VOLUME 73 | NO. 4 | PAGES - 132 | OCTOBER 2024 | ₹100

THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

ETHICS

Ensuring Accountability | Building Confidence

2024-49: The Golden Period of Profession

CHARTERED ACCOUNTANTS' BENEVOLENT FUND [CABF]
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

JOIN HANDS TO STRENGTHEN CABF : SPECIAL DRIVE

The Chartered Accountants' Benevolent Fund (CABF) was established in December, 1962 with the main objective to provide financial assistance for maintenance, and other similar purposes to needy members of the Institute, their wives, widows, children and dependent parent(s).

A dedicated CABF Portal (cabf.icai.org) is functioning as One Stop solution for making CABF Contribution and grant of Financial Assistance.

During Covid pandemic, hundreds of ICAI members had lost their battle and many others were struggling hard to pass through that difficult time. The impact was deep and had certainly shattered their dreams. The Institute through the CABF had tried to help the members or their dependents in distress.

With an objective to augment funds to provide requisite support to members, it has been decided to launch special drive and to recognise the contributors. Details of the same are given below.

The Financial Assistance disbursed along with number of beneficiaries during the last five financial years has been produced below:-

S No.	Particulars (Years)	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
1.	Number of beneficiaries	111	88	280	877	221
2.	Financial assistance disbursed (in ₹)	1.12 Crore	0.94 Crore	3.97 Crore	11.92 Crore	3.67 Crore

The Contribution is eligible for tax exemption under Section 80G of the Income Tax Act

Link for Contribution as Life Member:
https://cabf.icai.org/lifeMember

Link for Voluntary Contribution:
https://cabf.icai.org/voluntaryMember

Contribution can also be made by scanning the QR code or directly through NEFT/RTGS

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

SPECIAL DRIVE FOR CONTRIBUTION TO THE CHARTERED ACCOUNTANTS BENEVOLENT FUND (CABF)

The contributions/donations are accepted from the following:

Members of ICAI

CA Firms

The donors will be recognized as under: (All contributors exceeding ₹10,000 to receive congratulatory letter from the President, ICAI)

Category of Contribution	Amount Not Less Than	Acknowledgement/Recognition
CABF-Bronze	**₹ 1 Lakh**	Special Bronze Shield – Along with Congratulatory Letter from the President to be sent by Post/Courier
CABF-Silver	**₹ 5 Lakh**	Special Silver plated Shield – Along with Congratulatory Letter from the President to be handed over by Regional Chairman in Regional Council Meeting (Acknowledgement to be published in Regional Newsletter and quarterly list to be published in ICAI Journal)
CABF-Gold	**₹11 Lakh**	Special Gold plated Shield – Along with Congratulatory Letter from the President to be handed over at ICAI Head Office. (Acknowledgement to be published in ICAI Journal)
CABF-Platinum	**₹51 Lakh**	Special Platinum plated Shield – Along with Congratulatory Letter from the President to be handed over by President & Vice President at ICAI Council Meeting. (Acknowledgement to be published in ICAI Journal with photograph taken during Council Meeting)

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

Editorial

Driving Profits with Principles: Navigating Success with Integrity

Ethics act as the guiding force that steers our actions and decisions, shaping the integrity of individuals and influencing the collective mindset of societies, ultimately building a globe grounded in ethical principles. In a world driven by rapid change, adhering to ethical principles ensures accountability, builds trust, and fosters a sense of responsibility, both in personal lives and professional pursuits. We are living in an era of rapid transformation, where technology is reshaping mundane tasks and gradually revolutionizing the way individuals view and interpret the world around them. The pace of change is accelerating, altering perceptions and redefining our daily experiences at an unprecedented speed. Humans are inherently adaptable to change, as wisely stated by the adage *change is the only constant.* However, ethics serve as the unifying force, offering a moral framework that ensures consistent and orderly functioning amidst evolving circumstances.

Mismanagement of resources and fraudulent practices erode institutions and hinder equitable progress. These issues can be curbed by fostering a culture of ethics rooted in integrity, transparency, and accountability. Ethical practices in government accounting ensure fiscal responsibility, mitigate corruption, and safeguard public trust, contributing to sustainable and equitable governance. Apart from this, the environment is sending clear signals that it is crucial for humanity to take immediate and ethical actions to safeguard our planet and ensure the well-being of future generations. Several countries, including India, have begun actively adopting and implementing sustainable practices in response to pressing global needs. Businesses are advancing toward a green economy, but to guarantee an authentic implementation and curb greenwashing, a stringent framework of ethical guidelines is essential within organizations for the greater good.

The world has experienced an unprecedented surge in technological advancements, permeating every sector and profession. A prime example is Artificial Intelligence, which stands as one of humanity's greatest achievements, yet it still falls short of replicating the intricacies of the human mind. Generative AI, a recent milestone in human innovation, exhibits inherent biases and raises significant data security concerns that require immediate attention and resolution. Automation, while highly valuable, complements human capacity by enabling a shift towards more strategic and creative thinking. Nevertheless, the swift pace of technological evolution brings pressing ethical concerns, prompting nations to establish safeguards for its responsible use.

The Chartered Accountancy Profession has been at the forefront of promoting and protecting the Public Interest. The profession has always proactively worked with various government and business entities as trusted advisors in navigating the evolving environmental dynamics. By upholding ethical principles and demonstrating leadership, the profession creates value for the greater good. Chartered Accountants ensure responsible financial practices and guide ethical decision-making, promoting sustainable growth while safeguarding economic stability and public trust through adherence to legal and moral boundaries.

Since its inception, the Institute of Chartered Accountants of India (ICAI) has made ethics a cornerstone, introducing the first Code of Conduct in 1963 and forming the Ethical Standards Committee in 1976 to promote ethical values among Chartered Accountants. Ethics are inseparable from the ICAI's mission, forming the foundation of accounting and auditing practices. The Institute upholds a stringent code of ethics, ensuring that CAs demonstrate integrity, objectivity, and professionalism. These ethical guidelines are vital for preserving the trust and credibility of the profession. The ICAI enforces these standards through detailed regulations, compliance checks, and disciplinary measures, while also integrating ethical training into educational and professional development programs to equip members with the skills to navigate ethical challenges with confidence in the emerging environment.

Ethics transcend theoretical discourse and serve as a vital framework for guiding human and business conduct in the modern world. Just as oxygen sustains life, a deep-rooted commitment to integrity and morality sustains our values and ensures purposeful actions. For businesses, the pursuit of profit must be aligned with the public interest, as ethics act as the moral compass for long-term success. By embedding integrity into every decision, organizations not only protect their reputation but also create enduring value. True success is found not only in financial gains, but also in the positive and lasting impact made on society as a whole.

-Editorial Board ICAI:

Partner in Nation Building

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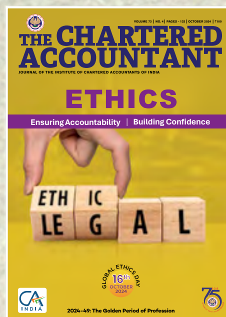

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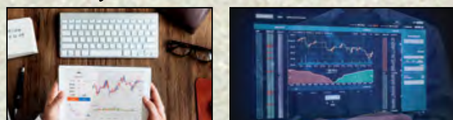

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From the President

CA. Ranjeet Kumar Agarwal
President, ICAI

Dear Professional Colleagues,

Ethics build the foundation, integrity fortifies it, and professionalism turns it into a legacy that inspires trust.

On the occasion of ***Global Ethics Day*** on 16th October, I call upon all my colleagues to take up the mantle and achieve remarkable milestones, while upholding the bedrock of our profession that is Ethics and continue to forge the legacy of profession as trustees of public interest.

Our profession is built on the pillars of excellence, independence and integrity, fostering a deep commitment to ethical principles at every stage of our journey. Since the dawn of accounting, ethics have been crucial in building trust and credibility, enabling us to serve as the custodians of the public interest.

As we navigate the complexities of today's financial landscape, our role in promoting transparent reporting and corporate governance remains vital. The profession will continue to uphold these values, ensuring sustainable growth and contributing positively to society by maintaining the highest ethical standards.

Ethics: The Cornerstone of Indian Governance

Ethics play a pivotal role in shaping the governance framework of India. At present various regulatory bodies have embedded ethical principles for good governance and development of resilient economy. The Reserve Bank of India (RBI) encourages ethical banking and protects public interest through its Code of Bank's Commitment which specifies the minimum standards of banking practices to be followed by the banks while dealing with the customers. Securities and Exchange Board of India (SEBI) ensures corporate governance in listing companies by enforcing Listing Obligations and Disclosure Requirements (LODR) regulations, fostering transparency and accountability in financial disclosures and its whistleblower provisions further strengthens and safeguards public interest in capital markets. Similarly, the Ministry of Corporate Affairs (MCA), released a set of guidelines in 2019 called the National Guidelines on Responsible Business Conduct (NGRBC) to provide guidance to businesses on what constitutes responsible business conduct.

Redefining Ethics for a Brighter Tomorrow

As a partner in nation building, the Institute has been diligently carrying out the assigned role of regulation and development of the profession of Chartered Accountants. Being relevant in this, the role of ethical standards is not only indispensable but interlinked with other professional standards too. The profession has always been stringent in following the Ethics. In 1952, amendment to the Chartered Accountants Act, 1949, introduced new clauses on professional misconduct, covering undercutting, client communication, and compliance issues. In 1959, significant changes added two schedules: the First schedule, addressing professional misconduct compromising independence, and the Second schedule, requiring High Court action. The ICAI introduced its first Code of Conduct in 1963, setting ethical standards for accountants. In 1976, the Ethical Standards Committee was formed to oversee ethical guidelines and ensure compliance by members, even before the formation of International Ethics Standards Board of Accountants (IESBA) of International Federation of Accountants (IFAC). Over the years the institute has revised the Code of Ethics many times to remain relevant, latest being in 2020.

The Ethical Standards Board is actively shaping our profession to align with stakeholder expectations. Recently, it has decided that statutory auditors can no longer prepare Business Responsibility & Sustainability Reporting (BRSR) for audit clients but may issue advisory on the same. The measure aims to foster integrity and independence in all the different endeavours undertaken by the Chartered Accountants.

Recently, CA Connect Portal was launched, it serves as a compliant platform for listing CA Firms and practitioners, adhering to ethical norms. It offers a centralized search engine, allowing clients to find services based on expertise, bridging the gap between clients and Chartered Accountants across locations.

With these changes ICAI remains committed to maintaining high ethical standards and ensuring that members' professional roles do not conflict with their duties as independent auditors.

As CAs we must ensure adherence to laws and regulations related to taxation, finance, and governance so that these laws are respected and achieve its desired objective, by guiding their clients toward lawful and just actions. Our profession as trusted advisors help the stakeholders in choosing paths that are both legal and equitable.

In today's evolving landscape, as a professional we must upskill ourselves and be ready to address new ethical challenges, arising from the new and emerging regulatory requirements like sustainability reporting, related disclosures and challenges arising due to the technological advancements like ethical considerations of AI, data privacy and cybersecurity, ensuring that the reporting remains responsible and fair promoting the public interest.

Global Shifts: Evolving Ethical Standards by International Bodies

Ethics in the accounting profession vary across countries, yet many align with global standards to ensure consistency and trust. Most nations follow the International Ethics Standards Board of Accountants (IESBA) Code of Ethics, which emphasizes core principles such as integrity, objectivity, confidentiality, professional competence, and behaviour. These principles form the ethical backbone of the profession, ensuring a unified approach worldwide.

Countries like the USA, UK, Australia, and Ireland place a strong emphasis on auditor independence due to their complex financial markets. Transparency and accountability to the public are also key, particularly in countries like Canada and Australia, where the ethical codes emphasize public duty and transparency in financial disclosures. In nations like India, Singapore, and Malaysia, ethics are tightly woven into corporate governance, requiring accountants to provide transparent financial information. These countries also have strict anti-corruption and fraud prevention measures, reflecting their efforts to combat unethical practices in emerging markets.

Additionally, nations are adjusting their reporting frameworks to address modern challenges such as digital currencies and cybersecurity, ensuring that ethics evolve alongside technological advancements of AI/ML in the global financial landscape.

India Setting the Path for Global Leadership

India and the Indian Accounting Profession has always been on forefront of working to establish the practices, standards and frameworks to move on the path of building an ethical path for leadership which is imperative for the development of society and mankind. The words of our Past President **CA R.C. Cooper** as stated in foreword of the 1963 edition of the Code, aptly places the Ethics at the heart of our profession:-

> *Ethics is a state of the mind, and there may be some act which, though it may not strictly fall under one of the items of the Schedule, may be one which may not be proper by any moral or ethical standards. In the larger interests of the Institute, the Council exhorts all members to search their hearts and conscience whenever in doubt, and thereby assist towards the maintenance of high principles of professional conduct established by the Council.*

It is noteworthy that International Federation of Accountants (IFAC) issued its first edition of Code of Ethics for Professional Accountants in July, 1990 whereas the Institute brought its first edition of Code of Conduct in 1963 for the Chartered Accountants. We are stringent of the International ethical standards by certain parameters. Internationally, there are very little of the kinds of prohibition contained in clauses of the two schedules to the Chartered Accountants Act. Even in the comparable areas, Institute has certain stricter provisions e.g. complete bar on accounting and internal services to audit clients, which may not be so internationally.

As we understand standard setting globally, it becomes evident that while the Western world formulates standards tailored to their specific needs, India is setting an example by developing forward-thinking, globally relevant standards. India supports global convergence through standards like Ind AS aligned with IFRS, and International Standard on Auditing (ISA), while also pioneering new trends, such as the development of Forensic Accounting & Investigation Standards (FAIS) and Sustainability Reporting Standards. Additionally, innovative practices like the Unique Document Identification Number (UDIN), Digital Competency Maturity Model (DCMM), and Audit Quality Maturity Model (AQMM) playing pivotal role in enhancing the quality of our profession.

With persistence and dedication to excellence the CA course and qualification and course has evolved to be amongst the best globally. Today, it is evident that our 42,000 members are making their mark on global landscape and building the Indian Accountancy Profession into a global brand. Further, it is interesting to see that while our 1954 members were able to become members of leading global accounting bodies (ICA England & Wales, CPA Australia, CPA Canada, CPA Ireland, South African Institute of Chartered Accountants(SAICA), CA Australia & New Zealand, , Malaysian Institute of Certified Public Accountants(MICPA), ICA Nepal) under the Mutual Reciprocity Agreements (MRA) for recognition of qualification while not many foreign members were able to gain the Indian qualification. This is testimony to quality of our CA curriculum incorporating the latest technological advancements and ethical standards, which has nurtured our members into global professionals with comprehensive knowledge, futuristic skillset and global mindset. On many occasions the Hon'ble Supreme Court has applauded ICAI education and examination system for its quality.

With the rise in the quality membership of ICAI, total membership strength has risen to 4 lakh members & student base of 9.5 lakhs, making it the world largest accounting body, whereas other Accounting bodies are struggling to attract talent to the profession.

India's rapid rise on the global stage exemplified by visionary leadership of our Hon'ble Prime Minister Shri Narendra Modi ji, has propelled the nation's global aspirations to new heights. This is evident through India's successful execution of the G-20 summit and its growing influence in global initiatives like the Global Biofuel Alliance and International Solar Alliance.

In this transformative moment, ICAI must leverage this opportunity by harnessing its quality education, professional expertise and innovation potential to lead the global standard-

setting process and shape the international financial landscape by fostering trust, transparency, and equity.

As we celebrate **Global Ethics Day** on 16th October, 2024, I urge all our members to follow the path of ethics and be abreast of latest development in ethics by attending the programs being conducted by CPE Study Circles, branches and Regional Councils.

Championing Integrity for a Better Tomorrow

On **2nd October,** I pay my tribute to our great leaders Mahatma Gandhi and Shri Lal Bahadur Shastri for guiding us with their values and ethics to always work in the interest of society and common man. Our profession shall always be guided by the thoughts of the Mahatma Gandhi that *"In times to come people will not judge us by the creed we profess or the label we wear or the slogans we shout, but, by our work, industry, sacrifice, honesty and purity of character."*

Matters of Professional Interest

- **Conclave on Sashakt Bharat**

  With aim to foster collaboration and innovation in the realm of local governance the Institute will be organizing Local Governance Synergy Conclave themed *"Sashakt Bharat: An Initiative to Strengthen Local-Self Government Accounting"* on 1st – 2nd October, 2024 in association with O/o C&AG. With over 350 officials from local bodies across India participating, the conclave aspires to bolster transparency and efficiency in local self-governance, aligning it with the vision of a Viksit Bharat. The event will be graced by Hon'ble C&AG Shri Girish Chandra Murmu, as Chief Guest.

- **September Exams for Foundation & Intermediate courses – A Significant Achievement**

  Marking a significant step forward in expanding opportunities for aspiring Chartered Accountants, ICAI has successfully conducted its first-ever September examination, implementing its historic decision to conduct Foundation and Intermediate examinations thrice in a year. About **78,198** candidates appeared in the Foundation exam, held between 13th – 20th September 2024. Similarly, **1,39,646** candidates had appeared in the Intermediate exam conducted from the 12th to the 23rd of September 2024. The next round of Foundation and Intermediate exams will take place in January 2025.

- **World Forum of Accountants (WOFA) – 2025**

  The ICAI will be organizing the World Forum of Accountants (WOFA), from January 31 to February 2, 2025, at the Yashobhoomi India International Convention & Expo Centre, New Delhi, India. Inspired by India's philosophy of ***"Vasudhaiva Kutumbakam"*** (The World is One Family), and building on the nation's successful hosting of the G20 summit. The Theme for the forum is "***Accountability Meets Innovation (AI): For a Sustainable Planet".*** Embracing the vision of G-20 summit, WOFA mnemonic reinforces the importance of sustainable development and India's commitment to global sustainability.

  This global gathering of accounting and finance professionals will delve into the intersection of artificial intelligence and environmental responsibility. Topics will include AI-driven solutions, ethical considerations, policy frameworks, and collaborative efforts to ensure responsible AI for a sustainable future.

  Over 6,000 professionals from across the globe will be able to participate in the forum. I extend a warm welcome to all participants and look forward to a fruitful and inspiring forum.

ICAI Stands Committed to Chartered Accountants' Well-being

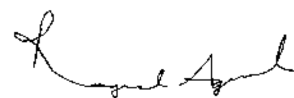
In the wake of recent incidents highlighting the tragic consequences of excessive work pressures faced by professionals, including Chartered Accountants, the Institute of Chartered Accountants of India (ICAI) reaffirms its commitment to addressing the urgent need for work-life balance and stress management within the profession. The Institute has formed a dedicated group on Work-Life Balance & Stress Management to introduce measures aimed at improving work-life balance and managing stress within the profession.

ICAI has been proactive in supporting the well-being of its members and students and has organized numerous health and wellness programs, including health awareness camps, webinars on stress management, yoga sessions, motivational conferences, walkathons, marathons, all aimed at promoting mental and physical wellness. A Grievance Redressal Cell is in place to address concerns, with plans to enhance its effectiveness.

Further ICAI will introduce new initiatives promoting work-life balance through workshops, webinars, and collaboration with industry partners on flexible work models. Comprehensive stress management programs, including counselling and mental health support, will be launched, along with Peer Support Networks and a dedicated Counselling Helpline to assist members with stress and work-life balance concerns. ICAI remains committed to the holistic well-being of Chartered Accountants, both professionally and personally.

Greetings for the Festivals

We are approaching the season of festivals, wishing you and your families a joyous for the upcoming festivals of Dussehra and Diwali. In the spirit of the festivals, let us cherish the Indian values of unity and togetherness, fostering connections that enrich both our personal and professional lives.



CA. Ranjeet Kumar Agarwal
President, ICAI
New Delhi, 30th September, 2024

1. Meeting with Hon'ble Governor, Rajasthan

CA. Ranjeet Kumar Agarwal, President, ICAI along with Central Council Members met Shri Haribhau Bagade, Hon'ble Governor, Rajasthan on September 9, 2024 in Jaipur and deliberated on matters related to profession.

2. Meeting with Comptroller & Auditor General of India

CA. Ranjeet Kumar Agarwal, President, ICAI met Shri Girish Chandra Murmu, Hon'ble Comptroller & Auditor General of India in New Delhi on September 26, 2024 regarding Municipal and Panchayat Auditor course with C&AG. President, ICAI also accorded invite to C&AG for Conclave on Sashakt Bharat being jointly organised by ICAI & O/o CAG.

3. Launch of CA Connect Portal

CA. Ranjeet Kumar Agarwal, President, ICAI along with Shri Sanjay Seth, Hon'ble Minister of State, Defence and Author Chetan Bhagat addressed the Member Fraternity at the launch of CA Connect Portal in Ranchi on September 1, 2024.

4. Meeting with Secretary, MCA

CA. Ranjeet Kumar Agarwal, President, ICAI along with CA. (Dr.) Debashis Mitra, Past President, ICAI met Ms. Deepti Gaur Mukerjee, IAS, Hon'ble Secretary, MCA & Shri Inder Deep Singh Dhariwal, Joint Secretary, MCA on September 4, 2024. The President on behalf of ICAI conveyed warm wishes to Ms. Mukerjee on her assuming charge as Secretary, MCA.

5. National Conference– "Samriddhi"

CA. Ranjeet Kumar Agarwal, President, ICAI along with Shri Shaktikanta Das, Hon'ble Governor, Reserve Bank of India and CA. Sandeep Kumar Gupta, CMD – Gail (India) Ltd. inaugurated National Conference – "Samriddhi" organized in Bhubaneshwar on August 31, 2024.

6. 64th Students' Annual Day 2024 of RVG Educational Foundation

CA. Ranjeet Kumar Agarwal, President, ICAI & Chief Guest along with CA. Anil Singhvi, Guest of Honor & other dignitaries graced the 64th Students' Annual Day 2024 of RVG Educational Foundation on September 16, 2024, in Mumbai. President, ICAI also shared his thoughts about Role of CAs in Nation Building with the audience.

7. Delegation of Supreme Audit Institution of Syria

ICAI hosted a delegation of Supreme Audit Institution of Syria for a Training Program on Quality Control & Quality Assurance Practices in New Delhi on September 12, 2024, chaired by CA. Ranjeet Kumar Agarwal, President, ICAI along with CA. (Dr.) Jai Kumar Batra, Secretary, ICAI and ICAI Officials of ASB, AASB, FRRB & CAQ.

8. Meeting with dignitaries of Centre for Australia India Relations (CAIR)

CA. Ranjeet Kumar Agarwal, President, ICAI met Mr. Tim Thomas, CEO & Mr. Cal McGuirk, Director, Centre for Australia India Relations (CAIR) in New Delhi wherein deliberations were held regarding various opportunities for ICAI members in Australia.

9. CAPA Members' Meet & CAPA Annual General Meeting

CA. Ranjeet Kumar Agarwal, President, ICAI along with CA. Prafulla P. Chhajed, President, Confederation of Asian and Pacific Accountants (CAPA) & other Board Members at the CAPA Members' Meet & CAPA Annual General Meeting held virtually on September 9, 2024.

10. Seminar in Ernakulam

CA. Ranjeet Kumar Agarwal, President, ICAI addressed the Member & Student Fraternity at the Seminars on GST, SA & Forensic Audit organized in Ernakulam on September 2, 2024.

11. Seminar in Jodhpur

CA. Ranjeet Kumar Agarwal, President, ICAI shared his thoughts with participants at Seminar on Mastering Direct Taxes (Sec 44AB) and Indirect Taxation organized in Jodhpur on September 1, 2024.

12. 1st ICAI Audit Day Celebrations

CA. Ranjeet Kumar Agarwal, President, ICAI at the 1st ever ICAI Audit Day Celebrations organized in New Delhi on August 30, 2024.

13. Awareness Program on Financial Planning for the Salaried Persons

An Awareness Program on Financial Planning for the Salaried Persons was conducted on September 3, 2024 at Raj Bhawan, Dehradun, Uttarakhand for the Governor's Secretariat. Hon'ble Governor Uttarakhand Lt. Gen Gurmit Singh was the Chief Guest of the event. CA. Sushil Goyal, Central Council Member delivered the special address.

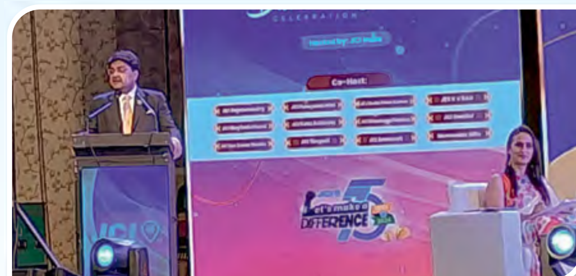
14. ICAI International Research Awards 2024

CA. Ranjeet Kumar Agarwal, President, ICAI along with Mr. Dale Pinto, President, CPA Australia & esteemed Jury members graced the ICAI International Research Awards 2024 organized in Chandigarh on August 30, 2024.

15. 'Ek Ped Ma Ke Naam' tree plantation drive as part of Swachchta Pakhwada

CA. Ranjeet Kumar Agarwal, President, ICAI along with CA. (Dr.) Jai Kumar Batra, Secretary, ICAI & ICAI officials took part in the 'Ek Ped Ma Ke Naam' tree plantation drive as part of Swachchta Pakhwada 2024 on September 20, 2024. A step towards a greener, cleaner & sustainable future for India.

16. Diamond Jubilee Celebrations of Junior Chamber International (JCI) India



CA. Ranjeet Kumar Agarwal, President, ICAI along with other dignitaries shared his thoughts with delegates present during Leadership Talk at the Diamond Jubilee Celebrations of Junior Chamber International (JCI) India organised in Kolkata on September 21, 2024.

17. ICAI's Career Booth at AccountanCity

The ICAI, through Board of Studies (BoS) organized a career booth in AccountanCity 2024 - a career exploration event conducted by the Institute of Singapore Chartered Accountants (ISCA) in Singapore on September 6 & 7, 2024, targeted at youths and young professionals to showcase the exciting career pathways and opportunities in the domain of accountancy. The ICAI's career booth received enthusiastic response from the students of various nationalities namely, India, Singapore, Indonesia and Malaysia. The ICAI officials elaborated the unique aspects of the CA course including affordability, comprehensive syllabus, global career opportunities, specialization in niche areas, thereby encouraging the students to pursue the CA qualification.

The Importance of Ethics in Economic Activities: A Crucial Role for Chartered Accountants

Ms. Gabriela Figueiredo Dias
Chair of the International Ethics Standards Board for Accountants

In the fast-paced and interconnected world of modern business, ethical conduct is not just a lofty ideal, but a crucial element that forms the backbone of economic stability. As we reflect on the importance of ethics on this Global Ethics Day, it is clear that ethics and independence are more than just professional requirements; they are the cornerstones of trust that sustain our economic systems. Chartered Accountants, as custodians of financial information, are on the front lines of this battle, defending the integrity of economic activities from fraud, money laundering, and other financial crimes. The commitment to ethics standards, such as those set out by the International Ethics Standards Board for Accountants (IESBA), guides accountants in this endeavor and serves as a foundation for maintaining trust in business and economic transactions.

Ethics as the Foundation of Economic Trust

Ethics form the foundation of trust in economic activities, connecting businesses, investors, customers, and regulators. In an environment where all stakeholders adhere to ethical practices, transactions can flow smoothly, markets can function efficiently, and businesses can thrive. Ethics standards, therefore, create a robust infrastructure of accepted and expected behaviors that promote accountability, honesty, and transparency.

The presence of trust allows stakeholders to make informed decisions, driving economic prosperity. But when ethical practices fail, the consequences can be damaging. Unethical activities like financial misreporting, fraud, and corruption erode the trust that markets depend on, leading to financial instability and wider economic harm. Take, for instance, the collapse of Lehman Brothers, which played a pivotal role in triggering the 2008 financial crisis. Complex and opaque off-balance-sheet transactions shifted risks to unacceptable levels and hid the company's financial instability, deceiving investors and regulators. The ensuing collapse had devastating global economic repercussions, causing widespread unemployment and severe social consequences. The Lehman Brothers example highlights the critical importance of maintaining ethics standards, particularly within the accounting profession.

Positioning Ethics at the Center of Corporate Long-Term Sustainability and Profitability

Embedding ethical principles into governance and strategy enhances a company's long-term sustainability and its ability to withstand external pressures. Ethical governance ensures that decision-making processes are transparent and inclusive, reducing the likelihood

of corruption or unethical behavior at the executive level. From a strategic perspective, companies that incorporate ethics into their core business decisions are better equipped to mitigate risks caused by unethical practices, such as regulatory fines, public backlash, or supply chain disruptions. By integrating ethics into their governance and strategy, businesses create a foundation for sustainable growth, fostering stronger relationships with stakeholders and earning a competitive advantage in markets increasingly driven by responsible business conduct.

A strong ethical culture also helps attract and retain top talent, as employees prefer to work for organizations that prioritize social responsibility and fairness. Companies that prioritize these values tend to foster greater employee satisfaction, loyalty, and engagement. In fact, a recent study conducted by Opinion Research Corporation finds that 82% of respondents said they would take less pay to move from an unethical company to one that embraces ethical conduct. Ethical organizations are often seen as more desirable places to work, leading to reduced turnover and helping to build a positive and motivated workforce.

The Role of IESBA and Accountants in Combating Financial Crimes

The IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) is designed to help Chartered Accountants navigate the complex ethical dilemmas they encounter every day in their professional roles. The Code is a critical tool for accountants tasked with preventing and combating financial crimes such as money laundering (ML), terrorist financing (TF), and fraud.

According to the United Nations Office on Drugs and Crime (UNODC), the estimated amount of money involved in global money laundering activities ranges between $800 billion and $2 trillion annually. These illicit activities damage legitimate economies, and contribute to social instability. Furthermore, terrorist financing supports dangerous extremist activities that threaten global security.

Chartered Accountants serve as the first line of defense against these types of crimes. In many jurisdictions, accountants are required to perform thorough due diligence on clients, especially those operating in high-risk sectors or countries with poor anti-money laundering (AML) measures. Chartered Accountants must screen clients for potential involvement in ML, TF, and fraud and report suspicious activities to relevant authorities.

The role of Chartered Accountants in identifying suspicious activities is vital. They must remain vigilant for red flags, such as unusually large cash transactions, complex and opaque financial structures, and companies that appear to serve no legitimate business purpose. Shell companies, for example, are often used to obscure the true ownership and origin of funds, enabling money laundering and tax evasion schemes. By applying their professional competence, integrity, and objectivity—core principles of the IESBA Code—accountants can help dismantle these schemes before they cause significant harm.

Social and Economic Impact of Money Laundering, Terrorist Financing, and Fraud

Money laundering, terrorist financing, and fraud are not isolated issues; their effects ripple through society and the economy, causing significant damage. Illicit financial flows, when integrated into legitimate economies, distort competition, inflate asset prices, and ultimately destabilize financial systems. This destabilization disproportionately harms lower-income groups, who often bear the brunt of economic crises brought about by financial misconduct.

Moreover, financial crimes fund a wide range of illegal activities, from human trafficking and drug smuggling to terrorism. The social costs of these crimes are immense, contributing to violence, exploitation, and the erosion of societal norms. Governments lose significant tax revenue, which could otherwise be directed toward critical social programs, healthcare, and infrastructure development.

In this context, the role of Chartered Accountants extends beyond mere financial reporting. By adhering to ethical principles and proactively identifying and reporting suspicious activities, accountants play a key role in protecting both the economy and society. Their work helps to disrupt criminal networks, safeguard public resources, and ensure the continued stability of financial systems.

The Impact of Ethical Failures in Business

When ethics standards within business are compromised, the consequences can be severe. A lack of proper ethical oversight or failure to adhere to professional standards can contribute to financial misconduct, often leading to damaging outcomes for companies, employees, and stakeholders. In these cases, unethical practices—such as misrepresenting financial data or overlooking warning signs—can obscure the true financial health of organizations, leading to destabilization and long-term harm. Recent scandals demonstrate how ethical lapses can have devastating consequences, reinforcing the need for stronger ethical frameworks.

The collapse of Wirecard, a German fintech company, is a prime example. Obvious red flags, such as unexplained

offshore transactions and suspiciously high profits in certain subsidiaries were ignored, allowing financial misconduct to continue unchecked for years. This resulted in one of the largest corporate frauds in recent history.

Similarly, in the case of Carillion, a major UK construction company, unethical accounting practices—such as overstating revenue and understating liabilities—masked the company's financial problems, leading to its eventual collapse. Thousands of employees lost their jobs, and suppliers and investors were left in financial ruin.

While corporate failures are complex and involve multiple factors, adherence to ethical principles in financial reporting and auditing can play a pivotal role. The profession has a responsibility to uphold the highest standards of integrity and transparency, as doing so protects not only the interests of companies and investors but also the broader economy. Strong ethics frameworks ensure that accountants remain vigilant, helping to prevent financial misconduct and promote long-term stability.

Ethical Challenges in the Modern Era: Greenwashing

Beyond traditional financial crimes, a new ethical challenge has emerged in recent years: greenwashing. As global attention turns to sustainability, businesses are under pressure to demonstrate their environmental and social responsibility. Unfortunately, some companies have resorted to misleading practices, falsely portraying themselves (or their products) as "green" or sustainable to attract investors and customers. This practice, known as greenwashing, undermines trust in sustainability initiatives and can mislead regulators, investors, and consumers.

A striking example of greenwashing is the case of Danske Bank. Between 2007 and 2015, billions of euros were laundered through the bank's Estonian branch, primarily from Russia and other former Soviet states. At the same time, Danske Bank marketed itself as a leader in sustainable banking, promoting ethical investment products and CSR initiatives. This disparity between the bank's public image and its actual practices highlights how greenwashing can be used to distract from unethical behavior.

Chartered Accountants can play a critical role in preventing greenwashing. As companies increasingly report on their sustainability efforts, accountants will ensure that these reports are accurate, transparent, and free from exaggeration. The soon-to-be-finalized *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* will be instrumental in helping accountants navigate this emerging area, applying the same rigor to sustainability reporting as they do to financial reporting.

The Expanding Role of IESBA Standards

The IESBA Code is currently adopted or used in over 130 jurisdictions and continues to expand its influence. This global reach is crucial in a world where businesses operate across borders, and financial transactions often span multiple countries. The Code provides a common ethical framework that ensures consistency in accounting practices and helps prevent unethical behavior on a global scale.

One of the IESBA's strategic goals for 2024-2027 is to extend the scope of its ethics standards to other professionals involved in sustainability assurance and non-financial reporting. As sustainability becomes increasingly important to businesses and investors, ethics standards must evolve to address these new challenges.

Conclusion: The Critical Importance of Ethics in Accounting

In today's globalized and interconnected world, the importance of ethics in economic activities cannot be overstated. For Chartered Accountants, adherence to ethics standards is not just about avoiding legal repercussions—it is about upholding the trust and confidence that underpin the global economy. By adhering to ethical principles outlined in the IESBA Code, accountants can act as gatekeepers against financial misconduct, ensuring that businesses and economies remain transparent, accountable, and stable.

From combating money laundering and fraud to preventing greenwashing, Chartered Accountants play a vital role in safeguarding both the economy and society. Their work is essential not only for protecting businesses from financial crimes but also for ensuring the long-term sustainability of economic activities. As the business landscape continues to evolve, so too must the ethics standards that guide the accounting profession. By embracing these standards, accountants can help create a more just and sustainable future for all.

In celebration of **Global Ethics Day**, let us reaffirm our commitment to these values, recognizing that ethical behavior is key to creating a fair, resilient, and prosperous world.

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Ethical Standards and ICAI: Significant Milestones

"There is no way by which the law can compel a man to live up to the excellences of which he is capable. For workable standards of judgment the law must turn to its blood cousin, the morality of duty."

– Lon L. Fuller
in The Morality of Law

As a partner in nation building, the Institute of Chartered Accountants of India ("Institute") has been diligently carrying out the assigned role of regulation and development of the profession of Chartered Accountancy in its true letter and spirit. In achieving and retaining this position, the role of ethical standards is not only indispensable but intertwined with other professional standards too.

The Institute was established vide the Chartered Accountants Act, 1949 , which came into force on the 1st day of July, 1949 in pursuance of Notification no. 10-A(4)/49. The promulgation of the Act was not a sudden development; there were various events happening beforehand which resulted in its coming into force. As India attained freedom and there was a requirement of an autonomous body for providing Accounting and Audit services to the country, it was fulfilled with the passing of the Act and coming into existence of the Institute. Under the Act, the Institute would educate, register, and regulate Chartered Accountants in India. The Act, *inter alia*, provided for ethical practices of Chartered Accountants and disciplinary proceedings against a Chartered Accountant.

On the occasion of the first ever celebration of the Global Ethics Day by the Institute, which is yet another milestone towards its commitment for the adoption and implementation of the highest ethical standards, let us reminisce the evolution of the rich heritage of the ethical standards made applicable to members in practice and in service by the Institute.

1952 - Amendment in the Chartered Accountants Act, 1949 introduced new clauses pertaining to professional misconduct under Section 22 of the Chartered Accountants Act, 1949, such as the acceptance of appointment in conditions which constitute under-cutting, accepting a position previously held by a restricted auditor without communicating, allowing non-member or partner to sign documents on his behalf, contravention of any of the provisions of the Act and Regulations etc.

1959 - The Chartered Accountants (Amendment) Act, 1959 (No. 15 of 1959) published in the Gazette of India dated 7th May, 1960 came into effect from 1st July, 1959, and brought out some very significant changes in the Act like the introduction of two schedules, namely the First schedule and the Second schedule. The First Schedule dealt with professional misconduct with respect to members of the Institute in practice, members of the Institute in service, and members of the Institute generally. The First Schedule would deal with the professional misconduct of a Chartered Accountant that would have the effect generally of compromising his position as an independent person. This is

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

considered necessary, for a Chartered Accountant is expected to maintain the highest standards of integrity in his personal conduct and any deviation from the high standards even in personal affairs would expose a Chartered Accountant to a disciplinary enquiry. The Second Schedule dealt with professional misconduct with respect to the members of the Institute in practice, and members of the Institute generally, requiring action by the High Court for final adjudication. Prior to this, the Act comprised of one Schedule only.

The 1959 amendment also widened the scope of the term 'articled clerk' to include 'audit clerk' as well and entitled the Secretary to attend the meetings of the Council without having the power to vote thereat.

1963 - The ICAI brought out the first edition of the Code of Ethics, then called 'Code of Conduct', which included not only the provisions of the Chartered Accountants Act, but also the interpretation of the provisions by the Council, various High Courts and the Supreme Court.

The Code of Ethics is, since then, a major publication of the Institute containing ethical standards for Chartered Accountants to meet their responsibilities *vis-a-vis* acting in the public interest. It contains provisions which guide the Accountants in the situation of ethical dilemmas while discharging professional duties. The Accountants, whether in practice or in service, are required to comply with the provisions of the Code of Ethics.

The Foreword to the 1963 edition of the Code, written by the then President CA. R.C. Cooper stated as under:-

> *Ethics is a state of the mind, and there may be some act which, though it may not strictly fall under one of the items of the Schedule, may be one which may not be proper by any moral or ethical standards. In the larger interests of the Institute, the Council exhorts all members to search their hearts and conscience whenever in doubt, and thereby assist towards the maintenance of high principles of professional conduct established by the Council.*

1976 - 'Ethical Standards Committee' was constituted in 1976 for evolving ethical standards, providing guidelines, and overseeing that the standards were observed by the members. The objective was to provide proper guidance to members in order to prevent violations of the regulation and ensure the highest ethical standards are maintained by them.

1981 - 'Committee for Unjustified Removal of Auditors' (CURA) was constituted by the Institute to take necessary steps to protect the interest of the members. Thus, where an Auditor has been unjustifiably removed by an entity, he has recourse to address his complaint to the Committee which will address the complaint in accordance with the procedure.

1988 - The eighth edition of the Code of Conduct was issued which specifically incorporated the fundamental principles issued on professional ethics by the International Federation of Accountants (IFAC) i.e., Integrity, Objectivity, Independence, Confidentiality, Technical Standards and Professional Competence, and Ethical Behaviour (now known as Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour). This revision also included the provisions due to Chartered Accountants Regulations, 1988 replacing the Chartered Accountants Regulations 1964, decisions of the Council in administering the Code of Conduct, various statements on auditing practices and accounting standards, expression 'Management Consultancy Services' and some other provisions.

In the Foreword to this edition, the then President CA. S.K. Dasgupta noted:-

> *The "Code of Conduct" is essentially a set of professional ethical standards, regulating the relationship of Chartered Accountants with their clients, employers, employees, fellow members of the group and the public generally. According to the International Federation of Accountants, the ethical requirements of any accountancy body should be based on integrity, objectivity, independence, confidentiality, high technical standards, professional competence and above all on ethical behaviour. The Chartered Accountants Act, 1949 and the Schedules to the Act set out the acceptable forms of behaviour of the members of the profession.*

1989 - There was merger of terms of reference of the Committee for Unjustified Removal of Auditors (CURA) and the Ethical Standards Committee were merged and the nomenclature was changed to Committee on Ethical Standards and Unjustified Removal of Auditors (CESURA). The merger of the two committees widened the scope of the Committee.

2001 - The 'Code of Conduct', was called the 'Code of Ethics' for the first time in its ninth edition in 2001 with an idea of reinforcing and observing the ethical standards for the profession.

2005 - CESURA renamed as "Committee on Ethical Standards (CES)".

2006 - The Chartered Accountants (Amendment) Act, 2006 (No. 9 of 2006) received the assent of the President on 22nd March, 2006 and was published in Part II Section I of the Gazette of India, Extraordinary dated 23rd March, 2006. This Amendment Act, which came into effect from 8th August, 2006, brought out some far reaching changes in the Act. It overhauled the disciplinary mechanism of the Institute. The Second Schedule to the Chartered Accountants Act, 1949 which required the Council to refer findings of professional misconduct to the High Court after it came under the jurisdiction of the ICAI's Disciplinary Directorate. Further, it brought about an increase in the strength of Council and manner of conduct of election to the Council, limited exemptions under Clauses (2), (3), (4) and (5) of the First schedule, permission of limited advertisement, removal on prohibition on undercutting, discontinuation of the disclosure requirement in case of substantial interest etc. It also established a Quality Review Board and a Tribunal for settlement of disputes pertaining to elections to the Council.

2007 - The Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct of Cases) Rules, 2007 laid down the procedure with regard to the investigation of professional misconduct of members.

2008 - In line with the practice of Accountancy Institutes in the major jurisdictions christening the standard setting units as 'Boards', Institute renamed Committee on Ethical Standards as 'Ethical Standards Board' .

