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PROFESSIONAL SCEPTICISM

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- **THE INSTITUTE OF COST ACCOUNTANTS OF INDIA** (erstwhile The Institute of Cost and Works Accountants of India) was established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.
- On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.
- It has since been continuously contributing to the growth of the industrial and economic climate of the country.
- The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

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“The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.”

VISION STATEMENT

“The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.”

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

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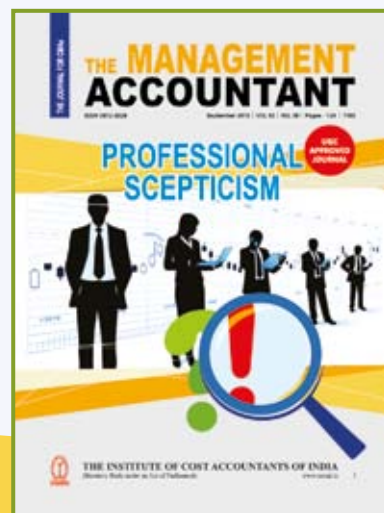
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We have expanded our Readership from 1 to 92 Countries

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Greetings!!!

Professional skepticism is the state of mind which is ready for the situation that grabs out the errors or questions the financial events and other events while conducting an assurance engagement. It's basically a skill just like the professional judgement which makes the auditor alert for any particular situation. The exercise of professional skepticism is fundamental to the successful performance of auditors, audit firms, and the audit profession as a whole in discharging their responsibilities to capital markets and the society at large.

Professional skepticism is actually an attitude of the questioning mind. In this attitude they ask the questions which will be helpful for knowing the future consequences. They measure every side effect of the information which they obtain by their questioning attitude or mind. They also ask the questions which will help them to make critical assessment of the financial events with a strong set of evidences. Professional skepticism is a topic of great importance to the audit profession, audit regulators, audit standard setters and others who work in the audit arena for the benefit of the public interest. The term "Professional Skepticism" is widely used but may mean differently to different organizations and individuals.

The word scepticism is derived from the Greek word "skeptikos" which means to "enquire or reflect". In the audit context scepticism relates to the process of seeking information through client enquiry using a combination of relationship, questioning and problem solving skills.

The auditor should also apply professional scepticism when forming the auditor's opinion, by considering the overall sufficiency of evidence to support the audit opinion, and by evaluating whether the financial statements overall are a fair presentation of underlying transactions and events.

The challenge for audit firms is to identify, develop and retain people with the necessary skills to undertake audits with a sceptical mind-set. It also involves nurturing the conditions that allow professional scepticism to flourish.

The three elements of professional skepticism – auditor attributes, auditor mindset, and auditor actions permeate the entire audit process and are integral to audit quality. These elements of professional skepticism interact dynamically as auditors respond to conditions and pressures that change or arise during the audit. Professional

skepticism is particularly important in examining areas that involve significant management judgment or transactions outside the normal course of business. Examples of such areas include nonrecurring reserves, financing transactions and related-party transactions. In addition, auditors consider the impact of uncorrected misstatements, evaluate the potential for management bias and assess whether financial statements are presented fairly.

Professional skepticism also plays a critical role in an auditor's consideration of fraud. Where the risk of fraud is high, an auditor might modify planned audit procedures to gather more reliable evidence in support of financial statement assertions. For example, an auditor might obtain confirmation from an independent third party, engage a specialist or examine documentation from independent sources to corroborate management representations.

The objective of financial audit is to assure that the expenditures shown by the management are correct so as to ensure genuine profit to the stakeholders. However, the profitability of a product depends on the productivity of the factors of production. that can be improved with cost audit. There is no substitute of cost audit for nurturing cost culture in the country. Hence, cost audit should be in line with financial audit. It will build a good team of auditors sharing the professional expertise and can act as a motivational factor for each other thereby strengthening professional scepticism. The role of CMAs suggests that Professional scepticism is the cornerstone of audit quality and can encourage team members to work with a sceptical mind set.

This issue presents a good number of articles on the cover story theme "Professional Scepticism" by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.



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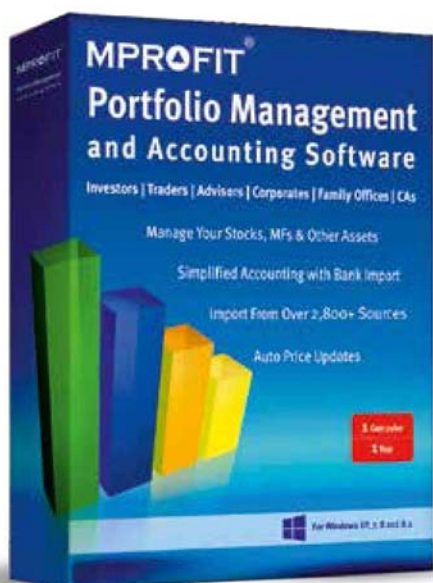
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THE MANAGEMENT ACCOUNTANT

:- PAPERS INVITED :-

Cover stories on the topics given below are invited for 'The Management Accountant' for the four forthcoming months.

Theme	October 2018		
	Global Management Accounting Research	Subtopics	<ul style="list-style-type: none"> ◆ History ◆ Emerging areas of research ◆ Use of modern tools & techniques ◆ Economic sector specific research ◆ Societal contribution ◆ Academic perspective vis-à-vis Practical approach ◆ Institutionalization of research ◆ Indian experiences
Theme	November 2018		
	Skill Development and Employability	Subtopics	<ul style="list-style-type: none"> ◆ Innovation in Skills Development and Skills Management that reach SMEs ◆ Strategies for Job Creation, Skills Development and Social Protection ◆ Skill Gaps and Employability: Higher Education in India ◆ Empowering women through skill development: Challenges and Opportunities ◆ Skill development as a sustainable growth strategy ◆ Towards a Reskilling Revolution: A Future of Jobs for All ◆ Role of CMAs
Theme	December 2018		
	Corporate Social Responsibility & Beyond	Subtopics	<ul style="list-style-type: none"> ◆ CSR & Social Entrepreneurship ◆ Companies Amendment Act & CSR ◆ CSR initiatives in SMEs ◆ Comparative analysis of CSR initiatives in public v/s private sector ◆ Corporate - NGO partnership for successful CSR programs ◆ CSR Accounting & Audit ◆ Impact Analysis of CSR activities ◆ Business Ethics and CSR
Theme	January 2019		
	Indian Banking Scenario: Dynamism and Optimism	Subtopics	<ul style="list-style-type: none"> ◆ India Post Payments Bank (IPPB): A revolutionary step towards financial inclusion ◆ Digital banking: The Road Ahead ◆ Financial Reforms & Innovation in Indian Banking Sector ◆ Demonetization effect ◆ Indian banks' NPA woes ◆ Scams: recurring scar on Indian banking sector ◆ RBI's new measures towards restructuring of the domestic banking industry ◆ Insolvency code: the biggest reform in banking

The above subtopics are only suggestive and hence the articles may not be limited to them only.

Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.



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PRESIDENT'S COMMUNIQUÉ



"You can't cross the sea merely by standing and staring at the water."

- Rabindranath Tagore

CMA AMIT ANAND APTE

President

The Institute of Cost Accountants of India

My Dear Professional Colleagues,

I on behalf of the Council and on my own behalf heartily congratulate Shri Arun Jaitley ji on resuming charge as Hon'ble Union Minister of Finance and Corporate Affairs.

Celebration of 72nd Independence Day

The 72nd Independence Day was celebrated on 15th August 2018 at the headquarters, regional offices and chapters of the Institute. On this auspicious occasion, the national flag was unfurled by me at the headquarters in the presence of members of the Central Council, Eastern Regional Councils and executives of the Institute. I along with CMA Balwinder Singh, Vice President, visited 'Ideal School for the Deaf' at Salt Lake, Kolkata. As part of the Institute's social responsibility work, some donations in kind were arranged for this school. Specially challenged children and the staff members of school society expressed their deep gratitude to the team members of the Institute who visited them, this day, for this socially responsible activity.

