law.
- Article 265 requires:
 - There must be a law
 - The law must authorise the tax, and
 - The tax must be levied and collected according to the law.
- Synthetics & Chemicals Ltd Vs. State of UP (1990) 1 SCC 109 (SC) & Subash Chander Vs. State of Haryana – AIR 1992 P&H 20
 - Held – The authorization made by the statute to levy a tax must be express. Taxing power cannot be derived from the delegation of mere regulating power, even though the tax was within the competence of the Legislature which made the delegation. The power to tax is not incidental or ancillary to the power to legislate on a matter.

Delhi High Court

- Indian Association of Tour Operators Vs. UOI – (2017) (5) GSTL 4.
 - Held – Service Tax – Rule 6A of the Service Tax Rules, 1994 bringing within its ambit a non taxable service, travelled beyond delegated rule making power under Section 94(2)(f) of the Finance Act, 1994. The Court held that the said provision is ultra vires the parent statute.

The BIG Question

- Validity of Rate Notifications and definitions given by the Board in Rate Notifications are at stake ?

At the Helm of ICAI



CA. (Dr.) Debashis Mitra
President, ICAI



CA. Aniket Sunil Talati
Vice President, ICAI

Conference Chairman



CA. Prakash Sharma
Chairman,
Committee for Members in Practice



CA. Purushottamlal Khandelwal
Vice Chairman,
Committee for Members in Practice

Conference Directors



CA. Dayaniwas Sharma
Central Council Member, ICAI



CA. Muppala Sridhar
Central Council Member, ICAI

Conference Co Directors



CA. China Masthan Talakayala
Chairman, SIRC of ICAI



CA. Naresh Chandra Gelli
Secretary, SIRC of ICAI



CA. Chengal Reddy. R
Member, SIRC of ICAI



CA. Mandava Sunil Kumar
Member, SIRC of ICAI

Conference Convenors



CA. Deepak Ladda
Chairman



CA. Satish Kumar Mylavarapu
Vice- Chairman



CA. Ravi Sankara Reddy Ponugoti
Secretary



CA. Giridhari Lal Toshinwal
Treasurer



CA. Chandra Babu M
Chairman - SICASA



CA. Uppalapati Saran Kumar
SICASA – CO- Chairman



CA. Rajambal MS
Member



**CA. Chinna Sita
Rami Reddy A**
Member



**CA. Rama Rao
Karumanchi**
Member



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