2009 - The eleventh edition of Code of Ethics was issued which incorporated ethical requirements in view of the significant amendments in The Chartered Accountants Act, 1949 made vide 2006 amendment and in the changing scenario of increasing participation in the accountancy profession worldwide.

This edition incorporated for the first time ever, the provisions of Code of Ethics issued by IFAC. The Code of Ethics was divided into two parts (Part-A and Part-B); Part-A incorporated provisions of IFAC Code of Ethics, and Part-B was based on the domestic provisions. The ICAI converged with the IFAC Code of Ethics subject to the variances, wherever required, have been made to make it compatible with Indian laws.

Part-B of Code of Ethics incorporated the domestic provisions of India including the Council Guidelines for Advertisement, 2008 and Council General Guidelines, 2008 to strengthen the impact of profession on the globalized economy by finding a level playing field on the changing scenario.

The 2009 (eleventh) edition was thus a leap towards convergence with International Standards (without change in the intrinsic character of the Code) as noted by CA. Ved Jain, the then President in the Foreword to this edition -

> *A need was felt to revise the existing Code of Ethics with a view to meet the ethical requirements in view of the amendment in The Chartered Accountants Act, 1949 and in the changing scenario of increasing participation in the accountancy profession worldwide. While revising the Code of Ethics, the Institute of Chartered Accountants of India (ICAI) has adopted the International Federation of Accountants (IFAC) Code of Ethics for professional accountants subject to the variances, wherever required, have been made to make it compatible with Indian laws. The provisions of this Code of Ethics are more stringent than those of IFAC Code. The adoption of IFAC Code is a step towards compliance of ICAI's membership obligations of IFAC.*
>
> *In bringing out this publication, the Ethical Standards Board and the Study Group constituted*

for the revision of the Code, has given their considerable time in discussions on each and every part of the Code. In this publication the Board has incorporated and presented very nicely all the decisions of the Council on ethical issues as well as the decisions of the Courts on disciplinary cases. Part – A of the Code has been issued as 'Guidelines of the Council'.

In 2009, a special ethical awareness column *'Know your Ethics'* also started being published in the CA Journal since September, 2009. This continues till date and carries important contemporary FAQs on ethical issues of interest to members.

2011 - The Chartered Accountants (Amendment) Act, 2011 (No. 3 of 2012) received the assent of the President on the 8th January, 2012, and was published in Part II Section I of the Gazette of India Extraordinary dated 9th January, 2012. This Amendment Act, which came into effect from 1st February, 2012, brough changes due to Limited Liability Partnership Act, 2008, and inserted certain new definitions under the Act such as firm, partner, partnership and sole proprietorship. Firm as defined under this Amendment Act also includes a limited liability partnership and sole proprietorship. Similarly, partnership as defined under the Act includes both partnership under Indian Partnership Act, 1932 as well as a limited liability partnership which has no company as its partner. It also amended Section 25 of the Act (companies not to engage in Accountancy) to include a limited liability partnership having a company as its partner, within the ambit of company as mentioned in the Section.

2017 - The Institute issued mandatory Know Your Client (KYC) norms applicable for all attest functions w.e.f 1.1.2017. These are indispensable to address threats resulting from illegal client activities like money laundering etc. These now form part of the Volume-I of Code of Ethics.

2019 - Ethical Standards Board started its Twitter handle @icaiesb, wherein important topics on Code of Ethics and other updates are being regularly shared for awareness of members. The objective behind this is to achieve optimum adoption and implementation by members.

2020 - The existing (twelfth) edition of Code of Ethics has been issued in, 2020. This is the first edition of the Code of Ethics to be segregated into three Volumes - I, II and III. While Volumes I and II represent the revised counterparts respectively of Parts A and B of Code of Ethics, 2009, the Volume-III is the Case Laws Referencer. The Code is effective from 1.7.2020 with the exception of certain provisions which were deferred due to the situation prevailing then due to Covid-19 and which were made applicable from 1.10.2022.

The ethical standards setting is more complex today than ever before because of the changes in technology and other changes like the ways of doing business globally, involvement of more stakeholders and resultant higher expectations from all quarters.

The Volume-I is based on International Ethics Standards Board for Accountants (IESBA) Code of Ethics, 2018 edition. It mentions new Independence Standards (Parts 4A and 4B). There is new pattern of structuring of each Section. The parts shown as requirements establish general and specific obligations to be complied with by the members, while the application material provides other guidance. New terms have been incorporated such as Public Interest Entity and Key Audit Partner. Responding to Non-Compliance of Laws and Regulations (NOCLAR) is a new critical feature. In the course of providing a professional service to a client or carrying out professional activities for an employer, a professional accountant may come across an instance of NOCLAR or suspected NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer. Recognizing that such a situation can often be a difficult and stressful one for the professional accountant, and accepting that he has a prima facie ethical responsibility not to turn a

blind eye to the matter, the IESBA has incorporated this feature to help guide the professional accountant in dealing with the situation and in deciding how best to serve the public interest in these circumstances.

Volume – II of the twelfth Edition is based on domestic provisions governing the Chartered Accountants. This complements the Volume I and makes a complete reading. Volume-II contains provisions relating to Code of Ethics, along with all Council/Committee decisions of last ten years viz. Tender Guidelines, Corporate Form of Practice Guidelines, Logo Guidelines, UDIN Guidelines, Networking Guidelines, Revised Advertisement Guidelines etc.

2021 - CA Connect Portal (www.caconnect.icai.org) was launched under the aegis of Ethical Standards Board. The modes of dissemination of information about CA Firms available on Internet are owned by various third parties, which do not operate as per the requirements of Code of Ethics. In view of this, this indigenous search engine portal for members and firms was developed. The objective of this Portal is to provide an effective platform for listing complying to ethical norms. This Portal is providing the essential bridge between clients and Chartered Accountants. The prospective clients can search the services offered by firms / individual practitioners based on their area of expertise under one-roof, irrespective of their geographical locations.

2022 - The Chartered Accountants, Cost and Works Accountants and Company Secretaries (Amendment) Act, 2022 was passed by the Lok Sabha on March 30, 2022 and the Rajya Sabha on April 5, 2022. The President of India gave assent to the Bill on April 18, 2022. It is already applicable with respect to some amendments and is still to be notified with respect to other amendments especially amendments pertaining to changes in the Disciplinary mechanism. Some of the important provisions included in the Amendment Act are relating to the changes in the composition of Board of Discipline and Disciplinary Committee including fixation of timelines for various disciplinary processes, formation of a Coordination Committee of the three professional institutes, and authority to take actions against firms.

The new chapter IVA containing new sections, namely 20A, 20B, 20C and 20D and revised section 21, Section 21A, 21B, 21D, Section 22, 22G have been added, but not been notified yet as being applicable.

Some of the important changes which have already been notified are :-

(a) In the preamble, for the word "regulation", the words "regulation and development" shall be substituted.

(b) Punishment increased in case of violation of provisions of Section 25 of the Chartered Accountants.

(c) Clause (9) of Part-I of First Schedule to The Chartered Accountants Act, 1949 , which stipulates ascertaining the compliance with the provisions of Companies Act by the Incoming Auditor would now also be applicable to other entities. The Clause adds that the Incoming Auditor shall ascertain compliance with "any other law pertaining to appointments of auditor for time being in force".

(d) New Clause (5) of Part II of Second Schedule of the Chartered Accountant Act, 1949 inserted, which treats as professional misconduct to act as an auditor of the company in contravention of the provisions of the Companies Act, 2013 (18 of 2013).

One will appreciate that the contemporary principles of Independence, Communication, Professional Behaviour etc. were introduced by the Act and by the Institute much before these principles were formally codified by Accounting bodies in the World. It is noteworthy that IFAC issued its first edition of Code of Ethics for Professional Accountants in July, 1990 whereas the Institute brought its first edition of Code of Conduct in 1963 for the Chartered Accountants. We are ahead of the International ethical standards by certain parameters. Internationally, there are very little of the kinds of prohibition contained in clauses of the two schedules to the Chartered Accountants Act. Even in the comparable areas, Institute has certain stricter provisions e.g. complete bar on accounting and internal services to audit clients, which may not be so internationally.

The ethical standards setting is more complex today than ever before because of the changes in technology and other changes like the ways of doing business globally, involvement of more stakeholders and resultant higher expectations from all quarters.

With the experience and wisdom through the very early constituted ethical regime, we have an edge. On the upcoming Global Ethics Day, while we reaffirm our commitment on ethics, we must remember the following legendary words echoed in the Code of Ethics:-

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

The Responsibility of Chartered Accountants in Upholding Business Ethics

Businesses may resort to unethical practices in times of trouble or be spurred by the temptation for quick profits. Unethical practices can stem from anywhere in the organization. Gaining an understanding of the motives and nuances of unethical practices and realising their fallout can help implement measures to deter such practices. Chartered Accountants, being the guardians of public trust, can hold businesses accountable and promote ethical conduct. The article explores the concept of ethics, delves into common unethical practices, and how Chartered Accountants can help promote ethical business conduct.

CS Usha Ganapathy Subramanian

Dr. Ranjith Krishnan
Consultant

Introduction

Businesses are not merely instruments of wealth creation but are important building blocks of the socio-economic system. They harness the collective synergy of different stakeholders – customers, suppliers, employees, lenders, shareholders, the society, the government, and the environment to create value. Here, treating every stakeholder as an equal partner is important. The business landscape abounds with opportunities but also with risks, creating pressure to perform. Greed and fear may cause businesses to lose sight of what is right and what is not, and succumb to unethical means of making profits or staying afloat.

Unethical practices result in huge losses for stakeholders as well as dent the trust reposed in businesses. Scam after scam has led regulators worldwide to focus on business conduct. Concepts like triple bottom line (people, planet and profits) and ESG (Environment, Social and Governance) are emphasized in various forums. This, together with the rise of responsible investing, is serving as a wakeup call for businesses. Whether it's the Guidelines for Multinational Enterprises from the Organisation for Economic Cooperation and Development[1], or the United Nations Guiding Principles on Business and Human Rights[2], the call for businesses to act responsibly is loud and clear.

In India, specific focus on ethical conduct can be observed from the National Guidelines for Responsible Business Conduct issued by the Ministry of Corporate Affairs in 2019[3] and in SEBI's Business Responsibility and Sustainability Reporting mandated as a part of the annual report for the Top 1000 listed entities by market capitalisation.[4] Among

[1] OECD, MNE Guidelines, https://mneguidelines.oecd.org/mneguidelines/

[2] UNDP, Guiding Principles on Business and Human Rights, https://www.undp.org/sites/g/files/zskgke326/files/migration/in/UNGP-Brochure.pdf

[3] MCA, NGRBC, https://www.mca.gov.in/Ministry/pdf/NationalGuildeline_15032019.pdf

[4] SEBI, Business Responsibility & Sustainability Reporting Format, https://www.sebi.gov.in/sebi_data/commondocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure1_p.PDF

the nine principles included in these frameworks, the very first is: "Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable."

Let us now delve deeper into what is ethics.

> **An ethical practice is one that promotes the welfare of the stakeholders while minimizing any harm to them.**

punishable by law. While all offences are typically unethical, all unethical practices are not offences punishable under the law. Sometimes, an unethical practice does not get tainted with illegality or even with technical non-compliance. Some actions may be unethical but perfectly legal. For example, a business that lays off several employees during a downturn but pays a heavy hike in remuneration to the managing director is legal but may be viewed as highly unethical.

Another example would be: A large business may negotiate highly unfair terms of contract with a small-scale supplier with very thin or even absent margins for the supplier. This is unethical but not necessarily an offence. It is not even a voidable contract unless one can prove the element of coercion, undue influence, misrepresentation or fraud. Further, while agreements without consideration are void, agreements with inadequate consideration are still enforceable. It may not necessarily fall under the abuse of dominant position under the Competition Act, 2002 either. This is an instance of misuse of bargaining power. Though tolerated as a necessary risk in the free markets, such practices perpetuate disparities and inequality.

What are ethics and how to identify an unethical practice?

Figure 1 Designed and Conceptualised by the Authors

The term 'Ethics' can be described as doing the right thing given a set of circumstances. An ethical practice is one that promotes the welfare of the stakeholders while minimizing any harm to them. We need not search far when it comes to defining ethics, when '*Dharma*' is entrenched in Indian ethos. The principle of '*Dharma*' requires one to not just consider the written laws but seek to understand one's duty and perform the right action in a given situation. Ethics goes beyond mere compliance with law.

Figure 2 Designed and Conceptualised by the Authors

As a corollary, all unethical practices are not classified as offences in law. An 'offence' is any act made

Many unethical practices, falling under illegality or otherwise, are observed in several business scenarios: financial frauds, abuse of dominant position, market manipulation, insider trading, cross-selling products without customer consent, selling sensitive data to third parties, marketing unhealthy foods under misleading labels, selling food products past their expiry date, misappropriating trademarks, illegal dumping of wastes, contamination of the environment, and so on. Let us take a look at some unethical practices from a financial and accounting perspective.

Unethical Practices in Finance and Accounting

Unethical practices in finance and accounting range from minor accounting "adjustments" to major frauds resulting in losses running to thousands of crores to investors or lenders. These include financial misreporting by inflating revenue to boost market perception or suppressing revenue to avoid taxes, or inflating or suppressing expenses, siphoning off money through fake transactions and forged documents, creating ghost employees, collusion with third parties, and so on. Tax evasion and money laundering often accompany financial frauds. Many accounting and financial frauds have one or more of the following elements:

- **Measures towards inflating or suppressing profits** – These include inflating revenue by showing non-existent sales, recognizing sales on sale-or-return basis before meeting recognition criteria, classifying revenue expenditure as capital expenditure, suppressing profits by showing bogus expenses or inflating expenses etc. These could be aimed at boosting share prices, avoiding taxes or justifying excessive managerial remuneration.
- **Judgments and estimates and other grey areas:** While estimates and judgments form a necessary component of preparation of financial statements, these are areas where unethical practices could slide in subtly. The auditor critically analyse management's judgments and estimates and verify their appropriateness.
- **Unjust enrichment at the cost of investors or lenders** – Siphoning off public money to unjustly enrich promoters is seen in many instances. There are many cases of fraud involving public money being misappropriated in one way or the other.
- **Tax evasion and tax avoidance** – Suppressing profits is mostly aimed at avoiding taxes. Base erosion and profit shifting (BEPS) practices involve eroding the profit base in high-tax jurisdictions and shifting profits to low-tax jurisdictions. As per data from the Organisation for Economic Cooperation and Development (OECD), BEPS practices result in losses in annual tax revenue ranging from USD 100-240 billion globally[5].
- **Money laundering** – Money from illegal activities or untaxed income is removed as far from the source as possible to hoodwink authorities. This is done with placement, layering, and integration. Layering involves routing the money through multiple entities set up by the perpetrator in different jurisdictions. Here again, it becomes important to analyze related party transactions.
- **Collusion** – Frauds and unethical practices often involve corruption and collusion on some level. Whether it is colluding with other employees or directors or bankers, it is difficult to spot because collusion per se is intended to hide frauds.
- **Insider trading** – Communicating unpublished price sensitive information to others or trading while in possession of such information constitutes insider trading. Insider trading is often an accompaniment to other frauds or can be a standalone practice too.

Broader implications of ethical lapses

Ethical lapses could have huge after - effects.

Loss of goodwill

Monetary losses - penalties, damages, fines

Loss of opportunities

i. For the business and its promoters:

- Loss of goodwill resulting from exposure of unethical practices is sometimes permanent. Relationships with stakeholders would be jeopardized, which would in turn affect business opportunities. Unethical practices in an organization are like slow poison or cancer. Their presence will not be felt anywhere in the beginning. However, by the time the symptoms show up, the problem is already too enormous to salvage the past glory.
- Regulatory action may lead to payment of huge penalties or damages and cessation or suspension of business activities. Even temporary suspension of business could lead to loss of business opportunities and a severe dent to the market share enjoyed by the business.
- The business, its promoters, governing body members, and key managerial personnel could face prosecution and be punished with imprisonment and/or fine.

5 OECD, BEPS, https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html

ii. For the stakeholders and society

- Huge losses to investors, lenders or the exchequer are a common consequence.
- Employees would suffer at least a temporary dent to their credibility in the job market.
- If the business closes down, small suppliers may lose a major source of their livelihood.
- In case of unethical environmental practices, the damage is often invisible, long-term, and widespread. Negligence in safety and environmental aspects can have disastrous effects.
- Unethical practices in the food and medical industry directly affect the health and lives of the consumers.

These dire consequences make promotion of ethical conduct an urgent necessity in today's world.

iii. Ways in which Chartered Accountants may promote ethics

The society looks up to Chartered Accountants not only as experts in accounting, tax, and audit domains, but also as guardians of trust. In their role as auditors, they have the duty to exercise professional skepticism and due diligence, which helps them unearth unethical practices. Furthermore, auditors have the duty to report frauds under Section 143(12) of the Companies Act, 2013.

The role of an auditor can be compared to a doctor. While treating a patient for a bout of fever, the doctor may prescribe an antibiotic for fast recovery and end the visit. However, a thorough physician looks beyond the symptoms for any underlying problem. This may be time-consuming, but leads to a sustainable solution. Similarly, the auditor cannot dismiss any internal control weakness, non-compliance with laws, and regulations or misstatement of financial statements with a cursory treatment. He must probe further to understand whether they form a part of an underlying fraud or unethical practice. Just as a eagle flies high, surveying the entire landscape below while following its prey with intent focus, Chartered Accountants should develop the ability to grasp the bigger picture while paying attention to details.

The ways through which Chartered Accountants can inspire ethical conduct in clients or employer entities are as follows:

Figure 3 Designed and Conceptualised by the Authors

a. Accepting clients and assignments based on integrity of the clients

The Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" requires auditors to consider the integrity of the client as one of the main factors before accepting clients and engagements. When this is enforced in spirit by all the professionals, it will foster an environment of integrity as clients will know that they may be refused the services of a Chartered Accountant in practice if they are unable to demonstrate integrity. This principle can also be applied by those seeking employment with entities.

b. Ensuring Independence

Auditors must self-evaluate their independence for every assignment beyond the requirements of the written law. Though very broad in nature, Section 141 of the Companies Act, 2013 does not include every circumstance that could cloud one's judgment. For example, where the promoter of a client is a close relative (like father-in-law, who is not covered in the list of relatives) or a close friend, Section 141 is not violated, but independence may be questionable. A thorough introspection is required in such circumstances to evaluate whether he will truly be able to exercise professional skepticism and remain objective. Independence must be upheld both in appearance and in mind as mentioned in Section 120.12 A1 in ICAI's Code of Ethics in order that the stakeholders can trust the audit process. Maintaining objectivity is a sought-after behavioural skill when it comes to employment too.

c. Performing robust audit procedures and exercising objectivity

Auditors can effectively promote ethical conduct by performing audit procedures in accordance with the auditing standards, exercising objectivity and skepticism in every walk of the audit process, especially while evaluating audit evidence. Evaluating the governance in an organization can provide deeper insights into the level of integrity and risk assessment of the entity. Exercising due diligence is necessary for those in service too.

d. Reporting of frauds

If the auditor encounters a fraud in the course of performance of his duties, reporting under Section

Auditors must self-evaluate their independence for every assignment beyond the requirements of the written law.

143(12) to the Central Government or to the board/audit committee of the company, as the case may be, must be done by the auditor. This duty to report frauds is domain-agnostic and encompasses all types of fraud in the company, not just financial. To stand one's ground in the face of unethical practices and more so to report them takes a different set of qualities altogether. The hallmark of a good professional is not merely in passing exams and undergoing training, but is demonstrated through integrity, objectivity, and courage.

e. Responding to NOCLAR

Unethical practices may often result in non-compliance with laws. All non-compliance may not be unethical; some may be technical or unintentional; however, each instance of non-compliance warrants remedial action and a closer look. In line with the Code of Ethics evolved by the International Ethical Standards Board for Accountants (IESBA), the Institute of Chartered Accountants of India (ICAI) has mandated responding to Non-Compliance with Laws and Regulations (NOCLAR) in its 12th edition of the Code of Ethics[6] with effect from 1st October, 2022. Sections 260 and 360 of the Code elaborate on responding to NOCLAR in listed entities by members in service and in large listed entities by members in practice respectively.

The Code lays down examples of non-compliances like fraud, corruption, bribery, money laundering, securities market, data protection, banking, taxes, environment protection, and public health and safety. Requirements under the provisions include: seeking an understanding of the legal or regulatory provisions including reporting to authorities and/or prohibition from alerting the client/employer like in

[6] ICAI, Code of Ethics (12th Edition), https://resource.cdn.icai.org/55133CodeofEthics-2019.pdf

the case of money laundering; determining whether reporting is necessary, and if so, to whom; taking appropriate action including communicating with those charged with governance; other actions in public interest; and advising on or enabling remedial action and deterring further occurrence.

f. Appropriate Audit Reporting

One of the significant ways to promote ethical conduct is by issuing a modified audit report wherever appropriate. The ways to do this are eloquently described in the Standard on Auditing (SA) 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report". If the auditor determines that the financial statements are not free from material misstatements, he needs to issue a qualified opinion or adverse opinion, as the case may be, depending on whether the material misstatements are pervasive. Wherever he is unable to obtain sufficient appropriate audit evidence, he needs to give a qualified opinion or disclaimer of opinion depending on whether the possible effects of undetected misstatements on the financial statements is "material but not pervasive" or "both material and pervasive".

Sometimes, unethical practices may not have an effect on the integrity of financial statements. The financial statements could still present a true and fair view, and the auditor may not be able to issue a modified audit report. However, even in these cases, there could be matters so significant that the auditor may consider them fundamental to the users' understanding of the financial statements. In such cases, he shall communicate them in his audit report in the Emphasis of Matter paragraph. These may include circumstances like significant catastrophes, uncertainty involved in major regulatory actions or exceptional litigation, significant subsequent events (Standard on Auditing (SA) 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"). The fact that the auditor's opinion is not modified in respect of the matter should be clearly disclosed. This option should be used by the auditor after exercise of due diligence and judgment lest the importance of this option may be diluted.

g. Interdisciplinary acumen

Unethical practices may be overt or subtle. The subtle ones are shrouded in opaqueness or artful manipulation, and involve leveraging the vulnerabilities of stakeholders. Chartered Accountants must acquaint themselves with interdisciplinary skillsets to be able to detect unethical practices and nip them in the bud. Standard on Auditing (SA) 240 – "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" touches upon these aspects under fraud risk factors, pointing *inter alia*, to domineering behaviour, unexplained behavioural changes in employees, and behaviour indicating dissatisfaction with the entity.

h. Continuous professional development

The shape and form of unethical practices is ever evolving with changes in business and legal landscape. Given the power and ubiquity of Artificial Intelligence (AI), it could be misused by fraudsters. Chartered Accountants must watch out for novel ways of committing frauds. It is important to always remain updated on the current trends, technologies and measures to detect and prevent their abuse.

i. Ethical leadership

Chartered Accountants can set the tone of ethical leadership by being an exemplar of ethical conduct and demonstrating integrity beyond reproach. How he makes decisions in the face of pressure can set an example of ethical leadership. Fostering an environment of camaraderie and team spirit can help entrench the ethical requirements more gently yet firmly in the minds of his colleagues.

j. Codes, Policies, Procedures and Internal Controls

Chartered Accountants can help businesses (other than audit clients) incorporate ethical aspects in their policies, operating procedures, internal controls, and risk management frameworks, and setting up a monitoring mechanism will lay the foundation for ethical conduct in the organization where they are working. In respect of setting up internal operating controls too, Chartered

Accountants can play a significant role by bringing to the table their deep insights and objectivity.

k. Technology in ethics

Chartered Accountants can help organizations harness technologies like Artificial Intelligence (AI) tools and blockchain can help promote an ethical ecosystem as unethical practices could be detected promptly by culling out patterns from the enterprise data and identifying red flags. Further, AI may soon outperform human beings. Leveraging AI while ensuring its ethical usage will become important for all Chartered Accountants.

Role of ICAI in promoting ethics

Given the growing technological and market inducements to unethical practices and the huge impact they could have, the role of ICAI in guiding Chartered Accountants in curbing unethical practices is crucial. The following are some of ICAI's ongoing efforts:

Code of Ethics: ICAI has taken many measures to ensure ethical practices among its members, including the setting up of the Ethical Standards Board, mandating the Code of Ethics for its members and convergence towards IESBA's Code of Ethics, discussions in webinars and journals, and so on.

Ethics as part of curriculum: ICAI imparts awareness on and sensitivity to ethical aspects to Chartered Accountancy students through its curriculum throughout the course.

Workshops on ethics: Programmes are conducted for the benefit of students and professionals where ethical aspects are discussed. Students and Members alike would benefit by gaining a better understanding of practical aspects like how to handle pressure from clients or employers, assertiveness training, report writing workshops, how misuse of technology could affect the audit process, newer unethical practices and how to counter them, which can be gained from attending ICAI's programmes as well as by imbibing practical wisdom during their practical training.

Specific guidance on non-audit services: The Companies Act, 2013 effectively prohibits auditors from rendering those non-audit services mentioned in Section 144 of the Act. The Code of Ethics issued by the ICAI contains guidance on how an auditor should evaluate various threats to independence in respect of various types of engagements. Following the Code of Ethics in letter and spirit will imbue the entire business ecosystem with ethical conduct.

Conclusion

An inherent respect for the stakeholders, appreciation of their contributions, and accountability towards them felt by the Board and permeated across the organization will ensure that unethical practices are minimized. Ethics is to business, what an engine is to a train. Just as an engine connects disparate compartments, gives energy and force to move towards a common goal, ethics drive the entirety of business towards a sustainable future. When there is a trouble, one blows the whistle to the engine, which then guides the entire train on a safe path. The concept of "*Dharma Eva Hatho Hanthi, Dharmo Rakshathi Rakshithah*" (Dharma destroys those who destroy it, and protects those who protect it) must serve as a beacon of light to businesses and professionals alike in times of trouble and temptation.

Chartered Accountants, being the unsung heroes of stakeholders, can ensure that businesses operate responsibly, paving the way for a sustainable economy and a fairer society.

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The Bhagavad Gita and Ethical Independence for Chartered Accountants: Navigating Professional Challenges

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The article explores the profound wisdom of the Bhagavad Gita and its practical significance for Chartered Accountants (CAs). CAs hold a pivotal responsibility in safeguarding financial integrity by ensuring precise financial reporting, adhering to regulatory frameworks, conducting impartial audits, detecting potential fraud, and upholding ethical principles that promote transparency and accountability in organizations. The article offers guidance to members on how the Gita's teachings on duty, righteousness, and detachment can help CAs preserve their professional independence. It also addresses key challenges to a CA's objectivity, such as long-standing client relationships, requests for additional services, unethical proposals, and promises of future work. Drawing upon the teachings of the Gita, the article presents strategies to overcome these challenges while upholding ethical standards, fostering professional skepticism, and maintaining integrity in the execution of their responsibilities.

The Bhagavad Gita, though a primeval spiritual text rooted in a religious tradition, offers wisdom that resonates far beyond its original context. Its insights into duty, righteousness, and the importance of detachment have relevance in numerous areas of life, including the professional domain. For Member (Chartered Accountant) who are often at the forefront of ethical dilemmas in their careers, the Gita's teachings can be particularly instructive.

CAs serve as the curators of financial integrity, and in this role, maintaining independence is not just a regulatory requirement—it's a fundamental ethical obligation which is absolute in all sense. However, in the course of their work, Members frequently encounter situations that can test this independence. Long-term relationships with clients, requests to provide additional services beyond their audit role, unethical proposals, and even the temptation of future work can all attract a Member to deviate from the path of impartiality.

Here is where the Gita's insight comes to play the role. The verses of Gita explains the importance of performing one's duty without attachment to the results—a concept known as *Nishkama Karma*. For a Member, this means making decisions based on what is ethically correct, rather than what is convenient or advantageous in the short term. It's about being rooted in virtue (Dharma) and acting with integrity, irrespective of external pressures.

Moreover, the Gita teaches the value of detachment—remaining unaffected by personal gains or losses. For a CA, this means

The Bhagavad Gita provides a moral foundation that closely aligns with this principle, particularly through its teachings on detachment and duty.

resisting the allure of rewarding offers that might compromise their independence. It's about maintaining a clear judgment that is not persuaded by potential future benefits.

To have guidance in these challenging circumstances it requires a deep commitment to ethical principles, much like the Gita advocates. By applying the Gita's teachings, CAs can strengthen their resolve to uphold the highest standards of professional conduct, ensuring that their decisions are guided by integrity rather than personal or financial gain.

In essence, the Gita offers an eternal guide for CAs determined to maintain independence in their professional lives. It provides not just a moral framework, but a practical approach to ethical decision-making, helping CAs steer the complex professional circumstances with wisdom.

The Concept of Independence

Independence is a fundamental principle for a member while discharging his attest function, ensuring that his decisions and opinions are free from bias or undue influence. The *Bhagavad Gita* provides a moral foundation that closely aligns with this principle, particularly through its teachings on detachment and duty.

Gita Insight

"Karmanye vadhikaraste, Ma phaleshu kadachana"

(You have only right to perform your prescribed duties, but you are not entitled to have a wish for the outcome of your actions. It is based on PRARABDHA.)

This verse from the Gita highlights the importance of focusing on one's responsibilities without attachment to the outcomes. For members, this teaching underscores the need to perform professional duties of attestation with integrity, without being persuaded by potential personal gains or relationships. Independence, in this context, is about maintaining objectivity and ensuring that peripheral factors do not impact professional judgment.

Threat to Independence and its Mitigation

1. **Long-Term Client Relationships**

Threat

Over a period of time, a long-standing relationship with a client can create a familiarity threat, where the member may develop a sympathetic bond with the client, potentially leading to a loss of objectivity. The trust and ease built over years can subtly influence the Member's judgments, making it difficult to maintain the necessary level of skepticism.

Gita's Guidance:

"Yogasthah kuru karmani, sangam tyaktva dhananjaya;

Siddhy-asiddhyoh samo bhutva, samatvam yoga uchyate"

(Perform your duty with equanimity, O Arjuna, abandoning all attachment to success or failure. Such equanimity is called Yoga.)

This verse from the Gita teaches the importance of performing duties with a balanced attitude, free from attachment to outcomes or relationships. It encourages Members to approach each client interaction with professional attitude, regardless of the relationship's period.

Mitigation Strategy

To mitigate the familiarity threat, members should comply with the requirements of rotation of key personnel, including audit engagement partners, to bring a fresh viewpoint to the client relationship. Additionally, engaging a review partner or obtaining an independent opinion from another professional can help maintain objectivity. Regular reassessment of the relationship with long-term clients is vital to ensure that independence remains undisturbed.

2. **Requests for Additional Services**

Threat

When a client requests additional services beyond the initial engagement, it can lead to a self-interest or self-review threat. The monetary benefits of providing these services may compromise the member's independence, particularly if outcome of these services becomes subject matter of Audit.

Gita's Guidance:

"Swadharme nidhanam shreyah, paradharmo bhayavahah"

(It is better to perform one's own duties, even imperfectly, than to perform others' duties perfectly. Death in the course of performing one's own duty is preferable to engaging in the duties of others.)

This verse underlines the importance of observing to one's prescribed duties. For members, this means focusing on their core responsibilities without letting the prospect of additional services impair their professional judgment. The Gita's emphasis on performing one's duties aligns with the need for members to remain within the scope of their ethical obligations, resisting the lure to overstretch their services in a way that could impair their independence.

Mitigation Strategy

Members should carefully evaluate whether the provision of additional services could impair their independence, particularly if these services overlay with audit functions. Segregation of duties, where different teams perform non-audit services, can help prevent conflicts of interest. If the risks to independence cannot be mitigated, member should not accept the assignment and may withdraw from engagement if threats emerged subsequent to acceptance of engagement by any networking firm. Transparency with the client about these concerns is essential for establishing clear limits as per SA 260, specially in case of Listed entities .

3. **Requests for Tax Evasion or Unethical Adjustments**

Threat

A significant ethical challenge arises when a client requests assistance in tax evasion or proposes unethical adjustments to financial statements. Such requests pose a direct threat to a CA's integrity and independence, as complying with them would involve engaging in illegal or unethical activities.

Gita's Guidance:

"Sarva-dharman parityajya, mam ekam sharanam vraja; Aham tvam sarva-papebhyo, mokshayishyami ma shuchah"

(Abandon all forms of dharmas and simply surrender unto Me alone. I shall liberate you from all sinful reactions; do not fear.)

This verse calls for surrendering to righteousness and abandoning any duties that conflict with the path of virtue. For CAs, this translates to adhering to the highest ethical standards, even when faced with client pressure. The Gita encourages unwavering commitment to dharma (righteousness), which in the professional context means rejecting any engagement that involves unethical practices.

Mitigation strategy

Members should take a firm stance on ethical matters, clearly communicating to clients that they will not engage in or support any form of tax evasion or unethical financial adjustments. A documented code of ethics outlining these non-negotiable principles is essential. If a client persists in making unethical requests, the member should consider disengaging from the relationship to protect their reputation and avoid legal consequences. Upholding integrity in such situations reinforces the trust placed in the profession by the public.

4. **Proposals of Prospective Work**

Threat

When a client offers prospective work contingent upon favorable decisions or outcomes, it creates a conflict of interest that threatens the Member's independence. The promise of upcoming engagement may bias the Member's attestation work, leading to compromised judgments.

Members should take a firm stance on ethical matters, clearly communicating to clients that they will not engage in or support any form of tax evasion or unethical financial adjustments.

Gita's Guidance:

"Tasmad asaktah satatam karyam karma samachara; Asakto hy acharan karma, param apnoti purushah"

(Therefore, without being attached to the fruits of activities, one should act as a matter of duty; for by working without attachment, one attains the Supreme.)

This verse advises detachment from potential rewards and outcomes, focusing solely on the duty at hand. For members, this means making decisions based on ethical principles rather than the promise of future work. The Gita's emphasis on performing one's duty without attachment aligns with the professional requirement to remain independent, ensuring that current engagements are conducted without bias.

Mitigation Strategy

CAs should ensure that their current decisions are made purely based on ethical and professional considerations, independent of any potential prospective engagements. Creating clear policies for accepting future work, including a cooling period where necessary, can help mitigate conflicts of interest. Transparency with both the client and within the firm about these policies can avoid situations where potential work influences current decisions.

The Role of ICAI as a Guide

The Institute of Chartered Accountants of India (ICAI) plays a crucial role in guiding its members, much like how Shri Krishna guided Arjuna on the battleground of Kurukshetra. The ICAI's Code of Ethics provides a structured framework that helps members navigate complex ethical dilemmas, emphasizing the importance of independence, integrity, and professional skepticism. The Gita's teachings reinforce these principles, offering a spiritual dimension to the ethical standards set by the ICAI.

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Navigating Ethics in the age of Globalization and Technology: A CA Perspective

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Ethics has evolved from a purely theoretical approach, which primarily aimed to help organizations avoid legal troubles, to become establishments of trust, transparency, and fair practices. In other words, ethics in practice involves ethical standards and notions and the recognition of the right method regarding some moral requirements and policies.

Chartered Accountants, who oversee financial integrity and corporate governance, are instrumental in ensuring organizations adhere to the right business etiquette. This responsibility is especially significant in today's world where other dynamics such as technological advancements, globalization, and evolving customer preferences might expose firms to increased ethical scrutiny by leading regulatory authorities. Ethical misconduct leads to financial cost and reputational damage, as revealed by various corporate shortcomings in the last decade.

Professional ethics involves continuous self-monitoring, functioning by the professional standards of practice, and maintaining professionalism in situations that may be regarded as unethical. While each profession has its own set of principles and practices, the core idea is to act with integrity and responsibility in all professional and personal interactions.

Evolution of Ethics

- **Mythological Insights:** Ethical standards have been an emotional part of civilization for many years. The Mahabharata is deeply rooted with the idea of *dharma* where Krishna teaches Arjun about the right path rather than the desirable goal. In the ancient era, Chanakya's Arthashastra outlines various principles of governance and human behavior, one of which includes the *Chatur Upadhas* or four ways of influencing and controlling people. These methods can be broadly classified into *Dharmopadha, Arthopadha, Bhayopadha*, and *Kamopadha*. Each represents a strategic approach to dealing with different situations or persuading individuals.
- **Industrial Revolution:** The industrial period enormously increased economic productivity and social and environmental injustice. Some businessmen such as Robert Owen took the initiative in the ethical improvements for workers and their families. This period marked the passing of the Labour Laws like the Factory Act of 1833 controlling child labour,

pointing to the dawn of ethically sensitive business practices.

- **Post-Industrial Revolution:** The globalization of business in the twentieth century gave birth to Corporate Social Responsibility (CSR). If one is asked to identify some of the earliest roots of today's Corporate Social Responsibility – the idea that a firm must offer social good in addition to its merchandise – the welfare programs introduced by Henry Ford were indeed the beginning of all such socially responsible corporate practices. In the contemporary world, approximately 89% of the companies listed on the stock market disclose information on CSR activities, indicating the changing attitude of businesses towards the promotion of ethical organization practices globally, including social responsibility.

> **Ethics are the pillars of trust in the profession of Chartered Accountancy. These ethics not only uphold professionalism but also promote public interests.**

- **Ethics in Contemporary Business Practices**

  i. **Business Ethics:** Business ethics encompasses ethical practices such as corporate social responsibility, ethical sourcing, fair trade, and fair treatment of both employees and consumer. Craft (2018) found that a nonprofit's mission strongly influences its ethical culture, despite some differences exist between stated and actual values. Mission-driven commitment minimized negative impacts. Brigley (1995) critiques survey-based business ethics research for being conceptually naive and methodologically weak, advocating for case studies to provide deeper insights into how ethical beliefs interact with corporate and market pressures.

  ii. **Social and Political Ethics:** Such ethics address justice, human rights, and the ethical implications of public policies, focusing on inequality, discrimination, and governance. Professor W. F. Whyte suggests that political scientists should focus solely on political behavior, leaving ethical concerns to philosophers to enhance the scientific nature of political science (Hallowell, 1944). Realistic political theories, as argued by Williams and Geuss, reject the view of political theory as applied moral philosophy, aiming to preserve distinct political thinking (Hall & Sleat, 2018).

  iii. **Educational Ethics:** Such ethics guide behavior and decision-making in educational institutions, ensuring fairness, integrity, and respect for students, teachers, and the educational community. Ethical dilemmas may arise from issues like student cheating, conflicts of interest, or inappropriate behavior. Educators often rely on codes of conduct and ethical guidelines to navigate these challenges. Ethics also shapes moral development and fosters responsible individuals. Gulcan (2015) emphasizes the importance of teaching ethics as a formal subject to build student character. Sekerka (2009) found that ethics training in Silicon Valley organizations mainly focuses on compliance during onboarding, with less emphasis on moral competency development.

  iv. **Medical Ethics:** These ethics involve issues such as patient autonomy, consent, confidentiality, and the fair distribution of medical resources. Arnold Relman (1988) identified a "third revolution" in healthcare, shifting toward an Era of Assessment and Accountability, emphasizing quality improvement amidst cost control (Wolf, 1994). The American Society for Bioethics and Humanities (ASBH) introduced a Code of Ethics for Health Care Ethics Consultants to define bioethicists' professional duties (Tarzian et al., 2015).

  v. **Environmental and Social Governance (ESG):** ESG criteria have integrated itself into the main concern of ethical business affairs. According to MSCI, the companies with the best ESG scores did 2-3% better on the stock market in the 2021 report, so ethical performance is, in fact, effective. Some of the big firms have adopted the concept of ESG where its business strategies aim at sustainability and impact of business in the society without necessarily putting into consideration the profitability of the companies

involved. It has endeared this approach among the consumers as well as the investors in the marketplace.

vi. **Data Privacy and AI**: Being able to have control of one's data, particularly as businesses and companies take advantage of data in marketing and operational strategies, data privacy remains one of the major ethical issues. The GDPR has set high standards for data protection with the European Union, with very severe penalties for non-compliance. For instance, ICO found British Airways lacking in their efforts to protect customer's data in 2020, when the airline was fined £20 million, illustrating the repercussions of ethical violations regarding data protection.

Corporate ethics may be defined as moral responsibilities that CAs are supposed to discharge while engaged in an organization.

Ethics for Chartered Accountants

Ethics are the pillars of trust in the profession of Chartered Accountancy. These ethics not only uphold professionalism but also promote public interests. Some relevant areas of ethics for CAs are:

i. **Personal Ethics:** Personal ethics are defined as the system of moral standards that any one person will subscribe to. It is of utmost important for Chartered Accountants not to tarnish their good reputation. Personal ethics imply that in decision-making processes, harmony, honesty, transparency as well as accountability form the core agenda. A CA must overcome the temptations that lure them to unethical actions like bribery or fraud in the financial statements. Adhering to honesty with people including clients and employers is important to maintain trust with society. Personal ethics give the paramount perspective in professionalism since they are the core of decision-making and shape a person's career.

ii. **Professional Ethics:** Professional ethics refers to the Code of Ethics tailored to the regulation of the conduct of CAs in their working practice. This is spelled out by the Institute of Chartered Accountants of India. Core elements of professional ethics are integrity, objectivity, confidentiality, professional behaviour and professional competence and due care.

iii. **Corporate Ethics:** Corporate ethics may be defined as moral responsibilities that CAs are supposed to discharge while engaged in an organization. CAs have a prominent position in most organizations and are directly involved in the management of companies, having the responsibility of providing accurate and reliable financial reports. They are supposed to endorse that the business operates ethically in particular areas embracing fair business, social responsibility to the community, and ethical conduct towards customers. This call for making sure that financial statements are free from material misstatements. CAs are also charged with duties such as encouraging corporate accountability and fighting against fraudulence.

iv. **Social Ethics:** Professionalism is not the only aspect of social ethics under consideration; it is CA's position in society. It means that CAs are not only guardians of businesses' financial stability, but they also help to advance the general welfare. CAs must act by acceptable business practices, for instance, adopting environmentally friendly practices, embracing social causes and welfare, and fair dealing with employees and other stakeholders. CAs make a definite contribution to the enhancement of public confidence in the financial system and its stability, and consequently, to the development of society.

Code of Ethics by ICAI

Since its inception, ICAI recognized the necessity of maintaining high ethical standards to foster public trust and uphold the integrity of the profession. The first Code of Ethics was developed after the formation of ICAI to provide directions and guidance to the members.