Meeting with VIPs

On 23rd July, 2018, I along with CMA Balwinder Singh, Vice President and CMA Sanjay Gupta, Immediate Past President of the Institute met with Shri Injeti Srinivas, Secretary to the Government of India, Ministry of Corporate Affairs.

I am happy to share that I along with my council colleague CMA Manas Kumar Thakur had the opportunity to meet Shri P. P. Chaudhary, Hon'ble Union Minister of State for Law & Justice and Corporate Affairs on 27th July, 2018 to discuss about professional developments and ongoing activities of the Institute.

CMA Balwinder Singh, Vice President of the Institute

extended felicitations to Shri Ajay Narayan Jha, Secretary (Expenditure), Ministry of Finance, CMA Aruna Sethi, Chief Advisor (Cost) and CMA D. C. Bajaj, Former Chief Advisor (Cost) & Past President of the Institute on occasion of Indian Cost Accounts Services Day celebrated on 9th August, 2018 at New Delhi.

On 14th August, 2018, I along with CMA Niranjana Mishra, Chairman, Taxation Committee, CMA D. C. Bajaj, Past President and CMA Dr. D. V. Joshi, Past President had a discussion with Shri Injeti Srinivas, Secretary to the Government of India, Ministry of Corporate Affairs on the Draft Companies (Cost Records and Audit) Amendment Rules, 2018.

I, along with CMA Balwinder Singh, Vice-President and CMA P. Raju Iyer, Chairman, PD & CPD Committee of the Institute extended greetings to Shri Shiv Pratap Shukla, Hon'ble Minister of State for Finance. I am happy to share that "Guidance Note on GST Audit" was released at the hands of Hon'ble Minister on 21st August, 2018.

Activities at Regional Councils & Chapters

Two Days National Seminar – 2018 by South Odisha Chapter

I am pleased to share that I along with CMA Balwinder Singh, Vice President, CMA Manas Kumar Thakur, Chairman, TEF & Placement Committee and CMA Niranjana Mishra, Chairman, Taxation Committee attended two days National Seminar - 2018 on the theme 'Progressive Economy, Supporting Business Laws-CMA as a Catalyst' organised by South Odisha Chapter of the Institute during 25th & 26th August, 2018 at Gopalpur, Odisha. Shri Surjya Narayan Patro, Hon'ble Minister of Co-Operation, Food Supplies & Consumer Welfare, Government of Odisha, graced the occasion as Chief Guest of the Seminar and also released "Handbook on E-way

Bill” at his hands.

ICMAI registered valuers organisation (RVO)

I am glad to inform that Educational Courses on Valuation have been conducted successfully across India in the last month. Participants have successfully completed 50 hours mandatory training programme recommended by IBBI at Delhi, Chennai, Mumbai, Pune and Lucknow in August 2018. I request all the chapters to take initiative to conduct these educational courses for the development of the profession.

Directorate of Studies

Pre-Placement Orientation Programme

I am glad to share that 12-Days Pre-Placement Orientation Programmes for June 2018 term pass out qualified CMAs have been arranged at 11 locations viz. Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Vijayawada, Ahmedabad, Jaipur, Bhubaneswar, Bengaluru and Pune. More than 800 qualified CMAs are attending this program to be eligible for forthcoming Campus Placement drive. Campus Placement schedule is also announced. I urge the regions, chapters, members and recruiters to support our initiative to a great extent to place our budding CMAs in various organizations.

International Affairs Department

CMA Sanjay Gupta, Immediate Past President and Chairman- International Affairs & Sustainability Committee, attended the Public Sector Financial Management Committee (PSFMC) meeting and events hosted by Vietnam Association of Certified Public Accountants (VACPA) during 16-18 August, 2018 at Hanoi, Vietnam.

Insolvency Professional Agency (IPA) Of Institute Of Cost Accountants Of India

Insolvency Professional Agency of the Institute took initiative of initiating daily updates on Insolvency and Bankruptcy through email to keep the members of the Insolvency Professional Agency abreast of the latest developments taking place in the domain of Insolvency and Bankruptcy and updates on important cases decided by NCLT / NCLAT / High Courts and Supreme Court.

Insolvency professionals - Capacity development Initiatives

For training and dissemination of information and knowledge to Insolvency professionals, the Insolvency Professional Agency of the Institute organized various Round table Interactions and workshops to engage Insolvency Professionals on topics such as Model Evaluation Matrix under Corporate Insolvency Resolution Process, IBBI Circulars, valuation of Stressed Assets, Circular on Conduct of Committee

of Creditors dated 10 August, 2018 and Communication - An important trait for Insolvency Professionals.

Also, to spread awareness about Insolvency and Bankruptcy Code amongst Members two webinars on 'IBC – Gateway of opportunities for CMA's' were organized. Webinar on 'Judicial Pronouncements in Insolvency and Bankruptcy Code and preparations to be done while presenting a case before NCLT' was also conducted.

Insolvency Professional Agency of the Institute also launched a weekend Preparatory Educational Course for Limited Insolvency Examination in Delhi on 18 August, 2018 and is planning to launch the same at other Regional Councils as well.

I am pleased to share that CMA Sanjay Gupta, Immediate Past President attended the Insolvency Law Committee Meeting called by Ministry of Corporate Affairs to discuss the draft chapter on 'Cross Border Insolvency' on 11st August, 2018 at New Delhi.

Membership Department

I would like to assure our growing membership fraternity that we will continue our efforts to ensure seamless interface in the Members Online System. I also take this opportunity to warmly welcome and congratulate all the 265 Associate Members who were granted membership and all the 57 members who were advanced to Fellowship during the month of July 2018 and also to all the 97 Associate Members who were granted membership and all the 10 members who were advanced to Fellowship during the month of August 2018. I call upon all final passed students to apply for membership as soon they become eligible, for which guidelines provided in the membership section may please be referred to. A robust membership base will symbiotically act as a win-win environment in the economy.

A gentle reminder to all esteemed members that the membership fee for 2018-19 is payable latest by 30th September, 2018 as per Regulations 7(6) & 7(7) of the Cost and Works Accountants Regulations, 1959 (as amended). Our records show that some members are still having dues and as such I request them to clear their membership dues at an early date and continue to enjoy the benefits of membership.

Professional Development and CPD Committee

Representation with Government, PSUs, Banks and Other Organizations

PD Directorate is sending representation letters to various

PRESIDENT'S COMMUNIQUÉ

organizations for inclusion of cost accountants for providing professional services. I am pleased to inform you that, on the request made by the Institute, National Textile Corporation Limited and Bihar Education Project Council considered Cost Accountants for Internal audit. Further, Nagar Panchayat, Manjhiaion, Municipal Corporation, Adityapur, Bharat Sanchar Nigam Limited, Madhya Pradesh Power Generating Company Limited, Ircon International Limited, NLC India Limited, J& KPCC Ltd, Central Railside Warehouse Company Ltd, Bank Note Paper Mill India Private Limited, Satluj Jal Vidyut Nigam Limited, Konkan LNG Private Limited, Assam Electricity Grid Corporation Limited, Security Printing and Minting Corporation of India Ltd, Punjab State Transmission Corporation Limited and NHPC Ltd included CMA in their Tenders/EOIs during August 2018.

CEP Program

The Institute was associated with PHD Chamber of Commerce & Industry for "Annual Conference on Tax Deduction at Source Issues, Problems and Recent Developments" on 9th August 2018 at New Delhi.

Technical Department

Technical Cell Meeting

I am pleased to inform that the meeting of the reconstituted Technical Cell (Cost Audit, Compliance and others) of the Institute for the year 2018-19 was organized on 13th & 14th August 2018 at New Delhi. The Technical Cell held discussions on the Draft Companies (Cost Records and Audit) Amendment Rules 2018, issued by the Ministry and compiled suggestions on behalf of the Institute which were submitted to the Ministry on 14th August 2018.

