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EDITORIAL

Chartered Accountants: Committed to Truth & Integrity



CA Vinod Jain

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The Chartered Accountants play an important role in optimising financial resources and treasury management, contribute strategically to business plan and growth strategy, design capital structure and formulate corporate structure, review, design and guide in respect of internal controls and risk management. They play crucial role as a team in designing of systems and application process,

particularly focused on financial and accounting systems besides providing management input, leadership, and innovative ideas.

The Chartered Accountants conduct audit providing credibility to financial statements. Based on detailed analysis of data, documents, information, disclosures and their independent examination an auditor is able to assure that financial statements are free from material mis statement due to fraud or error.

Many times, the role of CA profession, as auditors is being misunderstood and role, responsibility, utility and credibility of CA profession is questioned including those who manage the CFO position or the team of finance professionals beside role and responsibility as independent auditors. Most of such apprehensions or accusations are being falsely implicated on chartered accountants. Even a section of investigating agencies including CBI, SFIO, ED, NFRA, SEBI, DRI, GST and income tax department are conducting their review and investigation with an adverse mindset against the Auditors. The Chartered Accountants as a class is not only highly efficient and effective but also is highly ethical and reliable. The clients and other stakeholders are gaining significantly on the path of growth and prosperity with the professional input and guidance of all Chartered Accountants.

Project CA Udaan

"CA Udaan" project has been planned and evolved to energise CA fraternity and to address all apprehensions and allegations against profession of chartered accountants. The All India CA society is committed to support and supplement great

contribution by ICAI and its council for more than 7 decades. The Chartered Accountants are committed to support and pave the way for achieving vision of PM Sh. Narendra Modi of a new Hindustan free of:

- Corruption
- Money Laundering
- Black Money
- Harassment
- Economic offenders and manipulators
- Tax evasion
- Fraudulent and manipulative practices



Shri Narendra Modi

Prime Minister of India

• TRUTH	• DETERMINATION	• सत्यनिष्ठा	• ज्ञान
• FAIRNESS	• DISCIPLINE	• ईमानदारी	• निष्ठा
• HONESTY	• DEVOTION	• निडर	• जागरूक
• EXCELLENCE	• COMPASSION	• आजाद सोच	• स्वतंत्र
• EFFECTIVENESS	• HARDWORK	• उत्कर्ष	• सूक्ष्म
• INTEGRITY	• KNOWLEDGE	• दया	• निष्पक्ष
• ETHICS	• VISION	• पक्का इरादा	• पारदर्शिता
• TRANSPARENCY	• METICULOUSNESS	• अनुशासन	• कर्तव्य-परायणता
• INDEPENDENCE	• HARDWORK	• दृढदृष्टि	• राष्ट्रवादी

CA's are determined to ensure

Financials Statements are

- True and Fair
- Free from Material Misstatement
- Free from Fraud or Error
- Credible and Reliable

Check, Control and Report

- Diversion of funds
- Misappropriation of funds and resources
- Misuse of resources
- Fraud or Error subsisting in accounts
- Deviations from GAAP or Standards
- Violation of Laws, Rules or Regulations

Capital Market

Uted Pension regulator PFRDA has advised pension funds to formulated a detailed policy on investment in Initial Public Offer (IPOs) and get it approved by their boards. The investment team of these funds can take a decision on a day-to-day basis subject to compliance of the

BSE, NSE warn of investment risks

BSE and NSE have asked investors to refrain from investing in unregulated derivative products such as contracts for difference and binary options offered by internet-based trading platforms. Investors falling prey to the promises of high or exorbitant returns by these trading platforms may eventually lose money heavily. Accordingly, investors have been advised to refrain from dealing or investing in such products.

The development came after the exchanges noticed some unregulated platforms or websites offering to trade in certain unregulated derivative products called contracts for difference (CFD) or binary options.

Contracts for difference (CFD) in market parlance, refers to a contract between a buyer and a seller that stipulates that the buyer will pay the seller the difference between the current

value of an asset and its value at contract time. It permits traders and investors a chance to profit from price movement without owning the underlying asset.

BSE clarification soothes nerves: Curbs on firms with midcap of Rs. 1000 crore, clarifies exchange; experts say impact of the move less than feared earlier

The BSE clarified that the new additional surveillance rules would only apply to securities exclusively listed on its platform with market capitalisation of less than 1,000 crore. The new rules would only cover scrips that are part of X, XT, Z, ZP, ZY, and Y groups and quote at more than 10 per share.

Sharp swings would be restricted in stocks that are subject to new pricing framework. The circular should help curb manipulative activity in micro caps. This is a timely initiative to curb the excessive speculative activity.