Over the years, the Code has undergone a process of changes, in response to the international standards established, inter alia, by the IFAC/IESBA. Owing to changes, either because of the introduction of innovative technology or new trends in business, the Code was

modified several times to meet newly emerging issues concerning independence and objectivity. The addition of further schedules and new parts has extended the versatility of the Code. These additions cover topics such as confidentiality and professional relationships with clients, concerns arising from the public, and relationships between members, due to changes in the accounting profession.

CAs deal with sensitive information so they must ensure to protect the information and disclose it only when the law or profession requires it.

- **Principles of Professional Ethics for CA**

  The primary structures of ethical behavior among the CAs are embedded in five key principles that the CAs are expected to observe.

  i. **Integrity:** Honesty forms the foundation of the integrity of CAs. They must be straightforward and honest in any of their professional activities such as financial reporting, auditing, or decision-making. Any factor or force should not influence them in any circumstance, hence, making them follow the path of truth in every matter in their professional capacity.

  ii. **Objectivity:** The concept of objectivity ensures that the decisions of CAs should not be influenced by other factors such as a particular relationship or prospect of personal gain. In audits, this principle ensures relevance and non-biased reporting due to the detachment of self-interest from the performance of official responsibilities.

  iii. **Professional Competence and Due Care:** CAs should keep updating their skills and ensure that they update themselves to deliver efficient services. The key elements of this principle include being updated on the regulatory requirements and maintaining high quality in the performance of all tasks indicating due professional care in every activity.

  iv. **Confidentiality:** CAs deal with sensitive information so they must ensure to protect the information and disclose it only when the law or profession requires it. Confidentiality creates trust in the use of personal or financial information in a business by providing protection against misuse of information.

  v. **Professional Behavior:** Laws and regulations must be observed by CAs to safeguard their practice. They should not engage in practices that may lead to unprofessional behaviour, for example, fraud or unethical practices hence ensuring the public's trust in the work being done.

Ethical Dilemma Faced by Chartered Accountants

Chartered Accountants encounter a range of instances that challenge professionalism. The ethical issues may emerge from different factors like the client's expectations, conflict of interest, and organizational or financial performance pressures. Some of the common ethical challenges include:

- **Client's Unrealistic Expectations:** Clients may also be likely to compel CAs to present manipulative statements of financial accounts or understate taxes and liabilities. In this case, the principles of integrity and objectivity must be followed. A CA should appropriately address such pressure threatening to result in the loss of a particular client or bear other types of consequences.

- **Conflicts of Interest:** CAs may find themselves in a position where their self-interests may be at variance with the interests of the company. For example, the fact that a CA has a financial interest in a client's business may lead to a compromise of independence. In such circumstances, it must be explained to the group and other stakeholders involved and action should be taken including possibly disengaging if that is possible.

- **Corporate Fraud:** Sustainable economic gain occasionally puts CAs in what they consider an ethically grey area. They report to organizations on all forms of fraud from fraudulent financial reporting to embezzlement and financial malfeasance. A CA prepared for such problems has the responsibility to disclose these problems and avoid being involved

in such practices. Reporting may be required in such cases to safeguard the interests of the profession and the public.

- **Confidentiality Breaches:** Due to the advanced development in technology, there has been an upsurge in complicated cases of breach or disclosure of information. CAs should ensure they observe the required measure of caution and observe their responsibility as guarantors of confidentiality notwithstanding the pressure or attractive opportunities that may be available outside.

Conclusion

Chartered Accountants occupy a strategic place in protecting the public from frauds and scams. In this era of globalization, advanced technology, and changes in the habits of consumers the ethical standards must be maintained by Chartered Accountants. This article demonstrates that ethics expands from 'the compliance function and focuses on trust, transparency, and corporate social responsibility'. The historical context and modern practices indicate that ethical behavior is not only a way to prevent losses but also a foundation for successful business activity. Lacking ethical understanding or unethical situations can lead to serious penalties, therefore CAs are required to be ethical, objective, and independent.

In conclusion, by incorporating ethics into the DNA of organizations, assurance of reputations is complemented by adding value to assets known as markets. Through adherence to the proper and ethical concepts in the field, Chartered Accountants are well-placed to compete in the current commercial environment and at the same time advance the formulation of a far better accountability environment in society.

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Encouraging Ethical Practices- Preventing Greenwashing in ESG Reporting

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With the increase in Environmental, Social and Governance (ESG) consciousness among stakeholders at large, and the consequent increasing reporting requirements; corporates are under pressure to show their commitment to sustainable and ethical practices. However, the practice of greenwashing is being observed wherein companies show a greener picture of their social and environmental initiatives than what they really are. This article highlights the important international case studies of greenwashing along with the tools and techniques adopted by corporates indulging in this nefarious activity. The action undertaken by regulatory authorities, including SEBI through the Business Responsibility and Social Reporting (BRSR), RBI, and the government initiatives through the Central Consumer Protection Authority (CCPA) have been explored. It is finally observed that the Board of Directors play the most crucial role in preventing greenwashing.

Introduction

The term 'greenwashing' refers to the practice of businesses inflating or making false claims to be environmentally friendly; with an intent to improve their public image, frequently without actually changing their real environmental policies. The phrase "greenwashing" was first used in the 1980s to describe the practice of businesses dishonestly portraying their goods, services, or policies as environmentally benign to win over environmentally conscious customers. The word is a combination of the terms "green," which stands for environmentalism, a concept catching up like wildfire with the glaring climate change impacts that the world is witnessing. Corporates have also been accused of "whitewashing," which denotes the act of obfuscating or hiding unpleasant truths.

International case studies on Greenwashing

Greenwashing is not a recent development. Corporates have been found engaging in such unethical practices, especially when ESG reporting was voluntary in nature. Due to lack of regulations and availability of standardized metrics and reporting formats in the past along with inconsistent and low-quality data inputs, the ESG reports might not show a correct representation of a company's ESG status. (Schroders, 2017).

The world has witnessed a number of famous global companies involved in Greenwashing. A few of them are as under-

Volkswagen, one of the biggest automakers, became embroiled in the "**Diesel gate**" affair, a major greenwashing incident. The corporation had rigged diesel engines with "defeat devices" to evade emissions testing, giving the cars an appearance of being greener than they actually were. The autos really released up to 40 times the permitted amount of nitrogen oxide. This was confirmed by independent researchers at West Virginia University's Centre for Alternative Fuels, Engines, and Emissions (CAFEE) which carried out experiments that demonstrated differences between lab results and actual emissions. The fraud was exposed and reported in 2015 by the California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA).

Companies are expected to perform a materiality evaluation in accordance with the BRSR principles in order to determine which ESG concerns are most important to their operations.

Swedish fast-fashion behemoth **H&M** (Hennes & Mauritz) debuted its "**Conscious Collection**" range, which is positioned as an eco-friendly option. But in 2021, the Norwegian Consumer Authority charged H&M with deceptive marketing, arguing that the company's sustainability statements lacked sufficient evidence and were imprecise. The company faced criticism for generalising assertions regarding the environmental advantages of their products without offering precise proof or open standards for what defines sustainable or "conscious" design.

Nestlé has been accused of misleading consumers about sustainability by using deceptive marketing tactics to promote its bottled water brands, including Poland Spring. Nestlé argued that its recycling initiatives made their bottled water eco-friendly, but detractors drew attention to the harm that plastic bottle manufacturing and water extraction methods did to the environment. The claim that Poland Spring water being "100% natural spring water" was refuted by the plaintiffs in a 2018 case filed in the U.S. District Court for the District of Connecticut. This was brought up in a number of reports. Nestlé's policies were attacked in the case and in a number of environmental reports, which contended that the company's statements did not correspond with the environmental impact of its activities.

Recognized for its cost-effective furniture, **IKEA** claimed to source its wood sustainably, claiming to use recycled or sustainable wood. Nonetheless, IKEA was reportedly sourcing timber from illicit forestry operations in Ukraine, according to a 2020 Environmental Investigation Agency (EIA) assessment. The Environmental Investigation Agency (EIA) released a paper titled "Flat packed Forests" in 2020. IKEA's claims of sustainable wood sourcing were undermined by the EIA study, which found that the company's suppliers were engaged in illicit logging operations.

All of the above greenwashing cases involving large multinationals have been exposed by the judiciary of another country. That's the kind of power that has to be dealt with in dealing with corporate greenwashing. Accordingly, the regulations have to be at the international as well as domestic / national level.

Academic research in Greenwashing

With the prevalence of greenwashing, academic research in this field has escalated in the recent past. Some researchers have tried to find out the determinants of greenwashing tendencies with an intent to help practitioners, policymakers, and academics to improve corporate governance practices and promote sustainability efforts.

Zhang, (2022) investigated the determinants leading to corporates engaging in ESG greenwashing. They quantified the extent of ESG greenwashing by corporations by calculating a peer-relative greenwashing score based on an analysis of international large-cap companies in 47 countries and territories. In their study, they demonstrated that financial limitations drive organizations' decisions to engage in greenwashing, meaning that the financial environment influences greenwashing behaviour. Highly leveraged companies experience higher financial pressure and are more prone to ESG greenwashing.

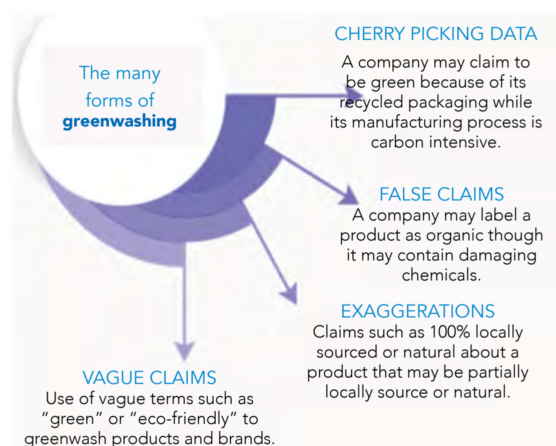
Wu (2024) explored the impact of Green Finance Pilot Zones on corporate greenwashing practices in Chinese listed companies. The research found that the zones increase greenwashing behaviour but reduce performance without altering disclosure practices. The effects are found to be more pronounced in companies with higher debt ratios and when their environmental subsidies expire.

Factors influencing a company's greenwashing behaviour in the Indian context have been examined by Sensharma, et al. (2022). Data from 48 companies, as per NIFTY 50 were analysed and quite a few were found to engage in greenwashing activities primarily from the manufacturing and energy sectors. Their study showed negative relationship between a company's cross-listing status and ESG focus fund presence. That is, if a company was part of the ESG mutual fund or listed abroad, then it was less likely to engage in greenwashing. Board size and number of independent directors significantly impacted the greenwashing score of companies. A similar study and findings were reported by Gidage, et al. (2024).

Prevalent Greenwashing practices –

Greenwashing by corporates makes it difficult for regulators, consumers, and investors to distinguish between businesses that are sincerely devoted to sustainability and those who are merely capitalizing on the trend for marketing purposes.

The prevalent greenwashing practices, adopted by many corporates about which the stakeholders, especially auditors and lenders need to be cautious about are as follows.



Source: https://www.terrascope.com/blog/what-is-greenwashing-why-should-large-enterprises-care

Cherry-picking statistics: Companies often present only the positive environmental performance data, omitting negative information to present a misleading picture of their overall environmental impact. Companies have been found to engage in selective disclosures like promoting a single or a select few environmentally friendly goods or services while the remainder of the business activities still remain unsustainable.

Some corporates use the 'Governance Spin' tactics highlighting good governance practices while downplaying social or environmental issues. This distorts the public's perception of a company's overall ESG performance. Similarly, the tactics of 'Cleaning with ethics' might be adopted, emphasizing on projects promoting charitable causes to draw away the attention from probable grave environmental issues involved in the company's operations.

Purchasing endorsements or investing heavily in Public Relations (PR) campaigns: Some companies pay for endorsements. They might engage influencers or outside organizations to promote their environmental credentials, who do so without doing in-depth analysis of the business's actual environmental policies. Similarly, some corporates maintain their core company processes as they were, while making large investments in PR campaigns and other marketing efforts that highlight environmental initiatives.

Influencing Research: Similarly, some companies have been found to influence research that portrays the company as being very pro- environment by funding misleading studies in the field.

Use of Inaccurate measurements: This entails the use of metrics that look propitious but have lesser bearing on sustainability or ESG goals in reality. For example, a company might say that '100% of electricity used is from renewable sources.' This metric gives the impression that the company is using all green energy, whereas in reality, it may still be operating in areas dependent on fossil fuels but purchasing Renewable Energy Certificates (RECs) to claim renewable energy usage.

Use of Complicated or vague terms or Inconsistent Reporting: In their ESG reports, some businesses use a lot of technical terms, a ton of data, or jargon to confuse shareholders and other stakeholders. Some companies have been found to use terms like "eco-friendly," "green," or "sustainable" without providing exact definitions or supporting information on the use of such taxonomy. Similarly, it is challenging to determine the true success of sustainability projects when broad generalizations about them are made without specific dates, goals, or objectives.

Inconsistent reporting on ESG disclosures have been found, where it is difficult to track real progress or

perform cross-temporal data comparisons because measures or methods are changed yearly.

Misleading Certifications and Labels: Some companies use certifications or sustainability labels that are unverified or from unreliable sources. To generate the appearance of third-party validation, the corporation or a related group may create these certifications.

Neglecting Supply Chain Impact: When a corporation disregards its supply chain, it fails to provide a sufficient picture of its entire environmental impact. Double counting may also occur, exaggerating a company's environmental credentials by including carbon reductions that have already been recorded by other parties, including governments or other supply chain companies.

Shifting Responsibility to Consumers: By highlighting recycling or sustainable consumption, businesses may portray their environmental impact as primarily the responsibility of the consumer thereby ignoring their own role in contributing to environmental degradation through unsustainable production methods.

The emergence of these greenwashing tactics resulted in heightened scrutiny of ESG reporting requirements. International efforts have been intensified with demands for increased accountability, consistency, and openness in the way businesses undertake ESG reporting.

Preventing Greenwashing in ESG disclosures – International Initiatives

A lot of effort is being put in internationally for protecting our planet. The United Nations: Sustainable Development Goals (SDGs) adopted by UN member countries ensure that claims by companies are substantive. Companies making false claims about their alignment with the SDGs face reputational and legal risks. The EU taxonomy regulations (2020 onwards) provide a clear criterion of what constitutes sustainable investment. Companies have to back their green claims with evidence and measurable criteria. Global Reporting Initiative (GRI) Standards; the most widely used standards for sustainability reporting are being regularly revised to ensure consistent, transparent and comparable sustainability reporting. Similarly, The International Organization for Standardization (ISO) - ISO14000 Series addresses self-declared environmental claims and provides guidelines specific for companies. ISO - 14064 focuses on greenhouse gas (GHG) emissions, ensuring accuracy in climate-related claims. etc.

The Companies' BRSR reporting requires it to establish specific, quantifiable ESG targets and report on their progress toward meeting them in accordance with the rules.

The role of BRSR in preventing greenwashing

In India, The Business Responsibility and Sustainability Reporting (BRSR) Guidelines as issued by SEBI are designed to prevent corporates in India from fudging their data. SEBI's BRSR reporting guidelines were initially perceived as burdensome and increased compliance pressure on corporates. It is now being realised that they have to be comprehensive due to the potential for greenwashing by corporates.

BRSR encourages stakeholder engagement: By requiring corporates to address the concern of its stakeholders like investors, consumers, employees, and communities, companies are encouraged to be accountable towards all stakeholders.

BRSR stipulates mandatory and standardized reporting: BRSR provides specific standardized format of reporting, thereby preventing Indian corporates to selectively disclose only positive aspects of their operations. The standardized and mandatory format, though requiring training, ensures a balanced and truthful representation of the company's sustainability efforts.

The National Guidelines on Responsible Business Conduct (NGRBC), which are founded on nine guiding principles, are in line with the BRSR. These include values for safeguarding moral corporate practices, encouraging inclusive growth, and being environmentally conscious.

Businesses need to describe how they are putting these ideas into practice, emphasizing that they are not making false or overstated statements about how closely they adhere to sustainability standards.

Companies are expected to perform a materiality evaluation in accordance with the BRSR principles in order to determine which ESG concerns are most important to their operations. To lessen the possibility of selective disclosures that could mislead stakeholders, companies must describe how they have identified material ESG issues and the steps they are taking to address them.

For ESG initiatives, BRSR requires both qualitative and quantitative disclosures. Businesses are required to report on Key Performance Indicators (KPIs) include greenhouse gas (GHG) emissions, consumptions of energy, water, and waste management. For the quantitative aspect of these disclosures, stakeholders must check the information against past performance or industry benchmarks to discourage ambiguous or unsubstantiated promises.

Companies are being encouraged to obtain third-party verification for their ESG disclosures, which lends the data more legitimacy. Independent audits make sure that companies are not inflating their sustainability accomplishments and that the data they disclose is correct. Audits for BRSR Core have been mandated for the top 150 corporates by market capitalisation w.e.f FY 2023-24 already.

Businesses must assess and report on the results of their ESG endeavours, not just the steps taken. For example, how the action taken by the company has reduced emissions or improved energy efficiency is to be reported. By emphasizing impact over activities, organizations are prevented from taking credit for token or insignificant initiatives that have minimal real-world impact.

The Companies' BRSR reporting requires it to establish specific, quantifiable ESG targets and report on their progress toward meeting them in accordance with the rules. These objectives ought to have a deadline so that interested parties may monitor whether businesses are actually pursuing sustainability or are just making empty promises.

The Central Consumer Protection Authority (CCPA) has issued guidelines on the "Prevention and regulation of greenwashing," highlighting the importance of organizations disclosing true environmental claims and facts.

RBI Initiatives

The Reserve Bank of India has also taken initiatives towards encouragement of green finance/ lending, some of which are as follows-

Guidelines for Green Bonds: To fund sustainable projects, the RBI encourages the growth of a strong green bond market. It guarantees that green bonds issued by financial institutions follow internationally recognized guidelines, such as the Green Bond Principles (GBP), and that the revenues are used in a way that is consistent with legitimate green initiatives through proper monitoring. To improve the openness of financial institutions' ESG commitments, the RBI supports strengthened disclosure standards. The goal is to help investors distinguish between real sustainable initiatives and greenwashing by making sure banks and businesses disclose the environmental effect of their projects and investments in a transparent and understandable manner.

Framework for Climate Risk Management: To encourage financial institutions to incorporate climate risk into their risk management frameworks, the RBI has released guidelines that entail evaluating climate-related risks while making financing and investment decisions, assisting in preventing the falsification of

borrowers' or projects' green credentials. Towards preventing false reporting or inflated claims about sustainability, RBI advocates for transparent, data-driven evaluations.

Integrating green finance into policy frameworks: To ensure that lending to ecologically beneficial projects is incentivized while also lowering the possibility of false claims, the RBI has been investigating ways to integrate green finance into its policy frameworks. The RBI might, for instance, think about providing regulatory incentives to banks that back authentic, confirmed green initiatives, deterring establishments from engaging in greenwashing in order to qualify for these benefits.

Working with International Organizations such as NGFS: In order to implement international best practices in preventing greenwashing, the RBI collaborates with international organizations such as the Network for Greening the Financial System (NGFS). Through these partnerships, India is aligning its green finance standards with global norms, encouraging accountability and openness in ESG reporting.

Standardized ESG ratings and assessment metric:

With an aim to stop businesses and financial institutions from manipulating ESG rankings, standardized ESG ratings and assessment metrics are likely to be introduced. These shall guarantee the validity of ESG reporting.

Government of India (GOI) initiatives through the CCPA

The Central Consumer Protection Authority (CCPA) has issued guidelines on the "prevention and regulation of greenwashing," highlighting the importance of organizations disclosing true environmental claims and facts. Any form of environmental claim made by an advertiser or endorser in relation to their product or service, regardless of the media, is particularly covered by the legislation.

Some of the important tenets of the CCPA guidelines to prevent greenwashing are as under:

CCPA guidelines define Greenwashing as unsubstantiated or misleading claims about a product's or service's environmental benefits. Companies are required to ensure that its environmental claims are clear, specific, and verifiable. The labels, if any, used by the company have to be from recognized bodies. The consumers shall have the right to accurate information about the product's environmental benefits. The company must comply with advertising standards. Its advertisements must not exaggerate or imply false environmental benefits without proper context or proof. Increased accountability for businesses is also necessary for the entire life cycle of their products and services. Moreover, businesses must assume greater accountability for the full life cycle of the goods and services they provide. If they make any environmental claims, they ought to be open and honest about their sourcing, production procedures, energy use, recycling, and disposal techniques. CCPA promotes the use of third-party certification by companies to support their claims; however, these certifications should only be obtained from respectable, well-known organizations that have set standards.

Finally, non-compliance may result in fines, product recalls, penalties, and also legal action by the CCPA.

Role of the Board of Directors (BOD) in preventing greenwashing

The foundation of any effective governance is a strong board, a capable leadership group, and a well-defined accountability structure. Establishing an ESG/sustainability committee and outlining its responsibilities would help the board to better oversee sustainability projects. Establishing reporting hierarchies, formalizing managerial governance procedures, and recruiting and organizing ESG teams will go a long way in establishing a sound ESG framework.

The Board must encourage the use of Key Performance Indicators (KPIs) to track progress in the ESG realm and align ESG goals with its business strategy. The Board should provide capacity building for employees, acknowledge and reward progress. By involving, training, and empowering the workforce, organizations can effectively implement ESG-centric practices and make sustainability integral to its decision-making processes.

Good ESG disclosure procedures have been found to be positively mediated by the gender diversity and size of the Board of Director (BOD) in Egyptian enterprises. (Abdelmoneim, 2024). Having ESG expertise on the Board helps to reduce risk exposure and encourages a corporate to be ESG compliant.

Conclusion

Numerous empirical studies attest that ESG compliance goes a long way in ensuring the long-term financial performance of corporates, while greenwashing can result in financial losses, greatly harm the company's brand and reputation in the business world, negatively impact the capital markets, and can even lead to company failure.

Hence, though international organisations as well as the Indian government are striving to have stringent regulations in place, the best practice is for a company to have a strong and conscientious Board that encourages an organizational culture of sustainability and ethical practices of sound ESG reporting.

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Assessing the Effects of Independence and Ethical Standards on Auditor Competency in Preventing and Detecting Fraud incidental to Audit

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Auditors play a critical role in verifying the genuinity of books of accounts and its fairness. Detection and prevention of fraud in the accounting and corporate world is often an incidental outcome to auditing work where an auditor can help various entities. This study investigates the influence of auditor independence and professional ethics on auditors' proficiency in auditing and fraud detection in India. A Google Forms questionnaire was utilized to gather data from 236 auditors, which was then analyzed using Pearson's correlation and Multiple regression analysis. The findings reveal a positive correlation between auditor independence, professional ethics, and fraud detection proficiency. By examining the relationship between independence, ethics, and fraud detection proficiency, this research contributes to the ongoing discourse on the effectiveness of audit practices in safeguarding against financial misconduct.

Introduction

In auditing, auditor independence and professional ethics are foundational principles crucial for maintaining the integrity of financial reporting worldwide, as outlined by bodies like the Institute of Chartered Accountants of India (ICAI) and the International Ethics Standard Board for Accountants (IESBA). Auditors play a vital role in the detection and prevention of fraud which are incidental to audit, defined by the ICAI as intentional acts of deceit or misrepresentation for personal gain or causing harm. Effective fraud detection hinges on auditors' technical skills, independence, and adherence to ethical standards, ensuring impartiality and objectivity in their judgment.

Professional ethics, delineated in codes like the ICAI's Code of Ethics, underscore integrity, objectivity, competence, confidentiality, and professional behavior. The Code of Ethics issued by ICAI stresses upon the accountant's duty to act in the public interest, not solely for individual clients or employers.

This paper aims to explore the nexus between auditor independence, professional ethics, and fraud detection proficiency which are incidental to audit. By delving into these factors, the study seeks to offer insights vital for audit practice, regulatory policies, and professional education. Drawing from auditing standards and empirical research, the research aims to enrich discussions on bolstering audit efficacy and combating financial misconduct.

Literature Review

Various studies have underscored the critical roles of auditor independence, professional ethics, and other factors in maintaining

audit quality and integrity. Abbott and Parker (2000) and DeAngelo (1981) found that auditors' independence from client management influences fraud detection effectiveness. Shaub et al. (2007) and Ponemon and Gabhart (1990) highlighted the impact of professional ethics on auditors' judgment. Nasrabadi and Arbabian (2015) investigated the influence of professional ethics and commitment on audit quality among Tehran Stock Exchange-listed firms, revealing a positive correlation between these factors.

Muhamad Yamin Noch et al. (2022) explored the impact of auditor competence and independence on fraud detection, finding both to positively affect detection. Sulistyowati & Supriyati (2015) discovered that experience, competence, and professionalism significantly influence fraud detection among auditors in Surabaya. Additionally, Wahidahwati and Nur Fadjrih Asyik (2022) investigated the impact of auditor experience, ethics, professional skepticism, and personality type on fraud detection among supreme audit boards in East Java Province, finding all factors to positively affect fraud detection.

These studies contribute in understanding the intricate dynamics of fraud detection within audit contexts, emphasizing the multifaceted nature of factors influencing audit quality and integrity. However, further research is warranted to delve deeper into the efficacy of specific attributes, such as independence, ethics, and professional skepticism, across different organizational contexts and regions. Additionally, exploring the interplay between these factors and organizational culture, regulatory environments, and technological advancements could provide valuable insights into enhancing fraud detection capabilities and safeguarding financial integrity. Overall, these studies underscore the ongoing importance of rigorous inquiry and empirical investigation in advancing the field of auditing and financial oversight.

Research Gap

While there is existing literature on auditor independence, professional ethics, and fraud detection proficiency, there may be a research gap in the specific regional context of India. Few studies may have focused specifically on practicing auditors in this region, potentially limiting the generalizability of findings to this unique context.

Prior research may have examined auditor independence and professional ethics separately, but there may be a gap in the integration of these two factors in the context of fraud detection proficiency. Investigating how auditor independence and professional ethics interact and jointly influence fraud detection outcomes could provide valuable insights into the holistic nature of auditor judgment and decision-making processes.

Research Objectives

1. To Investigate the Relationship between Auditor Independence and Fraud Detection Proficiency
2. To Explore the Impact of Professional Ethics on Fraud Detection Proficiency
3. To Analyze the Combined Effects of Auditor Independence and Professional Ethics on Fraud Detection Proficiency

Research Hypothesis

$H_0$1: There is no significant relationship between auditor independence and fraud detection proficiency among practicing auditors in India.

$H_0$2: There is no significant impact of professional ethics on auditors' ability to detect and prevent fraud in audit engagements in India.

$H_0$3: The combined effects of auditor independence and professional ethics do not significantly influence auditors' fraud detection proficiency in India.

Research Design

Research Method

This study adopts a quantitative research approach to investigate the influence of auditor independence and professional ethics on fraud detection proficiency among practicing auditors in the country of India.

Sampling and Data Collection

Population: The population consists of practicing auditors across the country of India.

Sampling Technique: A convenience sampling method will be employed to select participants from various audit firms and organizations.

Maintaining high independence fosters objective assessment and aids in identifying irregularities. This underscores the need to promote auditor independence for bolstering fraud detection capabilities and ensuring financial integrity.

Sample Size: The sample size of 236 was determined based on considerations of statistical power and representativeness.

Data Collection: Survey data was collected using a structured questionnaire administered electronically via online platforms between Jan, 24 to Mar, 24. The questionnaire included items measuring auditor independence, professional ethics, fraud detection proficiency, as well as demographic variables such as gender, city of practice, and years of experience.

Instrument: A 5-point Likert scale was utilized to assess auditor independence and professional ethics, with higher scores indicating greater levels of independence and ethical behavior. Additionally, auditing red flags were incorporated into the questionnaire to measure fraud detection proficiency score.

Variables

Independent Variables: Auditor independence and professional ethics.

Dependent Variable: Fraud detection proficiency.

Control Variables: Demographic variables such as gender, city of practice, and years of experience will be included as covariates to control for potential confounding effects.

Data Analysis

Correlation Analysis: Pearson correlation coefficients were computed to examine the bivariate relationships between auditor independence, professional ethics, and fraud detection proficiency.

Regression Analysis: Multiple linear regression analysis was conducted to assess the predictive power of auditor independence and professional ethics on fraud detection proficiency while controlling for relevant covariates.

Ethical Consideration

The study adhered to ethical guidelines for research involving human participants, ensuring informed consent, confidentiality, and anonymity of respondents. Data collection and storage procedures complied with relevant data protection regulations. Any potential conflicts of interest or biases are disclosed and managed appropriately.

Results and Analysis

Demographic details

Particulars	Number	Percent
Male Auditors	128	54.23
Female Auditors	108	45.77
Total	236	100.00

Correlation

Correlation between Auditor's Independence and Fraud detection ability

	Independence	*FD*
Independence	1	0.7185
FD	0.7185	1

A correlation coefficient of 0.7185 signifies a robust positive link between auditor independence and fraud detection efficacy. This implies that as auditor independence rises, so does the effectiveness of fraud detection. Maintaining high independence fosters objective assessment and aids in identifying irregularities. This underscores the need to promote auditor independence for bolstering fraud detection capabilities and ensuring financial integrity. In conclusion, the correlation underscores the critical role of independence in detecting fraud within organizations.

The positive correlation observed implies that organizations with auditors who exhibit greater independence tend to have better capabilities in detecting fraudulent activities. This finding underscores the importance of fostering an environment where auditors are encouraged to maintain their independence and exercise professional skepticism in their audit processes.

Correlation between Professional Ethics and Fraud Detection ability

	Ethics	*FD*
Professional ethics	1	0.7046
FD	0.7046	1

A correlation coefficient of 0.7046 indicates a robust positive link between professional ethics and fraud detection effectiveness. Adhering to ethical standards enhances objectivity and integrity, aiding in identifying fraud. Organizations prioritizing ethics tend to have better fraud detection capabilities. However, correlation doesn't imply causation; other factors like training quality and organizational culture also influence outcomes. In conclusion, promoting professional ethics is vital for bolstering fraud detection and upholding financial integrity.

Furthermore, the correlation coefficient suggests that a strong ethical foundation contributes significantly to the effectiveness of fraud detection measures within organizations. Professionals who are guided by ethical principles are more likely to exercise professional skepticism, diligently examine financial records, and raise red flags when inconsistencies or irregularities are identified.

Combined correlation of Independence & Professional Ethics and Fraud detection ability

	Combined	***FD***
Combined	1	0.7382
FD	0.7382	1

With a correlation coefficient of 0.7385, a strong positive relationship is evident between independence, professional ethics, and fraud detection proficiency. Independence ensures auditors' autonomy and impartiality, while professional ethics guide their conduct with integrity and objectivity. Organizations prioritizing both aspects tend to excel in detecting fraud. Synergistically, independence and ethics enhance auditors' vigilance, leading to more effective fraud detection. It's crucial to note that correlation doesn't imply causation; other factors like training and organizational culture also play a crucial role. In essence, fostering a culture of independence and ethical conduct is paramount for organizations to strengthen fraud detection measures and uphold financial integrity.

It's important to acknowledge that while a strong positive correlation exists between independence, professional ethics, and fraud detection ability, correlation does not imply causation. Other factors, such as the quality of training, organizational culture, and regulatory environment, may also influence fraud detection outcomes.

In conclusion, the correlation analysis underscores the critical importance of both independence and professional ethics in bolstering fraud detection ability within organizations. By fostering a culture that promotes independence and ethical conduct, organizations can fortify their defenses against fraudulent practices and uphold the integrity of financial reporting.

Regression Analysis

The regression equation for this study is as follows:

Y = a + B1X1 + B2X2 + e

Where,

Y = Fraud detection ability

a = constant

B = Co-efficient direction of regression

X1 = Independence

X2 = Professional Ethics

e = error

Regression Statistics	
Multiple R	0.738830112
R^2	0.545869934
Adjusted R^2	0.539040911
Standard Error	3.801396523
Observations	236

ANOVA					
	Df	*SS*	*MS*	*F*	*Significance F*
Regression	2	2310.185782	1155.093	79.93382	**1.594E-23**
Residual	133	1921.931865	14.45062		
Total	135	4232.117647			
	Coefficients	*Standard Error*	*t Stat*	*P-value*	
Intercept	9.565382504	2.616672794	3.655552	0.000368	
Independence	0.924456415	0.24294412	3.805222	**0.000215**	
Professional Ethics	0.679402342	0.230980985	2.941378	**0.003855**	

The provided equation represents a multiple linear regression model, where Y is the predicted value of fraud detection proficiency, Independence and Professional Ethics are predictor variables, and e represents the error term.

The R^2 value of 0.5458 indicates that approximately 54.58% of the variance in fraud detection ability can be explained by the independent variables included in the regression model, namely independence and professional ethics.

The analysis of the test data indicates a positive impact of professional ethical considerations on Fraud Detection (FD), as reported by the respondents.

This R^2 value suggests a moderate-to-strong level of explanatory power for the regression model. In other words, the combination of independence and professional ethics accounts for a substantial portion of the variation observed in fraud detection ability among the sample or population under study. However, it's important to note that approximately 45.42% of the variance in fraud detection ability remains unexplained by the independent variables included in the model. This unexplained variance could be attributed to factors not accounted for in the analysis, such as the quality of internal controls, management oversight, organizational culture, or other external influences.

In conclusion, the R^2 value of 0.5458 highlights the significant contribution of independence and professional ethics in explaining the variation in fraud detection ability. While the regression model offers valuable insights, further research is needed to fully elucidate the multifaceted factors influencing fraud detection outcomes and to inform the development of effective strategies for fraud prevention and detection.

The significance F-value in a regression analysis indicates the overall significance of the regression model, assessing whether the independent variables, taken together, have a statistically significant effect on the dependent variable. The extremely small value of the significance F (1.594E-23) indicates that the regression model is statistically significant at conventional significance levels (e.g., $\alpha = 0.05$ or $\alpha = 0.01$).

In other words, there is strong evidence to reject the null hypothesis that all regression coefficients are equal to zero, suggesting that at least one independent variable in the model has a statistically significant effect on the dependent variable.

Intercept (Y-Intercept)

The intercept term (9.565) represents the estimated value of fraud detection proficiency when both Independence and Professional Ethics are zero. In other words, if an auditor scores zero on both Independence and Professional Ethics, the predicted fraud detection proficiency would be 9.565 units.

Coefficient for Independence (0.924)

Holding all other variables constant, for each one-unit increase in Independence, the predicted fraud detection proficiency is expected to increase by 0.924 units. This suggests that auditor independence has a positive and significant effect on fraud detection proficiency.

Coefficient for Professional Ethics (0.679)

Holding all other variables constant, for each one-unit increase in Professional Ethics, the predicted fraud detection proficiency is expected to increase by 0.679 units. This indicates that adherence to professional ethics also has a positive and significant impact on fraud detection proficiency.

Error Term (e)

The error term (e) represents the variability in fraud detection proficiency that is not explained by Independence and Professional Ethics in the model. It captures the influence of other unobserved factors or random variation on fraud detection proficiency.

The equation formulated is as follows:

Y = 9.565 + 0.924 (Independence) + 0.679 (Professional Ethics) + e

Overall, the regression equation suggests that both Independence and Professional Ethics are positively associated with fraud detection proficiency among auditors. The model implies that auditors with higher levels of independence and adherence to professional ethics are expected to demonstrate greater proficiency in detecting fraudulent activities during financial statement audits.

Findings

Effects of Independence on Fraud Detection

The empirical analysis of the survey data reveals a noteworthy relationship between the independence of auditors and fraud detection. Our findings indicate a significant and positive impact of independence on FD, as evidenced by the regression significance value. This implies that when auditors maintain an independent stance, there is a marked improvement in the quality of audits conducted. Consequently, we can confidently reject the first hypothesis of this study.

Auditors who abstain from receiving non-audit services, refrain from entanglement in conflicts of interest, and avoid establishing business affiliations with clients throughout the audit procedure demonstrate significant independence. Such independence facilitates the execution of audit tasks in an objective manner, thereby enhancing fraud prevention and detection. This aligns with the conclusions drawn by previous studies conducted by Francis (2011), Soekrisno Agoes (2014), Ling Lin (2014), and Jamal & Sunder (2011), all of which emphasize the pivotal role of independence in shaping audit quality.

Effects of Professional Ethics on Fraud Detection

The analysis of the test data indicates a positive impact of professional ethical considerations on Fraud detection (FD), as reported by the respondents. Our findings reveal a significant and positive relationship between the ethical variable and FD, supported by the regression significant value. This suggests that an increase in ethical standards correlates with an improvement in auditor quality. Consequently, we corroborate the rejection of the second hypothesis.

Our study underscores the importance of adhering to the code of ethics for public accountants throughout the audit process, as it directly contributes to the qualification of audit reports. A heightened commitment to professional ethical principles among auditors corresponds with an elevated quality of audit reports, as noted by Albeksh (2016). Our findings are consistent with prior research by Nasrabadi & Arabbian (2015) and Anis Chariri (2017), further emphasizing the significant influence of professional ethics on audit quality/fraud detection.

The results of the hypothesis are summarised as follows:

H_0 1	There is no significant relationship between auditor independence and fraud detection proficiency among practicing auditors.	REJECTED (Sig value < 0.05)
H_0 2	There is no significant impact of professional ethics on auditors' ability to detect and prevent fraud in audit engagements.	REJECTED (Sig value < 0.05)
H_0 3	The combined effects of auditor independence and professional ethics do not significantly influence auditors' fraud detection proficiency.	REJECTED (Sig value < 0.05)

Conclusion

In conclusion, this research contributes to understanding the factors influencing auditor proficiency in detecting fraud. By elucidating the roles of independence and professional ethics in fraud detection capabilities, the study provides valuable insights for auditors, audit firms, regulatory bodies, and other stakeholders involved in financial reporting and assurance processes. Based on the results, all three null hypotheses have been rejected. The significance values for each hypothesis were below the 0.05 threshold, indicating strong evidence against the null hypotheses. This suggests that there are significant relationships between auditor independence and fraud detection proficiency, as well as between professional ethics and fraud detection abilities. Furthermore, the combined effects of auditor independence and professional ethics significantly influence auditors' ability to detect and prevent fraud.

These findings underscore the importance of both individual and combined factors in enhancing auditors' fraud detection proficiency and highlight the need for further research to explore these relationships in greater depth.

Limitations of the Study

The small sample size may have limited the statistical power and generalizability of the results. Measurement tools for assessing independence, professional ethics, and fraud detection ability might have lacked reliability or validity, potentially leading to measurement errors. Additionally, the study might not have accounted for all confounding variables, such as organizational culture, management oversight, and technological advancements, which could affect the observed relationships. Addressing these limitations in future research will help provide a clearer understanding of

how independence, professional ethics, and fraud detection ability interact among auditors.

Recommendation for future studies

While a strong positive correlation exists between auditor independence and fraud detection ability, correlation does not imply causation. Other factors, such as internal controls, management oversight, and organizational culture, also impact fraud detection. Future research should explore these factors alongside auditor independence for a more comprehensive understanding. Additionally, examining the ethical principles or behaviors linked to effective fraud detection could be valuable. Studies could also investigate the impact of interventions like ethics training programs or initiatives to enhance auditor independence and professional ethics. Exploring specific mechanisms through which independence and ethics interact to improve fraud detection, and incorporating additional variables into regression models may further enhance our understanding. Longitudinal studies could assess the stability of these relationships over time. Addressing these areas in future research will advance our knowledge of the interplay between independence, professional ethics, and fraud detection, contributing to more effective strategies for preventing and detecting fraud.

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Audit Trail: Practical Approach for Effective Implementation of Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014

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Digitalization has taken over the traditional physical system of bookkeeping in electronic form. Most organizations use some or other software to process their accounting information for statutory compliance and internal business decisions. Accounting software offers better organization of data, lower operating costs, fewer human errors, enhanced security, better accessibility, and high processing speed, but at the same time, it offers room for manipulation of data. MCA issued the Companies (Audit and Auditors) Amendment Rules, 2021 on March 24, 2021, which introduced new Rule 11(g) in the Companies (Audit and Auditors) Rules, 2014. Rule 11(g) deals with reporting on the use of accounting software by companies for maintaining their books of account which have the feature of recording audit trail (Edit Log). This casts additional responsibility on the auditors of companies to report compliance with Rule 11(g). This article attempts to describe the management's responsibility and the auditor's responsibility separately, the need to acquire relevant IT skills by auditors and a practical approach for effective implementation of the audit trail in compliance with Rule 11(g).

With advancements in computer science and informati on technology, and global digitalization drive, financial and non-financial information has moved from physical (paper) form to electronic form. Business entities and regulatory bodies are moving towards a digital environment and experiencing technological intervention in accounting and other business information in various ways. Starting from journal entries to final financial statements, the process is either fully automated or semi-processed. Data is further engineered through accounting software by accounting professionals in MS-Excel or other utilities in line with the provision of various statutory and internal business requirements.

Auditing work has changed much in the digital environment and besides critical investigation of various books of account and other relevant records, auditors must be abreast with technical aspects of data manipulation in the IT environment.

Although, auditors exercise rigorous audit procedures, including computer-assisted audit techniques, in line with applicable

standards on auditing and other relevant guidelines with a higher degree of automation in accounting. However, there is always a chance that intentionally or unintentionally records have been manipulated. Unusual/ malafide alteration of records is fatal to the whole auditing process and it is therefore necessary that the auditor should be in a position to trace the elements of data manipulation to comply with the requirement of the audit trail in a true sense.

As the Auditor needs to gather evidence from the IT environment, it is important for them to have an insight of the IT environment.

On March 24, 2021, the Ministry of Corporate Affairs (MCA) introduced new Rules 11(e), 11(f) and 11(g) in the Companies (Audit and Auditors) Rules, 2014 by the Companies (Audit and Auditors) Amendment Rules, 2021. Rule 11(g) casts responsibility on auditors to report on the use of accounting software by companies for maintaining their books of account which has a feature of recording audit trail. For a better understanding of further discussion, Rule 11(g) of Companies (Audit and Auditors) Rules, 2014, and Proviso to Rule 3(1) of Companies (Accounts) Rules, 2014 are reproduced here.

Rule 11(g) of Companies (Audit and Auditors) Rules 2014

"Whether the company, in respect of financial years commencing on or after the 1st April, 2022, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention."

Proviso to Rule 3(1) of Companies (Accounts) Rules, 2014

"Provided that for the financial year commencing on or after the 1st day of April 2023, every company which uses 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 the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled."

Audit Trail

Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source.

Audit trails are a chronological record of the changes that have been made to the data like creating new data, updating or deleting data.