Technical Cell has taken many decisions in its meeting and one of which is to give emphasis on providing assistance to the industry and the members of the Institute in resolving their general queries relating to Maintenance of Cost Records, Cost Accounting Standards, Standards on Cost Auditing, Cost Audit and Companies (Cost Records and Audit) Rules, 2014 (as amended from time to time). A mechanism to respond to these queries in a time bound manner has been placed on the website of the Institute. I request the members of the profession to make use of this and place their relevant queries before the Technical Cell.

Taxation Committee

The Taxation Department has successfully conducted online examination of 1st Batch of Certificate Course on GST at 28 locations and the results were declared on the day of examination with approximately 82% of the candidates

appeared qualifying the exam. Certificates were handed over during the month to the successful candidates.

Following webinars have been conducted for the members of the Institute:

- ✳ GST on Jewellery vis a vis GST Audit by CMAs
- ✳ Latest Advance Rulings & Its implications

The department has been consistently bringing out fortnightly tax bulletin with important topics on direct and indirect tax along with Tax updates, Notifications, circulars, press releases etc. In August 2018 also two tax bulletins were published with updates on taxation front. Department has released "Guidance note on GST Audit" as well as "Handbook on E-way Bill" for the benefit of Members and other stakeholders.

The various other newly constituted Committees of the Institute are also fully functional. I thank my Council Colleagues who are fully supporting the cause of the profession and together we are confident that during the year we will make good headway in a lot of areas.

Students Admissions

I am extremely happy to share that with the continuous efforts of our council members and staff. We have achieved over 45% increase (compared with July to December 2017) in the number of admission for the July to December 2018 batch. This is a very healthy sign that the initiatives that the Institute has been taking over the last few years are now paying dividend.

I wish prosperity and happiness to members, students and their family on the occasion of Janmashtami & Ganesh Chaturthi and wish them success in all of their endeavours.

Warm Regards,



CMA Amit Anand Apte
1st September, 2018

CHAIRMAN'S COMMUNIQUÉ



CMA DR I. ASHOK
*Chairman
Journal & Publications Committee
The Institute of Cost Accountants of India*

I express my heartfelt thanks to the President, Vice President and the Council for giving me this great opportunity to serve the Institute as Chairman of the Journal & Publications Committee (2018-2019). The Journal and Publications Department is committed to work relentlessly to meet the expectations of the members, students and other stakeholders.

The following publications are being published regularly by the Directorate of Journal and Publications:

- ★ The monthly journal 'The Management Accountant'
- ★ Quarterly 'Research Bulletin'

The monthly journal and the official organ of the Institute The Management Accountant, with its modern layout and rich and informative contents is highly commendable amongst the readers. The core purpose of our Journal and Publications Department is to inform, educate and enlighten the masses on various burning economic issues revolving them.

In our continuous endeavour for improvement of the quality of the Journal, we are incorporating new features and relevant cover stories of national and global importance in the journal and the role of the monthly journal of the Institute is to disseminate information about every relevant happening affecting the economy and society and to reach the mass through persistent value creation.

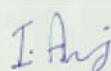
The printed copies of the monthly journal 'The Management Accountant' has already been started

circulating to all the members of the Institute, including non members, students, ministries and eminent personalities from May 2018. We are exceedingly hopeful that the Journal, now enlisted in the approved Journal list of the UGC, would maintain the high standards and quality.

I am glad to inform you that 'The Management Accountant' Journal has gained its recognition worldwide and the readership has already reached 92 countries across globe. We are receiving overwhelming responses from the International subscribers and giving our best efforts to enlist 'The Management Accountant' Journal in E-Library section internationally. It is noteworthy to mention that the Journal is also indexed and listed at Index Copernicus and J-gate.

We solicit your feedback, suggestions and concerns for the overall development of the Journal and Publications Department. Please send us mails at editor@icmai.in / journal@icmai.in for various issues relating to journal and publications. We are committed to achieve the desired goals and expectations of the stakeholders. We are extremely hopeful to achieve a higher yardstick to fulfil the expectations of the readers and subscribers.

With Warm Regards



CMA Dr I. Ashok
*Chairman
Journal & Publications Committee*

COMMUNIQUE OF CHAIRMAN, TECHNICAL CELL OF THE INSTITUTE FOR THE YEAR 2018-19



CMA (DR) DHANANJAY V. JOSHI
*Chairman
Technical Cell (2018-19) and
Former President of the Institute*

Dear Professional Colleagues,

Greetings from the Technical Cell of the Institute;

I take this opportunity to thank the President, Vice-President and Council of the Institute for posing faith in my capabilities and assigning me an opportunity to be the chairman of the Technical Cell (Cost Audit, Compliance & Others) of the Institute (2018-19). I assure them of my devoted contribution to the growth of profession as always. I am proud to admit that the Technical Cell consists of eminent professionals from across the Country, who are committed to take initiatives for the capacity building of members and other stakeholders.

Going by the confidence and commitment of the members of the Technical Cell, visible during the first meeting of the Technical Cell on 13th and 14th August 2018, I am confident that the Technical Cell will be able to achieve the objectives of its constitution, serve our mother Institute & beloved profession and make a positive contribution to the core domain area of our profession.

Friends, without taking much of your time, I would like to list out the agenda of the Technical Cell for your information and to seek your constructive support and cooperation to the activities of the Technical Cell:

1. The most urgent topic for the profession is the Companies (Cost Records and Audit) Rules under the Companies Act 2013. We have plans to convince the Cost Audit Branch and Ministry of Corporate Affairs for making further amendments, required in view of implementation of GST and IND-AS. Apart from these amendments, there are certain anomalies in the rules required to be taken up with the Ministry. The Technical Cell deliberated on the Draft Companies (Cost Records and Audit) Amendment Rules, 2018 and finalise the suggestions and comments on behalf of the Institute which were submitted to the Government on 14th August 2018.
2. I wish to inform that the Technical Cell has decided to give emphasis on providing assistance to the industry and the members of the Institute in resolving their general queries relating to Maintenance of Cost Records, Cost Accounting Standards, Standards on Cost Auditing, Cost Audit and Companies (Cost Records and Audit) Rules, 2014 (as amended from time to time). I am pleased to inform you that a mechanism to respond to these queries in a time bound manner has been placed on the website of the Institute. I request the members of the profession to make use of it and place their relevant queries before the Technical Cell.

3. In its drive to come closer to Industry and other stakeholders the Technical Cell has decided to render Advisory Services to the Industry and Members of the Institute to cater to their specific requirements. This could be a path breaking initiative by the Technical Cell in providing the much needed and sought for authenticated opinion of the experts from the Institute. Friend, we are in process to put in place a formal mechanism to provide expert opinion / guidance from the Institute's side for helping the Companies, other stakeholders and Members of the Institute in resolving operational issues. I am sure you do not have to wait for a long time for the announcement in this respect.
4. Consequent upon issuance of the amendment in the rule 8 of the Companies (Accounts) Rules, 2014 and thereby including a disclosure of compliance of maintenance of cost records, there is an urgent need of necessary guidance on the subject to the members in form of a guidance note. I am happy to inform that the Technical Cell has taken up the task of developing a guidance note on the subject to enable members be well equipped with necessary requirements.
5. The another most important area is build capacity of the members and industry and I thought one of the important means of capacity building is bringing out the technical literature for the information of Industry / members. I assure you that Technical Cell will take all necessary steps to bring out technical guidance / papers on all important professional topics. I urge you to send us relevant topics on which Guidance Notes / Technical Papers are required.
6. We have also planned to issue Frequently Asked Questions on Technical / Professional matters very shortly. I request the members to send their questions to the Technical Cell so that all the questions can be compiled topic wise and FAQs could be developed accordingly.
7. Apart from the above, we have also planned to organise, programs, seminars, webinars etc. on important topics in order to improve the proximity with the Industry. Information about the events will be available on the website of the Institute very shortly.

