FOR MEMBERS / SUBSCRIBERS / VOL. 27 - NO. 2 AUGUST 2023

C.V.O.CA'S NEWS & VIEWS

From President's Desk...

Dear Professional Colleagues and Readers,

For Practicing Chartered Accountants, the month of July has always been hectic due to regulatory deadlines. Hoping all would have managed the work pressure well and come out of the return filing season without any pendency.

After a successful visit to the US, our Honorable Prime Minister Shri Narendra Modi's had his state visit to France. The visit was a reflection of trust and a strong partnership between the two countries. India and France have agreed to develop a new generation of military equipment as part of a long-term road map due to which big outcomes were seen in defence and many other sectors. In a historic moment, French President Emmanuel Macron bestowed the Grand Cross of the Legion of Honour on Prime Minister Narendra Modi. As a matter of pride, it is the highest French honour in military or civilian orders of France and PM Modi has become the first ever Indian PM to receive such honour.

With this, in the last 10 years of his tenure, he has been awarded by as many as 14 highest civilian awards of international countries. This includes the prestigious award of Nile by Egypt in June 2023, Legion of Merit by the US Government in 2020, Order of St. Andrew award by Russia in 2019, Order of Abdulaziz Al Saud by Saudia Arabia in 2016. In fact, out of 14 such civilian awards, 5 awards are from Muslim majority countries.

In July ICAI announced results for examinations conducted in the month of May. The results brought new energies and cheers for the students who could clear. Our heartiest Congratulations to all. At the Association we are planning a career guidance program and mentoring program for the new pass-outs.

ICAI also announced it's much-awaited new scheme of Education and Training, we have planned one webinar for one online session for students to understand the entire gamut and structure of the new course. For students we have also launched CYB- Call Your Buddy Helpline with the objective of providing guidance and counselling to students, which can help them to rise and shine. Last month, we also had a technical session for students for ITR Filing, where around 75+ Student members participated.

In the month of July, we had an orientation program, 'Know Your Association', for members who have been inducted to the core group and Board Games by the founder of Board Games Co. CA Krunal Veera for young members. Around 75+ Young Members Participated. Youth and Industry Members Empowerment Committee has also announced one day monsoon trekking on August 12, 2023, at Tandulwadi.

We are motivating our members to participate in Indirect Tax Refresher Course held on August 5 and 6 at Knowledge Excellence Centre, Keshav Shrusti, Bhayandar.

India's equity benchmarks are soaring to a fresh all-time high and trending to record-breaking run on the back of persistent foreign institutional buying are showing signs of strength. We had a successful public program on Capital Markets- 5 Trillion Economy- How Real? How Far? held on June 30, 2023 in which around 400 people participated. We have also launched Value Investing Club- A study group of investors in which we intend to meet once a month to share value investing ideas and picks, to understand the sectoral business and to create awareness amongst the participants. The first meeting was held on July 7, 2023 in which Mr. Rahul Veera- Fund Manager of Abacus shared his views on Pharma Industry.

In the month of August our country will be celebrating 76th Independence Day. On this occasion let us pledge to work towards the nation's prosperity and growth. Festival season will begin this month with Raksha Bandhan and Paryushan. Paryushan is a parva/ festival of forgiveness, ahimsa, compassion and non-violence. Let's elevate ourselves to work with faith, moral excellence, knowledge, self-control, perseverance, godliness and kindness.

Looking forward to your active participation in all activities of the association.

Thank you all..... Always in Gratitude

Jeenal

August 1, 2023

CA Jeenal Savla

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INDIA'S ISRO - PIONEERING SPACE EXPLORATION

CA Ameet Chheda
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FROM THE DESK OF CHAIRMAN

Last month, we as Indians had a very moment to be proud. Our country's space research, ISRO had a historic launch of Chandrayaan 3. The recent Chandrayaan mission was followed by a partly successful launch of Chandrayaan-2, on July 22, 2019 exactly 4 years back.

Let me take this opportunity to give some information about the ISRO.

ISRO was previously the Indian National Committee for Space Research (INCOSPAR), set up by the Government of India in 1962 under the leadership of then Prime Minister Mr. Jawaharlal Nehru and Dr. Vikram Sarabhai. Formally, the Indian Space Research Organisation (ISRO) was established in the year 1969.

Dr. Sarabhai envisioned the peaceful use of space technology to harness the role of space research in agriculture, telecommunications, weather forecasting, and disaster management.

Over the years, ISRO has evolved into one of the world's leading space agencies, achieving numerous milestones in space exploration, satellite development, and scientific research. Its journey has been marked by determination, innovation, and a vision to utilize space technology for the betterment of humanity.

Major Achievements of ISRO:

Aryabhata: in 1975, ISRO launched its very first satellite, Aryabhata, marking India's entry into the space age. Way back in 1975, this marvellous achievement put India among a select group of countries capable of launching satellites into orbit.

Mars Orbiter Mission (Mangalyaan): In 2014, ISRO successfully launched the Mars Orbiter Mission, also known as Mangalyaan. With this India became the first Asian country to reach Mars orbit and the fourth space agency globally to do so. This mission demonstrated ISRO's cost-effectiveness and technical capabilities. To give a proper perspective, the Mangalyaan mission cost just 11% of NASA's MAVEN orbiter, less than the Hollywood film Gravity. I remember, our Honourable prime minister mentioning at an international forum that “A one-km auto rickshaw ride in Ahmedabad takes Rs 10 and India reached Mars at Rs 7 per km”.

With this achievement, the world started taking note of the activities of ISRO. The cost-effective solution provided by the ISRO gave an option to developing nations to collaborate with ISRO.

Navigation with Indian Constellation (NavIC): In order to end our reliance on GPS of the Western countries, ISRO developed its own NavIC, an independent regional navigation satellite system, providing accurate position information to users in India and the surrounding region. NavIC enhances various applications, such as disaster management and location-based services. The Government of India has mandated to use NavIC compulsory on all mobile phones. Presently, NavIC is being used in public transport such as buses and trains, for providing emergency warnings to fishermen and for tracking and providing information related to natural disasters.

Chandrayaan Missions: ISRO has in all launched 3 Moon missions viz Chandrayaan I-II and III. ISRO's Chandrayaan-1 (2008) and Chandrayaan-2 (2019) missions made India's mark on space research. Chandrayaan-1 made significant discoveries, including the detection of water molecules on the Moon's surface, while Chandrayaan-2's Vikram lander came within a few kilometres of the lunar surface during its landing attempt.

Chandrayaan-3 is the most recent lunar exploration mission launched under the Chandrayaan program. Chandrayaan-3 was launched on 14 July 2023, at 2:35 pm IST as scheduled, from Satish Dhawan Space Centre in Sriharikota. The spacecraft has been effectively placed in the trajectory it will take to reach the moon. It is anticipated that the Chandrayaan-3 mission will achieve a soft landing on the lunar South Pole region on 23 or 24 August.

The mission is expected to cost India around 615 crore only, of which is said to be one of the most cost-effective space missions as compared to such missions by other countries. Again just to give a perspective, the launch has cost India less than Hollywood movies like Avengers and Avatar.

This latest moon mission will put India in the elite club of nations that have successfully accomplished landing on the lunar surface and explored the moon surface with a lunar.

Future Endeavours:

ISRO continues to work on ambitious space missions, including the Gaganyaan program, aimed at sending Indian astronauts to space. ISRO is also focusing on developing advanced satellite technology, space exploration missions, and strengthening its space applications for societal benefits.

ISRO's remarkable journey from a fledgling space agency to a prominent player in the global space community is a testament to India's dedication to space exploration and technology development. Through its missions, ISRO has improved communication, weather forecasting, agriculture, and disaster management capabilities, contributing significantly to the socio-economic development of India and the world. With its vision for the future and the dedication of its scientists and engineers, ISRO is set to achieve even greater milestones and make significant contributions to humanity's understanding of space.

At this juncture, we must acknowledge the vision and faith our leader have shown in our scientists. It would have been easy to ignore or outsource the operations to Western countries, but we chose a different and difficult path. The entire nation should stand by our scientists irrespective of their successes and failures.