Records maintained as audit trail may include the following information:

- **when** changes were made i.e., date and time (timestamp)
- **who** made the change i.e., User Id
- **what** data was changed i.e., data/transaction reference; success/failure

Audit trails may be enabled at the accounting software level depending on the features available in such software or the same may be captured directly in the database underlying such accounting software.

Coverage of Rule 11(g)

Reporting on Accounting Software

Initially, auditors were required to report on companies' use of accounting software for maintaining books of account, effective from April 1, 2021. However, owing to technical and other reasons, this requirement was deferred twice, and it was made mandatory from April 1, 2023. This requirement is now applicable prospectively and not retrospectively. It is clear that the auditor is required to assess the appropriateness of the audit trail for prospective financial years only.

Compliance and Auditing of Accounting Software under Rule 11(g) of the Companies Act, 2013

Accounting software is a computer programme or system (integrated or standalone) that is used for recording, maintaining, and reporting books of account. It may also be used for reporting various information to management. Any software that maintains records or transactions that fall under the definition of Books of Account as per Section 2(13) of the Companies Act, 2013 is covered under the ambit of Rule 11(g). If the software is maintained on standalone basis to process any subsidiary ledger (sales ledger, payroll, etc.) and the final outcome of this software is used in final ledgers which may have an impact on books of account, then such software will also be covered under Rule 11(g).

The reporting on the compliance of Rule 11(g) is equally applicable with respect to consolidated financial statements under Section 129(4) of the Companies Act, 2013. In this regard, the auditors of the parent company should exercise professional judgment and comply with applicable Standards on Auditing, in particular, SA 600, "Using the Work of Another Auditor".

Management's Responsibility

If a company is using any existing software for maintenance of books of account, which is not having feature of audit trail then necessary modification needs to be made in the software to provide feature of recording audit trail of each and every transaction, creating an edit log of each change made in the books of account along with identity of personnel who made changes, time and date when such changes were made and ensuring that the audit trail cannot be disabled.

Further, deployment of new/additional software (whether purchased or developed in-house) for the purpose of maintenance of books of account covered under section 2(13) of the Companies Act, 2013, must have the feature of an edit log for each and every transaction.

In short, management is responsible for:

- Identification of software(s) covered under Rule 11(g). Software may be in India or outside India, software may be in the premises of the company or maintained by a third party or on cloud or other subscribed software.
- Ensuring the functionality of the audit trail feature is appropriately enabled in software used for the maintenance of books of account.
- Ensuring that the audit trail cannot be disabled.
- Recording the audit trail for each and every transaction.
- Edit log (audit trail) of each change made in the books of account along with the timestamp.
- Capturing identity of person(s) who made such changes.

Therefore, management is primarily responsible for the deployment of appropriate software compatible with the requirements of Rule 11(g).

Auditor's Responsibility

Under obligation cast by Rule 11(g), the auditor needs to comment on the following main points:

- Is company using an accounting software which has a feature of recording audit trails?
- Whether the audit trail feature can be disabled or tampered with?
- Whether the audit trail feature was disabled/tempered during the reported period?
- Whether all transactions recorded in the software covered in the audit trail feature?
- Whether the audit trail has been preserved by the company as per statutory requirements for record retention? (Note: as per section 128(5) of Companies Act 2013, the statutory requirements for record retention is minimum eight years).

Practical Approach

From the above discussion, it is evident that management is primarily responsible

for the appropriate deployment of edit log-enabled software for maintenance of books of account in their organizations, while the auditor needs to report on the audit trail feature of accounting software.

As Auditor needs to gather evidence from the IT environment, it is important for them to have an insight of the IT environment. Auditor may involve IT experts/specialists to assist him in the evaluation of management controls and configurations involved in the accounting software with regard to the audit trail. To start with, the auditor should first ask management about the comprehensive list of accounting software used by the company for the purpose of maintenance of books of account. This list includes items such as the name of accounting software, type of records maintained (i.e. journal vouchers, sales invoices, cost records, debtors, creditors, payroll etc.), location of software (company itself, third party, outside country), operating system, database, or whether the software is audit trail enabled/disabled. Further, written representations from management need to be obtained in line with SA 580, 'Written Representations' confirming that accounting software used by the company is technically adequate and effectively compatible meeting the requirements specified by the Companies (Accounts) Rules, 2014.

The management needs to assert that applicable software(s) has a feature of recording the audit trail for each and every transaction, creating an edit log of each change made in the books of account along with a timestamp, the audit trail cannot be disabled, and the audit trail has been preserved by the company as per the statutory requirements for record retention. Further, the instances of deficiencies, if any, need to be mentioned explicatively. The representation must include that no instance of fraud resulting in a material misstatement to the financial statements had occurred in reporting period.

Auditor should also check the working of audit trail functionalities by altering a record for test purposes and restoring the same on a sample basis (atleast one test for each application). For each alteration, a log should be created and this needs to be verified on the front and back-end levels. If it is through the front-end (user interface) then along with the relevant record the system should capture user Id/machine IP address and date with time. In case alteration is through back-end system, it should capture the same detail and the modified record in the back-end should also reflect on the front-end (user interface).

It is expected that auditor should explain requirements of Rule 11(g) to their clients in advance and also collaborate with IT specialists/experts to gain the required insight of IT systems from an edit log viewpoint. Readers may note that in February 2024, the Auditing and Assurance Standards Board of ICAI issued the 'Implementation Guide on Reporting on Audit Trail under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (Revised 2024 Edition)'. The Implementation Guide provides detailed guidance on various aspects of reporting requirements of Rule 11(g). Stakeholders can use the Implementation Guide for effective implementation of Rule 11(g).

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Navigating the GST Regime: Transformation and Its Challenges

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December 2023 has marked a significant juncture in the GST law, as the time limit for issuance of orders for the first year of GST i.e., FY 2017-18 for tax not paid or short paid or input tax credit wrongly availed or utilized or erroneous refund under normal cases (i.e., without any fraud, collusion or wilful misstatement) has come to an end. This juncture has arrived after 69 months of end of the relevant financial year.

The next six months of this year were again challenging for the assessee, tax consultants, and officials as the time limit for issuance of orders after the recent extension was 30th Apr' 24 for FY 2018-19 and 31st Aug' 24 for FY 2019-20 and SCN (Show Cause Notice) in both the cases is to be issued three months prior to the issuance of the order. Hence, the remaining part of this calendar year is going to be exciting for everyone in the IDT ecosystem, including the IT team of the taxpayers and tax collectors.

Time limit

According to Finance Act, 1994 (Service tax law), the prescribed time limit for the issuance of Show Cause Notices (SCNs) in normal cases was 30 months (extended from 18 months) from the "relevant date." This date was determined as the date of filing the tax return, and in situations where the return was not filed, it was based on the due date for filing the return.

However, under the Goods and Services Tax (GST) law, there is no time limit for issuance of SCN. The time limit is prescribed only for the issuance of an order which must be done within three years from the due date for furnishing the annual return under normal cases (i.e., without any fraud, collusion, or wilful misstatement). Additionally, show cause notice is to be issued at least three months prior to passing the order.

The actual date of filing the return holds no relevance in determining the time limit for the issuance of a Show Cause Notice or order in GST law and is solely based on the due date of furnishing the annual returns.

The time limit under GST law is determined from the annual return which is due after 9 months from the end of the financial year and monthly tax returns are not relevant for the determination of time limit, whereas in Finance Act, 1994, the time limit was computed from periodical return and also, there was no requirement of any separate annual return.

Time limit helps in bringing certainty to the taxpayers upon expiry of the period. A reduced

time limit is also helpful in quick collation and furnishing the details before the authority.

Finance Act 2024 has introduced common section 74A for both the cases i.e. normal cases (i.e., without any fraud, collusion, or wilful misstatement) as well as cases with fraud, collusion, etc. wherein the time limit of issuance of notice has been prescribed as 42 months from the due date of filing annual return or erroneous refund. The newly inserted section is applicable from FY 2024-25 onwards and section 73 & Section 74 would be applicable for proceeding related to FY 2017-18 to FY 2023-24.

The actual date of filing the return holds no relevance in determining the time limit for the issuance of a Show Cause Notice or order in GST law and is solely based on the due date of furnishing the annual returns.

The introduction of the common section to avoid disputes about the involvement of fraud, collusion, and wilful misstatement is a welcome change and also brings clarity to the business, however, still the time limit of 42 months for issuance of notice from the due date of filing the return and extended period of issuance of orders is significantly high and should be further rationalised.

The extended "Due date of filing annual return"

GST was introduced in the Second quarter of FY 2017-18, and both taxpayers and tax administrators faced challenges in adapting to the newly introduced GST law. The format for the annual return and reconciliation statement was first notified in September 2018 through notifications 39/2018-CT and 49/2018-CT, even though the GSTN portal was not yet fully prepared.

This posed a significant challenge for the majority of taxpayers and tax professionals, as understanding the requirements and providing the necessary details became difficult. The complexity was further compounded by the unpreparedness of the IT systems for submitting the details required in the annual return, which became known to the assessee only with the notification of the forms. Forms notified were replaced by the revised forms notified by Notification No. 74/2018-CT dated 31.12.2018 hence, effectively the forms were actually notified on the original due date of filing the annual return.

CGST (Removal of Difficulties) Order No. 01/2018-CT dated 11.12.2018 extended the due date to 31st March 2019 due to the non-readiness of the system which was likely to be made operational by 31st January 2019.

Further Order no. 3/2018 again extended the due date from 31st March 2019 to 30th June 2019 due to the non-readiness of the system. Order No. 6/2019-CT dated 28.06.2019 extended the revised due date of 30th June 2019 by two months to 31st August 2019 due to certain technical problems being faced by the taxpayers. Subsequently, vide Order No. 07/2019-CT dated 26.08.2019, the due date was further revised to 30th Nov 2019 hence, the Annual Return which was scheduled to be filed by Dec'18 was extended by 11 months due to the non-readiness of the system and technical glitches.

These repeated extensions brought much-needed relief to the clueless taxpayers and tax professionals however, the extended "due date of filing annual return" also extended the time limitation for issuance of orders for non-payment or short payment of taxes which was unintentional but brought large ramifications in the tax administration.

Filing of GSTR-9 and GSTR-9C

The forms were filed in the background of the limitation of the ERP system to provide the requisite information as the system was not maintained in such a way and major ERP service providers in the country were also not ready with the compatible development. The forms (GSTR-9/9C) were also not available with the taxpayers for initial year and they were also not aware of the information to be captured for reporting in GSTR-9/9C.

Backup of the details auto populated in the forms was not made available in many places and had to be interpreted as per own understanding of the concerned person.

Extended due date of issuance of Show Cause Notice

The due date for the issuance of orders for the fiscal year 2017-18 in normal cases/non-fraud cases (i.e., in the absence of any fraud, collusion, or wilful misrepresentation), was stipulated to be three years from the extended due date of 30th Nov 2019 thereby concluding on November 30, 2022. Subsequently, two extensions were granted for FY 2017-18.

The first extension was provided by Notification No. 13/2022 dated 5th Jul' 2022 wherein the due date for issuance of the order was extended till 30th Sep 2023. Subsequently, the due date was further extended to

31st Dec 2023 for FY 17-18, 31st Mar 2024 for FY 2018-19 & 30th June 2024 for FY 2019-20 vide Notification No. 09/2023 dated 31st March 2023.

Further, recently another extension has been granted vide Notification No 56/2023 dated 28th Dec, 23 and the due date for issuance of orders for FY 2018-19 and FY 2019-20 has been extended to 30th Apr 2024 and 31st Aug 2024 respectively.

A swift functioning of the Tribunal is imperative considering the substantial backlog and upcoming huge matters of FY 2018-19 and FY 2019-20 post-completion of the time limit for issuance of orders in this year.

Hence, the transaction entered in Jul'17 could be questioned by the tax authority in normal cases (without fraud, collusion, misstatement, etc.) up to 30th Sep, 23 i.e., 75 months (6 years' appx). Also, this should be noted that this was the first year of GST, and everyone was struggling with frequent changes in law and the non-readiness of the GST portal hence, it was quite difficult to explain the details before the tax officers for the initial year of GST in the absence of availability of detail and clarity on transactions.

The petitions have been filed before several High courts wherein the notification extending the due dates have been challenged on the validity of grounds of such extension. Hon'ble HC of Gauhati in the case of **M/S Indus Towers Limited vs the Union of India (WP(C)/529/2024)** following the judgment of Hon'ble HC of Allahabad, Gujarat, Punjab & Haryana, and Madras has granted interim stay on passing of the order by the department.

Hon'ble Kerala HC in the case of **Pappachan Chakkiath Vs. Asst. Commissioner & Ors** held that when the time limit for issuance order u/s 73(10) of CGST/SGST Acts, for F.Y. 2017-18 has been extended up to 30th Sep 2023, then SCN can also be issued with reference to such date.

Appeal against the order

A person aggrieved with the order passed by the adjudicating authority for FY2017-18, 2018-19, 2019-20 will be appealed before the first appellate authority. The order passed by the first appellate authority can be appealed only before the appellate tribunal, hence in the coming days, there would be a lot of issues and very high pendency before the tribunal. It will take a significant amount of time in the listing of matters before the Tribunal.

Constitution of tribunal and stay of demand

Principal Bench of GST Appellate Tribunal have been set up and its State Benches have been notified. The Government has also initiated the process of filling vacancies and have invited application for posts of judicial and technical members in GSTAT however, they are still to be made functional and in the absence of functioning of GST Tribunals, the demand confirmed by the first appellate authority can't be appealed. The assessee is left with no option other than approaching Hon'ble HC under writ Jurisdiction and there are several petitions filed before respective High court. The court in most of the cases directed the assessee to pay 20% of the amount and the balance amount was stayed and in few cases stay has been granted even without payment of 20%.

The State of Maharashtra issued a trade circular dated 26th May 2020 wherein assessee was given an option of submitting a declaration within 15 days of the order before jurisdictional authority wherever he proposes to file an appeal and demand in such case is stayed however, there is no clarity and divergent practice is being followed in different states of the country.

In most states, tax authorities are asking to pay a minimum of 20% even if the tribunal is not functional and, in few cases, even 100% tax is demanded. The tax authorities in many cases have initiated the recovery proceedings including the attachment of bank account immediately after the passing of the order by the first appellate authority without even providing an opportunity to approach Hon'ble HC under writ jurisdiction. There is no uniformity or clarification provided in this regard and a large number of petitions are being filed before Hon'ble HCs even on several meagre tax issues involving questions of facts.

Recently, the Patna HC while deciding the case of Sita Pandey vs. the State of Bihar **(C.W.J.C. No. 5407 /2023-HC- PATNA)**, wherein the entire amount was recovered u/s 78 immediately on the next day of the decision of the first appeal, held that such recovery is against the principle of natural justice and the department could have at most recovered 20% of the demand confirmed by the appellate authority. A cost of Rs.5000 was also levied on the officer concerned. Further, in another case of National Insurance Co. Ltd. Vs State of Bihar **(C.W.J.C. No. 777/ 2023- HC- PATNA)**, recovery of the balance amount was made even when 20% payment was already made by the taxpayer in addition to 10% paid while filing an appeal before the first appellate authority, Hon'ble HC following the aforementioned judgment in case of Sita Pandey, held such recoveries to be illegal and directed the department to refund the

amount recovered and imposed a cost of Rs. 5000 on the concerned officer.

In a recent circular 224/18/2024 - GST [CBIC-20001/4/2024-GST] – Dated 11th July 2024, it has been clarified that upon payment of amount equivalent to 20% of the disputed tax amount and filing of an undertaking with the jurisdictional proper officer stating their intention to file an appeal before the GSTAT, recovery for balance amount will be stayed, however the circular provides that in case the taxpayer does not make payment of 20% or doesn't provide the undertaking before the proper officer, then it will be presumed that the taxpayer is not willing to file an appeal.

This clarification with regard to stay of demand post-decision of the first appellate authority till the time the Tribunal becomes operational will be beneficial and was much needed for the tax administration of the country considering that a huge number of litigations is expected to take place for FY 2017-18, FY 2018-19 and FY 2019-20 against the several thousands of notices issued to taxpayers. This clarification will also help in avoiding uncertainty before the taxpayers and also unburden the Hon'ble HC.

Furthermore, a recovery proposed by the circular in the absence of payment of 20% or even only the declaration after making the payment seems to be an unjust burden on the taxpayers as the payment of 20% before even the constitution of the Tribunal will block the funds of the assessee for a longer period and impact working capital, particularly considering historically lower success rate of the tax department.

A swift functioning of the Tribunal is imperative considering the substantial backlog and upcoming huge matters of FY 2018-19 and FY 2019-20 post-completion of the time limit for issuance of orders in this year.

Pre-deposit Amount

The Finance Act, 2024 upon recommendation of the GST council has reduced the pre-deposit amount to 10% subject to the maximum of 40 Crores (CGST and SGST both) while filing an appeal before the first appellate authority and an additional 10% of the remaining amount subject to the maximum of 40 Crores (CGST and SGST both) while filing the appeal before the Appellate Tribunal and once the amount is paid, the recovery proceeding for the balance outstanding amount is deemed to be stayed.

Such reduction in the pre-deposit limit from 20% to 10% at the tribunal and reducing the maximum amount from 50 Crores to 40 Crores is a welcome change, however the amount of 20% of the tax in dispute and maximum amount of pre-deposit while filing the appeal before the Appellate Tribunal is still very significantly high particularly in the background of very lower success rate of the department in the Tribunal in the pre-GST regime. The Economic survey of FY 2017-18 provided that the success rate of the Department at all three levels of appeal—Appellate Tribunals, High Courts, and Supreme Court—and for both direct and indirect tax litigation is under 30%. In some cases, it is as low as 12%. It further provided that the success rate of the Department before CESTAT as the proportion of cases in which the respective court or tribunal rules totally or partially in favour of the Department is merely 12%.

Rationalisation in pre-deposit amount will help the growth of business and the economy of the country as such reduction will help the businesses in better working capital management.

Conclusion

The certainty in tax laws helps the business to plan themselves and contribute towards the growth of the nation. Any uncertainty impacts the ease of doing business and hence, it is imperative that there should be absolute clarity with respect to tax laws, reporting, and appellate process. A more proactive step from the government would be helpful in making this tax a "Goods & Simple Tax" in a real manner.

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Navigating Indexation Benefits after the Finance (No.2) Act, 2024

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Indexation is in the news since 23rd July due to the amendment proposed by the Finance (No.2) Bill, 2024 and further amendment at the time of passing of the Bill in Lok Sabha. In this Article we will study what is indexation, how it is computed, its benefits, necessity, impact due to the proposed amendment and final relief allowed by the Finance (No. 2) Act, 2024.

Introduction

Indexation is a measure of inflation that finds application under the Income-tax Act, 1961 (hereinafter referred to as "the Act) while computing long-term capital gains on sale of assets. Indexation harmonizes the purchase price with inflation when calculating long-term capital gains arising from the sale of assets, resulting in a more accurate assessment of gains and a consequent reduction in tax liability. Index is notified by the Central Government every year, having regard to 75% of average rise in the consumer price index (CPI) for the immediately preceding previous year. Therefore, if it is considered that price of a capital asset has arisen in tandem with base price rise, and if one wants to sell an asset and replace it, the cost allowed even after indexation will be less than the price payable for new asset. However, in cases of many capital assets the price rise is lesser than market price rise and in some cases it is higher. The Cost Inflation Index was first notified for the financial year 1981-82 in India. The cost inflation index for the year 2024-25 is 363.

How Indexed cost of acquisition is computed

Since "cost of acquisition" is historical, the concept of indexed cost allows the taxpayer to factor in the impact of inflation on cost. Consequently, a lower amount of capital gains gets to be taxed than if historical cost had been considered.. The indexation for the cost of acquisition is calculated in accordance with the following process:-

- Cost of acquisition of the asset has to be multiplied with the cost of inflation Index of the year in which it was transferred.
- That figure has to be divided by the cost inflation index for the year in which the asset was acquired.
- If the asset was purchased before 2001, the cost inflation index of the year 2001-02 must be taken into consideration and the fair market value as on 1st April 2001 needs to be considered.
- If improvement of the asset has been made, then one needs to adjust the cost inflation index of the improvement made as explained in the point no 1 above.The figure has to be divided by the CII for the year in which improvement has been made

Formula for computing indexed cost is = Index for the year of sale/ Index in the year of acquisition) x cost.

For example, if a property purchased in 2001-02 for Rs 20 lakh was sold in A.Y. 2023-24 for Rs 85 lakh, indexed cost = (348/100) x 20 = Rs 69.60 lakh. And the long-term capital gains would be Rs 15.40 lakh, that is Rs 85 lakh minus Rs 69.60 lakh.

Benefits of Indexation

Prior to the amendment by the Finance (No.2) At, 2024, long term capital gain tax u/s 112 of the Act was 20% in case of indexation benefit . Hence, in the example above, the long term capital gain tax on Rs. 15.40 lakh would be 3.08 lakhs. If the indexation benefit is not availed then the tax applicable would be 20% of 65 lakhs (85 – 20 lakhs). i.e.13 lakhs.

Thus, indexation helps in adjusting the purchasing price of the asset with the current market prices. Indexation is not applicable on short term capital gain or losses.

Impact due to amendment in Budget presented 2024

The Finance (No. 2) Bill, 2024 , presented by the Finance Minister Nirmala Sitharaman, proposed eliminating the indexation benefit. Its removal could have increased the tax burden on sellers as can be seen from the above example. To reduce the impact, the long-term capital gains (LTCG) tax rate was decreased from 20% to 12.50% w.e.f 23.07.2024, but without the benefit of indexation. This change was expected to have significant impact on the real estate market. Long-term property investors anticipated reduced returns due to the withdrawal of indexation benefits.

Thus, the property owners would have experienced a considerable rise in long-term capital gains (LTCG) tax obligations following the implementation of the new regulations. Consequently, there was a possibility that tax liabilities could have escalated many times for properties acquired post-2010.

If a property was purchased on 1st April 2010 for Rs. 30 Lacs and sold **on 22nd July 2024** for Rs. 70 Lacs, then the impact could have been as per illustration given below: -

(Rs. In Lakhs)

Sale upto 22nd July 2024	With Indexation	Without Indexation
Sale value	70.00	70.00
Indexed cost of Acquisition	65.21*	
Cost of Acquisition	NA	30.00
Capital Gain	4.79	40.00
Applicable Tax rate	20%	12.50%
Tax payable	0.96	5.00
Excess Tax (Rs. In Lacs)		**4.04**
Excess Tax (%)		**420.83**

* Indexed Cost of Acquisition has been derived by dividing the purchase price by the CII of FY 2010-11 (167) and multiplying with the CII of FY 2024-25 (363) i.e. 30/167*363=65.21.

It was quite clear that the removal of Indexation was to hit the real estate market as well as the common man, thus, it was felt that the proposed amendment needed review. Considering representations from various sections the Government made changes allowing relief as explained in the next para.

Critical Review of the Relief provided while passing the Finance Bill (No.2), 2024 in Lok Sabha

The Lok Sabha, on August 7th passed the Finance (No. 2) Bill, 2024, and amended the earlier proposed long-term capital gains tax provision on immovable properties giving taxpayers an option to switch to a new lower tax rate or stay with the old regime that had higher rate with indexation benefit. In other words, the government provided taxpayers to pick lower of the following: -

a) 12.5% Long-Term Capital Gains (LTCG) tax rate without indexation

or

b) 20% rate with indexation, for properties purchased before July 23, 2024.

The grandfathering clause in this context ensures that properties bought before the specified date (July 23, 2024) are not adversely affected by the new rules. It allows taxpayers to calculate their taxes under both the new and old schemes and pay whichever amount is lower, thereby safeguarding investments made under the previous tax regime.

Whether Indexation relief is beneficial or not

The choice between using the indexation benefit or opting for the new 12.5% LTCG tax rate depends on specific financial situation and the amount of capital gain that has been made.

The tax liability will differ on a case-to-case basis, primarily depending on the

- holding period of the asset and
- *the quantum of appreciation on the asset*
- property's purchase price

The question is how much tax payer needs to pay if he opts for the old LTCG rule — 20% long-term capital gains tax with indexation benefits? Can he save some tax if he opts for the new LTCG tax at 12.5% without indexation? The working in the two scenarios is given below.

If a property was purchased on 1st April 2010 for Rs. 30 lakhs & sold for consideration of say Rs 70 lakhs, Rs 110 lakhs, Rs 135 lakhs and Rs 150 lakhs, then the impact could have been as per illustration given below: -

acquired before 23rd July,2024. The said option is not available to any other class of assessees such as companies / LLPs / firms / association of persons etc. Also, the option is available only in respect of long term capital gain on transfer of a long term capital asset, being land or building both, whether residential or commercial property. Resident Individuals and HUFs cannot opt for indexation benefit in case of long-term capital gain earned from transfer of other assets like gold, securities etc. Further, whether the benefit would be available in respect of leasehold rights in

(Rs. In Lacs)								
Sale upto 22nd July 2024	**With Indexation**	**Without Indexation**	**With Indexation**	**Without Indexation**	**With Indexation**	**Without Indexation**	**With Indexation**	**Without Indexation**
Sale value	70.00	70.00	110.00	110.00	135.00	135.00	150.00	150.00
Indexed cost of Acquisition **	65.21	NA	65.21	NA	65.21	NA	65.21	NA
Cost of Acquisition	NA	30.00	NA	30.00	NA	30.00	NA	30.00
Capital Gain	4.79	40.00	44.79	80.00	69.79	105.00	84.79	120.00
Applicable Tax rate (%)	20%	12.50%	20%	12.50%	20%	12.50%	20%	12.50%
Tax Liability	0.96	5.00	8.96	10.00	13.96	13.13	16.96	15.00
Excess Tax Liability -12.50% option		**4.04**		**1.04**		**-0.83**		**-1.96**
Excess Tax Liability -12.50% option			**420.83%**	**11.61 %**		**-5.98%**		**-11.55%**

** Indexed Cost of Acquisition worked out by dividing the Purchase price by the CII of FY 2010-11 (167) and Multiplying with the CII of FY 2024-25 (363)

In the post amendment scenario, the impact on the tax liability is explained in 4 different illustrations with 4 different amounts of consideration. It is quite clear that the Indexation option is more beneficial in case the sale price is Rs. 70 lakhs & Rs. 110 lakhs. In the other 2 illustrations, where the sale price was Rs. 135 lakhs & Rs. 150 lakhs respectively the new option @ 12.50% is more beneficial. The concessional rate of tax with no indexation benefit is favourable in cases where sale consideration is high.

Eligible individuals should calculate their potential tax liabilities under both the old and new schemes to determine which option is more beneficial before making a decision.

In a nutshell, only resident individuals or Hindu undivided families (HUF) can avail the option under the second proviso to section 112(1)(a) for properties land/building still remains a debatable issue. There exist contrary judicial precedents on whether leasehold rights shall be included within the realm of 'land' or 'building'. The factual matrix in such situations shall play a critical role.

It is hoped that the substantial changes made in line with the objective of simplification of the capital gains taxation regime will also provide tax certainty and reduce litigation, being the other objectives of the direct tax proposals in the Union Budget 2024-25.

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TReDS as a Solution to Section 43B(h) Disallowance

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The Income Tax Act, 1961 serves as a comprehensive legal framework for India's taxation structure. One of its key provisions, Section 43B, ensures that certain expenses are allowed as deductions only when actual payment is made. Under Section 43B(h), any delay in payments to Micro and Small Enterprises (MSEs), as defined under the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006, can lead to the disallowance of the expenditure unless it is paid within the prescribed period.

Given the current business environment, where liquidity constraints often delay payments to MSEs, the Trade Receivables Discounting System (TReDS) provides a viable solution. By facilitating the timely payment of MSE dues, TReDS helps businesses avoid the disallowance under Section 43B(h).

This article delves into the advantages of using TReDS, recent regulatory changes related to TReDS, and its impact on tax compliance.

Understanding Section 43B(h): Section 43B mandates that certain expenses, including taxes, duties, and payments to MSEs, are allowed as deductions only upon actual payment. Under clause (h), payments to MSEs, as governed by the MSMED Act, 2006, can only be deducted if they are made within the stipulated period (usually 45 days). If the payment exceeds this period, the expense is disallowed for tax purposes, leading to a higher taxable income for the business.

Moreover, any interest payable on delayed payments to MSEs is also not allowed as a deduction, further increasing the tax burden on the business. As a result, businesses need a solution to meet this payment timeline and avoid disallowance, which is where TReDS steps in.

TReDS as a Solution to Section 43B(h) Disallowance: Trade Receivables Discounting System (TReDS) is an RBI-regulated platform that facilitates the discounting of trade receivables, particularly from MSEs, by providing a seamless connection between buyers, MSEs, and financiers. By leveraging TReDS, businesses can ensure timely payments, thereby complying with Section 43B(h) and avoiding disallowance.

Key Features of TReDS

Timely Payments: TReDS enables MSEs to receive payments on time, even if the buyer faces liquidity constraints. This timely payment ensures that businesses remain compliant with Section 43B(h).

Invoice Discounting: MSEs can upload their invoices on the TReDS platform, allowing financiers to offer immediate discounted payments. This bypasses the risk of delayed payments from buyers, ensuring MSEs receive their dues promptly.

TReDS not only supports compliance with the MSMED Act and Section 43B(h) but also fosters stronger buyer-supplier relationships, improves cash flow management, and optimizes financial planning for businesses of all sizes.

Multiple Bidders: Financiers (such as banks and NBFCs) compete to discount the invoices, ensuring MSEs benefit from competitive rates while businesses ensure timely payment.

Interest Deductibility: Unlike interest on delayed payments to MSEs, which is not allowed as a deduction, any interest paid to financiers under TReDS for discounting invoices is allowable as a deductible expense under the Income Tax Act. This encourages businesses to adopt TReDS to avoid disallowance and still benefit from deductible interest costs.

Legally Compliant: Payments routed through TReDS are fully compliant with the MSMED Act, 2006, which means they meet the criteria for deduction under Section 43B(h). This ensures no risk of disallowance due to late payments, as all records are transparent and auditable.

Reduction in Mandatory Registration Limit for TReDS: One of the notable regulatory changes aimed at expanding TReDS adoption is the reduction of the mandatory registration limit. Earlier, businesses with a turnover of ₹500 crore or more were required to register on TReDS. Recently, in the Budget 2024 (II), this limit has been reduced to ₹250 crore. This reduction brings more medium-sized enterprises under the scope of mandatory.

TReDS registration, encourages broader adoption and ensure timely payment to MSEs, which directly addresses compliance under Section 43B(h).

Registration on TReDS: In addition to the mandatory registration requirement for businesses with turnover exceeding ₹250 crore, the government also allows voluntary registration for companies with turnover below ₹250 crore. This means that even smaller businesses, which are not legally mandated to register, can voluntarily benefit from the timely payment mechanism of TReDS, ensuring compliance with Section 43B(h) and smooth business operations.

Benefits of TReDS for Businesses and MSEs

1. **Avoiding Disallowance under Section43B(h):** The primary benefit of using TReDS is that it ensures timely payments to MSEs, allowing businesses to remain compliant with Section 43B(h). By facilitating prompt payments, companies avoid the risk of disallowance and can claim the expenditure as a deduction.

2. **Reduction in Tax Burden**: Besides avoiding disallowance, businesses can also claim interest payments to financiers (for invoice discounting) as a deductible expense. This is a crucial advantage over paying non-deductible interest to MSEs on delayed payments.

3. **Enhances MSE Liquidity**: TReDS provides MSEs with immediate liquidity by offering discounted payments on their invoices. This not only benefits MSEs but also strengthens the supply chain, ensuring that suppliers continue operations without disruptions due to payment delays.

4. **Compliance with MSMED Act**: Since TReDS operates in compliance with the MSMED Act, 2006, businesses using the platform automatically meet the Act's payment stipulations. This reduces the risk of legal penalties or fines for delayed payments and ensures that all payments are made within the statutory time limit.

5. **Improvement in Cash Flow for Buyers**: TReDS also alleviates cash flow pressures for buyers. Since financiers pay MSEs immediately, buyers have

more time to settle the invoice with the financiers, providing flexibility in managing working capital.

6. **Strengthening MSE Relationships**: Timely payments to MSEs via TReDS build trust and reliability between buyers and suppliers. MSEs often face liquidity constraints, and timely payments ensure that they can continue supplying goods or services without interruptions.
7. **Support for Smaller Businesses**: The reduction of the mandatory registration limit to ₹250 crore allows more medium-sized enterprises to benefit from TReDS.

Furthermore, voluntary registration enables even smaller businesses to proactively manage their payments and tax compliance.

TReDS and Tax Compliance: How It Works.

The process of using TReDS ensures full compliance with Section 43B(h) and simplifies the payment process:

1. **MSE Uploads Invoice**: The MSE supplier uploads their invoice to the TReDS platform.
2. **Buyer Approves Invoice**: The buyer (corporate) confirms the validity of the invoice on TReDS.
3. **Financiers Bid for the Invoice**: Multiple financiers (banks, NBFCs) compete to provide the best discounting rate for the invoice.
4. **MSE Receives Payment**: Once the invoice is discounted, the MSE receives the payment within 24 hours from the financier, ensuring that the MSE gets paid within the legally stipulated time frame.
5. **Buyer Settles with Financier**: On the due date, the buyer makes the payment to the financier rather than directly to the MSE. This ensures that the buyer complies with the MSMED Act's payment obligations while maintaining compliance with Section 43B(h).
6. **Deductible Interest**: Unlike interest on delayed payments to MSEs, which is not allowed as a deduction, interest paid to the financier for invoice discounting under TReDS is deductible. This provides businesses with an additional tax-saving opportunity.

Conclusion

TReDS offers a comprehensive solution for businesses seeking to avoid disallowance under Section 43B(h) of the Income Tax Act, 1961. By ensuring timely payments to MSEs, TReDS helps businesses remain compliant with tax laws while benefiting from deductible

interest payments on discounted invoices. The recent reduction in the compulsory registration limit to ₹250 crore, makes TReDS accessible to a wider range of businesses, while voluntary registration provides smaller enterprises an opportunity to streamline payments and compliance.

In conclusion, TReDS not only supports compliance with the MSMED Act and Section 43B(h) but also fosters stronger buyer-supplier relationships, improves cash flow management, and optimizes financial planning for businesses of all sizes. With the increasing reliance on digital platforms like TReDS, businesses can ensure smoother transactions, reduce the risk of disallowances, and contribute to the overall health of the MSE sector in India.

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Overview of Amendment to Ind AS 1 – Presentation of Financial Statements

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The amendment to Ind AS 1 introduces "Material Accounting Policies" to enhance the relevance and clarity of financial disclosures by focusing on materiality rather than significance. It establishes a decision-making framework to assess the materiality of accounting policies. This ensures that the accounting policy document is concise and focused on information that truly affect stakeholders' decisions. The amendment is expected to improve transparency and aid stakeholders in making informed decisions based on clearer, more targeted financial information. A similar amendment is also issued by the International Accounting Standards Board (IASB) to IAS 1 which is equivalent to Ind AS 1 under IFRS. The amendment to IAS 1 is effective for an annual period beginning on or after January 1, 2023.

On March 31, 2023, the Ministry of Corporate Affairs (MCA) notified amendment to Ind AS 1 – 'Presentation of Financial Statements'. The amendment is effective from the annual period beginning on or after April 1, 2023.

In the past, the emphasis on accounting policies within our financial statements has, perhaps, not received the importance it deserves. The essence of this amendment is a response to this oversight, aiming to elevate the role and relevance of the Accounting Policy document.

With this amendment, our accounting policy document will be more insightful, which will not only comply with the requirements but also communicates more effectively with the stakeholders.

Objective of Amendment to Ind AS 1

The amendment to Ind AS 1 was introduced on account of the following considerations:

a) Prior to the amendment, Ind AS 1 required disclosure of Significant Accounting policies. However, the challenge was that the term 'significant' used in Ind AS 1 was not defined in the accounting standard and hence there was a possibility of varied interpretations/applications of the term 'Significant' by preparers and users of the financial statements.

b) Secondly, the existing accounting policy documents often contained standardized information or replicated the accounting standard requirements. However, users of financial statements favored entity-specific details and insights into the entity's judgment and application of accounting policies.

What has changed under the Amended Ind AS 1

a) The term 'Significant Accounting policy' appearing in earlier Ind AS 1 has been replaced with the term 'Material Accounting

policy information'. The heart of this change lies in redefining what we consider worthy of disclosure and focusing our disclosures on information that genuinely impacts decision-making.

b) As per the amendment, the entities are now required to disclose only material accounting policy information.

c) Let us now understand - what is 'Material Accounting Policy' and how to determine 'Material Accounting policy information' for the purposes of disclosure in the financial statements.

i) According to the revised Ind AS 1, Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions of the users of financial statements made based on those financial statements.

ii) In order to determine whether a particular accounting policy is material – entities need to apply the Decision tree as summarized below.

Stage 1

Is the transaction, other event, or condition to which the accounting policy information relates material in size or nature, or a combination of both?

No → Accounting policy information that relates to immaterial transactions, other events or conditions is considered immaterial and **need not be disclosed as a part of accounting policy document**.

Yes → **Stage 2**

Is the accounting policy information that relates to a material transaction, event or condition is in itself material to the financial statements.

No → **Immaterial accounting policy** information that relates to material transactions, other events or conditions **need not be disclosed as a part of accounting policy document**.

Yes → Material accounting policy information **shall be disclosed**. → **Stage 3** → Determine the content of Material accounting policy information

Note: an entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Ind AS Standards.

Based on the above decision tree, the entity will need to follow stage-wise approach in determining the material accounting policies that require disclosure in the accounting policy document.

Stage 1

Evaluate whether the accounting policy relates to transaction, events, conditions which are material based on size (quantitatively) or nature (qualitatively) or both.

If based on the above assessment, the underlying events, transaction, or conditions are not material based on its size or nature, then the accounting policy relating to such events, **transactions is not required to be disclosed**.

For Example: If the amounts for items relating to Other Income like Dividend Income/interest Income is not material to the financial statements and their nature is routine and straight forward – then accounting policy relating to Dividend Income or Interest Income need not be disclosed in the financial statements.

If the response for Stage 1 assessment is 'Yes' (i.e. – the transaction, events, conditions are material), then entities need to move to perform stage 2 assessment.

Stage 2

Evaluate whether the accounting policy information that relates to a material transaction, event, or condition is itself material to the financial statements.

Accounting policy information is expected to be material if users of an entity's financial statements need accounting policy information to understand other material information reported in the financial statements.

In order to determine, whether the accounting policy information is in itself material, the amendment prescribes a certain illustrative list of scenarios – which if applicable – the accounting policy information relating to those items is expected to be material.

If at stage 2 assessment, the accounting policy information is not determined to be material, **no disclosure of accounting policy information is required to be made in the financial statements.**

The illustrative scenarios along with illustrations to determine whether the accounting policy is in itself material to financial statements are summarized in the below table:

Sr. No	Scenarios	Illustrations
1.	Entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements	Change from FIFO to a weighted average method for inventory valuation.
2.	Entity chose one of the accounting policies from alternative options/choices permitted by Ind AS standards.	Ind AS 20 - 'Accounting for Government Grants and Disclosure of Government Assistance' provides an alternative accounting policy choice for recognizing the government grant: a) Accounting of Government grants on a gross basis by setting up the deferred grant; or b) Accounting of Government grants on a net basis by reducing the same from the cost of Property, Plant, and Equipment.

Sr. No	Scenarios	Illustrations
3.	Entity has developed the accounting policy as per the requirement of Ind AS 8 – 'Accounting Policies, Changes in Accounting Estimates and Errors' in the absence of directly applicable guidance in other Ind AS.	Currently, there is no accounting standards under Ind AS which prescribes accounting treatment for Cryptocurrency assets held by the entity. In such situations, entity can develop its accounting policy for Cryptocurrency assets in accordance with the requirement of Ind AS 8. In the above situations, disclosure of accounting policy is required as amended Ind AS 1.
4.	Significant judgement or assumptions required in applying the policy.	Entity A has determined that it is able to exercise control over another Entity B despite holding less than 51% voting power by applying the principles of De-facto control. Accordingly, Entity A consolidates Entity B as a subsidiary in its consolidated financial statements.
5.	Situations where accounting treatment for certain transactions is complex	Accounting treatment incase of entity following hedge accounting principles

Disclosure of Accounting Policies

- If based on assessment at stage 1 and Stage 2, the accounting policy information is determined to be material, the entity needs to disclose the accounting policies for the related transactions, events, conditions in the financial statements.
- The entity can then determine the content of disclosure of its material accounting policy information.

- While preparing the accounting policy information, the entity needs to consider the following elements in order make the accounting policy relevant and useful to the users of the financial statements.
  - Policy should be tailored to disclose entity specific facts and circumstances.
  - Areas of significant judgements and estimates needs to be disclosed.
  - Avoid disclosure of standardized policy or reproduction of language from accounting standard.

Illustration of Application of the Amended Ind AS 1

Background

Entity Y is a listed entity engaged in the manufacture and sale of consumer durable goods. Property, plant, and equipment (PPE) are significant to entity Y's financial statements. Y has not recognized any impairment losses on its PPE in the current or previous reporting periods, nor does it hold any intangible assets or goodwill.

Historical Disclosure Practices:

In past reporting periods, the entity's disclosures regarding the impairment of non-current assets merely replicated the requirements of Ind AS 36, "Impairment

of Assets," without providing specific information relevant to the entity.

The Entity Y's existing accounting policy disclosure on impairment of Assets was as follows:

A. The carrying amounts of PPE are reviewed at each reporting date to identify any indications of impairment. For assets with an indefinite useful life, the recoverable amount is estimated annually. An impairment loss is recognized in the profit or loss statement when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount.

B. The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use, which involves discounting estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and asset-specific risks.

C. Impairment losses for cash-generating units are first allocated to reduce the carrying amount of any goodwill attributed to those units, and then to other assets proportionally.

D. While impairment losses on goodwill are not reversed, losses on other assets may be reversed if there is a change in the estimates used to determine the recoverable amount, provided that the revised carrying amount does not exceed what would have been determined, net of depreciation and amortization, had no impairment loss been recognized initially.

Generally, if there is no change in the accounting policy as compared to the prior year, the current period accounting policy shall be sufficient to provide the user with the necessary information required for understanding the financial statements.

Application of Amendment to Ind AS 1

a) Stage 1: Are the Identified assets subject to impairment testing material? - **Yes. The PPE balances are material to the financial statements.**

b) Stage 2: Whether the accounting policy information relating to impairment is in itself material?

i) Entity does not have any intangible assets or goodwill. Accordingly, its accounting policy for impairment of intangible assets/ Goodwill is not considered material.

ii) No impairments or reversals occurred in the current or comparative reporting periods, thus information on how impairments are recognized and allocated is not relevant to the users of the financial statements.