Friends, I strongly believe that any positive change in the fortunes of the profession will be brought out by our own efforts and commitment. We will have to slightly change our approach in order to move on with confidence and positive ideas. I firmly believe that ours is the noblest profession in the current economic scenario and prevailing Government policies. We have to strengthen ourselves technically and professionally to make a mark of our capabilities. Time is changing and we have to change ourselves accordingly. Come and join us in shaping up the new phase of the CMA Profession by constructively contributing to the activities of the Technical Cell.

I wish you, your family members and friends a very happy Janmashtami and Ganeshotsav; May you achieve desired success in all of your endeavours.

With warm regards,

CMA (Dr) Dhananjay V, Joshi
Chairman, Technical Cell (2018-19) and
Former President of the Institute
Email: technicalcell@icmai.in



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

Standing Committees

(Quorum indicated is as per regulation 81 (1) of CWA Regulations, 1959)

1. Executive Committee

Quorum: 3

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Balwinder Singh, Vice President
3. CMA P V Bhattad
4. CMA Sanjay Gupta
5. CMA Manas Kumar Thakur
6. CMA Dr. P V S Jaganmohan Rao

Secretary

CMA L. Gurumurthy, Secretary (Acting)

2. Examination Committee

Quorum: 2

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Balwinder Singh, Vice President
3. CMA Biswarup Basu
4. CMA Avijit Goswami
5. CMA H. Padmanabhan
6. CMA Papa Rao Sunkara

Secretary

CMA L. Gurumurthy, Secretary (Acting)

3. Finance Committee

Quorum: 2

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Balwinder Singh, Vice President
3. CMA Vijender Sharma
4. CMA P. Raju Iyer
5. CMA Dr. I. Ashok
6. CMA Niranjan Mishra

Secretary

CMA Arup Bagchi, Director

Other Committees

4. Board of Discipline u/s 21A(1)

Presiding Officer

1. CMA Jugal Kishore Puri

Member

2. CMA Manas Kumar Thakur

Secretary

3. CMA S.C.Gupta, Director (Discipline)

5. Disciplinary Committee u/s 21B(1)

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Sanjay Gupta
3. CMA P V Bhattad
4. Shri Debashish Bandopadhyay, Government Nominee
5. Shri Rakesh Tyagi, Government Nominee

Secretary

CMA S.C.Gupta, Director (Discipline)



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

6. Disciplinary Committee U/s 21D

Chairman

1. CMA Amit A. Apte, President

Members

1. Shri Ajai Das Mehrotra
Government Nominee,
Disciplinary Committee U/s 21D
2. CMA Avijit Goswami

Secretary

CMA S.C.Gupta, Director (Discipline)

7. Training & Education Facilities and Placement Committee

Quorum: 3

Chairman

1. CMA Manas Kumar Thakur

Members

2. CMA Sanjay Gupta
3. CMA Avijit Goswami
4. CMA Papa Rao Sunkara
5. CMA P. Raju Iyer
6. CMA Biswarup Basu
7. CMA B B Nayak (Co-opted)
8. Prof CMA Dhruva Ranjan Dandapat,
Dean Calcutta University (Co-opted)

Secretary

CMA Dr. Debaprosanna Nandy, Sr. Director

8. Journal & Publications Committee

Quorum: 3

Chairman

1. CMA Dr. I. Ashok

Members

2. CMA Avijit Goswami
3. CMA Vijender Sharma
4. CMA Papa Rao Sunkara
5. CMA P. Raju Iyer
6. CMA Biswarup Basu

Secretary

CMA Sucharita Chakraborty, Joint Director

9. Professional Development & CPD Committee

Quorum: 3

Chairman

1. CMA P. Raju Iyer

Members

2. CMA H. Padmanabhan
3. CMA Niranjana Mishra
4. CMA Avijit Goswami
5. CMA Sanjay Gupta
6. CMA Dr. I. Ashok
7. CMA S P Padhi (Co-opted)
8. CMA Sandeep Goel (Co-opted)
9. CMA Monika Gupta (Co-opted)

Secretary

CMA S C Gupta, Sr. Director

10. Regional Council & Chapters Coordination Committee

Quorum: 3

Chairman

1. CMA Niranjana Mishra

Members

2. CMA H. Padmanabhan
3. CMA Manas Kumar Thakur
4. CMA Dr. P V S Jaganmohan Rao
5. CMA Sanjay Gupta
6. CMA Dr. I. Ashok
7. CMA Arindam Goswami (Co-opted)

Secretary

Shri Bhavesh Kumar Sinha, Deputy Director

11. International Affairs and Sustainability Committee

Quorum: 3

Chairman

1. CMA Sanjay Gupta

Members

2. CMA Avijit Goswami
3. CMA Manas Kumar Thakur
4. CMA Dr. I. Ashok
5. CMA Dr. P V S Jaganmohan Rao
6. CMA P. Raju Iyer
7. CMA Gaurav Dang, Director (Finance – Asia),
Valvoline Lubricants & Solutions India Pvt. Ltd.
(Co-opted)
8. CMA Somnath Ganguly,
CFO- Galfar Engineering & Contracting SAOG
(Co-opted)

Secretary

CMA S C Gupta, Sr. Director



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

12. Taxation Committee

Quorum: 3

Chairman

1. CMA Niranjana Mishra

Members

2. CMA Manas Kumar Thakur
3. CMA Sanjay Gupta
4. CMA P. Raju Iyer
5. CMA Papa Rao Sunkara
6. CMA Dr. P V S Jaganmohan Rao
7. CMA Dr. S.R. Bhargava (Co-Opted)
8. CMA Antaryami Acarya (Co-Opted)
9. CMA Waman Parkhi (Co-Opted)

Secretary

CMA Rajat Kumar Basu, Addl. Director

13. CAT Committee

Quorum: 3

Chairman

1. CMA Manas Kumar Thakur

Members

2. CMA Avijit Goswami
3. CMA Dr. I. Ashok
4. CMA H. Padmanabhan
5. CMA Sanjay Gupta
6. CMA Papa Rao Sunkara
7. CMA Manasi N Arora (Co-opted)

Secretary

CMA S C Gupta, Sr. Director

14. Corporate Laws Committee

Quorum: 3

Chairman

1. CMA Dr. P V S Jaganmohan Rao

Members

2. CMA H. Padmanabhan
3. CMA P V Bhattad
4. CMA Biswarup Basu
5. CMA Papa Rao Sunkara
6. CMA Vijender Sharma

Secretary

CMA Tarun Kumar, Joint Director

15. Members' Facilities Committee

Quorum: 3

Chairman

1. CMA Papa Rao Sunkara

Members

2. CMA Biswarup Basu
3. CMA Dr. P V S Jaganmohan Rao
4. CMA P V Bhattad
5. CMA Vijender Sharma
6. CMA Niranjana Mishra

Secretary

CMA Arup Bagchi, Director

16. Infrastructure Committee

Quorum: 3

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Manas Kumar Thakur
3. CMA P V Bhattad
4. CMA Dr. P V S Jaganmohan Rao
5. CMA H. Padmanabhan
6. CMA Sanjay Gupta
7. CMA G. B. Rao, Past President (Co-opted)
8. CMA V. V. Deodhar, Past President (Co-opted)
9. CMA G. N. Venkatraman, Past President (Co-opted)

Secretary

Shri Sanjoy Roy Chowdhury, Deputy Director

17. Election Reforms Committee

Quorum: 3

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Dr. P V S Jaganmohan Rao
3. CMA Vijender Sharma
4. CMA H. Padmanabhan
5. CMA Biswarup Basu
6. CMA Dr. I. Ashok
7. CMA Harijiban Banerjee, Past President (Co-opted)