Thank you all..... Always in Gratitude

CA Ameet Chheda

ONE YEAR OF REVISED SCHEDULE III: DECODED

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In the dynamic world of accounting and finance, staying abreast of regulatory changes is pivotal to ensure compliance and uphold the highest professional standards. The Ministry of Corporate Affairs (MCA) has amended Schedule III of Companies Act 2013 (Act) (here in referred to as Schedule III amendment or amendment), on 24 March 2021 with an objective to increase transparency and provide additional disclosures to users of financial statements. These amendments are effective from 1 April 2021.

In this Article, we have tried to highlight what practical challenges were faced while implementing the amendments and illustrative disclosures forming part of Financial statements of Public Companies for selected amendments. Further, it does not attempt to provide an in-depth analysis or conclusive views on the new changes.

By understanding and embracing these changes, professionals can ensure compliance, transparency, and alignment with the latest regulatory framework, safeguarding corporate interests and maintaining stakeholder trust.

Let us discuss these amendments in detailed manner…

A] CWIP Ageing and Completion Schedule –

New Requirement:

In this disclosure, data must be classified into two categories: 'Projects in Progress' and 'Projects Temporarily Suspended,' accompanied by an ageing schedule. The classification is evaluated at each reporting date, and the ageing of each item is calculated from its initial recognition date until the balance sheet date.

For Capital Work in Progress (CWIP) that is overdue or has exceeded its cost in comparison to its original plan, the completion schedule for such CWIP shall be provided.

The details of projects where activities have been temporarily suspended shall be disclosed separately.

Implementation Challenges:

In our experience, we have observed that numerous companies struggled to maintain comprehensive documentation concerning planned completion or budgets, particularly in the context of long-term construction contracts. Determining exact timelines for completion and segregating individual contracts to establish accurate amounts in the ageing table posed significant challenges during project implementation and at year-end assessments. Due to such inadequate documentation of CWIP by companies, auditors had to rely on the data provided by the company's management and perform alternative procedures around the same.

Large-scale projects often undergo modifications during their execution, necessitating careful evaluation and judgment. As per Guidance note issued by ICAI "Management shall apply judgement in determining whether such revisions in the plans are a fresh 'Original Plan' or simply an update of estimates and assumptions such that the original plan is revisited and revised. When plans are subsequently revisited and revised, same should not be considered for determining variation when making above disclosures.

Furthermore, challenges also arised concerning the classification of temporary suspensions of projects. As per Guidance note issued by ICAI "When temporary suspension is a necessary part of the process of getting an asset ready for its intended use, the project should not be considered to have been temporarily suspended and the CWIP related to such projects should continue to be presented under Projects in progress." Herein lies the question of which suspensions should be regarded as temporary, necessitating a judicious assessment in light of the specific circumstances.

Illustrative Disclosure:

Extract of Annual Report of HINDUSTAN UNILEVER LIMITED (HUL) for FY 2022-23

Ageing of CWIP as on 31st March, 2023

	Amount in CWIP for a period of				
	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	Total
Projects in Progress	658	267	50	36	1011
Projects temporarily suspended	-	2	4	3	9
Total	**658**	**269**	**54**	**39**	**1020**

	Amount
Projects which have exceeded their original timeline	293
Projects which have exceeded their original budget	21

Details of capital-work-in progress whose completion is overdue as compared to its original plan as at 31st March, 2023

	To be completed in				
	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	Total
Under Progress (A)	287	1	1	-	289
Nutrition technology advancement project	44	-	-	-	44
Project at Rajahmundry Factory	21	-	-	-	21
Project at Assam Factory	20	-	-	-	20
Others*	202	1	1	-	204
Temporarily Suspended (B)	0	4	-	-	4
Others*	0	4	-	-	4
Total (A+B)	**287**	**5**	**1**	**-**	**293**

*Others comprise of various projects with individually immaterial values.

Details of capital-work-in progress which has exceeded its cost compared to its original plan as at 31st March, 2023

There were no material projects which have exceeded their original plan cost as at 31st March, 2023.

B] Trade Receivable Ageing

New Requirement:

For trade receivables outstanding, ageing schedule shall be given.

Implementation Challenges:

Previously, companies were not required to provide detailed ageing data for Trade receivable, leading to a lack of adequate systems to generate such data, including tracking of disputed debtors. The revised Schedule III amendment now demands comprehensive ageing information, necessitating ERP system modifications or manual computations in cases where system changes were not feasible.

To comply with expected credit loss computation, many companies opted for a simplified approach, adapting their provision matrix to account for default risk based on detailed age-wise analysis of Trade Receivables. Stakeholders will closely scrutinize provisioning assumptions based on the trend of Trade Receivables' ageing bucket.

Challenges arose in distinguishing between Disputed and Undisputed Trade Receivables, as the Schedule III does not provide specific definitions. As per the Guidance note on Revised Schedule III to Companies Act 2013 "A dispute is a matter of facts and circumstances of the case; however, dispute means disagreement between two parties demonstrated by some positive evidence which supports or corroborates the fact of disagreement" This classification has led to differing opinions between companies and auditors, prompting discussions with management and auditors. Robust internal controls and documentation are vital for accurate categorization.

Illustrative Disclosure:

Extract of Annual Report of TATA STEEL for FY 2022-23

(i) Movement in allowance for credit losses of receivables is as below:

(₹ crore)

	Year ended March 31, 2023	Year ended March 31, 2022
Balance at the beginning of the year	172.59	145.42
Charge/(release) during the year	31.36	27.17
Balance at the end of the year	**203.95**	**172.59**

(ii) Ageing of trade receivables and credit risk arising there from is as below:

As at March 31, 2023

(₹ crore)

	Not Due	Outstanding for following periods from due date of payment					Total
		Less than 6months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
Undisputed – considered good	1,817.77	883.78	289.96	397.73	7.05	42.68	3,438.97
Undisputed – credit impaired	-	-	-	-	-	27.10	27.10
Disputed - considered good	-	-	-	-	-	-	-
Disputed - credit impaired	-	-	-	-	-	89.60	89.60
	1,817.77	**883.78**	**289.96**	**397.73**	**7.05**	**159.38**	**3,555.67**
Expected loss rate	0.49%	5.83%	5.16%	1.11%	14.88%	14.88%	
Less: Allowance for credit losses	8.95	51.50	14.97	4.43	1.05	123.05	203.95
Total trade receivables	**1,808.82**	**832.28**	**274.99**	**393.30**	**6.00**	**36.33**	**3,351.72**

C] Trade Payable Ageing

New Requirement:

For trade payable outstanding, ageing schedule shall be given:

Implementation Challenges:

The challenges relating to ageing and classification of Disputed and Undisputed dues are similar to those as considered above in Trade receivables disclosure requirement above.

Illustrative Disclosure:

Extract of Annual Report of TATA STEEL for FY 2022-23

(ii) Ageing schedule of trade payable is as below:

As at March 31, 2023

(₹ crore)

	Not Due	Outstanding for following periods from due date of payment				Total
		Less than 1 year	1-2 years	2-3 years	More than 3 years	
Undisputed dues - MSME	727.64	34.99	-	-	-	762.63
Undisputed dues - Others	12,291.47	1,741.38	154.35	32.07	25.72	14,244.99
Disputed dues - MSME	-	-	-	-	-	-
Disputed dues - Others	-	-	0.14	-	18.03	18.17
	13,019.11	**1,776.37**	**154.49**	**32.07**	**43.75**	**15,025.79**
Add: Unbilled dues*						3,056.61
Total trade payables						**18,082.40**

* Includes dues of micro, small and medium enterprises of ₹29.24 crore.

D] Loans or Advances granted to Promoter, Director, KMP or the Related Parties –

New Requirement:

This disclosure mandates companies to furnish specific information about loans or advances, categorized as repayable on demand or without defined terms of repayment, granted to promoters, directors, Key Management Personnel (KMPs), and related parties. The disclosure should consider the relationship as of the loan date, with the outstanding amount as of the balance sheet date.

Implementation Challenges:

As per the Business requirements, many companies extended loans to subsidiaries or other related parties without maintaining adequate documentation, including the absence of specified terms of repayment, such Companies had to disclose information as mentioned above. However, in response to this disclosure mandate, we noted several companies had revised their documentation practices prospectively to avoid such disclosures in the future.