PSUs freed from minimum public shareholding norm

The Finance Ministry has tweaked the Securities Contracts (Regulation) Rules, 1957 to exempt listed public sector companies from the minimum public shareholding norm..

IBC

IBC deviated from objectives

Haircuts of as much as 95% and the delay in resolution process with more than 71% cases pending for more than 180 days, points towards a "deviation" from the original objectives of the

Code intended by Parliament.

There may be an imperative to have a benchmark for the quantum of "hair cuts" (faced by financial creditors) comparable to global standards.

Latest in Finance

5% concession

The policy incentivises scrapping unfit vehicles with tax concessions and registration fee waivers etc., for new purchases.

Auto industry veterans lauded the move, terming the scrap page policy a panacea that will also generate jobs in the auto ancillary sign scrap page space.

Channelising used materials the new policy would channelise the used materials- copper, aluminium, steel, rubber and plastic back into production. It is aimed for maximum recovery

up to 99 %. This will increase availability of materials and reduce costs by up to 40% for raw materials, thereby fuelling India's competitiveness globally.

RBI may come out with digital currency model by year-end

The RBI may come out with a model on central bank digital currency as early as this year-end. It is being internally evaluated issues such as scope, technology, distribution mechanism, and validation mechanism, among others.

Corporate Laws

CCI to launch study into film distribution

The CCI has received complaints from exhibitors that distributors are not supplying movies. Some distributors have told CCI that producers are not releasing films to them since they wish to stagger their release. At the same time, CCI has received a complaint that the three parties getting into an agreement to decide on release dates is monopolistic.

Lok Sabha Nod to LLP Bill

The Limited Liability Partnership (Amendment) Bill was passed by a voice vote in Lok Sabha. The Bill will bring positivity in the LLP eco-system and stressed the legislation will lead to ease of doing business.

It seeks to decriminalise 12 offences under the law and help improve the ease of doing business by amending the Limited Liability Partnership (LLP) Act, 2008.

LEGAL PARTNER

Caste in stone

The passage of the 127th Constitution Amendment Bill in both Houses of Parliament with rare unanimity across the political spectrum reflects the deeply political nature of the issue of

caste reservations in India. The sig power to identify socially and economically backward classes (SEBCS).

Banking

RBI allows HDFC Bank to issue credit cards

In a partial relief to HDFC Bank, the largest private sector bank of the country, the Reserve Bank of India (RBI) has allowed the lender to issue new credit cards. In December last year, the banking regulator had directed HDFC Bank not to issue new credit cards and halt all launches of its digital business-generating activities under its programme Digital 2.0. This came after several instances of outages in the bank's mobile banking app and internet banking platform.

Promoters may give personal guarantee on foreign assets

In a directive issued to banks, the RBI said banks would face a

penalty of 10,000 per ATM for cash-out of more than 10 hours in a month.

"Where the guarantee is extended as above by a promoter, which is a body corporate or an individual, the Indian entity shall be a part of the promoter group" as defined by capital markets regulations.

The guarantee, to the extent of the amount invoked, will no longer be part of non-fund-based exposure but will be considered lending.

It also said where a guarantee had been extended jointly by two or more Indian entities to a foreign entity, 100% of the amount of such a guarantee "shall be reckoned towards the individual limits of each of such Indian entities".

GST

Online Gaming seeks clarity on taxation

Two taxation models are prominent.

- Tax is levied only on the rake fees, earned by the gaming service provider, a practice followed in all EU nations (except France), UK and US.
- The deemed credit model followed by the likes of Australia, Singapore and South Africa provides for levying tax at standard rate on the entire stake value and simultaneously allows deemed credit of the tax paid on the amount distributed to the players. The report recommends that valuation must be clarified, with either confirmation of GST applicability on rake fee in line with industry practice or by following the deemed credit model.

Pooled fund not service providing entity, says IVCA (Indian Venture and Alternate Capital Association)

- INTO THE TAX NET
- Bengaluru tribunal views trusts as entities providing fund management services to contributors or unit holders
- This could impact REITs, InvITs, AIFs and MFs which operate within a trust structure.
- The ruling has created substantial confusion within the domestic fund industry & among LPs
- AIFs are a mere pooling vehicle & not a service providing entity
- Globally, carried interest in the nature of a profit share is treated as pass through investment income.

Export

Exports surge 49.9% to record \$35 billion in July - Recovery in key global markets, robust demand help outbound shipments. India exported goods worth \$35.43 billion in July, the highest ever in a month, due to recovery in key global markets and robust demand.