Secretary

CMA L. Gurumurthy, Secretary (Acting)



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

18. Coordination Committee of ICAI, ICSI and ICAI

Quorum: 3

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Balwinder Singh, Vice President
3. CMA P V Bhattad
4. CMA Avijit Goswami
5. CMA Papa Rao Sunkara

Secretary

CMA L. Gurumurthy, Secretary (Acting)

19. IT Committee

Quorum: 3

Chairman

1. CMA Avijit Goswami

Members

2. CMA H. Padmanabhan
3. CMA Vijender Sharma
4. CMA Dr. I. Ashok
5. CMA Niranjana Mishra
6. CMA Sankalp Wadhwa (Co-opted)

Secretary

Ms. Anita Singh, Addl. Director

20. Committee on Public Finance & Government Accounting

Quorum: 3

Chairman

1. CMA Vijender Sharma

Members

2. CMA Biswarup Basu
3. CMA P V Bhattad
4. CMA Manas Kumar Thakur
5. CMA Papa Rao Sunkara
6. CMA Dr. I. Ashok

Secretary

CMA Nisha Dewan, Joint Director

21. Cost Accounting Standards Board

Quorum: 9

Chairman

1. CMA Balwinder Singh, Vice President

Members

2. CMA Sanjay Gupta
3. CMA P. Raju Iyer
4. CMA Niranjana Mishra
5. CMA M. Shiva Shunmuganathan, Director (Finance) NEEPCO
6. CMA T. K. Sridhar, CFO, ABB
7. CMA Mrityunjay Acharjee
8. CMA Ajay Deep Wadhwa
9. CMA B K Dash (DGM Finance) NALCO
10. CMA Ashish Thatte, PCMA
11. CMA Neeraj Joshi, PCMA
12. CMA Diwan Chand Arya, PCMA
13. CMA V. S. Datey
14. CMA Dr Shivani Inder
15. Nominee of IIM / Educational Institute - CMA Pankaj Gupta
16. Nominee of MCA - Name to be given
17. Nominee of - CII/FICCI/ASSOCHAM/PHDCCI
18. Nominee of - CII/FICCI/ASSOCHAM/PHDCCI
19. Nominee of CAG Nominee of Regulator - TRAI/PNGRB/SEBI/CCI
20. Nominee of Regulator - TRAI/PNGRB/SEBI/CCI Name to be given
21. Nominee of Regulator - TRAI/PNGRB/SEBI/CCI Name to be given
22. Nominee of ICSI
23. Advisor (Cost)
24. Nominee of MCA
25. Nominee of CBEC
26. Nominee of CBDT
27. Nominee of ICAI

Secretary

CMA Tarun Kumar, Joint Director



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

22. Cost Auditing and Assurance Standard Board

Quorum: 6

Chairman

1. CMA P V Bhattad

Members

2. CMA Dr. P V S Jaganmohan Rao
3. CMA Biswarup Basu
4. CMA Dr. I. Ashok
5. CMA Vijay Joshi, PCMA
6. CMA S. K. Kundra, PCMA
7. CMA Dinesh Birla, PCMA
8. CMA Monika Kansal
9. CMA Sham Wagh
10. CMA Suresh Chandra Dangayach, Former CFO- IL&FS Environmental Infrastructure & Services Ltd.
11. Nominee of - CII / FICCI / ASSOCHAM / PHDCCI
12. Nominee of - CII / FICCI / ASSOCHAM / PHDCCI
13. Nominee of CAG
14. Nominee of Regulator - TRAI/PNGBR/ SEBI/CCI Name to be given
15. Nominee of Regulator - TRAI/PNGBR/ SEBI/CCI Name to be given
16. Nominee of ICSI
17. Nominee of MCA - Name to be given

Secretary

CMA Tarun Kumar, Joint Director

23. Board of Advance Studies

Quorum: 3

Chairman

1. CMA Amit A. Apte, President

Members

2. CMA Papa Rao Sunkara
3. CMA Manas Kumar Thakur
4. CMA P. Raju Iyer
5. CMA Dr. T. P. Ghosh
6. CMA T C A Srinivas Prasad
7. CMA Satya Sunder Mahasuar
8. Prof CMA Jayanta Seal, IIFT

Secretary

CMA Dr. Debaprosanna Nandy, Sr. Director

24. Banking & Insurance Committee

Quorum: 3

Chairman

1. CMA H. Padmanabhan

Members

2. CMA P. Raju Iyer
3. CMA Vijender Sharma
4. CMA Avijit Goswami
5. CMA Sanjay Gupta
6. CMA Biswarup Basu

Secretary

Dr. Pradipta Gangopadhyay, Joint Director

25. Members in Industry Committee

Quorum: 3

Chairman

1. CMA Biswarup Basu

Members

2. CMA Niranjana Mishra
3. CMA Dr. P V S Jaganmohan Rao
4. CMA H. Padmanabhan
5. CMA P V Bhattad
6. CMA Vijender Sharma

Secretary

CMA Dr. Sumita Chakraborty, Addl. Director

26. Technical Cell (Cost Audit, Compliance & Others)

Quorum: 3

Chairman

1. CMA Dr. D. V. Joshi

Members

2. Advisor (Cost) or his nominated person
3. CMA P. Raju Iyer
4. CMA Niranjana Mishra
5. CMA Sanjay Gupta
6. CMA D. C. Bajaj
7. CMA Chandra Wadhwa
8. CMA Ravi Sahni
9. CMA Ashwin Dalwadi
10. CMA Milind Date
11. CMA K. Narasimha Murthy
12. CA Chandrashekhar Chitale

Secretary

CMA Tarun Kumar, Joint Director



The Institute of Cost Accountants of India

(Council Committees for the year 2018-19)

27. CMA Board of Branding and Public Relations

Quorum: 6

Chairman

1. CMA Sanjay Gupta

Members

2. CMA Manas Kumar Thakur
3. CMA P V Bhattad
4. CMA Dr. P V S Jaganmohan Rao
5. CMA Devendra Daga, Independent Director, NTC
6. CMA Bhupinder Singh Bhalla, IAS, Joint Secretary, Ministry of Commerce & Industry
7. CMA Sanjay Jaju, IAS, Joint Secretary, Ministry of Defence
8. CMA Deepak Kumar Kedia, IPS, Additional Director, Enforcement Directorate
9. CS Dr. Shyam Agarwal, IPP, ICSI
10. CMA S. Suresh, Member (Finance), AAI
11. CMA Partha Basu, Global Process & Operations Head- Finance, AkzoNobel NV
12. Mr. Satish Sareen, Independent Director, RITES Ltd. and Hindustan Salts Ltd.
13. CMA D.K. Sarraf, Chairman, PNGRB
14. CMA Rajiv Mehrotra, CMD, RITES Ltd.
15. CMA Anil Chaudhury, Director (Finance), SAIL
16. CMA Manoj Mishra, CMD, NFL
17. CMA M.K. Mittal, Director (Finance), NHPC Ltd.
18. CMA Ramesh Subramanyam, CFO, Tata Power Ltd.
19. CMA Subhash Kumar, Director (Finance), ONGC Limited
20. CMA Jaimin Bhatt, President & Group CFO, Kotak Mahindra Bank
21. CMA C. B. Ananthakrishnan, Director (Finance) & CFO, HAL
22. CMA Sandeep Narula

Secretary

CMA L. Gurumurthy, Secretary (Acting)

President and Vice President are Permanent Invitees to all the committees except Disciplinary Committees and Board of Discipline.