Illustrative Disclosure:

Extract of Annual Report of UltraTech Cement Limited for FY 2022-23

Note 5.2: Loans or Advances are in the nature of loans are granted to promoters, Directors, KMPs and the related parties, either severally or jointly with any other person, that are repayable on demand; or without specifying any terms or period of repayment:

₹ in Crores

Type of Borrower	Amount of loan or advance in the nature of loan outstanding as at		% to the total Loans and Advances in the nature of loans as at	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Related Parties	2,528.91	2,566.76	99.35%	99.37%
Total	**2,528.91**	**2,566.76**	**99.35%**	**99.37%**

Note 5.3: No loans are due from directors or other officers of the Company or any of them either severally or jointly with any other person. Further, no loans are due from firms or private companies in which any director is a partner, a director or a member.

E] Relation with struck-off companies –

New Requirement:

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the details of transactions and Balance outstanding with those Companies.

Implementation Challenges:

In the context of Schedule III disclosure for struck off companies, multiple challenges have surfaced, creating complexities for companies. Firstly, the absence of a master list of struck-off companies on the MCA website makes it arduous to prepare a updated consolidated list of Companies whose name is Struck off from various circulars issued by each ROC which are in non-editable PDF format.

Since collation of List was a time-consuming process. Many small Companies manually verified CIN numbers for each entity on the MCA website to ascertain their status - active or struck off. In contrast, large corporates had to manually consolidate lists from circulars across all ROCs or rely on third-party vendors for assistance in obtaining the list of struck-off companies or assistance in identifying the list of parties whose name is struck off.

Another ambiguity arises concerning the disclosure requirement when a company engages in a transaction with another company, and subsequently, the latter's name is struck off. Determining whether such transactions necessitate disclosure remains unclear.

Moreover, issues were observed with the master data of Vendors and Customers, where proper updating was lacking, and the inclusion of CIN numbers was absent in some Companies due to no reporting requirements. This led to substantial challenges for companies as they had to first update all master data before proceeding with the identification of struck-off companies.

Illustrative Disclosure:

Extract of Annual Report of JSW ENERGY LIMITED for FY 2022-23

xii) The Company does not have any transactions with companies which are struck off except the following:

SN	Name of the struck off company	Nature of transactions	Balance outstanding (₹ crore)		Relationship with the struck off company, if any, to be disclosed
			As at 31st March, 2023	As at 31st March, 2022	
1	Spandan Home Care Limited	Shares held by struck off company	*	*	Shareholder
2	Century Finvest Private Limited	Shares held by struck off company	*	*	Shareholder
3	Unicon Fincap Private Limited	Shares held by struck off company	*	*	Shareholder

* Less than ₹50,000

F] Ratio Analysis –

New Requirement:

As per this disclosure, the company must furnish analytical ratios and elucidate the components included in both the numerator and denominator used in calculating these ratios. Additionally, a comprehensive commentary is required to explain any variation exceeding 25% in the ratio compared to the preceding year

Implementation Challenges:

The revised Schedule III introduces a significant change by requiring all companies to provide financial ratios and disclosures, a departure from SEBI LODR's requirement for only listed entities to do so in their Annual Reports, rather than financial statements. As the ratios where not defined in the amendment, Many companies referred to the Definitions as provided in the Guidance Note issued by ICAI but we found that many Companies calculated using their own approach, however the Formula used for calculations were defined in the Financial statements.

This enhanced transparency will be instrumental in enabling lenders and various stakeholders to access audited data on various Key Performance Indicators (KPIs) of the company.

Illustrative Disclosure:

Extract of Annual Report of UltraTech Cement Limited for FY 2022-23

Note 47 - Financial Ratios:

Sr. No.	Ratio	Numerator Description	Denominator Description	For The Year Ended March 31, 2023	For The Year Ended March 31, 2022	% Variance	Reason for variance
1	Current Ratio (in times)	Current Assets	Current Liabilities excluding Current Borrowings	1.21	1.30	(7)%	
2	Debt-Equity Ratio (in times)	Total Debt	Equity	0.17	0.20	(15)%	
3	Debt Service Coverage Ratio (in times)	Profit for the year+ Finance Costs + Depreciation and Amortisation Expense + Loss/ (Gain) on sale of fixed assets	Gross Interest + Lease Payment + Repayment of Long Term Debt excluding pre-payments	7.18	3.11	131%	Ratio has improved on account of decrease in Repayment of Long term Debt by 86% as compared to previous year
4	Return on Equity Ratio (in %)	Profit for the year	Average Net worth	10%	15%	(33)%	Last Year Profit for the year was higher due to one time reversal in tax of ₹ 1,517.86 Crs
5	Inventory Turnover Ratio (in times)	Sale of Products and Services	Average Inventory	10.75	11.19	(4)%	
6	Trade Receivables turnover Ratio (in times)	Sale of Products and Services	Average Trade Receivable	20.33	19.92	2%	
7	Trade Payables turnover Ratio (in times)	Cost of Sales	Average Trade Payable	8.62	8.30	4%	
8	Net Capital turnover ratio (in times)	Sale of Products and Services	Working Capital	15.85	11.30	40%	Ratio has improved on account of increase in sales by 22% and decrease in working capital by 12%, on account of higher payables
9	Net profit ratio (in %)	Profit for the year	Sale of Products and Services	8%	14%	(43)%	Last Year Profit for the year was higher due to one time reversal in tax of ₹ 1,517.86 Crs
10	Return on Capital employed (in times)	Profit for the year + Tax +Finance Costs	Networth + Current and Non current borrowings + Deferred Tax Liability	12%	14%	(14)%	
11	Return on Investment (in %)	Treasury Income	Weighted treasury investment	5%	5%	0%	

G] Corporate Social Responsibility (CSR) –

New Requirement:

Under the Companies Act 2013, companies falling under Section 135 must now additionally disclose their Shortfalls, reasons for shortfall etc

Implementation Challenges:

This amendment highlights the regulators' increased emphasis on CSR. The focus is on ensuring that companies appropriately track and disclose their CSR spending in accordance with the requirements of the Act. Detailed disclosure of CSR expenditure is now mandatory for corporates.

In line with the "Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities" issued by the ICAI, certain guidelines have been provided:

- A provision for liability must be recognized in the financial statements for any unspent amount.
- Any excess amount spent can be carried forward to the following year, subject to passing of Board resolution.

In some cases, Companies have contributed amounts to the institutions whose purpose matches the CSR spending of the Company, in such cases auditors should obtain documentary evidence verifying that the amount contributed was utilised by the year end or not and report accordingly. Getting the documentation from these institutions was very challenging and time consuming.

Illustrative Disclosure:

Extract of Annual Report of JSW ENERGY LIMITED for FY 2022-23

2.25 Corporate Social Responsibility (CSR)

As per Section 135 of the Companies Act, 2013, a company, meeting the applicability threshold, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility (CSR) activities. The areas for CSR activities are promoting education, promoting gender equality by empowering women, healthcare, environment sustainability, art and culture, destitute care and rehabilitation, disaster relief, COVID-19 relief and rural development projects. A CSR committee has been formed by the Company as per the Act. The funds were primarily utilized through the year on these activities which are specified in Schedule VII of the Companies Act, 2013:

(In ₹ crore)

Particulars	As at March 31,	
	2023	2022
i) Amount required to be spent by the Company during the year	437	397
ii) Amount of expenditure incurred	392	345
iii) Shortfall at the end of the year*	45	52
iv) Total of previous years shortfall	9	22
v) Reason for shortfall	Pertains to ongoing projects	Pertains to ongoing projects
vi) Nature of CSR activities	Promoting education, promoting gender equality by empowering women, healthcare, environment sustainability, art and culture, destitute care and rehabilitation, disaster relief, COVID-19 relief and rural development projects	
vii) Details of related party transactions, e.g., contribution to a trust controlled by the Company in relation to CSR expenditure as per relevant Accounting Standard [(1)(2)]	321	12
viii) Where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately	NA	NA

[(1)] Effective January 1, 2022, Infosys Foundation a trust jointly controlled by the KMP of Infosys Limited is a related party. For the year ending March 31, 2023, the Company has made contributions to Infosys foundation to fulfil its corporate social responsibilities. Infosys Foundation supports programs in the areas of education, rural development, healthcare, arts and culture, and destitute care.