Export incentive

PM to launch national mission to meet FY22 export target of \$400bn

Prime Minister Narendra Modi launched national effort to achieve the target of \$400 billion worth of merchandise exports in the current fiscal year.

SEIS allocation will help tourism-related services

Import

Importers of precious metals get CBIC relief

The deadline for availing duty-free benefits on the import of

precious metals for manufacturing jewellery and gold coins for exports has been extended by six months.

Income Taxation

A welcome move

The introduction of the Taxation Law (Amendment) Bill, 2021 in Parliament by the Finance Minister on August 5 to nullify the retrospective effect of the indirect transfer of Indian assets provision is therefore welcome. The Bill proposes to amend the

tax law so as to provide that no tax demand shall be raised in future on the basis of the said retrospective amendment for any indirect transfer of Indian assets if the transaction was undertaken before May 28, 2012 (that is, the date on which the Finance Bill, 2012 received the assent of the President).

CSR

Crowd funding portal for treating rare diseases in place

The centre has operationalised a digital platform for crowd-funding for expensive treatment for rare diseases among children. <http://rarediseases.aardeesoft.com>

Background

- NFRA was constituted on 1st October 2018 (Section 132 - Companies Act, 2013)
- NFRA constituted to
 - Make recommendation to government on Accounting and Auditing Policies and Standards.
 - Monitor and enforce compliance- exceptional cases identified or referred by Government
 - Oversee the quality of service by Chartered Accountants.
- NFRA to recommend only on policies and standards as Institute of Chartered Accountants of India

Constitution of NFRA Board

S. No.	Particulars	Category	Remarks
1	Chairman	Full Time / Part Time	
2	Member	Full Time	
3	Joint Secretary MCA	Part Time	Ex Officio MCA
4	Deputy C&AG	Part Time	Ex Officio C&AG
5	Executive Directors RBI	Part Time	Ex Officio RBI
6	Executive Directors SEBI	Part Time	Ex Officio SEBI
7	President, ICAI	Part Time	Ex Officio ICAI
8	Chairman Accounting Standards Board, ICAI	Part Time	Ex Officio ICAI
9	Chairman, Auditing and Assurance Standard Board of ICAI	Part Time	Ex Officio ICAI
10	Prominent Practising Chartered Accountant	Part Time	Nominated by MCA
11	Prominent Practising Chartered Accountant	Part Time	Nominated by MCA

- 4 More Nominees can be appointed by Government of India
- NFRA Chairman can be Part Time in terms of Companies Act
- It is important to ensure that only Professionals with Audit experience of more than 10 years should be considered for nomination for any part time or full-time role in NFRA, except Ex-Officio Members.

NFRA Consultation Paper on Statutory Audit & Auditing Standards for MSMCs

NFRA Issued a consultative paper to seek public comments on NFRA recommendations:

- Proposal to exempt mandatory statutory audit of companies below net worth of Rs 250 crores
 - Exempting 99.69% companies from Audit
 - Only 3,568 companies to be subject to Audit
 - Only 871 listed companies.
- Proposal to exempt compliance
 - of Accounting Standards
 - of Auditing Standards

Category	Above 250 Cr Networth	Total Companies	%age
Listed Company	871	6,915	12.6%
Unlisted Public Ltd Company	1,076	57,074	1.89%
Private Ltd Company	1,621	10,85,178	0.15%
Total	3,568	11,49,167	0.31%

Basis of NFRA Conclusions:

NFRA Conclusion is based on premise

- That Chartered Accountants are charging very low audit fee currently.
- The audits presently conducted are only a Sham
- Compliance of accounting and auditing requirements are unnecessary
- burden

NFRA Consultative paper is unauthorised

- Ultra Vires** of Powers Delegated to NFRA by Section 132 of Companies Act, 2013
- Breach of Corporate Governance by NFRA:** The Consultative Paper has been issued
 - without circulation or knowledge or approval of the NFRA Board.
- No agenda or note in this regard was circulated to 11 members of NFRA nor this matter was ever listed for consideration in any meeting of NFRA.
- The subject matter is completely unauthorised by NFRA as it was never discussed in any meeting of NFRA.