Entity Y can remove its the existing accounting policy appearing in point A to D under section '**Historical Disclosure Practices'** as these are not considered material.

iii) However, since entity's impairment assessment may involve significant judgement and estimates which will be relevant to the user, Entity Y discloses information about significant judgements/estimates and assumptions applied in its impairment assessment.

Transition consideration

The amendment to Ind AS 1 affects the disclosure of narrative and descriptive information. Paragraph 38 of Ind AS 1 specifies that comparative information is only required for narrative and descriptive information if it is relevant for understanding the current period's financial statements.

Generally, if there is no change in the accounting policy as compared to the prior year, the current period accounting policy shall be sufficient to provide the user with the necessary information required for understanding the financial statements.

Alternatively, if there is a change in the accounting policy in the current year, entities are required to disclose details about the nature and reason of the change, the amount of adjustment for the current and prior period, etc., as per the requirement of Ind AS 8. These disclosures as per Ind AS 8 are sufficient to provide the user with information about the comparative period's accounting policies that is relevant to understand the current period's financial statements.

Consequently, separate disclosure in the financial statements of the impact resulting from the amendment to Ind AS 1 for the current and corresponding period is not required to be included in the financial statements.

Conclusion

In summary, entities must reassess their accounting policy documents in light of this amendment's broad objectives. It is essential to emphasize entity-specific details and areas of critical judgments/estimates while reducing reliance on standardized descriptions or direct excerpts from the accounting standards.

Considering that the above amendment relating to Material Accounting Policy is applicable from the financial year beginning on or after April 1, 2023, management of the Company needs to evaluate the following:

- Review the existing disclosure of accounting policies and identify which of them are related to non-material transactions/events/conditions that may not require any disclosure in the financial statements.
- Revisit accounting policies and provide entity-specific information rather than generic/standardized information.
- The accounting policy disclosures representing a summary of requirements from the accounting standards may not be required to be disclosed except in limited circumstances - e.g. - where accounting treatment is complex.
- In situations where the entity decides to disclose the non-material accounting policy information, the same needs to be disclosed separately from material accounting policy information to enable the user of the financial information to distinguish between material and non-material financial information.

It will be intriguing to observe how Corporate India revises its accounting policies to align with the objectives of the Amendment made in Ind AS 1 aiming to enhance the informativeness and utility of the accounting policy document for the relevant stakeholders of the financial statements.

Reference

- Notification by MCA dated March 31, 2023, for Amendment to Ind AS 1.
- Amendments to IAS 1 and IFRS Practice Statement 2 issued by IASB.

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Journey of Accrual Accounting over Indian Railways

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This article traces the preparatory stages and pilot rollout of the Accrual Accounting Project over Indian Railways (IR), flagging the challenges faced and the measures taken to secure its success. The project was initially implemented through the Grafting Method, with Financial Statements generated for four financial years (2017-18 to 2020-21) within a short span of 21 months, from September 2021 and May 2023.

Simultaneously, in 2022-23, the phased implementation of the pilot project through the Transaction Method was successfully carried out across the entire IR with above 99% accuracy. As a result, both methods are now running in parallel to the cash-based accounting system on IR from April 1, 2023. Accrual Accounting, as part of accounting reforms, has been implemented on Indian Railways by the Accounting Reforms team, headed by the Chief Administrative Officer, with support from CRIS and ICAI ARF.[1]

Introduction

Accrual accounting in the government sector has been adopted by well over a hundred countries, leading to marked improvements in public finance management. Beginning with its first adoption by New Zealand in 1992 followed by Australia in 1999-2000, it has gained momentum globally, including in international organizations such as the Commonwealth, European Commission, OECD, and the United Nations, especially after the issue of International Public Sector Accounting Standards (IPSAS). In India, the Twelfth Finance Commission recommended the adoption of accrual accounting for the Union and State Governments, following which the Government Accounting Standards Advisory Board (GASAB)[2] was established in the office of the Comptroller and Auditor General (CAG) of

[1] To undertake research in the areas of Accounting, Auditing, Capital Markets, Fiscal and Monetary Policies and other related disciplines, ICAI established ICAI Accounting Research Foundation (ICAI ARF), a non-profit company as a core research body in January 1999. The Institute of Chartered Accountants of India (ICAI) is set up under The Chartered Accountants Act, 1949, an Act of the Parliament. ICAI is the second largest accounting body of Chartered Accountants in the world, with a strong tradition of service to the Indian economy in public interest.

[2] GASAB members include the Heads of all Central Government Accounting Services and representatives of ICAI, Ministry of Finance, Director General of NCAER and RBI.

India[3], through a notification dated 12th August 2002, to establish and improve standards of governmental accounting and financial reporting, thereby enhancing accountability mechanisms.

Although the CAG has not yet mandated the use of accrual accounting principles, observing its success globally, Indian Railways has voluntarily decided to implement accrual accounting, in addition to its existing cash-based accounting system[4].

While the Grafting method is a good start to adopt accrual accounting, for migrating to accrual accounting on a sustained basis and moving to a Performance Costing System, requisite details need to be captured at the transaction level itself.

Initiation of Accrual Accounting in Indian Railways

The Accounting Reforms Project for Indian Railways was sanctioned[5] in 2003-04 *"To transform the Indian Railways into a customer-oriented organization, it is proposed to improve its accounting system…… to generate costing data on passenger and freight services on commercial lines"* [6].

The Vision of Accounting Reforms in Indian Railways was *"To act as an engine of self-sustainable growth by providing timely, high quality and meaningful financial information to various stakeholders through right accounting, right costing and right outcomes through right pricing"*[7].

The project took off with the appointment of consultants to study the existing Accounting System and recommend a state-of-the-art Accounting System, along with an improved cost accounting system. The terms of reference included a compilation of Government accounts as per the accounting standards stipulated by the GASAB, and in conformity to Accrual-based Accounting as per Generally Accepted Accounting Principles (GAAP) in segmental accounting mode. This involved accounting separation for each Line of Business (LOB), such as Passenger, Freight, Suburban, and Fixed Infrastructure, and with further sub-classification into Lines of Service (LOS) for profit center accounting. Since costing methods required a major revamping, the consultants were also asked to develop costing of train operations on a train-wise, section-wise, route-wise basis, as well as conducting related profitability analysis using Activity-Based Unit Costing for better cost analysis and cost control management.

In December 2014, the ICAI Accounting Research Foundation (ICAI ARF) was engaged by the Railway Board to validate the Consultant's Report and conduct a Pilot Study for the introduction of Accrual Accounting[8] with the aim of preparing Accrual-Based Financial Statements (ABFS). ICAI ARF stationed its team for five months at Jaipur North Western Railway (NWR) headquarters, to compile the information received from divisions, workshops, and headquarters. The targeted deliverables included the identification of accrual impacts such as receivables, payables, advance income, etc, and the preparation of a Comprehensive Scope Evaluation Report (CSER), detailing AS-IS, TO-BE, way forward methodology for the preparation of financial statements. Other deliverables included the preparation of a Fixed Asset Register for the year ending, opening and closing balance sheets, and an Accrual Accounting Implementation Manual, etc.

The pilot project at NWR was concluded in October 2016 with the preparation of the following documents[9]:

a) Accrual-based financial statements for NWR for the year ending 31st March 2015, including the opening balance sheet starting 1st April 2014, closing balance sheet as of 31st March 2015, Profit & Loss Account for the year 2014-15 and Cash Flow Statement for 2014-15;

b) Notes to Accounts and Disclosures;

c) Significant Accounting Policies for Accrual Based Financial Statements of NWR;

d) Accrual accounting implementation manual for rollout across Railways and Production Units.

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[3] Article 150 of the Indian Constitution provides that the Hon'ble President of India should prescribe the form of accounts to Union and States on the advice of the C&AG. The form of Account keeping is mandated by CGA and w of India (Rule 74 GFR).

[4] providing financial statements to Parliament in accordance with existing rules is compulsory

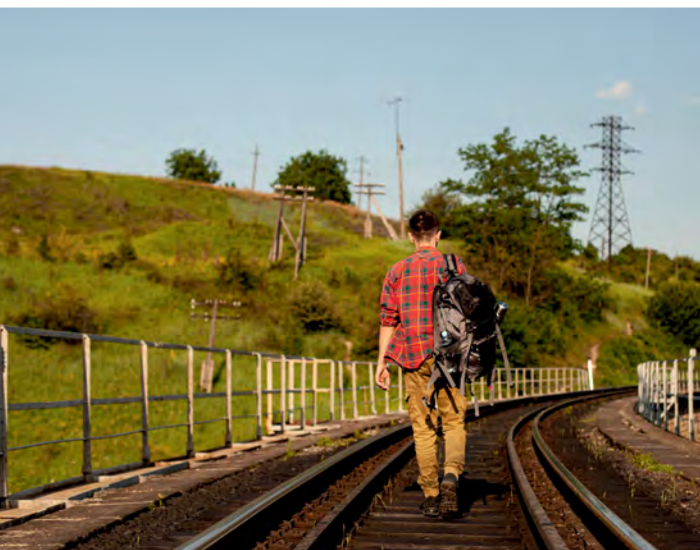
[5] for Rs 19.11 cr, enhanced to Rs 57.58cr in 2016-17. In 2006-07 the AIMS project was sanctioned for Rs 55cr, enhanced to Rs 96.04 cr in 2016-17. Under the AIMS Project, MOU for development of IT applications for AR was signed with CRIS in 2017 for Rs.48.00cr. (Development of Application software and implementation for Accrual accounting, Performance costing, and Outcome budgeting).

[6] Minister of Railway's Budget speech 2003-04

[7] Executive Summary of Accounting Reforms in Indian Railways

[8] initiated in Ajmer division of North Western Railway (NWR) in 2015, shifted to NWR Head Quarter and also started in Rail Coach Factory (RCF) in 2016 as non-availability of rolling stock holding and apportioned earning at Division level made the study incomplete.

[9] released by the Finance Minister and the Railway Minister in a National Conference on "Accounting Reforms in Indian Railways – A Strategic Mission for Sustainable Growth", held in New Delhi in December 2016



The NWR pilot led to the creation of not only the pilot financial statements for a railway zone but also holistic manuals and guidelines for accrual accounting. An expert committee framed the methodology particularly for assets whose historical cost was not available. For knowledge sharing and capacity building, training was organized across Indian Railways. Training Modules and Accrual Accounting Implementation Manual were developed and circulated across Indian Railways. The deliverable of the project also included preparation of concept paper on mapping of Finance Code II to facilitate transaction-based accrual accounting and engagement with CRIS to get the same implemented through an extended IT application.

Although the Accounting Reform in Indian Railways was initiated in 2003-04, it gained momentum with the announcement of implementation of the AR project on mission mode in the Railway Budget speech of 2016:

"Mission beyond book keeping: .... This is a structural change which forms the bedrock of our transformation, as right accounting would determine right costing and hence right pricing and right outcomes. We intend taking up its implementation over Railways in a mission mode and complete the entire roll out in next few years."

This was followed by the establishment of a dedicated project organization[10] with the goal of preparing the Indian Railways's opening balance sheet as of 1st April 2015 and Accrual-based financial statements for the FY 2015-16 & 2016-17 by March 2019[11]. These were to be a set of accounts in addition to the cash-based existing financial statements which are prepared as part of Appropriation Accounts of IR. The Railway Board approved ICAI ARF as professional consultant for the Project.

The budget announcement identified three broad functional areas of Accounting Reforms:

1. Accrual Accounting
2. Performance Costing
3. Outcome Budget.

The purpose being right accounting to determine right costing and hence right pricing and right outcomes[12]. A robust IT system is the backbone of the Accounting Reforms and the work has been assigned to the Ministry of Railway's IT arm - the Centre for Railway Reservation System (CRIS).[13]

Accrual-Based Financial Statements (ABFS) at Indian Railway and Zonal levels

Successful generation of ABFS at NWR in December 2016 became its precursor for all Zonal levels and Indian Railway levels through the same grafting methodology as followed in NWR and RCF, using existing data available in Account Current and RAR, supplemented by accrual impact data like FAR, liabilities and other assets not captured in the existing system in formats devised by ICAI ARF. The project[14] was declared to be of national importance and monitored at the PMO level. ICAI ARF deputed 25 Teams consisting of more than 130 Chartered Accountants across IR. In February 2019 IR's first historical Accrual-Based Balance Sheet for 2015-16 and 2016-17 was prepared, within

[10] Advisor (Accounting Reforms) as the Mission Director assisted by one Director level officer at Railway Board (Ministry) and a Chief Project Manager (CPM) Accounting Reforms, Northern Railway (Field Head Quarter level). To augment this organization in the field, Accounting Reforms cells at all Railway zones and Production Units were also created. The present setup has the Chief Administrative Officer/ Accounting Reforms (CAO/AR) as the nodal authority over IR

[11] for entire Indian Railways, comprising accounting Units of 16 Zonal Railways (68 Divisions and 42 Workshops), Kolkata Metro, 8 Production Units and other offices like CORE, COFMOW, RDSO etc.

[12] Budget speech of Hon'ble Minister for Railways, February, 2016-17

[13] Centre for Railway Information System (CRIS) has been entrusted with the work of developing the integrated IT based system for all 3 modules of Accounting Reforms. This IT system would interface with the existing applications (such as PRS, FOIS, IPAS etc.) and would provide smooth, secure and seamless integration for MIS reporting. Having earlier developed the computerized cash-based financial management system - Integrated Payroll and Accounting System (IPAS), CRIS has advantage of familiarity with existing system while integrating data captured to produce cash-based accounts with that required for accrual accounting accounts.

[14] Contract Agreement between ICAI-ARF and Railways for Roll Out of Accrual Accounting in all Zonal Railway & PU over Indian Railways and preparation of Accrual Based Financial Statements (ABFS) up to 2016-17 was signed in Feb.2017 at a total cost of Rs 9.88 crs

the target set by Hon'ble Finance Minister[15] under "Mission Beyond Book-Keeping". Based on national, international practices, this was the first accrual-based balance sheet of a Ministry in GoI. While computing the assets and liabilities of IR the study identified more than 70 lakh Fixed Assets items classified into 18 classes, with 14 lakh assets taken at a nominal value of Re. 1[16]. It also brought out the value of Capital Works in Progress (CWIP) at ₹1.11 crore and the actuarial valuation of employee retirement benefits at Rs. 8 lakh crore, though it was not included in Financial Statements.

ABFS preparation for FY 2015-16 and 2016-17 was done by ICAI ARF using its own resources. However, for ABFS of 2017-18[17], the Railway Board decided to set up indigenous capabilities for capturing and processing data, with the Accounting Reforms Team headed by the Chief Administrative Officer, under the Railway Board, in charge of the work with the handholding and assistance of ICAI ARF[18].

In December 2018, the Railway Board directed the preparation of ABFS at each individual Zonal Railway and Production Unit level. ARMS utility for generation of Financial Statements was developed by CRIS in May 2021 and tested on four zonal railways from August to December 2021. With support from the Accounting Reforms, CRIS and ICAI-ARF Teams, each Zonal Railway and Production Unit generated their Trial Balance for 2017-18 by February 2022 and their Balance Sheet by April 2022, followed by those of 2017-18, 2018-19, 2019-20, 2020-21 by May 2022, June 2022 and November 2022 respectively. Thus, between January 2022 and November 2022, four years' ABFS for each Zonal Railway and Production Unit were prepared by Grafting Method.

Grafting method uses the existing data in Account Current and RAR, supplemented by accrual impact data from accounting units like FAR, other assets and liabilities(not captured in existing system) for which formats have been devised by ICAI-ARF

Accrual Accounting Implementation by Transaction Method:

While the Grafting method is a good start to adopt accrual accounting, for migrating to accrual accounting on a sustained basis and moving to a Performance Costing System, requisite details need to be captured at the transaction level itself. For this 10-digit allocation code[19] were developed parallel to the existing 8-digit code, with the last two digits segregating each transaction into Expenses, revenue, assets, and liabilities. Simultaneously, mapping of more than ₹3.40 lakh allocations of all revenue, capital and suspense heads was completed by April '22[20] to enable seamless data flow from IPAS[21] into Accounting Reforms Management System (ARMS) for preparation of accounts in accrual mode and generation of accrual-based financial statements (ABFS) from the system captured data. Following the validation of mapping and development of prototype by CRIS and incorporation of new 10-digit code in IPAS in May '22, IPAS was integrated with ARMS in June '22, followed by a Trial run on 3 months' data (April-June '22) of Northern Railway.

Implementation of the Transaction based Accrual Accounting system started on 1st August 2022 from

[15] Hon'ble Finance Minister Arun Jaitley in his Union Budget Speech 2017-18: "As part of accounting reforms, accrual based financial statements will be rolled out by March 2019."

[16] Due to no records of their cost of acquisition their valuation could not be done

[17] Accrual Accounting Financial Statements include: Balance Sheet, Profit and Loss Account, Cash Flow Statement, Significant Accounting Policies and Notes to Accounts

[18] Work was awarded to ICAI-ARF through a contract agreement dated Aug 2020 for preparation of ABFS for 2017-18 and 2018-19 through Grafting method, extended for ABFS 2019-20 and 2020-21.

[19] Classification of Accounts (COA) defines and records each class of transaction to depict financial health of an entity. It is the basis of current Cash Based Accounting and remains so in the Accrual Based System. For smooth transition to Accrual Basis, a new easy, user-friendly CoA architecture was created to define and record each class of transaction for a clear assessment of the financial health of an entity. The system was aligned to the current system and relies on back-end mapping with existing Allocation codes but does not disturb existing MIS generation. Purpose of a CoA under Accounting Reforms is twofold : To segregate transactions into Expenses., Revenue, Assets and Liabilities and to make accounting amenable to computerization.

[20] By January '22 mapping of Revenue Demands completed, in Feb '22 mapping of Suspense heads completed and in Apr '22 mapping of all Capital Demands completed.

[21] Integrated Payroll and Accounting System

a few units and was proliferated[22] over each Zonal Railway and Production Units by 31st December 2022 under close monitoring by the Accounting Reforms Team. The accuracy of transactional data flow from IPAS into ARMS was a high 97% in January '22 due to the painstaking precision in the backend mapping and comprehensive training to field units are given before initiation of the system at each hub[23] in the field by the combined teams of Accounting Reforms and ICAI-ARF.

From August '22 to December 22, the implementation of Accrual Accounting through the Transaction Method on all Zones and PUs was completed with the Test run of the flow of Transactional Data from IPAS into ARMS, followed by the successful testing of the CRIS-developed software for preparation of Trial Balance and Balance Sheet. With some dummy data for Opening Balance, a Balance Sheet could be prepared with the month's data to check the efficacy of the system. By the end of Financial Year 2022-2023, the seamless flow of data from IPAS to ARMS was at almost 97%, which increased to above 99% by May '23 with active solutions worked out for the problem issues. The system is now running live on the entire IR from 01.4.23 and by the end of the Financial Year will be able to generate all Accrual based Financial Statements. Improvements and value additions will continue.

Measures for successful project implementation[24]:

Success in the project implementation is attributable to several factors, the first among which is political will and financial resources. Well-planned strategy and choice of partners viz CRIS and ICAI-ARF played a crucial role. The Joint Expert Group consisting of senior officials of the Indian Railways and professionals, was constituted in 2015 to address issues pertaining to accounting policies, valuation of assets, etc., and ensure that the Notes to Accounts and the Accounting Policies followed are consistent with the Generally Accepted Accounting Principles and Accounting Standards issued by ICAI laid sound foundations for the project to proceed.

Ultimately, the actual implementation of Accrual Accounting all over IR by both methods in a short time span for a huge ministry like Railways, with a Balance Sheet of approximately ₹9,00000 crores (2019-20) with more than ₹70 lakhs assets could be possible due to

detailed fore planning, continuous hand-holding and close monitoring by the Indian Railway's Accounting Reforms Team headed by the Chief Administrative Officer, with robust support from its IT partner, CRIS, and the professional partner, ICAI-ARF. Field training by combined teams of AR and ICAI-ARF at several locations across IR for project awareness and capacity building played a vital role. Preparation and sharing of the User Manual and video instructions for step-by-step implementation before the start of the project was valuable in the timely onboarding of the field stakeholders. Seamless and round the clock interaction with each field unit by the central AR Team through specifically formed whatsapp groups at both, officers and staff levels, for direct and continuous access to the AR/CRIS/ICAI team was a constant support and confidence-building measure. The ARMS portal used to raise issues by field units and solutions given by the AR team served as an effective digital platform for virtual communication. Close unit-wise follow-up by the AR team of the results of accuracy percentage through 10-day Reports enabled the identification of units with unsatisfactory results for specific problem solving and guidance. Fortnightly review meetings of AR, ICAI, CRIS, and Railway Board officials to resolve teething problems, which ran into hundreds along with frequent

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[22] (a) 01.8.22- NR- UMB division, Jagadhri workshop; NER: IZN division, IZN workshop
(b) 01.9.22: MCF, DMW and NR and NER Construction HQ
(c) 01.10.22: NR HQ, all divisions, workshops and all construction units of NR; NER HQ, all divisions, workshops and all construction units of NER
(d) 01.11.22: 10 ZRs/PUs
(e) 01.12.22: 11 ZRs/PUs

[23] to facilitate field level trainings and implementation, hubs were set up in the field which to catered to the zonal railways in its vicinity

[24] Since ABFS of 2015-16 and 2016-17 were prepared by ICAI-ARF through its own resources, ABFS of 2017-18 onwards upto 2020-21, that is for 4 years, was prepared for the first time with railway resources for all India by the Accounting Reforms Team. The actual implementation happened between September 2021 and March 2023.

review meetings and video conferences by CAO/ AR team with field units, CRIS and ICAI continuously kept the project on the right track. The horizons were expanded by regular seminars and brainstorming sessions.

Challenges in the Project

Being the pioneer ministry in the government to implement the project, solutions had to be devised a new for the teething problems. Some critical inputs required for the implementation of the project were de novo development of Standards and Policies for the government sector, Chart of Accounts, staff training, skilled staff, expert support, IT Systems, finances, and political will and support. Fortunately, the AR project enjoyed the patronage of the Minister of Railways right from initiation. The cost was found to be a significant parameter in the project implementation, especially of the IT systems, contracting of the premier expert agency as professional partner (ICAI ARF), staff, and training. The challenge was met with adequate fund allotments timely by the Railway Ministry.

Data collection for the creation of the first Fixed Asset Register was a major challenge. Due to the non-availability of old records, the date and cost of the acquisition of many assets, including structures such as bridges and station buildings were not ascertainable. Building up the Fixed Asset Register under such circumstances was an onerous task, more so since the assets were not listed so far, and the written down cost of assets was not available due to yearly depreciation not being applied in the cash-based accounting. IR being more than 150 years old and spanning the length and breadth of the country has a huge number of assets, which were finally listed at more than 70 lakh. Records of land and demarcation of its ownership were not available in a large number of cases. The original cost of Track and Rolling Stock also was unascertainable in several cases, as also the segregation of the latter into owned and leased assets. Codal life for many assets such as roads/buildings/ bridges/tunnels was not available for their lived life. No separate records of Capital Works in Progress (CWIP) were available. Data of inventory, investment, unpaid liabilities; advance earnings; and assets discarded/ condemned was also not available. Most of the data available was in manual form. Not only data collection, but data validation was a big challenge. The threshold limit to write of assets had to be defined for each asset class. Accrual Impact Sheets had to be cast, as well as the Actuarial calculation of Pension Liabilities. Training and capacity building for project implementation was a major challenge especially since the project was rolled out on the entire IR within a short span of a few months.

Conclusion

Accrual Accounting in Government brings marked qualitative improvements in account keeping, lending its value for analytical and managerial insights and enabling decision makers to identify implications of significant heads, which may not be accounted for in cash-based accounting, such as depreciation, dues payables, debt and its service cost etc. It brings worldwide uniformity and transparency in the accounting system with conformity to international standards of accounting, thereby inducing stakeholders' confidence. With the implementation of Accrual Accounting in Indian Railways, the complete accounts of the Ministry will be integrated, as its Public Sector Undertakings maintain accounts in the commercial accounting format, while the field units maintain it in cash-based government accounting format. Improvements in the accounting system of Indian Railways with building up of a robust and reliable balance sheet and other financial statements will reap rich dividends for IR by bringing down the cost of market borrowings for financing their capital budget, while accounts prepared directly from the transactions under the more precise and comprehensive formats of accrual accounting system will enable replacement of IR's age old costing system with an improved, incisive Performance Costing System. Accrual Accounting and Performance Costing mark major reforms in accounting system which are essential for strategic business decisions and identify profit and cost centres as also activities that can be shed or expanded as per their value and cost to the organisation. With Indian Railways increasingly being sensitive to its financial viability and accountability, these reforms assume prime importance for the organisation. Successful roll out of the Accrual Accounting Project over IR is therefore a critical milestone in its journey towards financial sustainability.

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Unveiling Market Interdependencies: Volatility spill over Dynamics across Nifty, Dow, Gold, WTI, Bond Yields, and the Dollar Index

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Using the Diebold & Yilmaz index model, a humble effort has been made to check the return spillover and volatility spillover among Nifty, Dow Jones, Dollar Index, US10 year Bond Yields, Gold and WTI on weekly data from 18th August 2013 to 23rd September 2023. The results show that the highest volatility spillover toward Nifty arise from the US bond market followed by Dow Jones. The return spillover shows that the highest spillover happens between Dow Jones and Nifty. The spillover index was burst in 2020 during Covid-19 but it already started to rise before 2020. This study will be helpful for fund managers and policy makers in their decision making processes.

In today's interconnected financial landscape, it is imperative to comprehend how movements in the Dow Jones, Nifty, WTI crude oil, gold, the Dollar Index, and bond yields affect each other's volatility. The examination of the volatility spillover among these pivotal indicators furnishes crucial discernments for investors and policymakers, moulding tactics to manoeuvre and apprehend the complex dynamics inherent in global financial markets. In the financial world, there is a complicated interplay between the Dow Jones, Nifty, WTI crude oil, gold, the Dollar Index, and bond yields. As the two main stock indices, changes in the Dow Jones and Nifty have a global impact on investor confidence since they frequently reflect emotions in the larger market. In the meanwhile, changes in the economy, geopolitical unrest, and inflation worries typically cause price changes for both WTI crude oil and gold, which has an impact on investor sentiment and trading tactics. In addition, changes in the Dollar Index, which measures the US dollar's value relative to other major currencies, can have an impact on the price of commodities and shape the market trends for commodities like gold and crude oil. Furthermore, movements in stock indices, commodities, and currency values can affect bond yields, which reflect borrowing costs and economic expectations and the mood of the market as a whole. Comprehending these connections is essential for an investor to sustain in the market.

Review of literature

(Yilmaz, 2010) reveals the return spillover indices for East Asia which demonstrate an increasing market integration over time, indicating stronger links and synchronised returns. On the other hand, during severe crises such as the East Asian crisis, the volatility spillover indices show notable spikes, indicating sharp swings and market volatility during tumultuous times. The aforementioned duality highlights the dynamic changes in connectivity and volatility that occur in the East Asian equity markets.

(Diebold & Yilmaz, 2012) found that prior to the global financial crisis of 2007, there was little correlation between the fluctuations in the stock, bond, foreign currency, and commodities markets. However, as the crisis deepened, things began to shift, with volatility increasing, particularly with the fall of Lehman Brothers in September 2008. At that point, it appeared as though the turmoil in the stock market had spilled over into the other markets, increasing their interconnectedness and volatility.

(Awartani & Maghyereh, 2013) study really emphasises how crucial it is to look at how oil and stock markets affect each other, especially after the big global financial crisis in 2008. They saw that following that debacle, more of the ups and downs from the oil market tended to effect the stock markets in the Gulf countries.

The link between the oil and financial markets appears to have been shattered by the 2008 financial crisis. (Boubaker & Raza, 2017).

(Roy & Sinha Roy, 2017) found that while bonds, foreign exchange, and gold tend to absorb those uneasy feelings, commodities and equities tend to transmit their worries to other markets. The remarkable thing about the wild ride of volatility is that it shifts over time, becoming more severe after major events like the Global Financial Crisis and the significant fall of the rupee in 2013–14. The trip generally leads from equities to commodities.

(Husain et al., 2019) studied that palladium, gold, platinum, and silver all have a tendency to add extra twists and turns, which exacerbates the market's rollercoaster by adding to its ups and downs. As others generate waves of volatility, crude oil, titanium, steel, and silver appear to be at the receiving end.

(Evrim Mandacı et al., 2020) shows the main sources causing ups and downs in emerging markets which are developed stock markets and crude oil, with gold and heating oil also playing a part. On the other hand, natural gas feels the impact the most, followed by copper, palladium, and even the currency and bond markets. What's interesting is that while crude oil and developed stock markets strongly affect natural gas, they don't have as much influence on the bond market, showing some opportunities for managing risks.

According to Zhang et al. (2021), Chinese gold futures and spots cannot serve as a hedge because of their poor correlations with Chinese equities, Chinese bonds, and foreign crude oil. This goes against earlier research on gold's hedging potential. Nonetheless, gold can assist lower portfolio risk and diversify a portfolio. Economic policy uncertainty (EPU) appears to have the greatest impact on the gold market in terms of ups and downs, with strong growth and volatility spillovers, while having less of an impact on the oil market. It's interesting to note that EPU experiences higher volatility in the gold and stock markets and earns greater returns from the oil market but less from gold. All things considered, it appears that EPU has significant ups and downs from all three markets, and these effects vary over time (Gao et al., 2021).

(Patra & Panda, 2021) studies show that the relationships among gold, oil, US equities, and emerging markets have a greater mutual impact than the relationships among other sectors. Investors looking for balance and protection from market fluctuations may find that diversifying within these groupings offers greater investment stability than spreading across unrelated areas.

(Shen et al., 2022) find policymakers and investors can benefit from knowing which sectors absorb and transfer risks, as this information helps them assess and comprehend any weaknesses and hazards in capital markets.

From the above literature, the researchers found that gold, crude oil, the US stock market index, and the dollar index are significant for study in the Indian context as less importance has been given to emerging markets like India.

Objective of study

- The objective of the study is to examine the extent of interdependencies across different markets.
- To know the overall return spillover and volatility spillover index among Nifty, Dow Jones, Dollar index, WTI, Bond Yield, and Gold.
- To find out the net receiver and net transmitter of volatility among the selected macroeconomic variable.

Research methodology

This section explains Diebold and Yilmaz's proposed directional spillover index measure (2009, 2012). To put it briefly, the VAR model uses various market returns and volatilities as its variables. We add up the portion of the forecast error variance for a given market i.e., that results from shocks in another chosen market j, for all j≠i. Next, we calculate the spillover index by adding across all i = 1... N.

Briefly, the spillover index is the sum of all non-diagonal elements in the forecast error variance matrix.

The first step in the VAR model is to consider the covariance are stationary in p-th order.

$$x_t = \sum_{i=1}^{p} \emptyset_i x_{t-i} + e_t$$

Where $x_t = (x_{1t}, \ldots x_{N,t})'$, Ø is N*N parameter matrix, and the vector error term ε is zero mean and $\sum$ is covariance matrix. Assuming the VAR system is covariance stationary, its moving average representation can be written as follows.

$$x_t = \sum_{i=0}^{\infty} A_i \epsilon_{t-i}$$

Where the N*N coefficient matrices A_i follows recursion $A_i = \phi_1 A_{I-1} + \phi_2 A_{I-2} + \ldots + \phi_p A_{I-p}$, where A_0 being an N*N identity matrix and $A_i = 0$ for I < 0.

It is a well-known fact, although, that orthogonal innovations are necessary for the computation of variance decomposition, but VAR innovations are typically contemporaneously associated. Some identification strategies, such as the Cholesky factorization, orthogonalize innovations; nonetheless, the subsequently discovered decompositions are dependent on the variable ordering. Because of our interest to know spillover, we are interested in a decomposition scheme that is both robust to contemporaneous innovations and invariant to ordering, which would typically be our first choice.

A framework that satisfies the condition is known as KPPS ((Pesaran & Shin, 1998),(Koop et al., 1996)), also known as the generalised VAR system. Variance decompositions that are invariant to market order can be found using this approach. The aggregate of cross variance decompositions and own contributions, however, might not always equal one since the shocks are not orthogonal.

The KPPS forecast error variance can be written as:

$$\theta_{ij}^{g}\ (\mathrm{H}) = \frac{\sigma_{jj}^{-1} \sum_{h=0}^{H-1} (e_i' h_h \Sigma\, e_j)2}{\sum_{h=0}^{H-1} (e_i' h_h \Sigma\, e_j)}$$

Where $\sum$ is the variance matrix of the vector of error term e, and σ_{jj} is the standard deviation of the error term of jth market. e_i is considered as the selection vector with one on the ith item, and zero otherwise. Further, we normalize each entry of the matrix to obtain a unit sum of each row of the variance decomposition. This can be done as follows:

$$\widetilde{\theta_{ij} g(H)} = \frac{\theta_{ij}^{g}(H)}{\sum_{j=1}^{N} \theta_{ij}^{g}\ (H)}$$

The KPPS variance decomposition is helpful to find out the total spillover index as

$$S^g(H) = \frac{\sum_{i,j=1,\, i \neq j}^{N} \widetilde{\theta_{ij}^{g}}}{\sum_{i,j-1}^{N} \widetilde{\theta_{ij}^{g}}(H)} \times 100 = \frac{\sum_{i,j=1,\, i \neq j}^{N} \widetilde{\theta_{ij}^{g}}}{N} \times 100 \qquad (1)$$

This index shows the magnitude of spillover between Nifty, Dow, WTI, the US Bond yields, Gold, and the Dollar index. For all $i \neq j$, it is the total of the proportions of the forecast error variance of x_i as a result of shocks to x_j. Similarly, the spillover transmitted from the *i* market to the *j* market is calculated as follows:

$$S_{i.}^{g}(H) = \frac{\sum_{i,j=1,\, i \neq j}^{N} \widetilde{\theta_{ij}^{g}}}{\sum_{i,j-1}^{N} \widetilde{\theta_{ij}^{g}}(H)} \qquad (2)$$

Summarily, the spillover from the *j* market to the *i* market is computed as follows.

$$S_{.i}^{g}(H) = \frac{\sum_{i,j=1,\, i \neq j}^{N} \widetilde{\theta_{ij}^{g}}}{\sum_{i,j-1}^{N} \widetilde{\theta_{ij}^{g}}(H)} \qquad (3)$$

Further, the net spillover i.e. whether a particular market is spillover receptor or spillover transmitter is computed as follows:

$$S_i^g(H) = S_{i.}^g(H) - S_{.i}^g(H) \qquad (2\text{-}3)$$

We now shift to discuss the data analysis part which shows overall spillover index.

Data analysis

The empirical analysis includes weekly data from 18th August 2013 to 17th Sept 2023 of Nifty, Dow Jones, Dollar index, Bond yield, WTI, and Gold (Dollar terms). We measure log returns weekly from Friday to Friday. Weekly returns are expressed as annualized percentages which has been calculated as $r_{it} = 100 * 52 * \Delta \ln close\ price_{it}$ *for market t*.

Using Garman and Klass (1980), the researcher uses weekly high, low, close, and open data of the market index from Monday through Friday to determine weekly return volatilities.

$$\widetilde{\sigma_{it}^2} = .511(H_{it} - L_{it})2 - .019[(c_{it} - o_{it})(H_{it} + L_{it} - 2o_{it}) - 2(H_{it} - O_{it})(L_{it} - O_{it})] - .383(C_{it} - O_{it})2$$

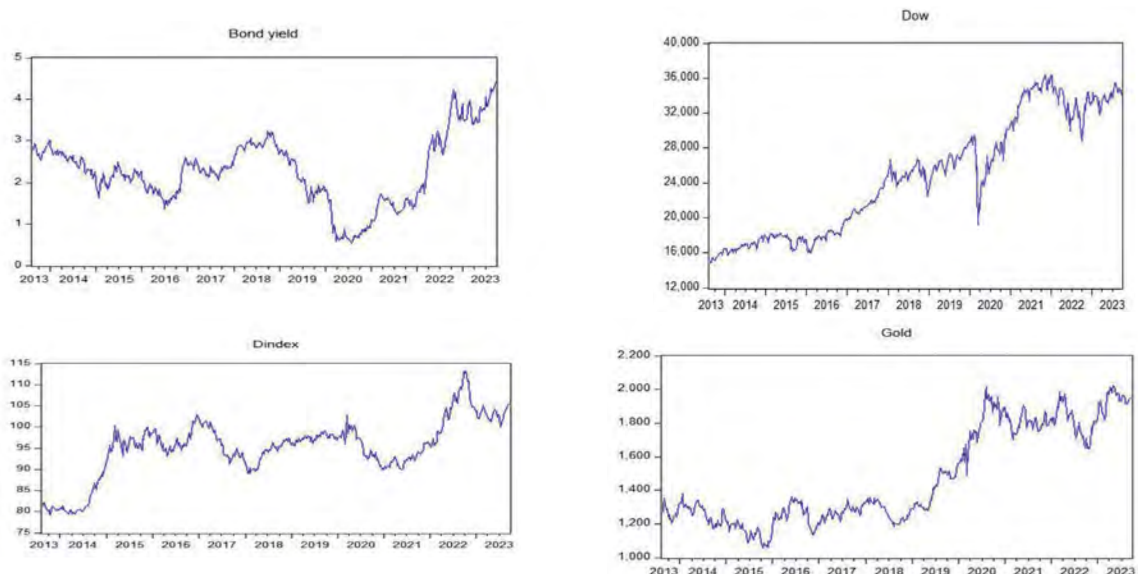
Where H is the high, L is the low, C is the close, O is the open price or index level (all in natural logarithms). By calculating weekly variance $\widetilde{\sigma_{it}^2}$, we calculate annualized weekly percent standard deviation by multiplying as follows: $\widetilde{\sigma_{it}} = 100\sqrt{52\widetilde{\sigma_{it}^2}}$. The researcher provides these return and volatilities descriptive statistics in Table 1 and Table 2.

From Table 1, it is clear that returns are not normally distributed, as indicated by the Jarque-Bera statistics rejecting the null hypothesis with a p-value less than .05 at 5% level of significance. The return series of the dollar index is less volatile compared to other variables, as the standard deviation is less among others. Further, the returns are negatively skewed and leptokurtic as all the skewness values are negative and the kurtosis value is above 3.

Table 1 Descriptive statistics of return series

	NIFTY	GOLD	DOW	DINDEX	BOND	WTI
Mean	12.56226	3.903647	8.010637	2.583374	4.456957	-1.74625
Median	17.68699	5.046911	14.33694	5.18416	-1.95452	18.79346
Maximum	622.5398	515.1341	628.3706	210.0201	1627.649	1433.933
Minimum	-673.7196	-508.9227	-987.8862	-230.5975	-2124.091	-1803.689
Std. Dev.	116.312	103.1201	123.3541	50.10454	314.8964	293.7289
Skewness	-0.407752	-0.008999	-1.199108	-0.051945	-0.107128	-0.458496
Kurtosis	7.735641	5.533975	15.34266	5.032889	10.01757	8.599287
Jarque-Bera	507.0474	141.0022	3471.454	90.98283	1082.374	706.9022
Probability	0	0	0	0	0	0
Sum	6620.309	2057.222	4221.606	1361.438	2348.816	-920.2738
Sum Sq. Dev.	7115983	5593352	8003737	1320505	52158026	45381521

Figure 1: Data of Nifty, Dow, WTI, Dollar index, Bond Yield and Gold



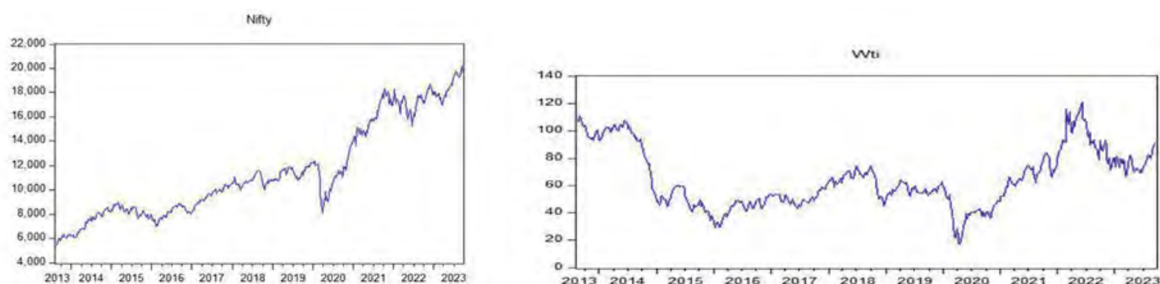


Figure 2: Return series of Nifty, Gold, Dow, Dollar index, Bond yield and WTI

In Figure 1, it is shown that Nifty, Dow, WTI, Bond yield, the Dollar index, and Gold are not stationary at level but return series are stationary in Figure 2.

Table 2: Return Spillover index

	NIFTY	DOW	GOLD	WTI	DINDEX	BOND	From Others
NIFTY	69	22.3	0.4	3.4	3	1.9	31
DOW	19.3	63.4	1.1	7.4	3.6	5.2	36.6
GOLD	1.9	1.1	94	0.9	1.7	0.3	6
WTI	3.6	11.8	0.8	77.7	2.1	4	22.3

	NIFTY	DOW	GOLD	WTI	DINDEX	BOND	From Others
DINDEX	2.6	4.8	3.5	2.1	82.9	4.1	17.1
BOND	2.3	6.2	3.3	5.5	3.7	79	21
Contribution to others	29.8	46.3	9.1	19.2	14	15.5	134
Contribution including own	98.8	109.7	103.1	96.9	96.9	94.5	22.30%

Table 2 shows the spillover index of return series for different variable. The results are based upon the vector autoregressions of order 2 and generalised variance decompositions of 10 weeks ahead forecast errors. "To others" is a directional transmission of volatilities from a specific market to other markets, while "from others" demonstrates the flow of returns to a specific market from all markets. The total return spillover resulting from these variables is 22.3% of the variance in return forecast error caused due to return spillover. Nifty transmits 29.8% of spillover returns to other market, with Dow Jones being the primary recipient at 19.3%, followed by WTI 3.6%, the Dollar index at 2.6%, bond yield at 2.3% and the least at 1.9% towards gold. Meanwhile, Nifty receives a return spillover from Dow Jones at 22.3% from WTI at 3.4%, followed by the Dollar index at 3% respectively. The net return spillover received by Nifty is (31-29.8) =1.2.