[(2)] Represents contribution to Infosys Science foundation for the year ending March 31, 2022 a controlled trust to support the Infosys Prize program towards contemporary research in the various branches of science as a part of ongoing project.

* The unspent amount will be transferred to unspent CSR account within 30 days from the end of the financial year, in accordance with the Companies Act, 2013 read with the CSR Amendment Rules.

Consequent to the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 ("the Rules"), the Company was required to transfer its CSR capital assets created prior to January 2021. Accordingly the Company incorporated a controlled subsidiary, 'Infosys Green Forum' under Section 8 of the Companies Act, 2013 and during the year ended March 31, 2022, the Company has completed the transfer of assets upon obtaining the required approvals from regulatory authorities, as applicable.

H] Title deeds of Immovable Properties not held in the name of the Company –

New Requirement:

As per the disclosure requirements, the company is obligated to furnish details of all immovable property whose title deeds are not held in the company's name.

Implementation Challenges:

In the preparation of this schedule till last year Auditors' were required to report in their Audit report, however after the amendment to Schedule III, the same is required to be disclosed as a part of Financial Statement. One of the Special focus points is when the Company has undertaken any Mergers & Acquisition transactions. Due to the regulatory framework involved in transferring of the Title deeds, this process is time consuming and may result in Title deeds not being transferred to the new owner and thus disclosure under this schedule becomes applicable.

Illustrative Disclosure:

Extract of Annual Report of Mahindra Holidays & Resorts India Limited for FY 2021-22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2022

All amounts are in ₹ Lakhs unless otherwise stated

Details of Title deeds of Immovable Properties not held in the name of the Group as at March 31, 2022 and March 31, 2021:

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value as at March 31, 2022	Gross carrying value as at March 31, 2021	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative of promoter/ director or employee of promoter/ director	Property held since which date	Reason for not being held in the name of the company
Freehold land	Manali - Resort	1,243.05	1,135.00	Competent Hotels Private Limited - Manali	No	Merger date 9th February, 2016 effective from 1/4/2015	Received on merger of the erstwhile Companies. Company has submitted relevant documents with necessary charges & fees and awaiting closure from the respective government authorities.
Freehold land	Jaisalmer Divine - Resort	1,944.00	1,891.00	Divine Heritage Hotels Private Limited - Jaisalmer	No	Merger date 29th February, 2016 effective from 1/4/2015	Received on merger of the erstwhile Companies. Company has submitted relevant documents with necessary charges & fees and awaiting closure from the respective government authorities.
Building	Manali - Resort	629.19	629.19	Competent Hotels Private Limited - Manali	No	Merger date 9th February, 2016 effective from 1/4/2015	Received on merger of the erstwhile Companies. Company has submitted relevant documents with necessary charges & fees and awaiting closure from the respective government authorities.
Building	Jaisalmer Divine - Resort	1,211.15	1,211.15	Divine Heritage Hotels Private Limited - Jaisalmer	No	Merger date 29th February, 2016 effective from 1/4/2015	Received on merger of the erstwhile Companies. Company has submitted relevant documents with necessary charges & fees and awaiting closure from the respective government authorities.

I] Borrowings obtained on the basis of security of current assets –

New Requirement:

Where the company has borrowing from banks or financial institutions on the basis of security of current assets, it shall disclose the following:

a) Whether quarterly returns or statements of current assets filed by the company with banks or financial institutions are in agreement with the books of accounts;

b) If not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

Implementation Challenges:

Schedule III requires to provide the disclosure in case of all types of borrowing which are obtained basis current assets security. However, CARO reporting is only required in case of sanctioned working capital is in excess of INR 5 crores.

Instances of differences may be relating to difference in value of stock, amount of debtors, ageing analysis of debtors, etc. between the books of account and the returns / statements submitted to banks/financial institutions. The auditor needs to exercise his professional judgement to determine the materiality and the relevance of the discrepancy to the users of financial statements while reporting under this clause.

Illustrative Disclosure:

(iv) The Company has filed quarterly returns or statements with the banks in lieu of the sanctioned working capital facilities, which are in agreement with the books of account other than those as set out below.

(₹ crore)

Name of the Bank	Aggregate working capital limits sanctioned	Amount utilised during the quarter	Quarter ended	Amount disclosed as per quarterly return / statement	Amount as per books of account	Difference	Reason for variance*
State bank of India and consortium of banks#	2,000.00	-	December 31, 2022	12,594.47	12,572.90	21.57	Primarily inclusion of certain liabilities not forming part of creditors for goods.

(₹ crore)

Name of the Bank	Aggregate working capital limits sanctioned	Amount utilised during the quarter	Quarter ended	Amount disclosed as per quarterly return / statement	Amount as per books of account	Difference	Reason for variance*
State bank of India and consortium of banks#	2,000.00	-	June 30, 2021	6,973.00	6,409.24	563.76	Primarily inclusion of certain liabilities not forming part of creditors for goods.
	2,000.00	-	September 30, 2021	6,281.30	5,754.56	526.74	
	2,000.00	-	December 31, 2021	14,533.00	14,007.35	525.65	
	2,000.00	-	March 31, 2022	16,857.04	16,332.53	524.51	

* The above differences represents balance of creditors as at each reporting date.

Pari-passu charge is created on the Company's entire current assets namely stock of raw materials, finished goods, stocks-in-process, consumables stores and spares and book debts at its plant sites or anywhere else, in favour of the bank, by way of hypothecation.

Conclusion:

Companies may need to realign their Financial Statements Close Process (FSCP) and internal control over financial reporting to ensure that information and data relating to new clauses are compiled appropriately and on timely basis to avoid last minutes hassles in preparation of financial statements.

This Article does not attempt to provide an in-depth analysis or conclusive views on the new changes. Rather, it aims to highlight key consideration which companies should be aware of while implementing these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions. The views expressed in the publication need to be evaluated in light of the facts and circumstances of each Company.

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FINANCIAL STATEMENTS REPORTING OF NON-CORPORATE ENTITIES

CA Ronak Gada
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Financial reporting by an entity about its activities, financial position and financial performance play a very important role not only in the context a particular entity but also for the economic development of the country regardless of the objective or purpose of formation of the entity and its legal structure. Financial statements of an entity provide useful information to wide range of users like Investors, lenders, grantors etc. and help them in making decisions about an entity. Thus, it is very essential that financial reporting of an entity should be comparable, transparent, complete and unbiased.

Over the period of time, extent or size of economic and financial activities of the Non-Corporate entities have grown. Also, in the recent times Indian government has initiated many steps to create or upgrade infrastructure for public services such as roads, bridges, tunnels, airports, hospitals, water distribution facilities, energy supply, telecommunication networks and educational institutions through higher private participation through 'Public- Private-Partnership' model which has also led to substantial increase in the number of Non-Corporate entities in private sector as well as in government sector and increase in size of financial activities of these Non-Corporate entities.

Considering the above, recently the Accounting Standard Board (ASB) of The Institute of Chartered Accountants of India (ICAI) has taken a significant step by formulating a Technical Guide recommending the formats of financial statements for non-corporate entities. This would enable these entities to communicate their financial performance and financial position in standardised formats thereby enhancing their comparability.

➢ **Brief about Financial Statements:-**

Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes:-

1. Balance sheet:- It is a statement which provides information about financial position. The elements i.e. Assets, Liabilities and Equity are directly related to the measurement of financial position.
2. Statement of Profit and Loss:- It primarily focuses on an entity's income and expenses during a particular period.
3. Cash flow statement:- It reconciles the income statement with the balance sheet in three major business activities.
4. Notes and Other Statements and Explanatory Material:- It forms an integral part of the financial statements. It also include significant accounting policies as required by applicable Accounting Standards.

Further, in financial statements there may be also some supplementary schedules and information based on or derived from and expected to be read with such statements

Ultimately in the simple terms, the objective of financial statements is to provide information about the financial position, performance and cash flows of an entity.

➢ Brief about Non- Corporate Entities

All Business or Professional Entities, other than Companies incorporated under Companies Act and Limited Liability Partnerships (LLP) incorporated under Limited Liability Partnership Act are considered to be Non- Corporate entities. Some of the common structures which falls under the non-corporate entities are as follows:-

1. Sole Proprietorship Firms
2. HUF
3. Partnership Firms, Registered as well as Unregistered
4. AOP, BOI & Resident Welfare Association
5. Society registered under any law for the time being in force
6. Trust (private or public) registered or unregistered under any law for the time being in force
7. Any form of organization that is engaged fully or partially in any Business or Professional activities unless their activities are fully charitable in nature.