Audit Assurance – Benefits

The statutory audit by an independent Chartered Accountant firm provides a professional assurance that:

- Internal operational Control exist - ensure efficiency and efficacy of management
 - Internal financial control is adequate
 - Financial statements are credible
- The financial statements are free from material misstatement due to fraud or error
- No personal expenses are debited in the Profit and loss account
- Capital expenditures are not charged to revenue or vice versa
- No unsupported and unrelated expenses are charged to Profit and loss account
- No unsupported and unrelated expenses are charged to Profit and loss account
- The generally accepted Accounting Principles (GAAP) and mandatory accounting standards are followed in letter and spirit

Risk of Unaudited Financials

In the absence of Audit, even in a small net worth company, the Company vehicle with a limited liability, may be massively misused

- Lack of Corporate Governance
- Financial statements may be drawn without books of accounts
- Non-compliance of Generally Accepted Accounting Principles and basic concepts of accounting
- Unaccounted bank transactions
- Lack of Financial discipline or disclosures
- Large scale non-performing assets unreported
- Loans extended without security or adequate documentation- even where Board may so mandate
- Charging of personal expenses to books
- Charging of unsupported expenses and booking unsupported income
- Non- maintenance of books of accounts and statutory records

Net worth is not an appropriate indicator of size and nature of companies

Net worth Range (Rs. Crores)	Total No. of Companies	Total Net Worth (Rs. Crores)	Turnover range (Max) (Rs. Crores)	Indebtedness Range (Max) (Rs. Crores)
>=200-<250	743	1,65,888	5,960	2,771
>=100-<200	3,278	4,58,021	16,780	18,413
>=50-<100	5,897	4,12,461	19,538	8,525
>=5-<50	55,662	8,40,613	21,260	9,959
>=0-<5	4,10,956	2,60,320	64,265	6,540
Negative Net Worth	1,22,951	-9,50,457	54,900	72,700

Former Chairman NFRA lacks wisdom to even appreciate, that no standards of corporate governance can permit

- No Accounting Standards
- No Auditing Standard
- No Audit

Conclusion: Net worth or Capital cannot be a basis of any exemptions from Corporate Governance Net Worth Range

Low Turnover companies may have very high debt

Turnover range (Rs. Crores)	Total No. of Companies	Total Turnover (Rs. Crores)	Indebtedness Range (Max) (Rs. Crores)
>=1,000 and above	473	15,51,068	72,709
>=500-<1000	1,134	7,61,726	28,598
>=100-<500	11,452	23,11,136	20,445
>=10-<100	54,634	17,36,318	15,313
>=0.5-<10	1,39,828	4,07,473	14,000
>0-<0.5	1,82,844	21,484	4,833
<=0	2,09,122	-1	9,332

Conclusion: Turnover cannot be a basis of any exemptions from Audit, Accounting Standard or Auditing Standard

Companies with Low Debt may have high turnover and also substantial Overall Debt Exposure

Indebtedness Range (Rs. Crores)	Total No. of Companies	Total Indebtedness (Rs. Crores)	Indebtedness Range (Max) (Rs. Crores)
>=5,000 & Above	58	3,05,715	31,800
>=500-<5,000	906	4,17,575	36,800
>=100-<500	3,933	8,83,504	54,945
>=50-<100	4,303	6,86,302	14,683
>=5-<50	48,202	22,51,095	64,265
<5	5,42,085	22,45,012	19,384

- Companies with Less than Rs. 5 Crore Debt individually together carry an Indebtedness of Rs. 22.45 Lac Crores.
- Companies with Less than Rs. 50 Crore Debt individually together carry an Indebtedness of Rs. 44.96 Lac Crores.
- Turnover data indicates that even low debt companies may have very high turnover

Conclusion: Indebtedness cannot be a basis of any exemptions from Audit, Accounting Standard or Auditing Standards.

Additional Issues

- The Data collated by NFRA Consultative paper captures historically reported data which only captures year end figures: -
 - The data ignores
 - Mid Year Peak Indebtedness
 - Significant Transactions of Non-Revenue nature which may not appear in yearend balances
 - ▲ Advances (given or taken during the year)
 - ▲ Transactions getting settled on net basis
 - Size of Investments held by the company
 - The data given by them in their report itself supports the case of strengthening the audit function further, and not for any possible relaxation.

In case Audit Exemption Proposal is Accepted

- Accounting is backbone of business- In the absence of auditors-accounting will collapse-negative impact on all businesses, NGOs, industries, commerce, employment-absence of qualifies CA will hit India's reputation.
- Impact on entire business fraternity and their families
- Corporate Governance zero
- Tax compliance and collection to hit
- Start up to suffer
- Industrial and business growth to suffer
- SME Growth will suffer as Auditors guide growth of SME Businesses.
- Economy will be hit adversely
- NPA in Banks – clear result of lack of Independent Audit
- Fall in Tax Collection in SME – Clear result of enhanced limit of Tax Audit
- No credibility to financial statements
- Suggestion is Anti-national

International Benchmarking

World Bank - Ease of Doing Business

- The NFRA Consultative paper suggests that Audit Exemption may support of Ease of Doing Business – It is not so as per World Bank framework
- World Bank for Ease of Doing Business Ranking will worsen in absence of Audit adversely impacting
- Getting Credit and Investment
- Protecting Minority Interest
- Enforcing Contracts
- Resolving Insolvency
- Indian financial reporting is best and is already aligned to Internationally accepted Accounting and Auditing Standards.