Table 3: Summary statistics of different market volatilities

	NIFTY	GOLD	DOW	DINDEX	BOND	WTI
Mean	7.1743	7.2610	6.6266	3.6201	0.0016	19.9878
Median	6.2047	6.5743	5.4366	3.2519	0.0006	17.4812
Maximum	53.3878	30.1269	56.1506	13.9464	0.2206	210.0413
Minimum	1.5266	1.3110	0.7898	1.0660	0.0000	4.0591
Std. Dev.	4.6524	3.4753	4.8034	1.7019	0.0101	14.4260
Skewness	4.6615	2.0832	3.7897	1.8845	19.8454	5.8189
Kurtosis	39.3191	10.5726	30.0780	8.9424	424.9257	64.3700
Jarque-Bera	30756.13	1634.14	17295.73	1083.19	3928678.0	85349.91
Probability	0	0	0	0	0	0
Sum	3766.4860	3812.0280	3478.9410	1900.5730	0.8579	10493.57
Sum Sq. Dev.	11341.80	6328.60	12090.30	1517.82	0.05	109049.40
Observations	525	525	525	525	525	525

From Table 3, it is confirmed that WTI crude oil is more volatile as the mean value is 14.42. Further, all volatilities series are positively skewed and the kurtosis values are above 3, indicating leptokurtic nature. The p-value for Jarque-Bera is less than .05 at 5% level of significance, so the series is not normal as it rejects the null hypothesis.

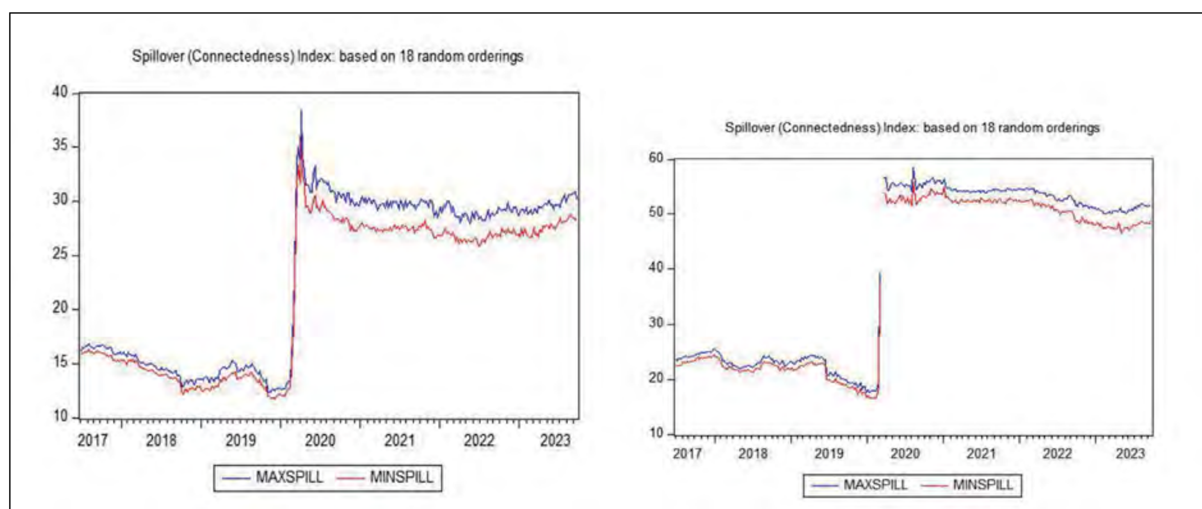
Table 4: Volatilities (Connectedness) spillover index

	NIFTY	GOLD	DOW	DINDEX	BOND	WTI	From Others
NIFTY	42.9	7.9	14.1	3.1	28	4	57.1
GOLD	3.8	79.3	4.5	2.7	7.6	2.2	20.7
DOW	8.2	6	50.5	5.1	22.7	7.6	49.5
DINDEX	4.5	4	8	67.9	11.9	3.7	32.1
BOND	13.1	5.4	9.3	3.5	65.8	2.9	34.2
WTI	5.2	8.8	15.4	6.6	10.6	53.3	46.7

	NIFTY	GOLD	DOW	DINDEX	BOND	WTI	From Others
Contribution to others	34.9	32.2	51.2	21	80.7	20.4	240.3
Contribution including own	77.8	111.5	101.7	88.9	146.6	73.7	40.10%

In Table 4, the highest transmission of Nifty transmit volatility to the US 10-year bond yield is 13.1%, while the least transmission of volatility from Nifty towards the gold market is 3.8%. On the other hand, the US bond yield is transmitting a volatility spillover of 28% which is the highest among all towards Nifty, but WTI crude is transmitting the lowest volatility i.e., 4%. From other market, Nifty receiving volatility spillover is 57.1%. Nifty is transmitting volatility to other markets at a rate of 34.9%. So, in net, Nifty is receiving volatility spillover of 22.2% i.e., (57.1-34.9). Across our entire sample of 6 markets, 40.1% of the volatility forecast error variance arises from transmissions.

Figure 3: Return Spillover index and Volatility Spillover index



In Figure 3, the left side shows the return spillover graph and the right side shows volatility spillover graph. Volatility burst in 2020 due to Covid-19. But it is interesting to watch the indication already seen in 2019 as it had started in 2019-20.

Conclusion

The study includes weekly data from 18th August 2013 to 23rd September 2023, of Nifty, Dow Jones, the Dollar index, US 10-year bond yields, Gold, and WTI crude oil. Using the Diebold Yilmaz index, the researcher found that significant return spillover and volatility spillover has been happening. The highest return spillover towards Nifty arises from the Dow Jones index. Similarly, Nifty also transmits a return spillover to Dow Jones. In the volatility index,

it has been shown that the highest volatility spillover arises from the US 10-year bond yield towards Nifty, while on the other hand, Nifty also transmits the highest spillover to bond yield, followed by Dow Jones. The figure of the volatility spillover index shows that it burst in 2020 due to Covid-19, but the volatility spillover has already started rising before 2020. So, fund managers and policy makers should look after this factor before taking any important decisions. The limitations of this research are that it includes only selected market; there may be other economic variables from which volatility spillover arise towards the Indian stock market.

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Academician

The study is aimed at a detailed examination of the state of angel investing in India in the 21st century. In the 21st century, a significant shift has occurred in the investment habits and preferences of the Indian youth. It has, in turn, given tailwinds to the strong growth of the Indian economy. Investments in the 21st century are driven by the innovations and aspirations of the youth breaking traditional boundaries. The 21st century start-ups have concentrated on addressing issues being experienced by the populace and providing tech-driven solutions thereto. India has emerged as the third largest start-up eco-system in the world after the US and the UK, creating employment avenues in the process. The recent data reveals that there are 1,17,254 start-ups registered in India as of 31st December 2023, reflecting a 42% growth over the number of start-ups as of 31st December 2022 (Ministry of Commerce & Industry, DPIIT, PIB Release, 2024). Over 12.42 lakh direct employment opportunities have reportedly been created by these well-known firms, having a major positive economic impact. There has been a notable rise in angel investments as a result of the sizable gap left in the funding of early-stage start-ups. Angel investors are investing prominently in the early-stage start-ups. The Indian angel investment market is anticipated to expand between 2022 and 2025 at a CAGR of 12%. The total investments made by angels are projected to reach $7 billion by 2025, up from $3.2 billion in 2022.

Introduction

Several interesting developments have taken place in India in the 21st century in the angel investing space which are a subject of study for researchers in this field. The money being attracted in the angel investing space is only a small fraction of the total wealth growth of the High Net Worth Individuals (HNIs). This trend is not only being observed in India but globally as well. However, something slightly different is also seen in the case of the Indian HNIs. Some younger entrepreneurs who started their businesses and later on sold them at high valuations are seen to be more adventurous and they have allocated a larger portion of their assets to riskier avenues like angel investments. By taking stakes in these companies through angel investments, they also want to guide, advise and mentor these companies. They are not simply passive investors but also act as mentors. Except for fixed income investments like bank fixed

deposits, all other asset classes including angel investments, have been delivering high returns. This is the case with commodities and stocks too. One more salient feature is that the deployment of wealth by the Indian HNIs is not confined to Indian shores only but it is also being deployed abroad. HNIs are putting their money to work outside India too.

The reforms increased the average income of the Indian population and the growth of the Indian economy accelerated. Globalisation encouraged the Indian population to innovate.

Purpose of the Study

In the angel investment space in India, the supply side has been increasing because of the growth in the HNI wealth. On the demand side, the demand for that capital is no longer confined to India. Indians are now investing globally in different asset classes, e.g., stocks, commodities, real estate, hedge funds. There is some data on that but there is no good quality data on where the Indian HNIs' assets are being invested abroad. The Reserve Bank of India has some data on the portfolio investments by Indian HNIs abroad. The overseas assets are funded by overseas vehicles on which the RBI lacks good quality data. On the supply side of capital, estimates are available. For example, there is the Kotak Wealth Report which comes out annually, but on the demand side, the picture is hazy. In 2016, according to a report in the Round Table on Angel Investments held at IIM Bengaluru (Sabarinathan, 2019), the Indian Angel Networks investment abroad was 4.1% of their total investments.

Investments are primarily driven by two factors: 1) Entrepreneurial action and 2) Policy environment, which should favour investment activity. A huge demographic dividend and the growing spirit of entrepreneurship have given rise to an increase in entrepreneurial action. However, most of the angel capital is flowing to the North, West, and South of the country and angel investment in the Eastern part is low. The policy environment is the same in the Eastern part of the country. Company laws, SEBI's regulations, and Alternative Investment Fund regulations are the same. This poses a specific challenge and is an interesting question to explore although it might lead to several other areas.

North seems to be attracting a lot more angel capital than venture capital. Venture capital seems to be concentrated in the West and the South. This leads one to ponder over the question of whether the enterprises in the North are not growing enough to attract venture capital. For investors, realising higher returns at higher valuations appears to pose a specific challenge in the North.

The angel investors or the early-age investors are all informed individuals and don't need to be shielded. Before 2008, there was very limited regulation on the angel investing space. Post 2008, some regulation has been introduced. This is limited towards the collection of data only. The first venture capital regulations came from the Department of Economic Affairs. It had very little impact as it was not applying to money domiciled outside India. The regulations introduced in 2012 have approached angel and venture capital as one category. Compared to the Mutual Fund industry, the Angel Investment industry is a tiny one and the common man is not affected by what the Alternative Investment Fund Regulator does. SEBI also does not intend for the Alternative Investment Fund to be another mutual fund taking money from small investors and investing it in risky avenues. Too much regulation will be overbearing on the angel capital.

Method of the Study

Our main method for doing this research was to review the literature on angel investing in twenty-first-century India. The literature research will assist in better understanding angel investors' role in the start-up ecosystem. The keyword "Angel Investing in India" was searched throughout a number of journals and databases, including Springer, Scopus, Science Digest, and SAGE, in order to compile all of the literature in this field. A selection of 21st-century articles on angel investing was made. Articles that provided scant information were not included.

Literature Review

The contribution angel investors have made to the growth of the Indian start-up ecosystem in the twenty-

first century has been highlighted in peer-reviewed studies. According to M. Mustafa (2021), "Inadequate finance or lack of access to finance has the potential to exclude many future entrepreneurs of limited means if they do not already have personal wealth or other means of financing. Start-ups in their early stages may bump into various obstacles, including the financial gap, called 'valley of death', which limits their ability to innovate and to scale their business. At this stage, another set of investors who are also considered part of private equity ecosystem, known as angel investors, come into the picture. Angel investors help the firms survive this valley of death by providing capital and mentoring the entrepreneurs to help them succeed."

In India, venture capitalists have been more interested in late-stage firms that have the potential to receive larger sums of funding.

The amount of initial funding given to start-ups in the nation by angel networks and individuals increased by 81% between 2014 and 2015. In the Indian start-up ecosystem, angel investors play a crucial role (S. V. Ramana Rao & Lohith Kumar, 2018).

Angel investor finance is becoming a more popular choice for starting a business in India as a result of venture capitalists' and private equity firms' growing emphasis on big deals and supporting companies later on rather than from the start. This change in the VC landscape leaves a void that prompts entrepreneurs to seek out small-scale funding from angel investors (Chimun Kumar Nath, 2010).

The problems that individual angel investors face gave rise to angel networks. As mentioned in Prowse (1998), "The most important of them was the issue of search and information costs with regard to investors and entrepreneurs finding one another". Angel networks can assist individual angels by expanding their business networks, which allows them to take part in transactions even if they are operating from remote areas or have less capital to invest (Masson and Harrison, 2002). Additionally, according to Van Osnabrugge and Robinson (2000), angel networks set aside a portion of their investible capital for subsequent investments. They resemble VC funds more in that regard.

Results & Analysis

The reforms of the 1990s were the harbinger of change in the attitudes of Indians towards the start-up ecosystem. The reforms increased the average income of the Indian population and the growth of the Indian economy accelerated. Globalisation encouraged the Indian population to innovate. The technological developments caught the fancy of people. These, together, promoted entrepreneurship among the people.

India's economy has emerged as one of the world's top five in the ten years between 2014 and 2024, with plans to overtake the US and China for the third place in the near future. This impressive trajectory is also seen in the notable improvement in the country's Ease of Doing Business (EoDB) ranking, which rose from 142 in 2014 to 63 in 2019.

The following factors offer opportunities for the emergence of new start-ups and consequent angel investments in India:

1. **Huge Demographic Dividend:** More than 65% of India's population is in the productive age group of 18 to 35 years and this represents the most productive portion of the population. This prominence of productive population is expected to last till 2055. The working age population has surpassed the non-working population. This huge chunk of population is filled with the entrepreneurial spirit giving avenues for angel investment in their start-ups.
2. **Startups Drawing Significant Investments:** Large sums of money are being invested in Indian startups by both Indian corporate investors and institutional investors from abroad. 652 financial deals totaling $8.1 billion were made in investments in Indian companies between January and September 2020. (Prof. Meghasham Chaudhary, Indian Startups: Challenges and Opportunities, 2021).

Table1 : India's Ease of Doing Business Rankings 2014 to 2020

Year	2014	2016	2017	2018	2019	2020
Overall Rank	142	130	100	77	63	63
DTF*	53.97	56.05	60.76	67.23	71	71

(Source: Press Information Bureau https://static.pib.gov.in › doc20221123133801)

**Distance to Frontier*

3. **Risk Taking Mindset of People:** Winds of change blowing in the economy have encouraged more people to seek new growth avenues like startups and angel investments. The number of graduates joining startups has grown rapidly.

4. **Government schemes have encouraged the entrepreneurial spirit:** Startup India and Standup India (for women, SC, ST) provide tax and compliance breaks while cutting through the red tape. Through Micro Units Development and Refinance Agency (MUDRA) yojana, startups get collateral-free loans from the banks. Under the Self Employment and Talent Utilisation (SETU) scheme, the government has created a corpus of Rs.1000 crores to create opportunities for startups.

5. **Corporates and Business Houses Investments:** Big corporates and business houses have made angel investments in startups and thus encouraged entrepreneurs.

6. **Entrepreneurship has increased in India:** Technological developments have led to the emergence of several start-ups. India ranks third consistently on the number of new start-ups coming up every year.

A compound annual growth rate (CAGR) of 12% is projected for the Indian angel investment sector between 2022 and 2025. Angel investments are expected to increase from $3.2 billion in 2022 to $7 billion in total by 2025. By 2025, there will probably be over 4,500 active angel investors in India, double the 2,200 that there are now. Table 3 displays the available data on the number of deals supported by angel investors in India between 2006 and 2020. The data indicates a remarkable increase in the number of deals over time.

Year	Number of Deals
2006-08	79
2009	30
2010	35
2011	57
2012	95
2013	93
2014	114
2015	193
2016	297
2017	229
2018	256
2019	275
2020	341
Total	2094

(Source: 1. Sabarinathan, G. (2019) Angel Investments in India – Trends, Prospects and Issues; (2006 – 2016)
2. Statista Research Department, May 31, 2021 (2016 – 2020))

One of the main causes of these possible funding opportunities is the outstanding achievement of India's leading unicorns.

In India, venture capitalists have been more interested in late-stage firms that have the potential to receive larger sums of funding. This feature of the venture capitalists has created a funding gap and presented an opportunity to the angel investors to provide a larger share of funding in the early-age startups as banks avoid lending when there is a lack of collateral and credit history.

In the Finance Act, 2012, the Angel Tax (i.e. Section 56(2) (VII) (B) of the Income Tax Act, 1961) was introduced

Table 2: Growth of Startups in India

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
No. of recognised Startups	0.3k+	4.5k+	12k+	22k+	36k+	56k+	82k+	1lac	1.27 lacs

(Source: Government of India, Ministry of Commerce & Industry, DPIIT)

which sought to tax the excess premium received by a company on the issue of shares. In 2016, as a measure to boost startups, these norms were relaxed exempting startups registered with the Department of Industrial Policy and Promotion (DIPP) from such Angel tax. Further, rules were framed in 2017 according to which the value would be adopted based on the higher value worked out as per prescribed rule, or the value supported to the satisfaction of the assessing officer. In 2023, the above provisions were extended to money received by an Indian company from a non-resident shareholder.

Budget 2024 has proposed to abolish the angel tax for all categories of investors. This provision of the Finance Bill, 2024 to completely abolish angel tax across all investor classes will provide a shot in the arm to the Indian start-up ecosystem and provide impetus for the fresh inflow of capital in the economy.

Conclusion

India's current improved rank of 63 in the world in Ease of Doing Business (Table 1), has given impetus to the emerging start-ups in the economy. The number of start-ups has increased as a result of enabling factors such as the large demographic dividend, the population's growing spirit of entrepreneurship, technology advancements and innovation, and mentoring possibilities (Table 2). Angel investment has become the most preferred choice of a start-up for seeking capital in the 21st century, as is evident from the data on angel investment deals over the years given in Table 3. The reasons for angel investment becoming a popular choice of capital is its collateral free nature along with India's huge demographic dividend filled with an entrepreneurial spirit, providing avenues for angel investors to support startups. The vast market existing in India for new products lures angel investors towards start-ups introducing new-generation innovative products. The risk-taking mind-set and the number of graduates joining start-ups has grown swiftly. Globalisation has encouraged the Indian population to innovate and the related technology platforms have grown at a rapid pace. Venture funding firms have shifted their attention to more established businesses, allowing angel investors more room to meet startups' funding needs. Angel networks in India are making active investments across a range of industries and are crucial to the development of Indian businesses. This suggests that angel investing in India has a promising future. Going into the twenty-first century, the angel investment sector in India is probably going to benefit greatly from all of the aforementioned aspects.

The abolition of the angel tax being a provision of the Finance Bill, 2024 will further boost the Indian startup ecosystem and act as an impetus for higher inflows of capital in the startups/economy.

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15th Finance Commission Challenge of Growth in Property Tax: An Assessment of Selected Smart Cities

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In India, funds are devolved to States by Centre through the Finance Commission constituted by the President of India under Article 280 of the Indian Constitution periodically. Lately, the 15th Finance Commission (FC) (2021-22 to 2025-26) (Wasdani, 2016) have been constituted, laying out various conditions under which funds are devolved to states and cities. Out of several conditions, two prime conditions imposed by the 15th Finance Commission related to Municipal Financial management are the timeliness of Published Annual Financial Statements (AFS), and the growth in property tax collection and its methodology of valuation. Conditions laid down by the 15th Finance Commission aim to create financial discipline in municipalities and make municipalities march towards financial sustainability. Growth in property tax exceeding the State Simple Average Growth Rate (SAGR) of the Gross State Domestic Product (GSDP) is a prime condition for leading cities towards Atmanirbhartha. Compliance with the conditions laid down by the 15th Finance Commission (FC) requires coordination, and consultation among multiple stakeholders at various levels of the government and administration, which can potentially lead to administrative delays.

The article aims to throw light on the challenges faced by municipalities on the field to meet the conditions laid down by the 15th FC for growth in the Property Tax on annual basis to claim grants through an analysis of selected smart cities. It will highlight the challenges faced in complying with municipal financial management conditions by municipalities. Municipalities must prepare themselves through suggested interventions in the paper to comply with municipal financial management conditions, especially those stipulated by the present and upcoming finance commissions.

Introduction

It is expected that in the next two decades under Viksit Bharat@2047, India's economic growth will improve manifold through an improved pace of urbanization to meet the demand of the projected increased urban population which may reach 600 million by 2031. This huge urban population will demand better infrastructure. Indeed, the situation resonates globally, especially in developing countries like Nigeria. The rapid increase in population in many urban areas has resulted in a substantial demand for high-quality public services and urban infrastructure facilities (Goodfellow and Owen, 2018). Thus, to meet the increased population demand for improved infrastructure, sustainable economic expansion and structural transformation are expected to take place in the future (Sivaramakrishnan, 2015). This increased infrastructure would require a lot of expenditure on its maintenance which needs to be met by municipalities from their limited internal revenue (Awasthi et al., 2021). *Due to limited own-source revenue, Indian cities are largely dependent on grants from the Central and State governments to meet their revenue expenditure needs* (Reserve Bank of India, 2022).

Article 243X of the Indian Constitution provides a mechanism whereby the center transfers funds to the state for its cities in the form of grants-in-aid as *Grants and Transfers.* To ensure financial robustness and promote the development of cities, finance commissions often allocate grants to states based on various factors such as area, population, and specific conditions aimed at encouraging urban development. Finance commissions determine the amount to be devolved to states based on their geographical size and population relative to other states. Apart from the normal parameters of geographical size and population size, past finance commissions have set aside some funds to foster competition among cities, that are released only upon meeting certain additional conditions besides basic ones. For example, the 14th FC provided that 20% of the funds would be given to cities as performance grants, provided they meet additional conditions such as increasing their own revenue and publishing audited AFS.

Over the past decade, India has witnessed various urban development initiatives aimed at transforming cities into Smarter or Atal Mission for Rejuvenation and Urban Transformation (AMRUT) or Heritage City Development and Augmentation Yojana (Hriday) or Aspirational cities. These initiatives have included programs such as the Smart Cities Mission, AMRUT, HRIDAY, and the Aspirational Districts Program, among others. Despite the different names and focus areas of these initiatives, all cities in India face common challenges and require funding to deliver the functions mandated by the 74th Constitutional Amendment Act of 1992. These funds will be made available to cities through grants and internal revenue earned by the cities themselves. Compliance with the conditions laid down by finance commission is often a prerequisite for states and cities to access funds allocated by these commissions. While states and cities may not always willingly comply with these conditions, especially if they perceive them as burdensome or restrictive, they are typically compelled to do so to secure the necessary funding for their development priorities as more than 60% of the receipts of cities are from revenue grants and transfers (*Assessment of Municipal Finances of 15 Municipalities in Maharashtra*, 2013).

Smart City Guidelines provide access to capital markets as one of the sources of infrastructure financing Ministry of Housing and Urban Affairs (MoHUA, 2015) which has been again provided as a municipal reform in AMRUT2.0 as cities have limited own revenues. The Smart City, AMRUT, and AMRUT 2.0 guidelines emphasize the need for municipalities to enhance their own-source revenue generation to service debt raised from the open market through municipal bonds (MoHUA, 2015). To achieve this, municipalities need to strengthen their financial management practices, including maintaining reliable financial statements. Property taxes are among the most important revenue sources for local governments across the world[1].The average collection from property taxes in the Organization for Economic Cooperation and Development (OECD) group is about 1.1 percent of the National GDP, whereas for India, it is about 0.2 percent of the GDP, which is just one-sixth. In some OECD countries, such as Canada, the United Kingdom, and the United States, property tax collections form the bedrock of local government revenue and are taken as a percent of the GDP, i.e., about 3 percent. In Asia (Table 1), property tax is concentrated in a smaller number of high-income economies, such as those of Japan and the Republic of Korea (Awasthi et al., 2021).

[1] XV Finance Commission report (Page 33)

Table 1:Asia's Level of Property Tax Revenues Compared to India, 2015	
Country or Economy	**Property Tax/Gross Domestic Product**
Hong Kong SAR, China	3.3
Taiwan,China	2.3
Singapore	1.8
Kazakhstan	0.6
Kyrgyz Republic	0.5
Malaysia	0.5
Philippines	0.5
Nepal	0.4
Indonesia	0.3
India	0.2
Bangladesh	0
Bhutan	0

Source: ADB (Awasthi et al., 2021).

Property tax is a potential source of revenue generation by municipal/local governments, especially in developing countries, because it is economically efficient, easy to enforce, and difficult to avoid (Rosengard, 2012; Bahl and Martinez-Vazquez, 2007). This could be one of the reasons that most of the Government of India Guidelines in the past and present focus on the augmentation of only property taxes of cities *(Kumar & Goel, 2023).*

This situation underscores the urgent need for a critical examination of the existing disclosure practices of Urban Local Bodies (ULBs) and their validation on multiple parameters.

The objective to be achieved through this study is to assess the preparedness of selected smart cities to meet the challenges posed by the 15th Finance Commission regarding the growth in property tax collection through the analysis of selected smart cities' property tax collection in the past three years from 2021-22 to 2023-24.

Apart from the introductory section covering the study's objective, the article has been organized as follows:

- Data collection and methodology describing the sources used for data collection along with the period of analysis,
- Genesis of Central Finance Commissions which provides a brief overview of the historical evolution of central finance commissions in India with the conditions posed by the 15th Finance Commission,
- Analysis of Smart Cities' preparedness provides an overview of the strategies adopted by other states/cities to meet the challenge of augmentation of property tax collection along with a detailed analysis of property tax growth of 10 selected smart cities for three years, and
- Lastly, the key findings of the analysis along with the proposed future interventions and strategies to address the challenges have been discussed.

The study is based on secondary sources. The data has been collected from published sources, and authors' *work experience in the municipal finance field. 10 smart cities data has been examined to assess whether selected smart cities are able to meet the challenges posed by the 15th Finance Commission related to growth in property tax collection on an annual basis or not, for the* past three years i.e., from 2021-22 to 2023-24 (Table 2).

Table 2: Selected Smart Cities

S.No	ULB Name	State
1	COIMBATORE	Tamil Nadu
2	MADURAI	
3	TIRUCHIRAPPALLI	
4	TIRUNELVELI	
5	TIRUPPUR	
6	VELLORE	
7	RANCHI	Jharkhand
8	PATNA	Bihar
9	BHILAI	Chhattisgarh
10	UDAIPUR	Rajasthan

Further, analysis has been done based on data from the research articles, reports of research agencies, and other online resources. By collating information from various sources, the study provides a detailed understanding of cities' preparedness to meet the challenges of the 15th FC regarding property tax growth.

Conditions by Finance Commissions: Genesis

Finance commissions are constitutionally empowered bodies as per Article 280 of The Indian Constitution[2]. This is a common fact that a major issue arises when funds need to be apportioned to cities as there shall be some rationale mechanism in place for the distribution of funds to avoid randomness and biased allocation. The private sector uses Key Performance Indicators (KPIs), Multilateral agencies like the World Bank

[2] XVth FC covered 6 years (2020-2026) unlike other FCs and issued two reports one for 2020-21 and another one for 2021-26. (due to COVID)

use Disbursement Linked Indicators (DLIs), and the Asian Development Bank (ADB) uses a performance incentives mechanism. The finance commission plays the role of avoiding randomness in fund distribution, a task they have been performing for many years. The *FC recommendations cover three main aspects: vertical devolution which identifies State's share in the divisible pool of central taxes; horizontal devolution which allocates resources among states based on fiscal need and capacity, and grant-in-aid (Wasdani, 2016).*

Over the years, for the first to the fifteenth FC, various recommendations have been provided by FCs which have led to fiscal augmentation, financial discipline, and overall growth of the economy. A key recommendation for municipal financial management includes achieving a collection of 90% of property tax against the target, ensuring growth in own revenue compared to the previous year, and ensuring the timely availability of audited annual accounts. (*14 Finance Commission Performance Grant Scheme and Its Qualifying Indicators 14FC Grants- Background*, 2018).

- Lately, the recommendations of the 15th FC have highlighted the need for a revolution in the area of municipal financial management to augment municipal finance by making growth in property tax as a mandatory criteria and providing a timeline for the submission of published annual accounts. The shift towards providing growth in the collection of property tax as a condition in the 15th FC rather than the collection of the 90% target as a condition in the earlier FC is a much-needed reform. Previously, many states' cities claimed grants by proving that 90% collection has been done against annual target set for the property tax. Despite achieving a collection rate of 90% of the target revenue, many urban local bodies (ULBs) continue to face deficits and struggle to meet their revenue expenses. In this backdrop, the 15th FC conditions have taken necessary steps for strengthening one of the core components of its own revenue i.e., property tax by requiring states to move to a capital value method of valuation and to ensure annual growth in the collection of property tax surpassing the Simple Annual Growth Rate (SAGR) of State Gross State Domestic Product (GSDP) (Expert Committe by GOI, 2016).
- Operational guidelines[3] for the implementation of recommendations on Urban Local Bodies grants, as detailed in Chapter 7 of the Fifteenth Finance Commission Report states that by 2022-23: Property tax floor rates shall be notified and a copy of the notification needs to be submitted by the state while claiming the first installment for the year 2022-23.

Table 3: Past Finance Commissions

Finance Commission	Year of establishment	Chairman	Operational duration
First	1951	K. C. Neogy	1952–57
Second	1956	K. Santhanam	1957–62
Third	1960	A. K. Chanda	1962–66
Fourth	1964	P. V. Rajamannar	1966–69
Fifth	1968	Mahaveer Tyagi	1969–74
Sixth	1972	K. Brahmananda Reddy	1974–79
Seventh	1977	J. M. Shelat	1979–84
Eighth	1983	Y. B. Chavan	1984–89
Ninth	1987	N. K. P. Salve	1989–95
Tenth	1992	K. C. Pant	1995–00
Eleventh	1998	A. M. Khusro	2000–05
Twelfth	2002	C. Rangarajan	2005–10
Thirteenth	2007	Dr. Vijay L. Kelkar	2010–15
Fourteenth	2013	Dr. Y. V Reddy	2015–20
Fifteenth	2017	N. K. Singh	2020-26[2]

Source: https://fincomindia.nic.in/

[3] Issued on 28.07.2021

- **From 2023-24 onwards:** Collection of Property taxes shall increase in tandem with the growth rate of the state's own GSDP over the most recent five years.

As per the GO order dated 31st December 2023, the sixteenth Finance Commission has been constituted to provide recommendations for the devolution of funds for five years, starting from 2026-27 onwards. Thus, states and cities should gear up their system to meet the present challenges posed by the 15th FC and future challenges that may be laid down by the proposed 16th FC.

Analysis

70% of the Indian Urban Local Bodies (ULBs) have reported an increase in the collection of property tax in 2022-23 as compared to the fiscal year 2021-22.[4] However, in the coming years after 2022-23, (ULBs) that can meet the conditions set by the 15th Finance Commission (15FC) for property tax collection growth exceeding the Gross State Domestic Product (GSDP) growth rate will be limited. This limitation would arise primarily because many ULBs achieved this condition in 2022-23 through one-time measures, such as one-time settlement or amnesty schemes for arrear collection, rather than through institutional changes like transitioning to capital value-based systems. (Refer to Table 4).

Table 4 indicates that these schemes may result in a temporary boost in revenue collection, but they do not address the underlying issues related to tax compliance, valuation methodologies, and revenue sustainability. Similarly, some states have taken the initiative by bringing major changes in the rates of property taxation; the state of Tamil Nadu issued orders (G.O. (Ms) No. 52, dated 30.03.2022[5]) to levy property tax at the rates indicated below w.e.f. 01.04.2022 which would increase the property tax from residential and non-residential property by 50%-100% based on the category and area of Households (HH). Furthermore, in Tamil Nadu, to meet the 15th FC condition of increased collection of Property Tax by State GSDP, the clause of auto increase was inserted which states that an annual increase of 6% or SAGR of the State's GSDP for the past five years, whichever is higher, is to be effected from FY 2022-23 onwards.

The structural change in property tax valuation implemented by states like Jharkhand, transitioning from the Annual Rental Value (ARV) method to the Capital Value method based on circle rates through notification of separate floor rates for residential and non-residential properties, represents a significant reform aimed at improving the accuracy, transparency, and efficiency of property tax assessment and collection. The migration to the Capital Value method allows ULBs to update property tax demands more frequently, typically every two years, in line with the changes in circle rates determined by the Land Revenue Department.

In this section, the author aims to analyze the trends in the collection of property tax for ten selected smart cities, as presented in Table 5 and Table 6. To assess the growth in property tax revenue, GSDP and SAGR rates have been computed, following the guidelines provided by the MoHUA.

- GSDP for FY 17-18(Y1); FY18-19(Y2); FY19-20(Y3); FY20-21(Y4); FY21-22(Y5) & FY22-23(Y6) has been considered.

Table 4: Amnesty Schemes by States/Cities in the recent past years from 2020-21 to 2022-23

#	Name of State/City	Amnesty Provision
1	DELHI	SAMRIDHI (2022-23)
2	GREATER HYDERABAD MUNICIPAL CORPORATION(GHMC)	ONE-TIME SETTLEMENT (OTS) SCHEME, 2022-23.
3	PUNE MUNICIPAL CORPORATION	AMNESTY SCHEME 2021-2022

Source: https://timesofindia.indiatimes.com/ https://www.deccanchronicle.com/ https://www.pmc.gov.in/en/amnesty-scheme- 2021-2022-recovery-property-tax-arrears

4 https://indianexpress.com/article

5 https://www.tnurbantree.tn.gov.in/

- Simple Average Growth Rate (SAGR) = {[(GSDP Y2-GSDP Y1)/ GSDP Y1} + {(GSDP Y3-GSDP Y2)/ GSDP Y2] + [(GSDP Y4-GSDP Y3)/ GSDP Y3] + [(GSDP Y5-GSDP Y4)/ GSDP Y4] + [(GSDP Y6-GSDP Y5)/ GSDP Y5]}*100

Source: MoHUA

To calculate the SAGR, the following steps are to be followed: (Refer to Table 5)

- Subtract the GSDP of the previous year from the GSDP of the current year.
- Divide the result by the GSDP of the previous year.
- Repeat this process for each consecutive year, spanning the desired period of five years.
- Take the average of these annual growth rates to determine the SAGR.

These rates provide an average of the increased GSDP observed over the past five years, offering insights into the financial performance of selected smart cities in terms of property tax collection.

- To Illustrate: The average GSDP for the State of Tamil Nadu has been computed below:

Using SAGR for ten smart cities covering the States of Tamil Nadu (6), Jharkhand (1), Rajasthan (1), Chhattisgarh (1) and Bihar (1)[6], property tax collection for the past three years has been analysed in Table 6:

- Based on Table 6, it's evident that 9 selected cities out of 10 (Bhilai) were able to meet the 15th Finance Commission (FC) conditions for growth in Property Tax in the fiscal year 2022-23, compared to FY 2021-22.
- In Rajasthan, this was achieved through the application of District Level Committee (DLC) rates, similar to circle rates. In Jharkhand, the government transitioned from ARV to capital value for property valuation in 2022-23. Additionally, the Tamil Nadu Government implemented a taxation rate and valuation rate increase, resulting in higher property tax collection in fiscal year 2022-23.
- *However, Chattisgarh did not undergo any such reforms, and no schemes like amnesty were introduced, consequently failing to meet the 15th FC conditions in the fiscal year 2022-23.*
- In the fiscal year 2023-24, apart from Udaipur and Ranchi, none of the cities were able to achieve the collection target set by the 15th Finance Commission (FC).
- Bhilai, in the fiscal year 2022-23, had a property tax collection lower than the target set by the 15th Finance Commission (15FC). However, in the subsequent fiscal year, 2023-24, Bhilai was able to achieve the collection target set by the 15th FC. This achievement was facilitated by the lower base of property tax collection in the previous year, which allowed Bhilai to meet the target in the following year. In this case, because Bhilai's collection in 2022-23 was below the target, it had room to achieve growth in the subsequent year, ultimately meeting the 15th FC collection target in 2023-24.

Conclusion

Through this paper, the author aims to emphasize the necessity for adopting sustainable options to transition the method of property tax valuation to guidance value or circle rates, as mandated by the 15th Finance Commission (FC) and AMRUT 2.0 along with other measures required to improve assessment and reduce underassessment for growth in the collection of property tax.

a) **Migration to capital value Method**: The method of property tax assessment in Jharkhand and Rajasthan has been linked to circle rates. This will help Urban Local Bodies (ULBs) in these states to potentially

Table 5: Statement Showing SAGR for the State of Tamil Nadu (Rs. in Lakhs)

	1	2	3	4	5	6	
Heads	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (Estimate)	SAGR(%)
GSDP (Current Price) (RBI Report on GSDP)	146505091	163020915	174314396	180823943	20,65,43,628	24,84,80,700	
		11%	7%	4%	14%	20%	11.29%

Source: https://www.rbi.org.in

6 SAGR-Tamil Nadu(11.30%), Jharkhand(8.4%), Rajasthan(10.02%),Chhattisgarh(10.30%) and Bihar(9.85%)

Table 6: Statement showing an analysis of Property Tax collection Growth in the past Three Years for 10 selected smart cities-Rs in Crores

		2021-22		2022-23		2023-24
S.No	ULB Name	Property Tax Collection	Target as per the 15th FC for FY 2022-23	Property Tax Collection	Target as per the 15th FC for FY 2023-24	Property Tax Collection
		(1)	(2)=1*(1+SAGR)6	(3)	(4)=4*(1+SAGR)6	(5)
1	COIMBATORE	229.37	255.75	433.89	483.78	391.63
2	MADURAI	117.86	131.41	199.46	222.39	209.85
3	TIRUCHIRAPPALLI	73.20	81.62	119.87	133.65	116.46
4	TIRUNELVELI	29.75	33.17	50.78	56.62	47.57
5	TIRUPPUR	63.20	70.47	101.23	112.87	98.38
6	VELLORE	20.10	22.41	41.59	46.37	41.56
7	RANCHI	58.50	63.47	66.50	72.15	71.50
8	PATNA	76.40	83.93	89.10	97.88	81.50
9	BHILAI	34.52	38.08	31.56	34.81	36.77
10	UDAIPUR	10.41	11.49	11.50	12.70	15.31

Source: DCB of Variosu States/Cities

Note: Red color denotes cities unable to meet the target in 2023-24

avoid issues in meeting the conditions of property tax growth set by the 15th Finance Commission (15FC). As circle rates increase over time due to market appreciation or other factors, property tax assessments will automatically adjust accordingly. This link creates a mechanism for regular growth in property tax revenue for ULBs. As circle rates rise, the demand for property tax increases proportionally, leading to higher property tax collections without the need for manual adjustments or interventions. *Migration to capital value method in 2011–12 in Mumbai yielded a significant one-time increase in property tax revenue by more than 50%. Detailed studies suggest considerable potential revenue gains from moving to a system that reflects market values (Lall and Deichmann 2006).* It's noteworthy that Jharkhand has achieved remarkable and sustainable growth in the collection of property tax, primarily attributed to the migration to capital value-based assessment starting from the fiscal year 2022-23. This transition to a new assessment methodology has likely contributed to improved accuracy and fairness in property tax assessments, resulting in increased revenue collection for the state. This successful implementation underscores the importance of adopting innovative approaches to enhance revenue generation and promote sustainable financial growth at the local level (Kumar & Goel, 2023)

b) **PPP based Revenue sharing Model**: Furthermore, as highlighted in the 15th Finance Commission Report, the Public Private Partnership (PPP)-based revenue-sharing model with Project Management Units (PMUs) represents a commendable initiative by the Government of Jharkhand to address the challenges posed by limited skilled staff and the issue of the 3Us (unassessed, under-assessed, and unpaid properties). This successful model may serve as a valuable example for other states or cities facing similar issues of limited tax collectors, encouraging them to adopt similar PPP-based revenue-sharing models.

c) **Professionals Engagement**: Taking action against defaulters for non-payment of taxes and underassessment may involve legal procedures which involve a lot of steps and compliances to be followed by the state or city like getting the Statement of Facts ready, serving of notices, taking action like freezing of bank accounts, and

attachment of property. Thus, the state or city shall engage professionals covering Urban Planner, Chartered Accountants etc. to enable the State/ City to implement interventions relating to 3Us (unassessed, under-assessed, and unpaid). *Like the states of Tamil Nadu and Jharkhand, the state can appoint a Project Management Unit (PMU) at the state level which helps to implement interventions relating to 3Us.*

d) **GIS mapping:** As part of the AMRUT toolkit, implementing GIS mapping of households can be a significant reform measure for states to improve property tax assessment and collection. GIS mapping allows for systematically identifying and mapping households within a jurisdiction. By geo-tagging properties, authorities can identify households not assessed for property tax purposes. This helps in expanding the tax base by bringing previously unassessed households into the system. GIS mapping provides a spatial perspective that enables authorities to assess properties more accurately. By overlaying property boundaries with various data layers such as land use, infrastructure, and socioeconomic indicators, authorities can identify discrepancies in property assessments. This helps in detecting properties that are under-assessed or misclassified, leading to potential revenue enhancements.

- *In summary, GIS mapping of households offers a holistic approach to property tax administration by addressing the challenges of low assessment and collection. By leveraging spatial data analytics, authorities can identify unassessed households, detect under-assessment, improve assessment accuracy, enhance compliance, and make data-driven decisions to optimize revenue collection from property taxes.*

e) **Integration with State Departments and other utilities:** Lastly, integrating the property tax database with other relevant departmental databases and utilities may be imperative to enhance assessment accuracy and subsequently improve property tax collection. This integration could streamline data management processes and facilitate better coordination among various departments, leading to more effective tax assessment and collection mechanisms. Integrating property tax assessments with electricity bill payments to ensure accurate categorization of properties based on usage will be a strategic move that can be adopted by the state. This integration can help prevent under-assessment of properties, particularly those misclassified as residential when they are, in fact, being used for commercial purposes. By linking property tax records with electricity bill payments, authorities can access information about the type of electricity meter associated with each property. Residential properties typically have residential meters, while commercial properties have commercial meters. The integration can set up automated triggers that flag properties with discrepancies between their assessed usage for property tax purposes and their actual usage as indicated by their electricity meter type. For instance, if a property with a commercial meter is classified as residential for property tax assessment purposes, the system can automatically flag this as a potential under-assessment. Once discrepancies are identified through the automated triggers, appropriate enforcement actions can be taken by the authorities. This may include reassessing the property to reflect its actual usage, adjusting property tax rates accordingly, and potentially levying fines or penalties for underpayment or misrepresentation.