Please note that, the technical guide is relevant for the purpose of preparation of the financial statements of the above mentioned non-corporate entities unless any formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority, e.g., formats have been prescribed for Trusts under relevant State Trusts Act or Educational Institutions, Political Parties for which guidance has been specifically given by ICAI

➢ Applicability of Accounting Standard

In view of the above, Accounting Standards apply in respect of any entity engaged in commercial, industrial or business activities. Exclusion of an entity from the applicability of the Accounting Standards is permissible only if no part of the activity of such entity is commercial, industrial or business in nature. Even if where a very small proportion of the activities of an entity were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

At present, there are three sets of Accounting Standards:

1. Indian Accounting Standards (Ind AS) for specified class of companies
2. Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, for companies other than those following Ind AS
3. Accounting Standards (AS) prescribed by ICAI for entities other than companies.

➢ Applicability of Accounting Standards on Non-Corporate Entities:

For the purpose of the applicability of the Accounting Standards on the Non-Corporate Entities, ICAI has classified such entities into 4 different levels i.e. Level I, Level II, Level III and Level IV.

The details of the criteria of 4 different levels of entities as prescribed by ICAI are as follows:-

1. **Level I : Large Size Entities :**

a. Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

b. Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

c. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds Rs. 250 Crores in the immediately preceding accounting year.

d. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 50 Crores at any time during the immediately preceding accounting year.

e. Holding and subsidiary entities of any one of the above.

2. **Level II : Medium Size Entities :**

a. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds Rs. 50 Crores but does not exceed Rs. 250 Crores in the immediately preceding accounting year.

b. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 10 Crores but not in excess of Rs. 50 Crores at any time during the immediately preceding accounting year.

c. Holding and subsidiary entities of any one of the above.

3. **Level III : Small Size Entities :**

a. All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees Rs. 10 Crores but does not exceed Rs. 50 Crores in the immediately preceding accounting year.

b. All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of Rs. 2 Crores but does not exceed rupees Rs. 10 Crores at any time during the immediately preceding accounting year.

c. Holding and subsidiary entities of any one of the above.

4. **Level IV : Micro Entities :**

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities

Applicability of the Accounting Standards (AS) on the basis of the level of entities as prescribed by the ICAI are as follows :-

Level I entities are required to comply in full with all the Accounting Standards

➢ **Applicability of the Accounting Standards (AS) on the basis of the level of entities as prescribed by the ICAI are as follows :-**

AS	Name	Level II Entities	Level III Entities	Level IV Entities
AS 1	**Disclosure of Accounting Policies**	Applicable	Applicable	Applicable
AS 2	**Valuation of Inventories**	Applicable	Applicable	Applicable
AS 3	**Cash Flow Statements**	Not Applicable	Not Applicable	Not Applicable
AS 4	**Contingencies and Events Occurring After the Balance Sheet Date**	Applicable	Applicable	Applicable
AS 5	**Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**	Applicable	Applicable	Applicable
AS 7	**Construction Contracts**	Applicable	Applicable	Applicable
AS 9	**Revenue Recognition**	Applicable	Applicable	Applicable
AS 10	**Property, Plant and Equipment**	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 11	**The Effects of Changes in Foreign Exchange Rates**	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 12	**Accounting for Government Grants**	Applicable	Applicable	Applicable
AS 13	**Accounting for Investments**	Applicable	Applicable	Applicable with disclosures exemption
AS 14	**Accounting for Amalgamations**	Applicable	Applicable	Not Applicable
AS 15	**Employee Benefits**	Applicable with exemptions	Applicable with exemptions	Applicable with exemptions

AS	Name	Level II Entities	Level III Entities	Level IV Entities
AS 16	**Borrowing Costs**	Applicable	Applicable	Applicable
AS 17	**Segment Reporting**	Not Applicable	Not Applicable	Not Applicable
AS 18	**Related Party Disclosures**	Applicable	Not Applicable	Not Applicable
AS 19	**Leases**	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	**Earnings Per Share**	Not Applicable	Not Applicable	Not Applicable
AS 21	**Consolidated Financial Statements**	Not Applicable	Not Applicable	Not Applicable
AS 22	**Accounting for Taxes on Income**	Applicable	Applicable	Applicable only for current tax related provisions
AS 23	**Accounting for Investments in Associates in Consolidated Financial Statements**	Not Applicable	Not Applicable	Not Applicable
AS 24	**Discontinuing Operations**	Applicable	Not Applicable	Not Applicable
AS 25	**Interim Financial Reporting**	Not Applicable	Not Applicable	Not Applicable
AS 26	**Intangible Assets**	Applicable	Applicable	Applicable with disclosures exemption
AS 27	**Financial Reporting of Interests in Joint Ventures**	Not Applicable	Not Applicable	Not Applicable
AS 28	**Impairment of Assets**	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	**Provisions, Contingent Liabilities and Contingent Assets**	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

- **Prescribed format of Balance Sheet and Profit and Loss Account as prescribed by the**

  ICAI in the guidance note.

  Link for Guidance note have been attached:

- **General Instructions for Preparation of Balance Sheet and Statement of Profit And Loss of a Non-Corporate Entity**

a. These formats are recommended for preparation of Balance Sheet and Statement of Profit and Loss of a non-corporate entity.

b. Disclosure requirements recommended in the formats are in addition to and not in substitution of the disclosure requirements specified in the AS issued by the ICAI. Additional disclosures specified in the AS shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements.

c. Further, all other disclosures as required by the relevant statute shall be made in the notes to accounts in addition to the requirements set out in these formats.

d. Except in the case of the first Financial Statements prepared by the Non-Corporate entity (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

e. Notes to accounts may contain information in addition to that presented in the Financial Statements and may provide where required narrative descriptions or disaggregation of items recognized in those statements and information about items that do not qualify for recognition in those statements.

f. Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.

g. Depending upon the Total Income of the Non-Corporate entity, the figures appearing in the Financial Statements may be rounded off as given below:—

Total Income	Rounding Off
less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
More than one hundred crore rupees	To the nearest lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

- Conclusion:

This is the significant step taken by the ASB by standardizing the format of the financial statements to be prepared by the non-corporate entities. The Guidance note released for the Non Corporate Entities would enable non- corporate entities to communicate their financial performance and financial position in standardized formats. This shall enhance their comparability. Further, it would be immensely useful for the professionals working on the preparation of the financial statements for the non-corporate entities.

AUDIT CONCLUSION & REPORTING

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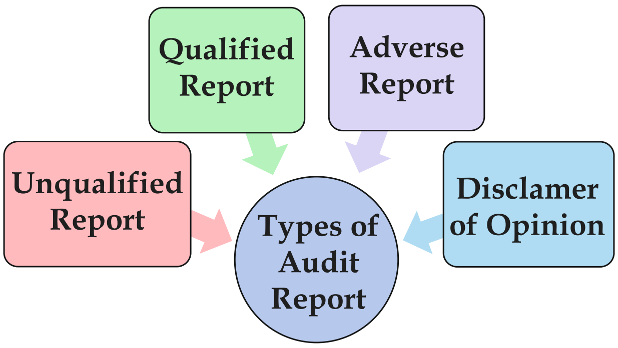
SA 700 series is a set of auditing standards issued by the ICAI that deal with the auditor's responsibility to form an opinion on the financial statements and to report on those financial statements.

The SA 700 series of standards is broadly divided into three standards:

1. SA 700 - Forming an Opinion and Reporting on Financial Statements
2. SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report
3. SA 705(Rev)- Modifications to the Opinion in the Independent Auditor's Report

In this Article, we shall cover SA 705 which deals with the auditor's responsibility to issue an appropriate report in circumstances, when auditor is required to issue a modified opinion (i.e. qualified opinion or adverse opinion or disclaimer of opinion).