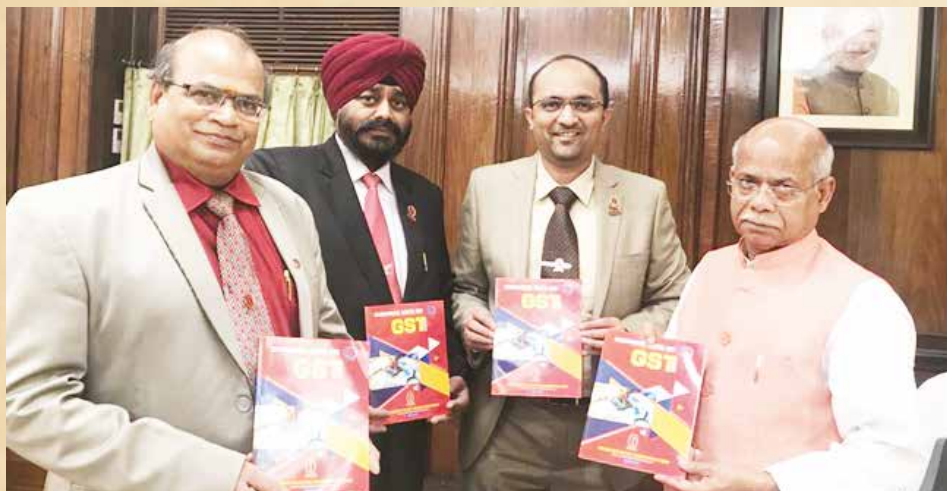
At the Helm



Our heartiest congratulations to CMA Ananthakrishnan C B, a fellow member of the Institute for taking the charge as Director (Finance) and Chief Financial Officer, Hindustan Aeronautics Limited (HAL) with effect from 1st August 2018. Prior to this he was Executive Director (Finance) at HAL Corporate Office. He was also the Chief Manager (Finance) at Helicopter Division, Bengaluru at HAL. He played an active role in HAL's Initial Public Offer (IPO) during March 2018. Having rich experience in pricing, he was instrumental in signing major helicopter contracts of HAL including supply of helicopters to the Armed Forces.

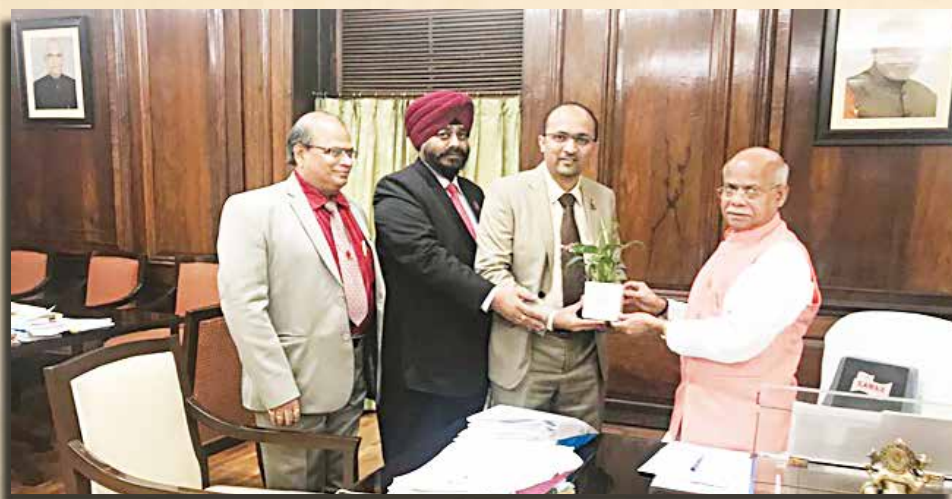
We wish CMA Ananthakrishnan C B the very best for all his future endeavour

ICAI-CMA SNAPSHOTS



Release of “Guidance Note on GST Audit” at the hands of Shri Shiv Pratap Shukla, Hon’ble Minister of State for Finance

CMA Amit A. Apte,
President,
CMA Balwinder Singh,
Vice-President and
CMA P. Raju Iyer, Chairman,
PD & CPD Committee of the
Institute extending greetings
to Shri Shiv Pratap Shukla,
Hon’ble Minister of State for
Finance



CMA Balwinder Singh,
Vice President ICAI-CMA
extended felicitations on
Indian Cost Accounts Services
Day celebrations. With
Shri Ajay Narayan Jha,
Secretary (Expenditure), MoF,
GOI, CMA. Aruna Sethi,
Chief Advisor (Cost) and
CMA D. C. Bajaj, Former
Chief Advisor (Cost) &
Former President ICAI-CMA



CMA Amit A. Apte,
President,
CMA Niranjan Misra, CCM,
CMA D. C. Bajaj former
President and
CMA Dr. D. V. Joshi former
President had a discussion with
Shri Injeti Srinivas, Secretary to
the Government of India,
Ministry of Corporate Affairs on
the Draft Companies
(Cost Records and Audit)
Amendment Rules, 2018

Glimpses of Two Days National Seminar - 2018 on the theme 'Progressive Economy, Supporting Business Laws-CMA as a Catalyst' organised by South Odisha Chapter of the Institute during 25th & 26th August, 2018 at Gopalpur, Odisha. Shri Surjya Narayan Patro, Hon'ble Minister of Co-Operation, Food Supplies & Consumer Welfare, Government of Odisha, graced the occasion as 'Chief Guest' of the Seminar



INDEPENDENCE DAY CELEBRATION

President of the Institute, CMA Amit Anand Apte, along with Vice President CMA Balwinder Singh, and Council Members, CMA Manas Kumar Thakur, CMA Avijit Goswami, CMA Biswarup Basu, Past Presidents CMA Amal Das and CMA Harijiban Banerjee hoisted the National Flag at Headquarters of the Institute at 10.00am. National Anthem proudly sung by all. All the dignitaries then visited EIRC for flag hoisting, which was followed by a program at JN Bose Auditorium of the Institute, Kolkata.



The program started with patriotic and devotional songs sung by the employees. Revolutionary and motivational speech was delivered by keynote speakers Dr. Maidul Islam, Professor at CSSS, Kolkata, and Prof. Bimal Shankar Nanda of Charu Chandra College. The President then inaugurated the link of the Institute's website that, for the first time in the history of the Institute, displays names, photos, period of tenure of the Past Presidents of the Institute. Thereafter, the President addressed the gathering and together with Vice President of the Institute blessed the attendee children and students with sweets and chocolates.

The President, Vice President, together with the team, thereafter visited 'Ideal School for the Deaf' at Salt Lake, Kolkata. As part of the Institute's social responsibility work, some donations in kind were arranged for this school. This school had been established in 1967 and registered under Societies Registration Act. 1860 in 1975 founded by Society for the Deaf, Recognized & Sponsored by Mass

Education Extension, Govt. of W.B. affiliated by West Bengal Board of Secondary Education at CF 217 Block, Sector 1, Kolkata. At the centre, the Institute's team was greeted and warmly welcomed by the Principal, Ms. Swati Chakraborty and Secretary Mr. Shibapada Chakraborty. Along with the teachers, staffs, there were about 60 handicapped students that day, who also performed a mime show conceptualizing significance of 'Save the Tree'. We were told and explained by the authorities of the school how many of the hearing impaired children are abandoned by their families and face life being ostracized by communities and lacking access to education. It is an invisible handicap and often undetected at the early stage. They also

explained the school's endeavour to teach, train the handicap students so that they may participate in local functions, their paintings be presented in exhibitions, and also get job opportunities in KFC restaurants, ITC hotel etc.

For the welfare and development of the school and its children, the Institute, donated a fax-cum-scanner printer and three ceiling fans. This would definitely help the school, which appropriately care and rehabilitate children with disabilities. Sweet packets were also distributed to all the disabled children of the school. These specially challenged children and the staff members of school society expressed their deep gratitude to the team members of the Institute who visited them, this day, for this socially responsible activity.





THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

5th CMA AWARDS 2017



CMA Awards recognize the significant contributions of CMAs in improving corporate governance, value creation and preservation, managing risk and control, achieving operational efficiency, promoting good CSR practices, and implementing innovative Cost and Management Accounting practices in order to propagate Cost Management culture to make Indian Industry cost competitive and sustainable. CMA Awards also recognise the outstanding Contribution of CMAs for CMA profession, Institute and society.