Ensuring accurate property tax assessments can lead to increased revenue for the state and local governments. Properties that were previously under-assessed due to misclassification would now contribute their fair share of property taxes based on their actual usage.

Thus, implementing the measures outlined can indeed contribute significantly to helping states and cities meet the conditions set forth by the 15th Finance Commission (FC). Meeting the conditions of the 15th FC is crucial for accessing financial support and resources, which in turn can drive progress and development at the local level ensuring better service delivery.

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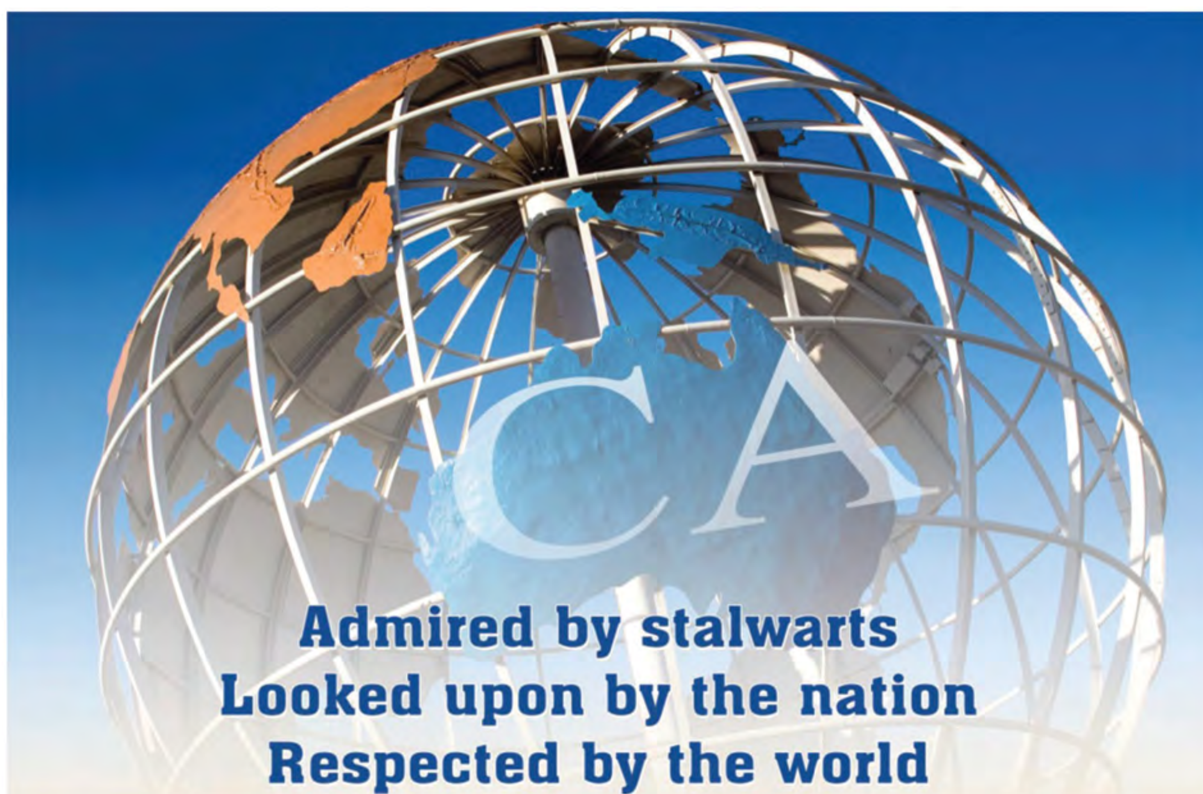

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Cloud Accounting in the Indian Accounting Landscape: A boon for practicing Chartered Accountants

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Cloud accounting is undeniably a boon for practicing Chartered Accountants (CAs) in the Indian accounting landscape. Its benefits, including accessibility, real-time data update, cost savings, enhanced security, and scalability, are reshaping the way CAs operate and offer their services. However, it's important to acknowledge and address the challenges and concerns, such as data security, internet connectivity, adaptation, and compliance. As the adoption of cloud accounting in India continues to grow, CAs who embrace this technology stand to gain a competitive edge. The role of CAs is evolving from data entry and compliance with regulations to provide strategic financial advice and leveraging technology to enhance efficiency and productivity. By keeping pace with these changes, CAs can ensure that they remain valuable and trusted partners for their clients in an increasingly digital and data-driven world.

Introduction

The field of accounting has witnessed a significant transformation in recent years, and one of the key drivers of this change is the advent of cloud accounting. Cloud accounting refers to the practice of using cloud-based software and platforms to manage financial data and perform accounting tasks. This technological innovation has had a profound impact on the accounting landscape in India and has proven to be a boon for practicing Chartered Accountants (CAs). In this article, we will explore the various aspects of cloud accounting and how it has revolutionized the way CAs operate in the Indian context.

The Evolution of Accounting in India

Before delving into the advantages of cloud accounting for CAs in India, it is essential to understand the historical context and the evolution of the accounting profession in the country.

Traditionally, accounting in India has been a manual and paper-based process. Chartered Accountants and accounting firms relied heavily on physical ledgers, spreadsheets, and paperwork to record financial transactions and maintain books of accounts. While this method served its purpose for many years, it was inherently time-consuming, prone to errors, and lacked the efficiency required to meet the demands of a rapidly evolving business landscape.

In recent years, the world of accounting has witnessed a significant transformation, and India is no exception to this trend. The traditional methods

of bookkeeping and financial management are gradually being replaced by more efficient and technologically advanced solutions, with cloud accounting at the forefront of this evolution. Cloud accounting, a method of storing and managing financial data in the cloud, is gaining traction in the Indian accounting landscape, proving to be a boon for practicing CAs and businesses alike. In this article, we will explore the concept of cloud accounting, its benefits, challenges, and its impact on the accounting profession in India.

Cloud accounting software provides a platform for various accounting tasks, including data entry, bookkeeping, financial reporting, and compliance with taxation and regulatory requirements.

Understanding Cloud Accounting

Cloud accounting, often referred to as 'online accounting' or 'web-based accounting', is a method of managing financial data using cloud-based software and storage solutions. Instead of relying on traditional desktop-based accounting software, businesses and professionals can access their financial data from anywhere with an internet connection. This method has gained immense popularity in recent years due to its numerous advantages.

Cloud accounting software provides a platform for various accounting tasks, including data entry, bookkeeping, financial reporting, and compliance with taxation and regulatory requirements. Certain software providers offer feature-rich cloud accounting solutions that cater to the needs of businesses of all sizes.

Benefits of Cloud Accounting

- **Accessibility and Mobility**

  One of the most significant advantages of cloud accounting is the ability to access financial data from anywhere, at any time. This feature is particularly beneficial for CAs who often need to work remotely or access client data while on the go. The convenience of cloud accounting software means that professionals can respond to inquiries of client and manage financial data without being tied to a physical office. It also facilitates collaboration between CAs and their clients, as they can both access and update the same set of financial records.

- **Real-Time Data Updates**

  With cloud accounting, financial data is updated in real-time. This means that CAs and their clients have access to the most current financial information, eliminating the need for time-consuming data synchronization and updates. Real-time data ensures that financial decisions are based on the most accurate and up-to-date information, leading to better financial management.

- **Cost Savings**

  Traditional accounting software often requires a significant upfront investment in software licenses and hardware. Cloud accounting eliminates these costs, as it is typically offered on a subscription basis. This makes it a more cost-effective solution, especially for small and medium-sized practices, where the initial capital outlay can be a significant burden. Additionally, cloud accounting software reduces the need for physical storage space and IT infrastructure, further reducing costs.

- **Enhanced Security**

  Cloud accounting providers invest heavily in security measures to protect financial data. This includes robust encryption, multi-factor authentication, and regular security updates. Data stored on local servers or desktop-based software may be more vulnerable to theft or loss due to hardware failures. Cloud accounting offers a higher level of security, which is essential in a world where data breaches and cyberattacks are increasingly common.

- **Automatic Backups**

  Data loss can be catastrophic for businesses and accounting professionals. Traditional methods of data backup require manual intervention and may not be as reliable as cloud-based backups. Cloud accounting software often includes automatic backup features that ensure data is securely stored and can be easily restored in case

of unexpected events such as hardware failures or natural disasters.

- **Scalability**

  Cloud accounting software can adapt to the changing needs of businesses and accounting practices. As a CA's practice grows or a business expands, it can seamlessly scale up its accounting software and data storage requirements without the need for a major overhaul. This scalability ensures that cloud accounting remains a viable long-term solution for businesses of all sizes.

- **Integration and Automation**

  Cloud accounting software can be integrated with various other business applications and tools. This enables automation of repetitive tasks, such as invoice generation, expense tracking, and reconciliation, saving time and reducing the risk of human errors. Integration with banking systems and tax authorities can streamline compliance and reporting processes, making it easier for CAs to meet their clients' obligations.

- **Reduced Environmental Impact**

  The move to cloud accounting can also have positive environmental implications. By reducing the need for physical servers and data centers, it can lower the carbon footprint associated with IT infrastructure. Additionally, the reduced use of paper and printed financial documents aligns with global efforts to promote sustainability.

Cloud Accounting in the Indian Context

India, with its rapidly growing economy, is witnessing a surge in demand for accounting services. The adoption of cloud accounting is slowly but steadily gaining momentum in the country, both in the corporate sector and among practicing CAs. Here are some key factors contributing to the rise of cloud accounting in India:

- **Government Initiatives**

  The government has introduced several digital initiatives to promote a cashless economy and enhance financial transparency. The introduction of the Goods and Services Tax (GST) has made it essential for businesses to maintain accurate and timely financial records. Cloud accounting software is well-suited to help businesses comply with these new regulations, making it an attractive choice for both businesses and CAs.

- **Increasing Small and Medium-sized Enterprises (SMEs)**

  India is home to a vast number of SMEs, which form the backbone of the country's economy. Many of these SMEs lack the resources for extensive IT infrastructure and are turning towards cloud accounting to streamline their financial operations. CAs, in turn, are adapting to these changing client needs by offering cloud-based accounting services.

- **Internet Penetration**

  The proliferation of affordable internet access in India has made it possible for businesses and professionals to leverage cloud accounting solutions effectively. With the increased availability of high-speed internet, CAs and their clients can access cloud accounting software with ease, regardless of their location.

- **Growing Awareness and Education**

  Professional bodies are actively promoting education and training on cloud accounting and related technologies. CAs are increasingly recognizing the need to upgrade their skills to stay competitive in the evolving landscape of accounting. This educational support is instrumental in enabling CAs to harness the full potential of cloud accounting.

- **Competitive Landscape**

  The competitive landscape in India's accounting industry is pushing firms and professionals to differentiate themselves. Offering cloud accounting services is a way to stand out in a crowded marketplace, and many CAs are realizing the competitive advantage that comes with embracing technology.

Challenges and Concerns

While cloud accounting offers numerous benefits, it is not without its challenges and concerns, especially in the context of the Indian accounting landscape:

- **Data Security and Privacy**

  One of the most significant concerns associated with cloud accounting is the security and privacy of financial data. With data stored off-site on servers

managed by third-party providers, there is always a risk of data breaches or unauthorized access. CAs and their clients need to ensure that they choose reputable cloud accounting providers with robust security measures in place.

The proliferation of affordable internet access in India has made it possible for businesses and professionals to leverage cloud accounting solutions effectively.

- **Internet Connectivity**

  Although internet access is improving in India, there are still areas with limited connectivity. Reliance on the Internet for day-to-day accounting tasks can be problematic in regions with inconsistent or slow Internet access. This issue can be a barrier to entry for some businesses and CAs.

- **Adaptation and Training**

  Many professionals and businesses may be resistant to change, whereas transitioning to cloud accounting requires adaptation and training. Professionals need to invest time and effort in learning how to use new software and adapt their workflows. Small businesses may also need to train their employees to use the software effectively.

- **Compliance and Regulations**

  Indian businesses are subject to various regulatory requirements, and the use of cloud accounting must comply with these regulations. CAs need to ensure that the software they use is GST-compliant, meets data localization requirements and is aligned with other legal and regulatory obligations.

- **Data Portability**

  In the digital age, migration from traditional accounting methods to cloud-based accounting systems has been swift and profound. The rise of cloud accounting in India has facilitated businesses, both big and small, to access real-time financial data, enhance collaboration, and achieve operational efficiency. Central to this transformation is the principle of data portability, ensuring that businesses have flexibility and control over their financial data. Data portability refers to the ability of users to move their personal data between different IT environments securely and without hindrance. In the realm of cloud accounting, data portability ensures that businesses can seamlessly transfer their financial data from one cloud service provider to another or to an on-premises system.

Regulatory Discussions & Framework of Data Profitability

In India, the importance of data portability is underscored by its inclusion in various regulatory discussions and frameworks:

a) **Digital Personal Data Protection Act:** The act aims to protect the personal data of individuals, regulate the processing of such data and recognize the right to data portability. This means that individuals (and by extension, businesses) will have the right to obtain a copy of their data in a structured, commonly used, and machine-readable format.

b) **GST and Digital Transformation:** The Goods and Services Tax (GST) regime in India has catalyzed the adoption of digital accounting solutions. Data portability ensures that businesses can migrate their GST-related financial data as needed, facilitating compliance and reporting.

c) **Emerging Standards and Best Practices:** The Institute of Chartered Accountants of India is increasingly emphasizing the importance of data portability in its guidelines, recognizing its role in driving transparency, accountability, and efficiency in the accounting profession.

Challenges of Implementing Data Profitability in Cloud Computing

While data portability offers numerous advantages, its implementation in cloud accounting is not without challenges:

a) **Data Integrity:** Ensuring that data remains consistent and intact during transfers is paramount. Any discrepancies can lead to financial misreporting and compliance issues.

b) **Security Concerns:** Transferring sensitive financial data between systems requires robust encryption and security measures to prevent unauthorized access and data breaches.

c) **Interoperability Issues:** Different cloud accounting platforms may use varied data formats and structures. Standardization efforts are essential to facilitate smooth data transfers.

Data portability ensures that businesses can migrate their GST-related financial data as needed, facilitating compliance and reporting.

Common considerations prior to migrating to a cloud-based environment

The adoption of cloud accounting in the Indian business landscape has become a pivotal strategy for organizations seeking agility and efficiency in their financial operations. However, the decision to migrate to a cloud-based environment demands a thoughtful evaluation of several considerations to ensure a seamless and secure transition.

- **Reduced Visibility and Control**

  Transitioning to the cloud may bring concerns about reduced visibility and control over sensitive financial data. Businesses must meticulously assess the level of control they relinquish, and the security measures provided by the chosen cloud service provider to mitigate potential risks.

- **Self-Service Risks**

  The self-service nature of cloud platforms can open doors to unauthorized use and abuse. Establishing robust access controls and monitoring mechanisms is crucial to prevent unauthorized access and ensure that only authorized personnel can manipulate critical financial data.

- **Provider's Privileged Insider**

  Entrusting financial data to a third-party provider raises concerns about the potential misuse by privileged insiders. Businesses should carefully vet service providers, assess their security protocols, and seek transparency regarding the measures in place to prevent unauthorized access from within.

- **Application Programming Interfaces (APIs) Security**

  The use of Application Programming Interfaces (APIs) for data integration and communication introduces a potential vulnerability. A comprehensive evaluation of the provider's API security measures is necessary to prevent compromises that could expose sensitive financial information.

- **Tenant Separation Failures**

  In a multi-tenant cloud environment, the risk of data leakage between different entities exists. Rigorous testing and evaluation of the provider's segregation mechanisms are essential to ensure the confidentiality and integrity of each tenant's financial data.

- **Incomplete Data Deletion**

  Ensuring the complete and irreversible deletion of data is a critical consideration, especially in the context of financial information. Businesses must ascertain the cloud provider's data deletion policies and practices to meet data privacy and compliance requirements.

- **Credential Security**

  The compromise of user credentials poses a significant threat to cloud security. Implementing strong authentication measures and continuous monitoring of user activities can help mitigate the risk of credential theft or compromise.

- **Increased Complexity**

  The adoption of cloud accounting can introduce increased complexity, potentially straining internal IT staff. Adequate training and support must be provided to ensure that the IT team can effectively manage and monitor the cloud environment.

- **Insufficient Due Diligence**

  Perhaps the most critical consideration is the level of due diligence performed before selecting a cloud service provider. Thoroughly evaluating

the provider's security practices, compliance certifications, and track of record is essential to make an informed decision.

The benefits of cloud accounting in the Indian context are substantial, and careful consideration of these factors is paramount. A well-informed approach, coupled with strategic planning and security measures, ensures that the migration to a cloud-based environment enhances financial efficiency without compromising the security and integrity of sensitive accounting data.

Impact on the Role of Chartered Accountants

Cloud accounting has a profound impact on the role of CAs in India. While it introduces new opportunities and challenges, it ultimately enhances the value that CAs can provide to their clients. Here's how cloud accounting is reshaping the role of CAs:

- **Focus on Advisory Services**

  With the automation of routine tasks, CAs can shift their focus from data entry and reconciliation to providing higher-value advisory services. Cloud accounting software handles the tedious aspects of financial management, allowing CAs to offer strategic insights, financial planning, and tax optimization to their clients.

- **Improved Client Collaboration**

  Cloud accounting fosters collaboration between CAs and their clients. Both parties can access and work on the same set of financial data, making it easier to share information and communicate effectively. This collaborative approach strengthens the client-CA relationship and enhances the quality of service.

- **Real-Time Financial Insights**

  CAs can provide clients with real-time financial insights and help them make data-driven decisions. The ability to access updated financial data on demand means that clients can stay informed about their financial health and performance throughout the year, not just during periodic audits or tax filings.

- **Efficiency and Productivity**

  The automation and integration capabilities of cloud accounting software make CAs more efficient and productive. This efficiency allows CAs to take on more clients or offer additional services without a corresponding increase in workload, ultimately improving their revenue and profitability.

- **Opportunities for Specialization**

  As cloud accounting continues to evolve, it offers opportunities for CAs to specialize in specific industries or niches. By becoming experts in certain software platforms or industry-specific compliance requirements, CAs can differentiate themselves and attract clients seeking specialized knowledge.

- **Skill Enhancement**

  CAs are adapting to the changing landscape by enhancing their technological skills. They are becoming proficient in using cloud accounting software, data analytics tools, and other digital solutions. This skill enhancement ensures that CAs remain relevant and competitive in the evolving accounting profession.

Conclusion

In conclusion, cloud accounting is a transformative force in the Indian accounting landscape, and CAs who harness its potential are well-positioned to thrive in the evolving profession. As the technology continues to advance and as more businesses recognize its benefits, the cloud will undoubtedly play a central role in the future of accounting in India.

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System, Data, and AI: The Future of Audit!

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With the exponential growth of technology, there has been a paradigm shift in the way of doing business. 'System', 'Data', and 'AI' have become buzzwords, attracting the attention of people everywhere. It has become an important part of every business model. Without it, developing a multinational company could not be imagined today. To audit such a business, which produces enormous data, appeals to new generation auditors to use the latest technologies like Artificial Intelligence, CA GPT, ChatGPT, Machine learning, Natural Language Processing, predictive analysis, and others. These tools enable new-generation auditors to concentrate more on high-risk areas and also provide an analysis of the overall performance of a business by utilizing historical data and industry benchmarks.

Today's era, the 21st century, has evolved with major changes in the way we deal with any issue. In traditional era, the use of mobile technology and chips were nonexistent, which meant that sending a message across long distances took hours or days. In the new era, this can be done within a fraction of second. It is rightly said that the world has now become a small village, with no boundaries to access and apply information beyond physical borders. Technologies have made wide changes in our living standards. From reaching to Moon by ISRO Chandrayaan-3 across space to rejuvenating dead heart with artificial pacemakers that acts in a similar way as natural pacemakers in the heart, technological advancements are transforming our world. Apart from these technologies, we have now Artificial Intelligence backed with Data and System. Data was there earlier as well, and audit revolves around analyzing them through the application of Standards on Auditing thereby identifying audit evidence to express the auditor's opinion in an Independent Auditor's Report. But in the present scenario, the volume and frequency of data production have increased multifold compared to earlier times, marking a paradigm shift in the way business is conducted.

System and DATA

As defined in Cambridge Dictionary, a System concerning technology means *"a set of computer equipment and programs used together for a particular purpose"*. In layman's language, it may be something organized in a manner to perform a task.

Data is the information produced by the system that can be used to make various decisions. This data has been stored for decades,

and the rate at which data is generated has been accelerated producing a large volume of data that requires new technology to derive its usefulness. Now, such data is called big data. They may be in heterogeneous format, unstructured or structured whose analysis through traditional tools is cumbersome.

Risk assessment using predictive Analysis, pattern recognition, real-time risk monitoring, scenario analysis, comparison, and benchmarking would enhance the efficiency as well as the quality of the Audit.

As Gartner defined it in 2001: "Big data is data that contains greater variety arriving in increasing volumes and with ever-higher velocity." Big data is impacting every aspect of accounting, auditing, taxation, and advisory services. Therefore, the world is looking towards Artificial Intelligence (AI), which is the science of making such machines that have more or less similar thinking capacity as that of human beings and able to comprehend big data more effectively and efficiently.

DATA and Audit

Audit is defined as an independent examination of records so that audit evidence can be obtained to express an opinion on such records as to whether they are free from material misstatements caused due to fraud or error. It involves the application of standards on auditing which requires audit planning and execution, understanding of the entity, risk assessment and responses to risk, audit sampling, defining materiality, checking of internal controls, identifying material misstatements, collection of sufficient and appropriate audit evidence, communicating with those charged with governance and management and finally presenting audit report. The detailed procedure as to how audits are conducted along with guidelines for complex scenarios has been covered under Standards on Auditing (SAs). In addition to SAs, reference to various applicable laws, accounting standards, and other related laws helps auditor to conclude a true and fair view of financial statements through their opinion. This defines the procedure of audit, yet the reliance or completeness of audit depends upon the data or information that is provided by management and it indirectly relates to how management is handling such data and their internal control to generate/process them. If such data/information is not made available to the auditor, he will not be able to collect sufficient and appropriate audit evidence, which may cause him to express a Disclaimer Opinion in the Audit Report. This shows dependency on the system and data for audit. Now, the discussion point is how the system is linked with audit and how this would lead audit to the Next generation.

Understanding the Business Environment

In today's world, the majority of the organization, be it in the industry of information technology, health sector, educational sector, agro-based industry, hospitability industry, automobile industry, telecom sector, metal industry, chemical industry, etc., their dependency on information system has been extended to 95%-99%. Right from customer acquisition, receiving their orders, to order processing and receiving payment, everything is done through digital methods. Now, the website has become a modern shop as seen in the case of e-commerce operators. In the health sector, the billing of a customer is done through ERP which allocates specific doctors according to their availability and fixes their appointment online or through physical mode. Lots of machinery used in various operations at hospitals

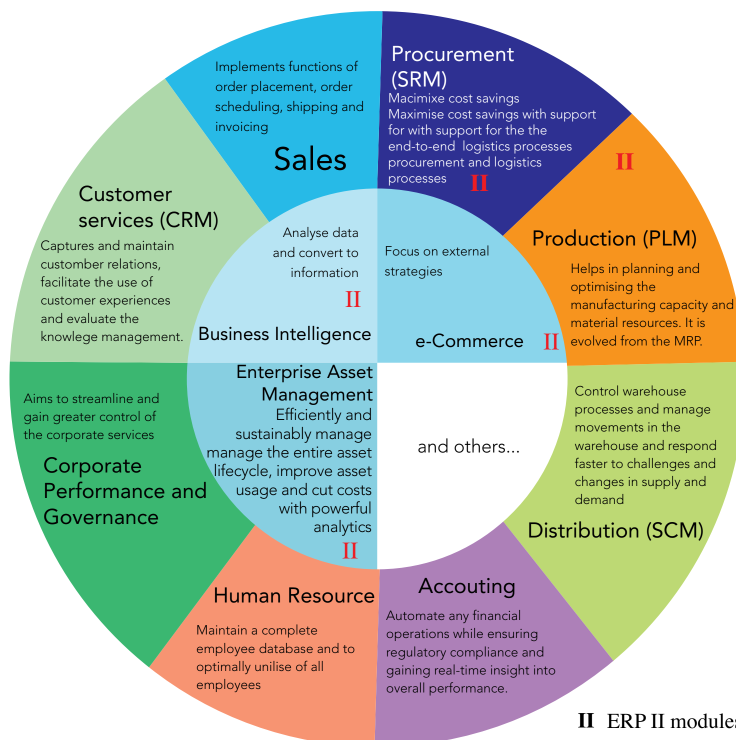

Figure: ERP Modules (Wikipedia Contributors, 2019)

are also examples of the usage of the technology. In normal retail business, the use of bar-code scanners, use of RFID technology for inventory control is linked directly with ERP and accounting systems. In small-to-small organizations, digitization has now become a trend. Dependency on the system surges exponentially more than ever in this era. The following image defines how ERP has been the heartline of every business, integrating the whole business through its various modules.

The paradigm shift from auditing historical data to auditing algorithms and data used to train a developed model is the current demand of the Auditing profession.

With increased dependency on the system, imagining a world without them is now just like imagining life without water. In case an ERP system in a business like the railway reservation system fails for a day, could it be imagined how real-time tracking of ongoing railways be done, how web-based ticketing be done, how the number of occupied seats and the vacant seats will be determined, how trains on rail be monitored for lines availability, how catering facility be done from various parts of India to specific PNR no., how rail traffics be controlled, how confirmation on wait list tickets be generated, and many other instances. So, it would be difficult to imagine a day in business without the system. In the worst scenario, if a business had to manage everything manually due to system failure, it would be challenging to resource inputs, advertise the products, get the customers, communicate across states, etc. It might be possible for very small retail shops to serve locally, however use of digital means for communication would still exist there. So, the system is everything in today's business.

Audit in Next-Generation

Auditing involves an examination of the data produced in financial statements on which reliance is drawn through the understanding of how data are being generated, stored, maintained, and accessed in a system. To perform an audit traditionally would require huge time and resources because now the transactions are not limited to thousands per year, as many organizations dealing in various states and countries, are generating thousands of transactions in a day which amounts to a large volume of the transactions by end of the year. Determining the authenticity, accuracy, and completeness of each transaction would be quite cumbersome for auditors as well. Checking assertions for every line item in financial statements like revenue, expenses, assets and liabilities, and risk assessment requires system and data evaluation.

Audit Planning and RISK Assessment

Innovation in business fueled with AI is a new era evolving exponentially. To audit such a business environment, Audit planning winged with technology would enable an Auditor for successful risk assessment. This, thus, demands redesigning the Audit planning process along with risk assessment augmented with technology which not only makes Audit more accurate but also increases the depth of perception of any business.

Audit planning armed with risk assessment always marks historical data by application of professional skepticism. With AI in business, the way business responds to external environment and internal environment changes. There is no doubt that every business produces enormous data which need to be audited annually. Analyzing such enormous data with AI is a need of the hour that would vouch for transactions accurately and quickly along with forecasting of the possible risk areas.

Risk assessment using predictive analysis, pattern recognition, real-time risk monitoring, scenario analysis, comparison, and benchmarking would enhance the efficiency as well as the quality of the audit. Auditors may use predictive analysis to assess future business risks by considering market conditions and comparing financial records with those of other benchmarked companies. Scenario analysis may be used to forecast a company's situation at various sector-specific scenarios and draw out specific conclusions.

Testing of Controls

Test of controls is a very crucial step in an audit process. Within an automated environment where human intervention is minimal, testing controls in a business environment demand the usage of similar tools. The future of audit lies in understanding how automation is working, or the algorithm being used in Automated machines to perform the specific task. The paradigm shift from auditing historical data to auditing algorithms and data used to train a developed model is the current demand of the Auditing profession. However, in an automated structure, validating controls through the segregation of duties is difficult. Therefore, understanding algorithms and the master data built into an automated system is the best way to check the controls over the data produced and used by management.

AI enables continuous testing of controls giving real-time protection and thereby allowing monitoring of controls and taking immediate actions for any failure or potential risks.

Use of innovative tools

Expanding data sample size by the usage of AI automated technology would be an easier task that would draw up the trend analysis and peer benchmarking. This enables an easy understanding of overall control in a business. Natural Language Processing (NLP) is the technology developed to even extract content from the unstructured data like finance, contracts, loan documents, and agreements, thereby making time in between for Auditors to delve deeper into complex issues and analysis strategically.

The use of AI algorithms improve the trust in the audit result which checks out control in a business by generating test cases that differ from business to business and are purely based on the specific business requirements and risks associated with it.

Other tools that may be inculcated in the audit process include ChatGPT, ICAI developed CA GPT, Machine learning, predictive analysis, etc.

Paradigm Shift in Audit

If the abovementioned tools are used for the purpose of audit, AI may be the cause of making a paradigm shift in Audit. Starting from gathering of test data and information in an Audit, AI steps in for automatic gathering of information through ERP and other ancillary accounting systems (payment approval system, POS, etc.) and also, from the unstructured contents through the NLP technique. Using AI, it would be an easy to prioritize high-risk areas first, as regular journal testing could be performed at a very early stage. Converting year-end full audits to continuous audits using AI through data collection, verification, and analysis on real-time basis would enable the auditor to detect issues promptly.

Need of New-Generation Auditors

It is a need of time to extend the audit procedure to the next-generation by introducing mandatory usage of AI tools which analyze data quickly and accurately. Going through the masters of each system through the use of a super user ID is recommended rather than checking the automated transaction. Because the system is now a new world of accounts, a new world for audit should also start from scrutinizing their system policy and understanding internal control concerning the usage of the system through the usage of AI tools. Cross-checking of each transaction from a third party through the usage of blockchain technology would make audit more fruitful, once adopted. Thus, new-generation auditors should use Blockchain Technology as well. They need to change their reactive perspective to a proactive perspective through continuous auditing. Using drones loaded with AI for the physical verification of assets would enable stock counting quickly and accurately.

Conclusion and Recommendations

The future of audit lies with the usage of AI in Audits by new-generation Auditors. Apart from usual procedures, new-generation Auditors need to focus on new techniques like Predictive analysis. Natural Language Processing, Machine Learning, etc. Such AI tools would reflect the performance of a business very quickly as compared to traditional methods. They would provide a brief comparison of the performance of an entity along with horizontal analysis, vertical analysis, comparison with industry benchmarks, trend analysis, and how the industry is performing in the same sector. This would enable Auditors to focus more on high-risk areas and gain an understanding of the entity more quickly and accurately. Access control, security, confidentiality, integrity, and availability of data are very important to conclude a quality audit. Audit risk may be lowered by performing 100% checking using AI to check the financial statements on a continuous basis. Thus, it can be said that this is a need of time for professionals to adopt new technology inorder to perform their audit and assurance activities.

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Right to Privacy of Personal Digital Data-Historical Perspective and Legislative Framework

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The objective of this article is to delve into the roots of the right to privacy of a citizen in the Constitution of India and also intends to provide an overview of the provisions of the Digital Personal Data Protection Act, 2023 and its necessity in this digital era and ever-evolving technology that affects every sphere of our lives. Enacted by the Parliament to safeguard the essence of privacy, this legislation represents a crucial step in the protection of personal data in the digital era.

Introduction

India's population is more than 1.42 billion, with around 700 million internet users. The ubiquity of smartphones is evident. Earlier, a single phone sufficed for an entire society or building, but now, nearly every individual possesses a personal device. As of 2024, an estimated 4.88 billion people worldwide use smartphones. In this digital age, data has become the lifeblood of society, and protecting personal data has emerged as a paramount concern.

Digitalization of data is not a nascent phenomenon but one that is expanding exponentially. In this context, ensuring the safety and security of personal digital data is essential.

To understand what we are protecting, let's look at two important definitions from the Digital Personal Data Protection Act, 2023 [DPDP Act]:

- ***"Data"*** *refers to a representation of information, facts, concepts, opinions or instructions in a manner suitable for communication, interpretation, or processing by humans or automated means. [Section 2(h) of the DPDP Act].*
- ***"Digital personal data"*** *means personal data in digital form. [Section 2(n) of the DPDP Act].*

While the term *"digital form"* is not explicitly defined in the act, it generally refers to paperless items stored in a format suitable for digitalization. For instance, a Service Contract entered into and signed between a service provider, say a Chartered Accountant, and a client, and stored as physical form contains information and facts pertaining to two entities. If this Service Contract is scanned and converted into a digital file, it becomes a digital form and comes under the preview of 'Digital Personal Data' as defined in section 2(n) of the DPDP Act.

Necessity of Legislative action for Data Protection

We live in a world where data is new oxygen in digital form and we need to protect it. The transition from physical to digital data storage has occurred rapidly.

While digitalization is a necessity for an individual and disclosure of personal data, many a times, is a compulsion; the need of the hour is to protect this personal data from any unauthorized use with a legal framework for the following two reasons.

Data and digitalization have impacted many sectors, with social media and AI at the forefront. Generative AI, for instance, automates repetitive tasks by processing data from open sources.

- **Digitalization is now way of life and business**

  The revolution of banking system in India, the introduction of the Aadhar card, and the mobile revolution have significantly transformed India into a paperless, cashless, and faceless society. From the GST registration process to income tax scrutiny, faceless systems have been introduced. The Pradhan Mantri Jan-Dhan Yojana aims to provide financial services to the unbanked population of India. Launched in 2015, the Digital India Flagship Program aimed to connect rural areas with high-speed internet and provide digital literacy. We've transitioned from carrying cash in our wallets to hearing the ubiquitous "UPI KARO" when making purchases, showcasing the growth of UPI in India.

- **Digitalization intrudes privacy**

  Data and digitalization have impacted many sectors, with social media and AI at the forefront. Generative AI, for instance, automates repetitive tasks by processing data from open sources. For example, uploading a PDF to ChatGPT, like a balance sheet, allows it to analyze the document, and also raises questions about data security. Major social media platforms facilitate the easy transfer of personal data, and so it is crucial to ensure that these platforms secure our data.

When we upload something to social media, we have the right to delete it completely from the servers where this data is stored. Social media platforms capture personal data such as age, interests, personal pictures, and lifestyle, which have become valuable business assets. Ever wondered why you receive random calls for loans or see pizza advertisements after merely discussing about it? This is how personal data is utilized.

With personal data processed by AI algorithms, we receive personalized content and messages. All this data, whether picture-based, video, or audio, requires storage centers. Privacy checks are essential when these data centers are leased or rented.

Data collected from various platforms or events is processed using data science and data mining techniques to derive information. Many people underestimate the importance of their data, believing it to be insignificant. However, certain private data, such as personal finance or health information, is highly confidential. A leak of such information can benefit competitors, leading to significant business losses.

We share personal information at various places daily, such as providing contact details at a restaurant for a discount. The purpose of data collection might extend beyond the stated discount, potentially including the collection of personal information. For instance, filling out a feedback form with your birthdate might lead to receiving discount messages or offers if the data is sold to other agencies.

In various sectors, the protection of personal data is crucial for maintaining privacy. Sensitive information, such as a hospital visit or legal consultation, must remain confidential. However, data breaches are increasingly common, affecting sectors from healthcare to finance. Notable breaches that have been noticed including the exposure of 1.5 million customers' data over e-commerce platform (2023), the leakage of 20 million user details under educational sector (2020), and the banking data breach (2019) that revealed customer bank information. These incidents highlight the urgent need for robust data protection measures.

Many people use passwords that may be guessed easily such as date of birth, registration number of vehicle, etc., are vulnerable to theft. Protecting personal data is essential to prevent illegal activities or misuse of information, such as using your birthdate as a credit card password.

We will now discuss the constitutional roots of the right to privacy in India.

Roots of Right to Privacy in the Constitution of India

Privacy is a basic human right that must be unconditionally protected. Historically, the right to privacy was not explicitly stated as a Fundamental Right under Part III of the Indian Constitution.

In simple terms, it is a human right enjoyed by every individual, encompassing bodily integrity, personal autonomy, informational self-determination, protection from state surveillance, dignity, and confidentiality. The right to privacy depends on the context- what one person considers private may not be private for another.

The Constitution of India does not specifically guarantee a right to privacy. However, through various judgments, the courts have interpreted other constitutional rights to encompass a limited right to privacy, primarily through Article 21 – the right to life and liberty. The Honorable Supreme Court of India in the landmark K.S. Puttaswamy's case upheld the right to privacy. This historical judgment is discussed in the foregoing part of this article.

Legislative Attempts so far and the sufficiency thereof

Before the enactment of the Digital Personal Data Protection Act, 2023, there were no comprehensive legal provisions for safeguarding personal data in India. It was only Section 43A of the Information Technology Act, 2000, which dealt with data protection and compensation, but it had a limited scope. It focused on entities engaged in commercial or professional activities only. This section provided that a body corporate would be liable to pay damages by way of compensation if it fails to implement and maintain reasonable security practices and procedures, causing wrongful loss or gain to any person. Likewise, prior to the enactment of the Digital Personal Data Protection Act 2023, there was Rule 3 of Information Technology (Reasonable Security Practices And Procedures & Sensitive Personal Data Or Information) Rules, 2011, which defined sensitive personal data or information of a person as such personal information which consists of information relating to (i) password, (ii) financial information such as Bank account or credit card or debit card or other payment instrument details, (iii) physical, physiological, and mental health condition, (iv) sexual orientation, (v) medical records and history; (vi) Biometric information, (vii) any detail relating to the above clauses as provided to body corporate for providing service and (viii) any of the information received under above clauses by body corporate for processing, stored or processed under lawful contract or otherwise. It is to be noted that as per this rule any information that was freely available or accessible in the public domain or furnished under the Right to Information Act, 2005 or any other law for the time being in force was not regarded as sensitive personal data or information for the purposes of these rules. Vide Section 44(2) of the DPDP Act, 2023, Section 43A (under which these rules were issued) have been omitted from the Information Technology Act, 2000.

Apex Court's Rulings on Right to Privacy

Honorable Apex Court on occasions ruled in:

1. Kharak Singh vs State of UP (1962, AIR 1963 SC 1295) that the right to privacy is not a guaranteed right under the Constitution.
2. Gobind vs State of MP & ANR (1975, 1975 SCC (2) 148) that the right to privacy must yield to larger state interests.
3. PUCL vs Union of India (1997) that in cases concerning telephone tapping, individuals have a privacy interest in the content of their telephone communications.

Insufficiency of the legal framework, limited scope of existing rules, and need for stricter regulations

Primarily enacted to provide legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication, commonly referred to as electronic commerce, the Information Technology Act, 2000 and rules like Information Technology (Reasonable Security Practices And Procedures And Sensitive Personal Data or Information) Rules, 2011, thereunder simultaneously played vital role for a certain period of time since their introduction for protection of certain data, but rapid technological advancements and increasing reliance on digital platforms has necessitated broader protections.

Further, these rules primarily safeguarded "sensitive personal data" but did not cover all personal data stored digitally, such as emails and other communications.

Also, as more business and social activities have shifted online, the need for comprehensive digital data protection has grown. Social media platforms, using algorithms and big data, can predict user behavior and preferences, showing targeted ads based on browser history. This underscores the need for stricter data protection regulations to prevent misuse and ensure privacy. The way we communicate, and conduct business as well as personal transactions, invites robust data protection measures to secure personal information in the digital age. The necessity to clearly define and strictly enforce data collection, consent mechanisms, and usage purposes was felt by the Government of India.

As more business and social activities have shifted online, the need for comprehensive digital data protection has grown. Social media platforms, using algorithms and big data, can predict user behavior and preferences, showing targeted ads based on browser history.

Regarding evolution in law from a historical perspective; the authors invite your attention to the important Puttaswamy's judgment by the honorable Apex Court and various initiatives taken for setting legal framework in this regard from time to time.

July 2017- Formation of Justice B.N. Srikrishna Committee and recommendations

In July 31, 2017, the Government of India set up a Committee of Experts to study various issues relating to data protection in India, to make specific suggestions on principles underlying a data protection bill, and to draft such a bill. The objective was to ensure the growth of the digital economy while keeping the personal data of citizens secure and protected. The Government of India was conscious that while data science and mining have positive applications, there are significant concerns about the misuse of personal data. Key Recommendations of this committee were:

- The law should apply to the processing of personal data that is used, shared, disclosed, collected, or otherwise processed in India. It should also cover processing by fiduciaries outside India if their business is carried out in India.
- The implementation of the law should be phased, without retrospective application, covering both public and private entities.
- Consent should be unconditional, with a modified consent framework.
- There should be mechanisms for child consent and guardian data fiduciaries.
- Principles of collection and purpose limitation should apply to all data fiduciaries unless specifically exempted.
- The committee recommended rights for data principals and provisions for the transfer of personal data outside India.
- In case of inconsistency between the data protection law and existing legislation, the former will prevail.
- Minor amendments are needed in Section 43A of the IT Act and the SPD rules.
- Exemptions are recommended for:
  - i. Security of the State,
  - ii. Prevention, Detection, Investigation, and Prosecution of Contraventions of Law,
  - iii. Disclosure for Legal Proceedings,
  - iv. Research Activities,
  - v. Personal or Domestic Purposes,
  - vi. Journalistic Activities,
  - vii. Manual Processing by Small Entities.
- Penalties could be up to a fixed upper limit or a percentage of the total worldwide turnover of the preceding financial year, whichever is higher.

Important Puttaswamy's Judgment by the Honorable Apex Court

In a historical case of Justice K.S. Puttaswamy & Another vs. Union of India and Others [(2017) 10 SCC 1] a nine-

judges Constitution Bench of the honorable Supreme Court on 24th August 2017 gave a landmark decision on the Right to Privacy wherein it was unanimously declared that privacy is a fundamental right, protected as an intrinsic part of the right to life and personal liberty under Part III of the Constitution. The matter was such that Justice Puttaswamy's, in his petition, challenged the constitutional validity of the Aadhar scheme under which the Aadhar Number, a 12-digit identification number issued by the UIDAI, was linked with several welfare schemes to streamline service delivery and eliminate false beneficiaries. Key Conclusions that may be derived from this judgment are:

- Privacy is a fundamental right. It has always been considered a natural right, inseparable from human personality.
- The right to privacy encompasses: i) Intrusion into an individual's physical body, ii) Informational privacy, and iii) Privacy of choice.

This historical judgment recognized informational privacy as part of the right to privacy and left the task of legislating data protection law to the Parliament, which would protect data processed by both public and private entities.

August 2023- Enactment of Digital Personal Data Protection Act, 2023 – a Brief Overview

A bill, recognizing the rights of individuals to protect their personal data while allowing for lawful processing, was passed by the Rajya Sabha on August 9, 2023. President Draupadi Murmu gave assent to the Digital Personal Data Protection Bill, 2023, making it the Digital Personal Data Protection Act, 2023, on August 11, 2023.