Since, we all are well versed with the Theoretical part of all the SAs, let us start with the Conclusion. What are the circumstances when a modification to the auditor's opinion is required under SA 705:

1. Material misstatement- A material misstatement is an error or omission that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
2. Scope limitation - A scope limitation is a restriction on the auditor's ability to obtain sufficient appropriate audit evidence.
3. Uncertainty - The auditor must modify the opinion if there is an uncertainty that is material, pervasive, and relevant to the financial statements. An uncertainty is a matter about which there is a high degree of doubt that may cast significant doubt on the ability of the entity to continue as a going concern or the accuracy of the financial statements.

The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

Nature of Matter	Auditor's Judgment about the Pervasiveness of the Matter	
	Material but Not Pervasive	Material and Pervasive
Financial statements are Materially misstated	Qualified opinion (...Except for...)	Adverse opinion (... do not represent true & fair...)
Unable to obtain sufficient appropriate audit evidence	Qualified opinion (...Except for...)	Disclaimer of opinion (... we do not express an opinion...)

What is Pervasive? – Pervasive effects on the financial statements are those that, in the auditor's judgment:

1. Are not confined to specific elements, accounts or items of the financial statements;
2. If so confined, represent or could represent a substantial proportion of the financial statements; or
3. In relation to disclosures, are fundamental to users' understanding of the financial statements.

What is material misstatement? - SA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

Accordingly, a material misstatement of the financial statements may arise in relation to:

(a) The appropriateness of the selected accounting policies;

(b) The application of the selected accounting policies; or

(c) The appropriateness or adequacy of disclosures in the financial statements.

Thus, based on the above, the auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705 (Revised).

Interesting Facts on Audit Qualifications:

It is interesting to note that according to a research conducted by the Centre for Audit Quality Directorate (CAQD), 73% of the all the modifications are centred around 5 core themes of:

1. Going Concern
2. Financial Instruments

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1. Going Concern
2. Financial Instruments
3. External Confirmation
4. Consideration of Laws & Regulations
5. Recording of Provisions, Contingent Assets & Liabilities

The CAQD in its Key Findings found out the broad reasons for Modified Opinions expressed in Audit Reports are categorised under the following heads:

1. SA 250-Consideration of Laws and Regulations in an Audit of Financial Statements: The auditors had expressed modifications owing to non-compliance of various provisions of Companies Act 2013, FEMA, Income-tax Act, GST, SEBI & RBI rules pertaining to NBFCs.

PRACTICAL ISSUES IN REVISED CARO 2020 REPORT

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Background

The Companies (Auditor's Report) Order (hereinafter 'CARO'), 2020 Report has been applicable since the FY 2021-22. Thus making this the second year running for the applicability of the CARO, 2020 provisions. Prior to this the auditors, where applicable, were required to issue the report in accordance with the Companies (Auditor's Report) Order, 2016.

The CARO, 2020 Report has 21 clauses and these can be further divided into 47 subclauses. The CARO 2020 report has 7 newly added clauses and another 7 modified clauses when compared with the 2016 reporting requirements. The changes to the reporting requirements are mainly designed to address - Diversion of Funds, Early signs on Financial health, Security and Ownership of assets, Corporate Governance.

Upon perusal of the new reporting requirements, one cannot fail to observe how the structure of the CARO report has transformed over the years. Earlier the report was largely a statement of facts. However, in the present times, the report requires the auditor to provide an opinion on a lot more instances. This does not in any case mean that the auditor is required to carry out an investigation into the various areas, the auditor is merely expected to give specific information on certain aspects of his work.

In this piece we examine the practical issues and challenges in the revised CARO 2020 report with specific emphasis on some newly introduced and modified clauses including published accounts.

Analysis of Critical Clauses

Clause 3(i)(a)(B) – Intangible Assets

This sub clause is newly introduced and requires the auditor's comments on whether the company is maintaining proper records showing full particulars of Intangible assets. The points for consideration under this clause are as follows:

i. Although 'proper records' are not defined, they pertain to the quantitative details of the asset along with the asset's Description and Location. Reporting will be based on the audit evidence similar in nature to that of tangible assets.

ii. There have been instances that the auditee has not maintained records for old intangible assets. The auditor may state this fact when reporting under this clause.

iii. There have also been instances identified where the auditor has failed to report completely on whether proper records of intangible assets are maintained. The amount of intangible assets in this case was a small fraction of PPE and CWIP. Auditors must be aware of the fact that reporting under this clause is required irrespective of the materiality of the Intangible asset.

Clause 3(i)(c) – Title Deeds

This clause requires the auditor to comment whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favor of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below –

Description of property	Gross Carrying Value	Held in name of	Whether Promoter, director or their relative or employee	Period held –indicate range, Where appropriate	Reason for not being held in name of company*
-	-	-	-	-	*also indicate if in dispute

As regards the modification, we see the introduction of the prescribed format. The points for consideration under this clause are:

i. The meaning of immovable property was always a topic of debate. The Guidance Note on CARO, 2020 makes reference to the General Clauses Act, 1897 which defines Immovable Property to include "land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth". It further states that in case of Real Estate Company, inventories of immovable property must not be considered. Thus it can be implied that the auditor can consider PPE (including ROU Assets), Investment Property and Assets Held for Sale when reporting under this clause.

ii. This clause is a statement of facts. The auditor is not required to opine or comment on the rightful ownership of the immovable property. The auditor merely needs to ensure that a title deed exists.

iii. In cases where immovable property is mortgaged to third parties. The auditor should not rely on photocopies of the title deeds provided by the auditee. The auditor should obtain confirmation from the third parties or ensure examination of the original documents representing title deeds. Where the auditor is not able to obtain sufficient appropriate audit evidence regarding the title deeds of immovable properties, adequate disclosure must be made when reporting under this clause.

Clause 3(i)(d) – Revaulation

This clause requires the auditor to report 'Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets'. The points for consideration under this clause are as follows –

i. The auditor must keep in mind that the accounting aspects of revaluation of intangible assets as dealt with in AS 26, "Intangible Assets" is different than that dealt with in Ind AS 38, "Intangible Assets". AS 26 follows the Cost model while Ind AS 38 follows the Cost and Revaluation model. An instance was identified when a company required to report in accordance with Accounting Standards has reported under this clause as follows:

   "The company has not revalued its Property, Plant and Equipment or intangible assets or both during the year. Accordingly, reporting under clause 3(i)(d) of the Order is not applicable."

   It is pertinent to note here that revaluation of intangible assets is not applicable to the company and thus makes the statement erroneous. Thus, reporting under this clause must be done keeping in mind the applicable financial reporting framework.

ii. The auditor must also keep in mind that revaluations done in the previous periods need not be commented upon.

iii. There is also a possibility where a registered valuer's report is not obtained by the company. The auditor needs to disclose this fact when reporting under this clause.

Clause 3(ii)(b) – Working Capital

This clause requires the auditor to comment on whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets and whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the company. The points for consideration under this clause are as follows:

i. There arose ambiguity in cases where the working capital limits were sanctioned on the basis of security of other than current assets. It is pertinent to note that the intent of introduction of this clause is to curb the frauds identified in the past of artificial inflation of inventory and debtors at the time of reporting to the banks and financial institutions. The auditor is therefore required to only report on the working capital limits sanctioned on the basis of security of current assets.

ii. The auditor is also required keep in mind that reporting is with respect to the 'Sanctioned Limits' in excess of Rs. 5 crores. Thus, even though the utilization of such facilities is lower than the threshold mentioned, the auditor must report under this clause.

iii. The auditor must also be careful in case of the treatment of non fund based facilities. For example, there is a possibility that certain non fund based facilities may be availed for capital expenditure. The auditor must make subjective evaluation in such cases, whether such facilities will be included when reporting under this clause.

Clause 3(iii)(a) – Loans and Investments

The duty of the auditor, under this clause, is to determine whether the company during the year has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity. If the company has done so, the auditor should report on the matters specified.

i. The clause was modified to include 'advances in the nature of loans'. The interpretation of advances to be in the nature of loans is a very subjective decision and will require the auditor to exercise professional judgement when reporting under this clause. The guidance note on Schedule III provides us with a couple of examples in this respect. It says that an advance given for: a) an amount which is far in excess of the value of an order; or b) for a period which is far in excess of the period for which such advances are usually extended as per the normal trade practice, may be in the nature of a loan to the extent of such excess.