Audit Exemptions Internationally

- The NFRA Consultative paper summarises exemption criteria Europe majorly on following grounds: -
 - Turnover
 - Balance Sheet Total
 - No of Employees
- Most countries have negligible black or parallel economy - Laws are very tough and Investors are protected
- The purchasing power parity of India and its per capita income is quite low as compared to developed economies

SAVE AUDIT | SAVE ECONOMY

included in NFRA Consultative Paper.

- In India, these can be significant monetary transactions even in small capital, small turnover or with low number of employees.
- No Exemption from Audit is required in India, in view of analysis given herein before, and to avoid risk of tax evasion, money laundering, and loss of complete credibility.

Other Major Issues

Why is Audit Important?

Mandatory audit is actually meeting the needs of:-

- Regulators – RBI, SEBI, TRAI, MCA
- Industry and commerce
- Banks
- Lenders
- Investors
- Vendors
- Customers
- Collaborator
- Income Tax department
- GST department
- Shareholders including
 - Domestic Investors
 - Minority Shareholders
 - Foreign Institutional Investors
 - Private Equity Funds
 - Mutual Funds
 - Strategic Investors
 - Investors in Start ups

If Audit is Exempted?

- Board of directors, CFO and CEO including independent directors will have to certify the compliance of GAAP and Accounting Standards
- Are the Directors or KMP capable to examine and certify
- Accounting and auditing including financial statements preparation and disclosure-need deep expertise
- In the absence of auditor or CAs – who will assure truth, fairness and completeness
- Audit cost is low - Value Added is High
- NFRA paper highlighted Auditors are charging quite low fee. We humbly submit that CA is a profession and not a business, where Profit is not main objective, while they charge for a sustained service to society as partners in Nation Building.

Major Scam - Non-Compliance

- Corporate governance in small and mid-size companies is witnessing significant improvement over time with support of Auditors
- The few instances of scams are seen in Ultra Large companies, majorly audited by International Firms.
 - Most of the fraud cases were audited by international firms-having only employees as partners
 - Owner of these firms are International Companies where UBO is not disclosed
 - These firms have No commitment to India, and profit is prime objective.
- Indian CAs besides other values are committed to Transparency and impartial independent financial reporting.

Audit Appointment in Public Interest Entities

The Appointment of Auditors should be done by an Independent regulator (suggested by us to be C&AG) to ensure:

- Independent Audit
- Supervision by C&AG on Audit Quality by Hot Reviews in all Large Companies
- International Examples
 - In China - public interest entities are audited only by local Chinese Audit firms

Areas where MCA can support Ease of Doing Business

- MCA Compliance and filing requirement to delete
 - Annual KYC verification of each directors
 - Annual filing of public deposit return - even by NIL public deposit companies
 - About ____% companies not filing self-attained exemption
 - Dematerialisation of Shares in Unlisted Companies – 6 Monthly return also Not Necessary
- PAN/TAN/Bank/Demat account of companies not filing returns, Govt. to stop operation and freeze until regularisation of filings, rather than striking off companies or disqualifying directors.
- Delayed Filing Fee of Rs. 100 per day is a deterrent to compliance. Needs to be withdrawn.

Contact details : Dharampal (9013363257) All India Chartered Accountants' Society - CFO World 909, Chiranjiv Tower, 43, Nehru Place, New Delhi-110019. Ph: 26223712, 26228410, 26226933 E-mail: aicas.cfo@gmail.com / cfoworld@gmail.com **EDITOR: Pankaj Gupta**, LLB, FCS E-mail: pankajguptafcs@gmail.com **PUBLISHED & PRINTED:** At New Delhi by Satish Chandra, Administrative Officer, on behalf of All India Chartered Accountants' Society, 4696, Brij Bhawan, 21A, Ansari Road, Darya Ganj, New Delhi-110 002 Phone 23265320, 23288101 E-mail : aicas.cfo@gmail.com Printed at: EIH Ltd., Unit : Printing Press, No. 7, Sham Nath Marg, Delhi-110054. Views expressed by contributors are their own and the Society does not accept any responsibility.

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All India Chartered Accountants' Society
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Darya Ganj, New Delhi-110 002