The DPDP Act, spanning 21 pages, includes hefty penalties, up to ₹250 crore, for non-compliance. Key Provisions of the DPDP Act are:

- Applicability (Section 3 of the DPDP Act):
  - i. To the processing of digital personal data within India, whether collected in digital form or digitized subsequently.
  - ii. To processing of digital personal data outside India if connected to offering goods or services to data principals in India.
- The Act does not apply to publicly posted social media content.
- Data collectors must notify individuals about the purpose of data collection, and the data should not be used beyond that purpose.
- If personal data is already held by an organization, it must notify individuals as soon as practicable.
- Unnecessary access to contacts by websites or apps should not be requested.
- Consent forms cannot include conditions waiving the right to complain.
- Data shared for a specific purpose should be used only for that purpose.
- Retention of data must comply with other applicable laws, such as those requiring banks to maintain client identity records for ten years beyond account closure.

Conclusion

This Act is to provide for the processing of digital personal data in a manner that recognizes both the right of individuals to protect their personal data and the need to process such personal data for lawful purposes. For the organization holding the data, a specified breach of the law may invite huge financial penalties. For the individual to whom the personal data relates, there will be legal obligations like not to impersonate another person while providing her personal data for a specified purpose; to ensure not to suppress any material information while providing her personal data for any document, and to furnish only such information as is verifiably authentic, while exercising the right to correction or erasure. Strict compliance will be required in all across when personal information is stored digitally. While the Act is in place, its rules are still awaited, when issued, the effective implementation will be a priority, let us see how!

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SEBI aims to empower REIT investors with the launch of Data Benchmarking Institutions

Access to data will be a pioneering initiative to enhance transparency and reliability in Real Estate Investment Trusts (REITs), SEBI whole-time member Ashwani Bhatia said while launching three Data Benchmarking Institutions (DBI). The three platforms have been developed by CAMS, CARE Edge, and KFin Tech under the guidance of the Securities and Exchange Board of India (SEBI).

Through the DBIs, investors can access information on performance of REITs, operation metrics, valuation standards and disclosures. The SEBI member also highlighted that the initiative could play an important role in facilitating smaller investments in REITs, allowing investors to participate with as little as Rs 10 lakh.

MCA grants five year dematerialisation breather for producer companies

In a significant move, the Corporate Affairs Ministry (MCA) has granted relief for "producer companies", extending the compliance window on mandatory dematerialisation of their existing shares. Producer companies, who were earlier required to complete dematerialisation of their shares by September 30, 2024, have now been given time till end March 2028 to achieve full compliance.

In October last year, MCA had mandated that all private companies (other than small companies) will have to dematerialise existing shares by end September 2024. Also the private companies were mandated to issue new securities only in dematerialised form.

Government extends virtual AGM, EGM facility for Companies till September 2025

The Ministry of Corporate Affairs (MCA) has permitted companies to hold their Annual General Meetings (AGMs) and extraordinary general meetings through videoconferences or other audiovisual means for one more year till September 2025.

In a circular, the ministry also said that companies are allowed to transact stipulated items through postal ballots until next September.

Internship Scheme: Govt to list out 500 companies based on CSR spend

The Ministry of Corporate Affairs (MCA) is likely to bring out a list of 500 companies that can participate in the Centre's internship scheme, based on the average annual Corporate Social Responsibility (CSR) expenditure of the previous three years, according to people in the know. The scheme was announced by Union Finance Minister Nirmala Sitharaman during the Budget 2024-25. The MCA will operationalise the internship scheme portal by the end of this month, when the companies would submit the details of the internship positions available with them, sources said. Applications for the scheme will go through the online portal.

MCA gives fillip to reverse flipping, clears air on compliance framework

The Ministry of Corporate Affairs (MCA) has formally opened the doors for the "reverse flipping" of companies into India by clarifying the compliance requirements that would apply for such structures going forward. Both companies would have to obtain prior approval from Reserve Bank of India; the transferee company will have to comply with provisions of Section 233 of the Companies Act and an application has to be made to the Central government under the same section.

Reverse flipping of companies refers to the process in which a company, particularly a start-up, that had earlier shifted its domicile overseas (often to countries like the US or Singapore) returns to its home country, usually to take advantage of local regulatory, tax, or investment benefits.

RBI tells banks to take legal recourse in standoff with CBI

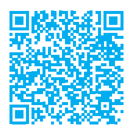
The Reserve Bank of India has advised banks to seek legal remedies in disputes with the CBI over fraud cases. This follow the Supreme Court's ruling that borrowers must be given a hearing before being classified as fraud. Banks argue this ruling should not apply retrospectively, while the CBI seeks clarity from the Supreme Court. The RBI's advice was in response to the CBI returning complaints filed by some banks to probe accounts tagged as fraud and where they have already filed an FIR (First Information Report).

Nirmala Sitharaman urges banks to leverage UPI for growth

Finance Minister Nirmala Sitharaman has urged banks to utilise digital footprints generated by UPI to expand their balance sheets. She made these remarks during a Bank of Maharashtra event. Launched in 2016, UPI has significantly transformed retail digital payments in India. According to Sitharaman, 45% of global real-time digital payments are conducted in India. Sitharaman emphasized the importance of technology adoption by banks for risk mitigation, improved customer service, credit assessment, and fraud detection.

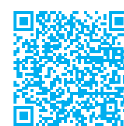
IASB launches review of the Statement of Cash Flows

The International Accounting Standards Board (IASB) has announced the start of a research project to review and improve the requirements for the statement of cash flows and related matters in IFRS Accounting Standards. The IASB will now conduct its initial research, including meetings with stakeholders and review of existing studies, to gather evidence on the nature and extent of perceived deficiencies in current reporting and the likely benefits of developing new financial reporting requirements. The IASB plans to discuss the initial research outcomes and determine the next steps for this project in the first quarter of 2025.



IASB proposes improvements to the equity method

The International Accounting Standards Board (IASB) has announced a public consultation on proposed amendments aimed at helping companies to account for their investments in associates and joint ventures. The proposals respond to stakeholders' questions on how to apply the equity method. IAS 28 Investments in Associates and Joint Ventures sets out how companies report on these investments applying the equity method. The IASB invites stakeholders to provide feedback on the proposed amendments. The comment period is open until 20th January 2025.



OECD and UN announce next steps in collaboration on Artificial Intelligence (AI)

Meeting on the margins of the Summit of the Future at United Nations (UN) headquarters in New York, Deputy Secretary-General of the Organisation for Economic Co-operation and Development (OECD) Ulrik Vestergaard Knudsen and the UN Secretary-General's Envoy on Technology, Under-Secretary-General Amandeep Singh Gill, announced a new enhanced collaboration between the UN and the OECD on global AI governance.

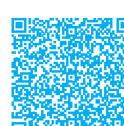
UN-OECD collaboration will focus on regular science and evidence-based AI risk and opportunity assessments. The two organisations will leverage their respective networks, convening platforms and ongoing work on AI policy and governance to support their member States and other stakeholders in their efforts to foster a globally inclusive approach.

New treaty advances Pillar Two global minimum tax Subject to Tax Rule designed to protect tax bases in developing countries

The international community took another concrete step today towards ensuring fairer and better international tax arrangements, in particular for developing countries, by further strengthening global minimum taxation with the implementation of the new Pillar Two Subject to Tax Rule.

Nine jurisdictions signed a new multilateral treaty that will allow early adopters to swiftly implement the new Pillar Two Subject to Tax Rule.

The Subject to Tax Rule ensures a minimum level of taxation on relevant cross-border payments and is designed to prevent circumstances where income is either taxed at very low rates or not taxed at all due to differences in tax regimes between countries.



The dynamic global economic landscape requires Chartered Accountants to be not only endowed with relevant skills and expertise, but also to comply constantly with the ethical requirements. The Code of Ethics issued by the Institute of Chartered Accountants of India lays down stringent norms of right conduct for the members of the Institute. Towards achieving this objective, there are certain norms of self-discipline which form part of ethical standards.

This series of Know Your Ethics covers the FAQs relating to such self-regulatory measures which Chartered Accountants should keep in mind while carrying out their professional engagements.

Know Your Client (KYC) Norms

Q Whether there are any Know Your Client (KYC) Norms to be followed by members in practice?

Yes, members in practice are required to follow Know Your Client (KYC) Norms, which are mandatory w.e.f. 1.1.2017. These are applicable for all attest functions.

"Attest Functions" for this purpose include services pertaining to Audit, Review, Agreed upon Procedures, and Compilation of Financial Statements.

The KYC Norms may be assessed in Paragraph R320.3 A6 of Volume-I of the Code of Ethics.

The norms read with provisions on Client and Engagement acceptance provide appropriate safeguards to address threats to compliance with the principles of integrity or professional behaviour, for example, from questionable issues associated with the client (its owners, management, or activities) such as client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

Unintentional Breach

Q What course of action shall be taken by a Firm when it identifies a Breach in Audit and Review Engagements?

As per the requirement set out in paragraph R400.80 of Volume-I of Code of Ethics, subject to the eligibility requirements of the auditor mentioned under Section 141 of the Companies Act, 2013, if a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend, or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:

   (i) Comply with those requirements; and

(c) Promptly communicate the breach in accordance with its policies and procedures to:

   (i) The engagement partner;

   (ii) Those with responsibility for the policies and procedures relating to independence;

   (iii) Other relevant personnel in the firm and, where appropriate, the network; and

   (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and

(e) Depending on the significance of the breach, determine:

   (i) Whether to end the audit engagement; or

   (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

Q What course of action shall be taken by a Firm when it identifies a Breach in Assurance Engagements other than Audit and Review Engagements?

As per the requirement set out in paragraph R900.50 appearing in Volume-I of the Code of Ethics, subject to the additional restrictions under Section R900.15 of the code, if a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend, or eliminate the interest or relationship that created the breach;

(b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and

(c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third-party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.

Documentation

Q In making a decision to accept or continue with an assignment, what is the significance of documentation?

When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

Q What type of documentation should be considered by the Professional Accountants in complying with the requirements for Breach of an Independence Provision for Audit and Review Engagements as contained in Paragraphs R400.80 to R400.87?

As per the requirement set out in Paragraph R400.88 appearing in Volume-I of the Code of Ethics, in complying with the requirements in Paragraphs R400.80 to R400.87, the firm shall document:

(a) the breach;

(b) the actions taken;

(c) the key decisions made;

(d) all the matters discussed with those charged with governance; and

(e) any discussions with a professional or regulatory body or oversight authority.

Further, as per Paragraph R400.89 appearing in Volume-I of Code of Ethics, if the firm continues with the audit engagement, it shall document:

(a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

Q In relation to Responding to Non-Compliance or suspected non-compliance (NOCLAR) as per Section 260 (members in service) and Section 360 (members in practice) mentioned in Volume-I of the Code of Ethics, what steps should be taken by the Chartered Accountants with regard to the documentation?

As per the requirement set out in Paragraph R260.23 A1 appearing in Volume-I of the Code of Ethics, the senior professional accountant is encouraged to have the following matters documented in relation to non-compliance or suspected non-compliance that falls within the scope of this section:

- The matter.
- The results of discussions with the accountant's superiors, if any, and those charged with governance and other parties.
- How the accountant's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R260.17.

Further, as per requirement set out in Paragraph R360.27 appearing in Volume-I of the Code of Ethics, the professional accountant in relation to non-compliance or suspected non-compliance that falls within the scope of Section 360 shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third-party test.
- How the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R360.20.

Further, as per the requirement set out in Paragraph 360.27 A1 appearing in Volume-I of the Code of Ethics, a professional accountant performing an audit of financial statements in addition to complying with the documentation requirements under applicable auditing standards (SAs) shall ensure to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

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Opinion

Accounting Treatment of Shareholder's Loan provided to Joint Venture Company under Ind AS framework.

A. Facts of the Case

1. A Government of India Undertaking (hereinafter referred to as 'the Company'), is engaged in refining of crude oil having a refining capacity of 3.0 MMTPA. The Company is jointly owned by O Limited, Government of Assam (GoA) and E Limited. O Ltd. holds 69.63% whereas GoA and E Ltd. own 26% and 4.37% respectively. The refinery is located in the state of Assam. The capacity of the refinery is being enhanced from 3.0 MMTPA to 9.0 MMTPA.

2. The Board of Directors of the Company earlier approved shareholder's loan amounting to Rs. 654 crore to be given to its joint venture company, A Limited for the implementation of bio refinery project. A Ltd. has also obtained term loan from Punjab National Bank (PNB) amounting to Rs. 2,170 crore for financing its project cost. It may be noted that A Ltd. will produce fuel grade ethanol and other platform chemicals viz. acetic acid and furfural alcohol using bamboo as feedstock, together with bio-coal (residue of feedstock after processing) for producing power and stillages (dry basis) to be used as fertilizers. The above shareholder loan is provided under two different agreements for an amount of Rs. 261 crore and Rs. 393 crore respectively. The Company has disbursed an amount of Rs. 443.50 crore to A Ltd. in various tranches till 31st March, 2023. The salient features of both the shareholder's loan agreement are as under:

Terms	1st Loan Agreement (Rs. 261 crore)	2nd Loan Agreement (Rs. 353 crore)
Nature	Unsecured	Unsecured
Commencement Date	06th August, 2020	15th August, 2022
Repayment	At once, at the end of fifteen years from the date of agreement i.e. 05th August 2035.	At once, at the end of eleven years from Commercial operation Date (COD).
Rate of Interest	Annualised Term Loan Interest Rate of PNB + 0.85%. Shareholder's Loan interest rate shall be subject to changes in the Term Loan Interest Rate	Annualised Term Loan Interest Rate of PNB + 0.73%. Shareholder's Loan interest rate shall be subject to changes in the Term Loan Interest Rate.

Interest Accrual and Payment	Interest upto Commercial Operation Date (COD) **shall not be accrued and paid.** After COD interest will be paid out of project cash flows on yearly basis at the end of every financial year till repayment of the loan.	Interest upto Commercial Operation Date (COD) **shall not be accrued and paid.** After COD interest will be paid out of project cash flows on yearly basis at the end of every financial year till repayment of the loan.

Note: Premium over Annualised Term Loan interest rate is subject to revision till actual COD of the project which has not yet started.

3. *Accounting treatment applied by the Company:*

Since shareholder's loan is a financial asset for the Company as there is a contractual right to receive cash from another entity, provisions of Ind AS 109, 'Financial Instruments' were applied to accounting for the shareholder's loan in financial books of the Company.

As per paragraph B5.1.1 of Ind AS 109, fair value of a financial instrument at the time of initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating.

As per paragraph B5.1.2, If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognises the loan at its fair value, i.e. net of the fee it receives.

Further, as per paragraph B4 of Ind AS 113, 'Fair Value Measurement', the transaction price might not represent the fair value of an asset or a liability at initial recognition if the transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

Considering the above provisions of Ind AS, shareholder's loan should initially be recognised at fair value. In the instant case, transaction price is not the fair value as the shareholder's loan agreement includes interest holiday during construction period which is generally not offered by financial institutions to its borrowers and hence, the instrument needs to be fair valued based on market observable data, i.e., interest rate for a 15 year loan (since loan is repayable after 15 years) (Refer paragraph B5.1.2A of Ind AS 109). Subsequently, financial asset would be measured at amortised cost using interest rate used for fair valuation for the total receipt in the form of interest during the tenure of loan and discount it to derive the effective rate of interest and interest accrual is made accordingly.

Based on the above, the Company calculated the fair value (Rs. 400.54 crore) of loan disbursed (Rs. 443.50 crore) till 31st March 2023 as mentioned above resulting into difference between fair value and transaction value (Rs. 42.96 crore). The fair value of the loan (Rs. 400.54 crore) has been presented as financial asset and difference between the transaction value and the fair value has been presented as 'Investment in Joint Venture'. Fair value of the loan has been worked out by considering discount rate based on annualised term loan interest rate plus premium (considered to be the market rate).

Interest on loan (Rs. 39.34 crore) upto 31st March, 2023 has been calculated considering fair value of the loan from the date of disbursement. The interest income is reflected as 'Other non-operating income' under the head 'Other Income' in the Statement of Profit and Loss of the Company with corresponding addition to financial asset and added to the loan value. (Sample calculation for one tranche has been supplied by the querist for the perusal of the Committee).

4. During supplementary audit of the financial statements for financial year (F.Y.) 2022-23, the Comptroller and Auditor General of India (CAG) has raised observation in regard to recognition of interest income on shareholder's loan by the Company as under:

Balance Sheet

Non-current assets

(g) Financial Assets (ii) Loans (Note No. 8) Rs. 491.90 crore

Statement of Profit and Loss for the year ended 31st March 2023

Other Expenses (Note No. 42) - Provision for Doubtful debts,

Advances and claims Nil

Profit before Tax for the year: Rs. 4,953.23 crore

'Non-current financial assets - Loan' includes Rs. 39.34 crore (Rs. 34.15 crore for the financial year 2022-23 and Rs. 5.19 crore for the financial year 2021-22) as interest receivable on Shareholders' loan given to M/s A Ltd., a joint venture of the Company.

According to the clause 4 (c) of the Shareholder's Loan Agreement (August 2020), up to Commercial Operation Date (COD) of the bio-refinery, interest shall not be accrued and paid for the Shareholder's Loan. After COD, interest would accrue and be paid on yearly basis, till the repayment of the outstanding Shareholder's Loan. It was further observed that M/s A Ltd. has not yet (June 2023) declared COD as the overall physical progress of the Project was only 85% (as on 15th May, 2023).

Thus, in view of the clause 4 (c) of the Shareholder's Loan Agreement, the Company would not be able to recover Rs. 39.34 crore from M/s A Ltd., as interest is not accruable upto the date of COD. Accordingly, a suitable provision should be made in the books of the Company to cover the same.

Thus, non-provision of this non realisable interest income from the joint venture company (M/s A Ltd.) has resulted in understatement of 'Other Expenses – Provision for Doubtful debts, Advance and Claims' by Rs. 39.34 crore and overstatement of 'Profit before Tax for the year' and 'Non-current financial assets -Loan' by Rs. 39.34 crore each.

5. To the above observation, management of the Company submitted the reply as under:

The Company has provided shareholder's loan to its joint venture company A Limited for implementation of bio refinery project. As per the provision of shareholder's loan agreement, the loan is repayable after 15 years from the date of the agreement. The agreement also states that interest on loan will be accrued and paid from the date of commencement of commercial operation (COD). The Company has disbursed an amount of Rs. 443.50 crore to A Ltd. in various tranches till 31st March, 2023. It may be noted that irrespective of whether interest is accrued or not as per the provisions of agreement, interest accrual has to be made as per the provision of Ind AS 109, 'Financial Instruments'.

Shareholder's loan and interest accrued thereon is a financial asset as there is a contractual right to receive cash from another entity as per provisions of Ind AS 109 and should initially be recognised at fair value (paragraph 5.1.1 of Ind AS 109).

In the instant case, transaction price is not the fair value as the shareholder's loan agreement includes interest holiday during construction period which is not offered by financial institutions to its borrowers and hence the instrument needs to be fair valued based on market observable data i.e. interest rate for a 15 year loan (since loan is repayable after 15 years) (Ref: paragraph B5.1.2A of Ind AS 109). Subsequently, financial asset would be measured at amortised cost using interest rate used for fair valuation for the total receipt in the form of interest during the tenure of loan and discount it to derive the effective rate of interest and interest accrual is made accordingly.

Based on the above, the Company has calculated fair value (Rs. 400.54 crore) of loan disbursed (Rs. 443.50 crore) resulting into difference between fair value and transaction value (Rs. 42.96 crore).

The fair value of loan disbursed has been presented as financial asset in the Company's balance sheet (Reference Note No. 8) and difference between the present value and transaction value is presented under Investment in joint venture (Reference Note No. 7).

Interest on loan (Rs. 39.34 crore) upto 31st March, 2023 has been calculated considering the fair value of loan from the date of disbursement. The amount is reflected as financial asset in the Company's balance sheet as loan to joint venture (Reference Note No. 8). The interest income for the year is accounted as other non-operating income under the head 'Other Income' (Reference Note No. 36).

As regards audit observation on creation of provision towards accrual of interest upto the period of COD, the Company is of the view that same is not required since the entire loan amount and interest would be recovered and nothing would remain unrecovered by the end of the tenure of the loan.

B. Query

6. On the basis of the above, the querist seeks the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) on the following issues:

(a) Whether the accounting treatment of the shareholder's loan made by the Company is in line with provisions of applicable Ind AS.

(b) If not, EAC is requested to provide necessary guidance backed by sample calculation along with the relevant journal entries.

(c) Whether as opined by C&AG, the Company is required to make suitable provision towards recognition of non-realisable interest income upto COD from the shareholder's loan extended to the joint venture company.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised in the query relates to accounting treatment of shareholder's loan provided to joint venture company in the Company's separate financial statements. The Committee has, therefore, considered only this issue, and has not examined any other issue that may arise from the Facts of the Case, such as, determination of fair value, requirements of Ind AS 24, 'Related Party Disclosures', accounting treatment in the consolidated financial statements of the Company, presentation of interest income in the financial statements, accounting for expected credit loss on loan receivable as a whole (if any, apart from nil interest payment during certain period), impact of premium charged over interest rate of PNB, deferred tax impact (if any), sample calculation of effective interest rate on loan as shared by the querist, accounting in the books of A i.e. the joint venture company which is the recipient of the loan, etc. Further, the Committee has examined the query only from accounting perspective and not from any other perspective, such as, legal interpretation of shareholder's loan agreement etc. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 and as applicable on 31st March, 2024.

8. The Committee notes from the Facts of the Case that the Company is providing shareholder's loan to its joint venture company (A Limited) for implementation of bio refinery project. The loan provided to joint venture company (A Limited), being a financial asset, should be recognised and measured as per Ind AS 109, 'Financial Instruments'. In this regard, the Committee notes the following paragraphs of Ind AS 109 and Ind AS 113, 'Fair Value Measurement':

Ind AS 109

"4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs B4.1.1 - B4.1.26 provide guidance on how to apply these conditions."

"amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the **effective interest method** of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any **loss allowance**."

"5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A."

"B5.1.1 The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and Ind AS 113). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term

loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset."

"B5.1.2A The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also Ind AS 113). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

(a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability."

Ind AS 113

"B4 When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

(a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) …"

From the above, the Committee notes that Ind AS 109 requires financial assets to be initially recognised at their fair value plus transaction costs (if not classified as subsequently measured at fair value through profit or loss).

Further, based on reading of paragraph B5.1.1 of Appendix B of Ind AS 109, the fair value of a financial instrument at initial recognition is normally the transaction price. However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument, for example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating; and the difference between the amount lent and the fair value of an interest-free loan is generally recognised as a gain or loss unless it qualifies for recognition as some other type of asset. The fair value of a loan at market rates would normally consider the interest rates charged by market participants for loans with similar remaining maturities, cash flow patterns, currency, credit risk, collateral, interest basis, etc. The Committee further notes that as per paragraph B4 of Ind AS 113, the transaction price might not represent the fair value of an asset or a liability at initial recognition if the transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

9. On the basis of the above, the Committee is of the view that in the extant case, the overall contractual interest on the loan to the joint venture during the loan tenure, which bears no interest for a certain period, cannot be considered to be at market terms. The financial asset should be initially recognised and measured at its fair value, which should be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating as per the requirements of paragraph B5.1.1 of Ind AS 109. With regard to the difference between the amount lent and the fair value of the loan (hereinafter also referred to as the 'below market element'), the Committee is

of the view that where a loan to related party is not on normal market terms, the substance of the below-market element should be ascertained, to determine the accounting for this part of the loan receivable. The Committee is of the view that if a loan is made by an equity holder, for example, by parent to a subsidiary/ joint venture on favorable terms, the substance of the transaction is that the subsidiary/joint venture has received a contribution from the parent to the extent that the cash advanced exceeds the fair value of the subsidiary's/joint venture's financial liability or lender's fair value of the financial asset.

Accordingly, in the extant case, in substance, the below market interest element may be construed as a non-reciprocal capital contribution by the Company to JV (A limited) and should be recognised by the Company as an investment in joint venture (as a component of the overall investment in the joint venture) in its separate financial statements.

Further, subsequently, as per the requirements of paragraphs 4.1.1 and 4.1.2 of Ind AS 109, the financial asset shall be measured at amortised cost since the financial asset (loan receivable) in the extant case appears to be held to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest income on financial asset should be accrued and calculated by the Company by using effective interest method considering the imputed rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating, which was used to determine the fair value on initial recognition and the same should be recognised in the profit or loss.

The Committee also wishes to clarify that the difference in the interest as per the contractual terms and interest accrued in the financial statements as per effective interest rate, is due to accounting as per applicable Ind AS. Further, the Committee also notes that the interest is realisable when the actual payout starts from the joint venture; therefore, at this stage, there is no non-realisable interest income which is required to be accounted for.

D. Opinion

10. On the basis of the available facts and figures and the discussions mentioned herein above, read alongwith the observations given in paragraph 7 above, the Committee is of the following opinion on the issues raised (as mentioned in paragraph 6 above):

(a) The accounting treatment of the shareholder's loan made by the Company is in line with provisions of applicable Ind AS, as discussed in paragraphs 8 and 9 above;

(b) In view of the opinion at (a) above, this issue becomes infructuous. And hence not answered;

(c) The interest accrued will be received when actual payout starts from the joint venture, as discussed in paragraph 9 above. Since there is no non-realisable interest income reported at this stage, the question of making any provision does not arise.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on 24th April, 2024. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty-two volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/.
4.	Opinions of the Committee may be accessed at the following link: http://115.248.235.50/eacicai/.
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.

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Accountant's Browser

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during August - September 2024 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Ind AS 2023 Amendments – Ind AS 1 Presentation of Financial Statements by Dolphy D'Souza. *BCAJ, July 2024, pp. 70-76*

Technical Accounting: Demystifying EBIDA by Henry Ong. *International Accountant, May-June 2024, pp. 15-17*

2. Economics

Black Money, Money Laundering and Interplay of Multiple Economic Law and Enforcement Agencies by Pramod Kumar Narula and (Lt.) Dr. Kuldeep Kumar. *Chartered Secretary, July 2024, pp. 88-92*

Contribution of the Selected Scheduled Indian Commercial Bank in Economic Development by Kshitiz Maharshi, Pooja Chaudhary, Ramesh Kumar, and Surendra Bhadu. *TECNIA Journal of Management Studies, October 2023 - March 2024, pp. 07-13*

Economic Policy Uncertainty and Other Determinants of M&A Activity in the Indian Manufacturing Industry during 2003-20 by Rakesh Basant and Pulak Mishra. *Economic & Political Weekly, August 24, 2024, pp. 89-95*

How Robotics is Changing the Face of Indian Banking: An In-Depth Analysis by Rajat Mehrotra. *Banking Finance, August 2024, pp. 24-26*

3. Investment

Role of Social Stock Exchange in Achieving Viksit Bharat – A Comprehensive Review by Jyothi G. H. *Chartered Secretary, July 2024, pp. 102-105.*

4. Law

Group Insolvency Framework – An Eagerly Awaited Amendment to the Insolvency and Bankruptcy Code (IBC) by Abhijit De. *Banking Finance, August 2024, pp. 27-31.*

5. Management

Assessment of Factors Impacting Performance in Technology Based Startup by Diksha Arora and Seema Singh. *Jharkhand Journal of Development and Management Studies, April-June 2024, pp. 10305-10319.*

Diversity: Funding Diverse Businesses by Cat Smith. *International Accountant, May-June 2024, pp. 24-25.*

6. Taxation and Finance

GST (Goods and Services Tax) and its Impact on Textile Industry in India by Ritesh Gupta, Kotaru Sai Charan, Sambhavana Gupta and J. D. Gangwar. *TECNIA Journal of Management Studies, October 2023 - March 2024, pp. 27—29.*

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

CLASSIFIEDS

6055 Required full-time partners for Delhi, Chennai, Vishakhapatnam, Hyderabad, Lucknow, Raipur, Kolkata, Rourkela and Bangalore on revenue sharing basis. Please Contact on email id: bk1ckdk@gmail.com

6056 We are Ahmedabad-based CA Firm with 10 partners; inviting proposals for merger from sole proprietorship or partnership firm. Please mail: ea@shahteelani.com

6057 34-year-old firm headquartered in Delhi NCR invites proposals for merger from sole proprietorship or partnership firms. Mail with brief profile to sangeeta.pgc@gmail.com or call 9811278153

6058 Gujarat headquartered 42 year old firm (www.rkdoshi.com) wishes to open branches in Tamil Nadu, Kerala, Punjab, AP, Telangana, Assam, Orissa & WB. Contact: firm.rkdoshi@gmail.com.

6059 Required Full/Part-time CAs as Partners/Retainers, Semi- Qualified, Article Assts. for Delhi-NCR & Jammu & Kashmir. Contact 9205136037; E-mail: kkg200317@gmail.com

6060 We are Mumbai-based CA Firm Saini Pati Shah & Co LLP with 4 partners and require full-time partners for our Firm, Please Contact on Email: som.saini@spscollp.com/ 9819065907

6061 36 years old Mumbai based CA firm wants to open branch offices at Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkatta, Mangalore, Pune and Thane by inducting full time practising CA's (CISA/ DISA will be preferred) as partner purely on revenue sharing basis (no fixed remuneration). CA's having COP and wish to start own practice can be considered. Mail the brief profile to: info@yardiprabhu.com

OVERALL DISPOSAL OF BOD /DC DURING COUNCIL YEAR 2024-25 (upto 20.09.2024)			
Particular	**BOD**	**DC**	**Total**
No. of Meetings held	17	59	**76**
1. No. of PFOs considered(**)	161	103	**264**
2. No. of Hearing cases concluded(**)	28	93	**121**
3. No. of Punishment awarded	6	122	**128**
4. Tax Audit cases closed on account of Judgement of Hon'ble SC as per below breakup			
a. at PFO Stage	4	0	**4**
b. at Hearing stage	0	86	**86**
c. at Punishment stage	0	44	**44**
5. Misc. Items(#)	492	0	**492**

(**) *includes cases of withdrawal/ Rule 12 / infructuous etc. post registration stage*
(#) *includes defective complaints / information / Rule 6 / infructuous / Rule 5(4) etc. at pre-registration stage*

Disciplinary Case

Foreclosure/redemption of 21 subordinate debts before maturity by the Company without obtaining the sanction of RBI – Failure to file Exception report by the Respondent- statutory auditor of Company with RBI in terms of Para 5 of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions 2008 – Held, Respondent is GUILTY of professional misconduct falling within the meaning Clause (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Held: The allegation against the Respondent was that he being the Statutory auditor of the Company failed to file an exception report to the RBI in accordance with Para 5 of the "NBFC Auditor's Report (Reserve Bank) Directions 2008 when the Company had pre-closed/ redeemed 21 subordinate debts before maturity at the instance of investors without consent of RBI which was in violation of Para 2(1) (xxvi) of the instructions contained in the circular DNBR, (PD). CC.No.044/03.10.119/2015-16 dated 1st July 2015 and item (xvii) of Para 3 in Chapter II of Master directions on Acceptance of PD Directions 2016 dated 25th August 2016. The Committee noted that the Company had foreclosed subordinate debts without seeking the consent of RBI.

The circular of the RBI dated 1st July 2015 provides that subordinate debts could not be redeemed without the consent of the RBI. The said debt also forms part of Tier II Capital. Hence, the Respondent's plea that the said subordinate debts redeemed was only 11.25% of the total subordinate debts and immaterial so as to affect the financial position of the Company was not found tenable. The Committee held that being an auditor of NBFC, he is expected to adhere to various NBFC directions applicable to the Company, instead of being guided by past practice. Thus, it was evident that the Respondent had failed to exercise due diligence in performance of professional duties while acting as Statutory Auditor of the auditee Company. The Committee held that the Respondent is guilty of professional misconduct falling under Clauses (6) & (7) of Part I of Second Schedule to the Chartered Accountant Act, 1949.

(PPR/P/419/2017/DD/354/INF/2017/DC-935/18)

Issuance of net worth certificate by treating share application money as share capital pending allotment; list of shareholders holding more than 5% share capital not made a part of financial statement; non-disclosure of related party transactions; non-disclosure of loan amounts waived; and audited Financial Statements of the Company does not reflect true and fair view – Held, Respondent is GUILTY of professional misconduct falling within the meaning Clause (6) (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Held: In the instant case, there were several allegations levelled against the Respondent and first charge was that the Respondent had treated the share application money as share capital in a net worth certificate issued by him. In the Balance Sheet attested by the Respondent, the Committee found that share application money was of Rs. 890 lacs and the issued, subscribed and paid-up share capital was Rs.100 lacs. The Committee found that the share application money pending allotment cannot form part of share capital. The Committee noted that the list of shareholders holding more than 5 per cent share capital was not part of financial statement which was the requirement of Schedule VI of the Companies Act, 1956. The Committee further found non-compliance of the provisions of Section 215 of the Companies Act, 1956.

Pertaining to allegation of non-disclosure of transactions with related parties, the Committee noted that wife of Mr. X and wife of Mr. Y, the Directors of the Company were the partners of M/s. ABC and that the said firm had waived the loan advanced to the Company amounting to Rs. 3.75 Crores and that the audited accounts did not contain any disclosure with respect to this transaction. In this regard, the Respondent had clearly accepted that he has not taken confirmation from the parties, which is a clear violation of SA -505 i.e. External confirmations. It was not in dispute that the spouses of the Director of the Company were partners of M/s ABC who have granted loan waivers. In respect to the next charge the Committee noted that the loan waiver has resulted in an exceptional income and as per AS-5, extraordinary Items should have been disclosed in the statement of profit and loss as part of net profit and loss for a period separately which was not done. Further, the audited financial statement of the Company does not give true and fair view. Thus the Committee noted that Respondent has failed to apply proper professional acumen and has merely towed the dictum of the auditee. The Committee held that the Respondent is guilty of professional misconduct under Clause (6) (7) & (8) of Part I of Second Schedule to the Chartered Accountant Act, 1949.

[PR-194/13-DD/225/13/DC/587/2017]

ANNOUNCEMENT

Invitation for Empanelment as Examiners for Chartered Accountants Examinations

Applications are invited from eligible members of the Institute and other professionals including academicians of reputed educational institutions, tax and legal practitioners, etc., having a flair for academic activities including evaluation of answer books and willing to undertake confidential assignments as a dedicated examiner, for empanelment as examiner in respect of the following papers of the Chartered Accountants Examinations.

Foundation Examination	
Paper-1	Accounting
Paper-2	Business Laws

Intermediate Examination	
Paper-3	Taxation 3A: Income Tax Law 3B: Goods and Services Tax (GST)
Paper-4	Cost and Management Accounting
Paper-5	Auditing and Ethics
Paper-6A	Financial Management

Final Examination	
Paper-2	Advanced Financial Management
Paper-3	Advanced Auditing, Assurance and Professional Ethics
Paper-6	Integrated Business Solutions (Multi-disciplinary Case Studies)

The eligibility criteria for empanelment as examiner are as follows:

- Chartered Accountants with a minimum of five years standing in practice or in service are eligible.
- University Lecturers/Professors with a minimum of five years teaching experience are eligible.
- ICWA, ACS, M.Com, Post Graduates in Economics or Law, Lawyers, IT Professionals, MBA (Finance), and other professionals with at least five years experience, either in academic position or in practice or in employment are eligible to apply. Those with work experience having direct relevance to the aforesaid subject(s) of examination(s) will be preferred.
- Persons above 65 years of age are not eligible.
- Persons who are visually impaired or suffer from such other physical disability that might necessitate taking the assistance of any other person for evaluation of answer books are not eligible.
- Persons who are undergoing CA Course of the Institute are not eligible.
- Persons whose applications were rejected earlier from the Panel are eligible to apply again after a gap of 1 year from the date of rejection.
- Those who are already empanelled with ICAI as examiners need not apply. Their candidature will be considered in the normal course, at the appropriate time.
- Persons associated with the coaching activities are not eligible. Those who have ceased to be associated with the coaching activity are permitted to apply after a gap of 5 years.

Scales of honorarium for evaluation of answer books

Examination	Paper	Rate (for Digital Evaluation)
Foundation	1 & 2	Rs 125/- per answer book
Intermediate	1, 2, 4 & 5	Rs 150/- per answer book
Intermediate	Sectional papers (Paper 3A, 3B, 6A & 6B)	Rs 100/- per answer book
Final examination	1, 2, 3, 4, 5 & 6	Rs 190/- per answer book

Application for empanelment as examiner can be made online at http://examinerspanel.icaiexam.icai.org

ICAI has implemented the Digital evaluation (Online Evaluation) of answer books in all the papers of Foundation, Intermediate, and Final examinations. Hence, applicants are expected to be comfortable working on computers and also evaluating answer books online. However, requisite training will be provided, before online evaluation assignments are undertaken. Please fill the application form online, take a printout, affix your photograph, sign it and send it with all the requisite enclosures to the following address:

Director (Exams)

The Institute of Chartered Accountants of India

ICAI Bhawan

Indraprastha Marg

New Delhi – 110002

The Institute of Chartered Accountants of India

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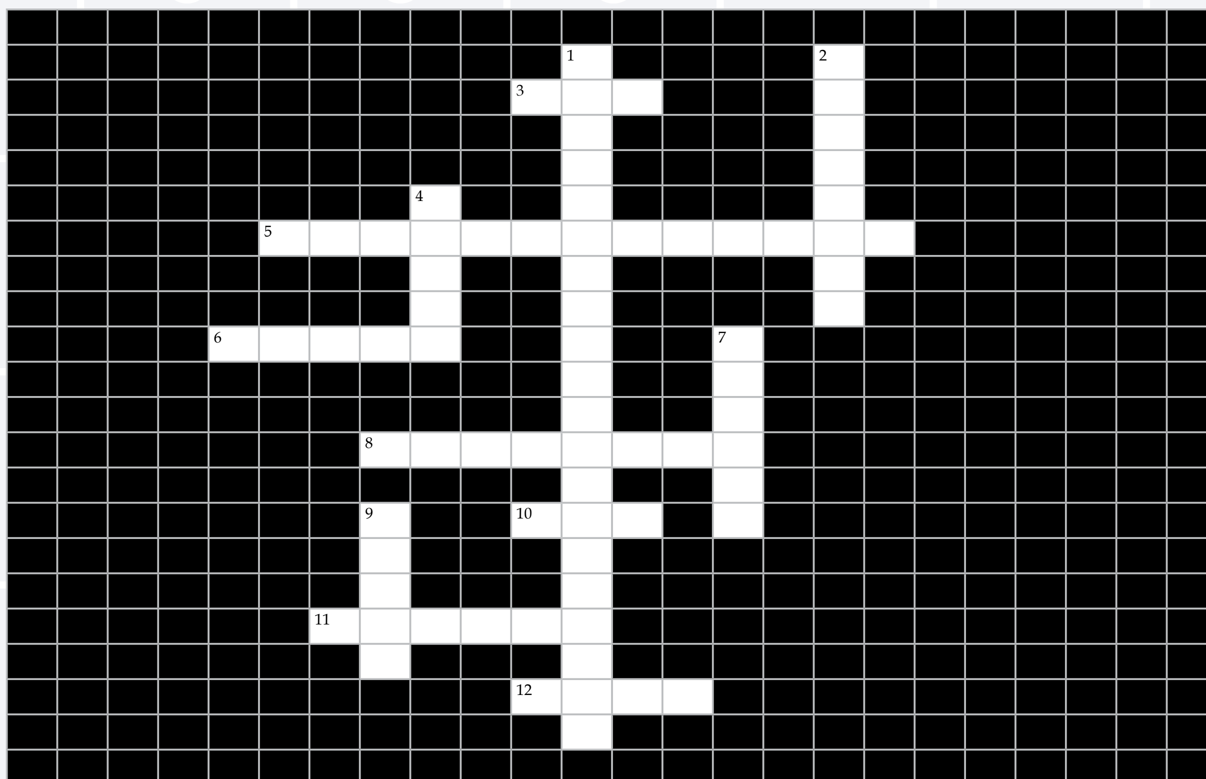

Across

2 .... means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

4. Equity Shares issued by a company to its directors or employees at a discount or for consideration, other than cash for providing their know-how or making available rights in the nature of intellectual property rights or value additions are called .... Shares.

6. .... analysis calculates the impact of the change of a single input variable on the outcome of the project viz., NPV or IRR.

8. The auditor's assessment of .... at the assertion level may change during the course of audit as additional audit evidence is obtained.

10. The .... List contains the matters in respect of which the Parliament (Central Government) has the exclusive right to make laws.

13. The activities undertaken by a Company in pursuance of its statutory obligation laid down in .... of the Act in accordance with the provisions contained in the CSR Policy Rules, 2014 are called Corporate Social Responsibility.

14. .... being owners of the organisation are interested to know about profitability and growth of the organization.

Downward

1 In .... situation, cash flows are generally uncertain and managements are usually risk averse.

3 A .... prospectus is one that does not include complete particulars of the quantum or price of the securities included therein.

5. .... overhead rate refers to the computation of one single overhead rate for the whole factory.

7. Any member of a Co. entitled to attend and vote at a meeting of the Co. shall be entitled to appoint another person as a .... to attend and vote at the meeting on his behalf.

9. Amount of dividend including interim dividend shall be deposited in a scheduled bank in a separate bank account within .... days from the date of declaration of such dividend.

11. .... activities are those which are directly involved in transforming of inputs (Raw Material) into outputs (Finished Products) or in provision of service.

12. Operating .... maybe defined as the employment of an asset with a fixed cost in the hope that sufficient revenue will be generated to cover all the fixed and variable costs.

15. Limit of maximum of .... directors, and their increase in limit by special resolution shall not apply to Government & section 8 companies.

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The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

CRAFTING CAPTIVATING THOUGHTS

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – ***The Chartered Accountant***. The article may cover any topic relevant to the **accounting world covering auditing, finance, laws, strategy, taxation, technology, artificial intelligence, sustainability, ethics, financial reporting** and so on. While submitting articles, please keep following aspects in mind:

- **The length of articles should be about 2000-2500 words.**
- **Articles should not have been published or sent for publishing in any other print or electronic media.**
- **An executive summary of about 100 words should accompany the article.**
- **Articles should be engaging, original and aligned with Journal guidelines. Every selected article is subjected to Plagiarism check in line with Editorial Board's Plagiarism Policy.**

Please send articles sharing your valuable insights and expertise to the ICAI Journal and help enrich the knowledge base of the accountancy profession. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in and eboard@icai.in

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