Clause 3(iii)(e) – Loans

This clause requires reporting in respect of loan or advance in the nature of loan granted which has fallen due during the year and has been renewed or extended or fresh loans granted to settle the overdue of existing loans given to the same parties. This clause is inserted to identify instances of 'evergreening' of loans/advances in nature of loans.

i. A peculiar scenario where the auditor may face challenges when reporting under this clause is in cases of round tripping of the funds. For example a loan given by the auditee to Co. 'A' which in turn loans the money to Co. 'B' which in turn loans the money to Co. 'C' which in the end loans the same money to the auditee. Now if 'C' were to default it would be a challenge for the auditor to look at scenarios beyond the first layer of funding and thus reporting under this clause will have to be looked at carefully. The RBI governor has also pointed out this issue on several occasions to curb this malpractice.

Clause 3(viii) – Undisclosed Income

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

i. This clause casts two responsibilities upon the auditor. The first being a statement of fact – Whether there has been an instance of voluntary surrender or disclosure of income during the year. The other being a matter of opinion – whether such details are 'properly' recorded in the books of account. The auditor must be mindful of these responsibilities and report accordingly.

ii. The auditor should also bear in mind that disputed additions are not required to be reported under this clause.

Clause 3(ix)(b) – Wilful Defaulter

Under this clause, the auditor is required to report whether the company has been declared as a wilful defaulter by any bank or financial institution or any other lender.

i. The auditor should consider the facts and circumstances when reporting under this clause. There have been instances of differences of opinion arising between the auditor and the auditee with regards to show cause notices issued asking the company reasons as to why it should not be declared a wilful defaulter. Reporting under this clause will not be applicable if the conclusion to the show cause notice issued is pending.

ii. Where this clause becomes applicable and the company has been determined a wilful defaulter, it is advised that the auditor look into the going concern assumption as well.

iii. Banks come out with lists of wilful defaulters. The board minutes may also have details which may help the auditor in reporting under this clause. The auditor may also seek confirmations from the banks/ financial institutions when reporting under this clause. However, confirmations may not be sought in cases where the payments have been consistently being made by the company.

Clause 3(ix)(d) – Utilization of loan taken

This clause requires the auditor to comment whether the funds raised on short-term basis have been used for long-term purposes. The points for consideration when reporting under this clause are:

i. It is pertinent to note that the clause does not mention the use of short-term loans for long term assets. It uses the terminology of long-term purposes. The auditor should examine each scenario carefully and ensure that when reporting under this clause 'long term assets' and 'long term purposes' are not used interchangeably even though most scenarios would indicate the same. Under this clause, Comparison would be required for long term sources and application of funds.

Clause 3(ix)(e) – Group Company Obligation

Reporting under this clause would normally be required when the company has taken any funds from any entity or any person and has also granted loans or advances in the nature of loans to its subsidiaries, associate companies or joint ventures or has made further investments in such subsidiaries, joint ventures, or associate companies.

i. The auditor must note that when reporting under this clause, the consequent impact on reporting under clauses 3(ix)(c) and 3(ix)(d) is also taken into consideration. The auditor of a listed company reported under this clause stating that the holding company issued short term commercial papers for the purchase of equity shares in a subsidiary. However, under clause 3(ix)(d) the auditor has reported that no short term loans were taken for long term purposes.

Clause 3(xiv)(a) – Internal Audit

The points for consideration under this clause are as follows:

i. This clause requires the auditor to 'comment' whether the company has an internal audit system <u>commensurate with the size and nature of its business</u>. This involves the auditor's professional judgement. There have been instances noticed when Section 138 of the Companies Act, 2013 is applicable and a certain area that is significant for the entity's business is scoped out of the internal audit. The auditor should evaluate whether such instances need to be reported.

ii. It has been noticed in the recent past that even though Section 138 of the Companies Act, 2013 is not applicable to certain companies, they have employed an internal audit function on a voluntary basis. The auditor is required to report under such circumstances as well. Mere statutory requirement does not trigger reporting under this clause.

iii. Another area of professional diligence for the auditor when reporting under this clause is the correlation between the Internal Financial Controls over Financial Reporting (IFCoFR) report and the Internal Audit report. There have been instances where control deficiencies were identified under IFCoFR and the Internal Audit report had failed to highlight these deficiencies. The auditor when reporting under this clause has maintained the stance that the internal audit system of the company does not commensurate with the size and nature of its business.

Clause 3(xviii) – Statutory Auditor Resignation

Under this clause, the auditor is required to report if there has been any resignation of the statutory auditors during the year. This clause also requires the auditor to consider the issues, objections or concerns raised by the outgoing auditors in case of resignation. The points for consideration under this clause are as follows:

i. The auditor while reporting under this clause must bear in mind that change of auditors due to mandatory rotation is not covered under this clause.

ii. In case of joint audits where one of the joint auditors resigns, the continuing auditor is required to consider the reason for such resignation and report under this clause.

Conclusion:

CARO 2020 is a significant piece of legislation that has the potential to improve the quality of corporate reporting in India. However, it is important to monitor the impact of the new order in the coming years to ensure that it is not too burdensome for the auditors or any other stakeholder.

AUDIT DOCUMENTATION : THE LONE SAVIOUR

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Introduction

Audit documentation is a foundational pillar of the audit process, yet it is often taken lightly and undervalued. Its significance cannot be overstated, as it ensures effective and efficient audit management, instills confidence in financial reporting, and safeguards auditors and their clients from potential challenges and legal liabilities. In this comprehensive article, we will delve deep into the world of audit documentation, exploring its multifaceted importance, the art of maintaining impeccable records, and its role as the lone saviour in times of audit uncertainties. ICAI has time and again harped upon the importance of Audit Documentation in SA 230 and also have issued an implementation guide which members can refer from public database of the ICAI.

The following points demonstrate significance of Audit Documentation:

- Ensuring Accuracy of Financial Records

  Accuracy is the bedrock of financial reporting, and audit documentation serves as the fortress that upholds this principle. By documenting the audit evidence, procedures, and conclusions, auditors create an irrefutable trail that substantiates the validity of financial statements. Stakeholders, regulators, and investors rely on this documentation to have complete faith in the accuracy and reliability of financial data.

- Demonstrating Compliance with Laws and Regulations

  In today's intricate regulatory landscape, compliance with laws and regulations is a fundamental aspect of auditing. Properly maintained audit documentation showcases the meticulous adherence to legal standards, ensuring that the audit process meets all the necessary requirements. This documentation serves as a shield against potential legal challenges and reinforces the credibility of the audit findings.

- Preventing/Detecting Fraud and Errors

  Audit documentation acts as a vigilant guardian against fraud and errors in financial statements. By thoroughly documenting audit procedures and tests, auditors can trace anomalies and discrepancies, leading to the early detection of fraudulent activities or accounting errors. This proactive approach helps protect stakeholders' interests and maintains the integrity of financial reporting.

- Providing Evidence of Effective Internal Control Systems

  Internal controls are vital in safeguarding an organization's assets and maintaining accurate financial records. Comprehensive audit documentation includes evaluations of internal control systems, providing evidence of their effectiveness. This documentation assists management in identifying areas for improvement and implementing necessary changes to enhance organizational efficiency.

- Historical Information for Future Reference

  Audit documentation represents a treasure trove of historical information that becomes invaluable for subsequent audits. By reviewing past documentation, auditors can draw comparisons, analyze trends, and identify areas of improvement. This continuous learning process enhances audit quality and ensures consistency in audit procedures over time.

The Art of Maintaining Impeccable Audit Documentation

- Maintaining Permanent Audit File

  The permanent audit file serves as a repository of key documents that remain relevant across multiple audit periods. It includes essential items such as the legal and organizational structure, previous audited financial statements, significant accounting policies, and noteworthy audit observations from prior years. Proper organization and maintenance of the permanent audit file facilitate seamless continuity and provide a valuable historical context for the audit team.

- Maintaining Current Audit File

  The current audit file contains documents specific to the ongoing audit engagement. It encompasses items like minutes of board meetings, the nature, timing, and extent (NTE) of audit procedures performed, management representations, and the auditor's conclusions on significant aspects. The current audit file is dynamic and continually updated throughout the audit process, ensuring the audit team's access to the most recent information.