AWARDS CATEGORIES

CMA - CFO Awards	CMA - Achiever Awards	CMA - Young Achiever Awards
1. Manufacturing Sector - Public 2. Manufacturing Sector - Private 3. Service Sector	4. Manufacturing Sector - Public 5. Manufacturing Sector - Private 6. Service Sector	7. Manufacturing Sector - Public 8. Manufacturing Sector - Private 9. Service Sector

- Each category of the award may be further sub divided in Large, Medium and Small on the basis of turnover of the organization. (**Large:** Rs.5000 Crore or more, **Medium:** Rs.500 Crore or more but less than Rs.5000 Crore, **Small:** Rs.50 Crore or more but less than Rs.500 Crore).
- Nominee working in an organisation having turnover less than Rs.50 Crore shall not be eligible to participate.
- Woman - CMAs Categories: This shall be a category within each of the above categories and nomination of woman CMA shall be considered for these categories.

Nomination Guidelines

- Only CMAs who are employed in an organization having turnover of more than Rs. 50 Crore shall be eligible to participate in the CMA awards.
- CFO who is heading the Finance Department of an organisation or holding Board Level position shall be eligible for nomination in 'CMA-CFO Awards'. Nominee shall be working with the present organization as CFO for at least 3 year as on 31st March 2017.
- CMAs not eligible under serial number 2 above and having minimum 15 years of post-qualification experience shall be eligible for nomination in 'CMA-Achiever Awards'.
- CMAs not eligible under serial number 2 & 3 above but having minimum 7 years of post-qualification experience and are below 40 years of age shall be eligible for nomination in 'CMA-Young Achiever Awards'.
- CMA, who got the award from the Institute in the past in a category, shall not be eligible for nomination in the same category for next three years.
- Nominations of the same person in different categories/sub categories will not be considered.
- If a CFO retired/applied for COP/changed the organization between the date of submission of application and Award ceremony then he will not be presented the award. Hence, the nominee or nominator must withdraw his nomination immediately after such instance.
- Members holding positions in the Managing Committee of a Chapter/Regional Council are not eligible to participate.

Nomination Requirements

The nomination form, duly signed, along with following documents shall be sent to:

The Joint Director (Professional Development)
 The Institute of Cost Accountants of India
 CMA Bhawan, 3, Institutional Area, Lodhi Road
 New Delhi - 110003
latest by September 15, 2018

Any queries relating to the CMA Awards 2017 may please be addressed to
CMA S. C. Gupta, Senior Director
 Phone: (O) +91-11-24666108
 Telfax: +91-11-24654703
 Mobile: 09313375254
 e-mail: pd@icmai.in

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700016
 Ph: + 91 33-22521031-34-35 | Fax: + 91 33-22527993
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road
 New Delhi - 110003
 Ph: +91 11 24622156-58

BEHIND EVERY SUCCESSFUL BUSINESS DECISION, THERE IS ALWAYS A CMA



CMA Kalyani Karna
Cost Accountant
Kalyani & Co
New Delhi

PROFESSIONAL SCEPTICISM THINK THE WORST AND PROVE THE BEST!

“Cats have a scam going on – you buy the food, they eat the food, they go away; that is the deal.” Well, the cool cats and high profile scamsters Nirav Modi and Vijay Malla borrowed our money, befooled and fled away from our country. Whenever we talk about ‘professional scepticism’ the Satyam Computers case certainly strikes in our mind for the manipulation of accounts worth Rs. 14,162 crore with the overstatement the sales, and profit margins from the year 2003 to 2008. The study of IIM-Bangalore estimated that public sector banks bore losses of approximately Rs 22,743 crores between the year 2012 and 2016. RBI data shows that for the first nine months of FY17, 455 cases of fraud transactions, each worth Rs 1,00,000 or more were detected at ICICI Bank; 429 at SBI, 244 at Standard Chartered Bank and 237 at HDFC Bank. The recent report of Transparency International (Berlin based NGO working against corruption) shows that India is most corrupt country in Asia-Pacific Region. Corruption here stands for the misuse of public power for private benefit. The corruption perception index which ranks 180 countries and territories by their perceived levels of public sector corruption, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. Let us have a glance of score of India as compared to some of the countries of Asia Pacific region.

Scores of different Asia Pacific countries on Corruption Perception Index 2017

Year	India	China	Malay-sia	Japan	South Korea	New Zealand
2012	36	39	49	74	56	90
2013	36	40	50	74	55	91
2014	38	36	52	76	55	91
2015	38	37	50	75	54	91
2016	40	40	49	72	53	90
2017	40	41	47	73	54	89

Source: Transparency International data bank

Miserable! India has been ranked as sixth position in world power for the year 2017 following United States, China, Japan, Russia, and Germany but it topped in misuse of public fund. The Securities Exchange Board of India has been continuously reviving rules and regulation to plug the loop holes in the securities market still the scams are increasing in number as well as the amount involved in such fraudulent activities is also increasing. Professional scepticism can stand for one of the important measures to control the rising scams in India.

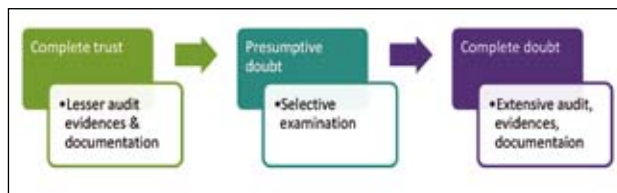
The objective of this article is to pin point the significance of professional scepticism as an integral part of the auditor’s report and mindset, requisites and barriers to the implementation of professional scepticism. The article also tries to throw a beam of light on the importance of cost audit in line with financial audit for strengthening professional scepticism.

International Auditing and Accounting Standard Board (IAASB) has defined professional scepticism as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.” PCAOB (Public Company Accounting Oversight Board), 2012 has defined professional scepticism as “questioning mind and critical assessment of audit evidences.” International Standards on Auditing ISA 200 provides the guidelines on how and why the auditor should act with an attitude of professional scepticism.

The auditor shall plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. The grass root level of scepticism is doubt, and that doubt stimulates informed challenge and inquiry. Professional scepticism is also linked to the application of professional judgment by the auditor. An audit performed without an attitude of professional scepticism is not likely to be a high quality audit. The scepticism continuum can be

concluded as follows:

Figure 1: Scepticism continuum



The auditor is likely to apply professional scepticism at various stages of audit.

Figure 2: Stages of professional scepticism



Engagement agreement with client: An auditor should ensure the integrity of management and the matters that might impact the auditor being able to act with professional scepticism.

Risk assessment: An auditor should perform risk assessment procedures at every stages of audit. The auditor should not accept the explanations of management at its face value rather he/she should obtain corroboratory evidence for every explanation.

Collection and evaluation of audit evidences: An auditor should consider the reliability and sufficiency of evidence. International Standards on Auditing 200 states that 'a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional scepticism or allow the auditor to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance'.

Formulation of auditor's opinion: The professional scepticism should be considered while formulating the auditor's opinion after considering the overall sufficiency of evidences.

Professional Scepticism Under ISA 240 And ISA 200:

International Standard on Auditing (ISA) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" should be read in conjunction with ISA 200, "Overall Objectives of the Independent Auditor and

the Conduct of an Audit in Accordance with International Standards on Auditing."

ISA 240 (ISA 240.12) In accordance with ISA 200, auditor shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

ISA 240.8 specifies that the when obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

In addition to this, ISA 240 paragraph A17 states that 'management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional scepticism, the auditor may judge it necessary to corroborate responses to inquiries with other information' (ISA 240.A17).

ISA 240 paragraph A7 states that maintaining professional scepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the auditor's professional scepticism is particularly important when considering the risks of material misstatement due to fraud.