- Retention of Audit File

  Appropriate retention of audit documentation is essential to meet legal or professional requirements. While there is no specific time limit prescribed by SA-230, audit firms should establish policies and procedures for retaining engagement documentation. Typically, audit firms retain documents for more than seven years from the date of the auditor's report. These policies protect auditors and clients by providing access to critical information in case of future disputes or inquiries.

- Nature, Timing, and Extent (NTE) for Audit Procedures

  Nature, timing, and extent are key considerations when planning audit procedures to gather evidence. Nature refers to the type of test performed (e.g., observation, confirmation). Timing involves when the test is conducted (interim or year-end). Extent relates to the amount of testing performed (e.g., sample size). The same needs to be documented in audit files

- The Audit Engagement Letter

  An audit engagement letter is a written agreement between the auditor and the client that outlines the scope of work, responsibilities of both parties, fee estimates, and other essential details. Having an engagement letter is essential for preventing scope creep, setting clear boundaries, and providing clarity to both parties.

  Key sections of the audit engagement letter should include the auditor's responsibilities (risk assessment, obtaining evidence, presenting audited financial statements, etc.) and management's responsibilities (preparing financial statements, internal controls, complying with laws, etc.). The letter should also define the financial reporting framework and the objective and scope of the audit engagement.

- The Management Representation Letter

  The management representation letter is issued by the client to the auditor during the audit process. It clarifies the separation of responsibilities between the auditor and the auditee (management) and provides assurance that the information provided during the examination is reliable. The letter also addresses any material weaknesses or significant deficiencies in internal controls.

Audit Documentation: The Lone Saviour in Case of Any Issues

As auditors navigate the complex terrain of auditing, they may occasionally encounter unforeseen challenges or disputes. In such critical junctures, audit documentation emerges as the lone saviour, offering a lifeline to both auditors and their clients. Properly maintained and comprehensive documentation provides a well-documented defence against any allegations, providing auditors with a clear and coherent account of their audit process.

The audit trail created by meticulous documentation becomes an invaluable guide for addressing queries, settling disputes, and facilitating open communication between auditors and stakeholders. Furthermore, it shields auditors from potential legal liabilities, reinforcing the importance of adhering to professional standards and best practices.

While often overlooked, audit documentation is the unsung hero of the audit process. Its significance extends far beyond its mere existence, as it underpins the very foundation of auditing credibility and efficiency. In the face of challenges and uncertainties, audit documentation emerges as the dependable savior, supporting auditors in their pursuit of accuracy and compliance. Therefore, auditors must recognize and embrace the paramount importance of maintaining meticulous and comprehensive audit documentation. By doing so, auditors can elevate the value of their work, foster trust with clients, and safeguard the integrity of the auditing profession.

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PRACTICAL HACKS TO ACHIEVE CONSISTENCY AND DISCIPLINE IN SELF-DEVELOPMENT

Introduction

Consistency and discipline are the keys to unlocking your true potential in the journey of self-development. While it's easy to set ambitious goals, maintaining the necessary habits and focus can be challenging. In this article, we present ten practical hacks that will help you infuse consistency and discipline into your daily life, making self-development a natural and rewarding part of your routine.

- **Start with Small, Attainable Goals:**

  Begin your self-development journey by setting small, achievable goals. When you accomplish these smaller tasks, you'll experience a sense of progress and accomplishment, boosting your motivation to continue. As you build consistency, gradually increase the complexity and scope of your goals.

- **Create a Daily Routine with Specific Time Blocks:**

  Design a daily routine that includes specific time blocks dedicated to self-development activities. For example, allocate 30 minutes each morning for reading or meditation, an hour for skill-building in the afternoon, and 20 minutes for reflection and journaling before bedtime. Having a structured schedule helps to form lasting habits.

- **Use Habit Tracking Apps:**

  Leverage the power of habit tracking apps to monitor your progress and maintain consistency. These apps can help you stay accountable by reminding you of your tasks and tracking your streaks. Celebrate each successful day of maintaining your habits and use the visual progress as motivation.

- **Find an Accountability Buddy:**

  Join forces with a friend or family member who shares similar self-development goals. Regularly update each other on your progress and challenges. This mutual support system can provide encouragement during tough times and keep you both focused on the journey.

- **Create a Distraction-Free Environment:**

  Identify and eliminate potential distractions from your surroundings. Designate a specific space for self-development activities and limit interruptions during your dedicated time blocks. Turn off notifications on your phone or use apps that block distracting websites while you work on your goals.

- **Break Tasks into Smaller Steps:**

  When faced with significant self-development projects, break them down into smaller, manageable tasks. Tackling these tasks one at a time will prevent overwhelm and make your goals more achievable. Celebrate completing each step as a mini-victory.

- **Practice the "Two-Minute Rule":**

  If a task takes less than two minutes to complete, do it immediately. Applying this rule helps you address smaller tasks promptly, ensuring they don't accumulate and disrupt your consistency. Over time, this habit will help you stay on top of your responsibilities.

- **Practice Mindfulness and Self-Awareness:**

  Mindfulness and self-awareness play crucial roles in maintaining consistency and discipline. Be mindful of your thoughts, emotions, and behaviours. Notice patterns of procrastination or self-sabotage and work on understanding the underlying reasons. Cultivating self-awareness will enable you to make conscious choices and develop effective strategies to overcome obstacles that impede your progress.

- **Embrace the Power of Positive Affirmations:**

  Train your mind to stay disciplined and consistent through positive affirmations. Repeat affirmations relevant to your goals daily, such as "I am committed to my self-development journey," or "I have the discipline to achieve my dreams." These affirmations reinforce your beliefs and strengthen your resolve.

- **Schedule Regular Review Sessions:**

  Set aside time every week to review your progress and reflect on your self-development journey. Assess what worked well and what challenges you faced. Use this reflection to make adjustments to your routine, habits, or goals as needed to stay on track.

- **Reward Yourself for Milestones:**

  Celebrate your achievements, both big and small. When you reach a milestone or achieve a significant goal, reward yourself with something you enjoy, such as a favourite treat, a short break, or a small purchase. This positive reinforcement reinforces your commitment to consistency and discipline.

- **Practice Mindfulness and Self-Awareness:**

  Mindfulness and self-awareness play crucial roles in maintaining consistency and discipline. Be mindful of your thoughts, emotions, and behaviours. Notice patterns of procrastination or self-sabotage and work on understanding the underlying reasons. Cultivating self-awareness will enable you to make conscious choices and develop effective strategies to overcome obstacles that impede your progress.

Conclusion

Achieving consistency and discipline in self-development is within your reach when you employ practical and actionable strategies. Start with attainable goals, create a structured routine, and use technology to track your progress. Engage with a support system and remove distractions to stay on course. Break tasks into smaller steps, practice positive affirmations, and review your progress regularly. Remember to celebrate your victories and be kind to yourself during setbacks. By integrating these practical hacks into your daily life, you'll find that consistency and discipline become second nature, paving the way for continuous growth and self-improvement.

EVENTS IN RETROSPECT

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
Friday, June 30, 2023	Programme Committee	US $ 5 Trillion Economy: How Real, How Far?	Ravi Dharamshi - Founder & MD, ValueQuest Investment Advisors Ashutosh Bhargava - Head Equity Research, Nippon Life India Asset Management Ltd.	300+ participants

Events In Retrospect

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
Friday, 7th July, 2023	Capital Market Committee	"Fundamentals & Value Investing - Pharma Sector"	Mr. Rahul Veera, Fund Manager with Abakkus Asset Manager LLP	35+ participants
Friday, 7th July 2023	Students Committee	ITR Filing for AY 2023-24 (Key Amendments & Common errors while filing returns)	Speaker - Shubh chheda Mentor - CA Hetal Maru Gada	70+ participants

EVENTS IN RETROSPECT

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
Saturday, 8th July, 2023	Membership & Recreation Committee	Felicitation of Newly Passout CA in May 23	Not applicable	11 participants

EVENTS IN RETROSPECT

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
Saturday, 8th July, 2023	YIME Committee	Orientation of Newly inducted Sub-Committee members	CA Himanshu Chheda & CA Paras Savla	20+ participants
Saturday, 8th July, 2023	YIME Committee	Board Games Event	The Board Game Co	80+ participants