ISA 240 paragraph A8 states that though the auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance, the auditor's professional scepticism is particularly important in considering the risks of material misstatement due to fraud because there may have been changes in circumstances.

ISA 240 paragraph A9 says that an audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication.¹⁵ However, when the auditor identifies conditions that cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible procedures to investigate further

may include:

- ✱ Confirming directly with the third party.
- ✱ Using the work of an expert to assess the document's authenticity.

Paragraph A18 of ISA 200 prescribes four elements of professional scepticism. These four elements of professional scepticism are as follows:

1. Audit evidence that contradicts other audit evidence obtained.
2. Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidences.
3. Conditions that may indicate possible fraud.
4. Circumstances that suggest the need for audit procedures in addition to those required by ISAs.

Standards on Auditing (SA) 330 (auditor's responses to assesses risk) emphasizes the need of maintaining professional scepticism.

Areas of Professional Scepticism in IASSB:

Some of the areas where the professional scepticism might be important and highly judgemental can be the following:

Figure 3: Areas of professional scepticism



- ✱ **Accounting estimates** – this can include fair value accounting estimates, the use of significant assumptions by management in developing accounting

estimates, and reviewing the judgements and decisions used by management for management bias in developing accounting estimates.

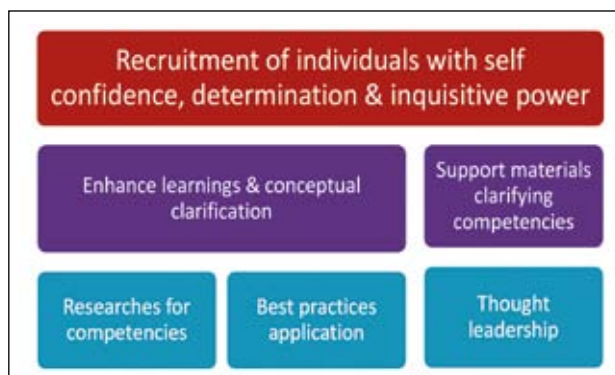
- ✱ **Related party relationships and disclosures** – it can be difficult to obtain information on related parties, as knowledge may be confined to management meaning that the auditor may have to rely on management to identify all related parties. The auditor should also be sceptical when assessing the business rationale behind related party transactions.

- ✱ **Consideration of laws and regulations** – the auditor should be alert throughout the audit for indications that there may have been a suspected non-compliance with laws and regulations.

Improvement of Professional Scepticism

The stakeholders of company are interested in high quality financial reporting. The interests of stakeholders in professional scepticism will play a vital role in the cultivation of sceptical mindset of auditors. But the audit firms face challenges to identify and retain personnel with sceptical mind-set. The audit firm can contribute to professional scepticism in numerous ways:

Figure 4: Improvement of professional scepticism



Recruitment: The firms should employ the best talents and efforts should be made to attract the individuals with qualities of self confidence, determination, curiosity and intellectual power.

Education, training, and development: Education of audit staff is another area for improvement of professional scepticism. The development of professional judgement and courses on continuing professional offerings will be helpful in the development of professional scepticism. Support material, application of techniques and research papers

can be helpful in educating and training the members of audit team.

Mentoring: Mentoring plays an important role for junior staffs of the audit team. Juniors should be to consult with senior members in order to develop their interpersonal skills. It is equally important to spend time in planning audits with juniors.

Development of thought leadership: Thought leadership is the development and dissemination of ideas resulting advantages for the business. It can be applied by professionals, consultants, organisations, and marketers in their fields.

Requisites for Implementation of Professional Scepticism by Auditors:

The auditors can exercise professional scepticism under the following conditions:

Business acumen: The sound knowledge of business model, core competencies of the company, laws and regulations related to the industry, and business environment is essential for applying professional scepticism.

Environmental factors: The tone of firm from the top, group thinking and culture of the firm can impede the application of professional scepticism in financial reporting.

Improvement of personal traits: Professional scepticism should be the 'part of DNA' of auditors. The self confidence, self-motivation, inquisitive nature, confirmation bias, knowledge and practical experience can act as impediments while applying professional scepticism.

Communication with stakeholders: Setting if standards alone will not be helpful in the implementation of professional scepticism. The line of proper and healthy communication will be helpful in the cultivation of sceptical mindset.

Barriers to Professional Scepticism:

The lack of professional scepticism is normally found across the globe. PCAOB found fault with approximately 48% of Ernst & Young's audits (Kim 2013). The barriers to professional scepticism should be evaluated for its sound implementation. A number of barriers have been identified internationally. Some of them are as follows:

Lesser contact with shareholders: There is the

potential for auditors not to be sceptical, or thought not to be sceptical, because they are engaged and paid by the company in a way that is relatively detached from shareholders. In addition they have lesser direct contact with shareholders throughout the audit process. As a result, shareholders have no way of observing and thereby gaining trust in the audit process.

Firm relationship with management and audit committees: Auditors necessarily have strong working relationships with management and audit committees, which may lead them to develop trust that may result in either a lack of or reduction of professional scepticism. Auditors can become inclined to their clients in a manner that can hinder sensitivity to red flags and it can be threat to their independence.

Building long lasting relationship with client companies: The audit firms' business models encourage a culture of building strong relationships with audited entities. This introduces the risk of the auditor putting his or her interests ahead of those of shareholders and could lead the audit firm and the auditor to develop trust or self-interest that may compromise either their objectivity or willingness to challenge management to the extent required.

Cost Audit as a pillar for Strengthening Professional Scepticism:

Cost of product and service acts as denominator for measuring the performances and efficiencies of the factors of production. Generally, Indian products and services are less competitive as compared to other countries due to inefficient management of cost. In such scenario, cost audit can prove to be an effective tool for cost management. Cost audit is forward-looking and diagnostic in nature. There is need to identify the scope, relevance and significance of cost audit by Indian businesses. Cost audit is not a statutory compliance requirement but it can prove to be a boon to the process of the economic resource management. The selling price of the product is determined by the market forces but cost efficiency can be achieved by the management with the application of cost control techniques. Here, cost audit can be helpful to the industries for making the product and services competitive on the global arena.

Cost audit in India is a statutory requirement with the threshold of turnover but it has been voluntarily adopted in many economically advanced countries. Financial audit is an external reporting system for different stakeholders of the company whereas cost audit can act as a guide to the management in the field of economic resource management.

Cost audit covers the behavioural aspects of cost efficiency and cost competitiveness and it will enable the companies to achieve organizational efficiencies. The Institute of Cost Accountants of India (ICAI) is a statutory body created by an Act of the Parliament, who is responsible for development of cost and management accountancy profession in India and cost accounting standards for effective and efficient management of costs through the mechanism of cost audit.


Government of India has taken a numerous steps for emphasising the need of cost audit and also mandated a certificate regarding cost efficiency from practising CMA is to be attached with the project proposal under "Make in India" scheme. But why cost audit is not applicable for all Indian Industries irrespective of turnover is not clear. Do the companies below the statutory limit of cost audit are not contributing to the GDP of India? Is cost competitiveness is not vital for companies below the threshold limit of cost audit? The diagnosis of financial activities of business through financial audit is mandatory for all companies irrespective of their turnover while the cost audit is not a statutory compliance for all companies. This seems to be ironical as cost is most crucial factor for industries, society, and nation as a whole.

Cost audit in parallel with the financial audit will be helpful to the auditors in application of professional scepticism. A stitch in time can save nine. Government of India should make cost audit a mandatory phenomenon in all kinds of industries irrespective of turnover so that the benefit will reach to every nook and corner of the country. Cost audit assists the management to deploy the resources in right channel thereby ensuring optimum return on capital employed. Cost audit helps to improve the productivity of labour, raw materials and other inputs and it ensures that the expenses are in conformity with national and international standards. It helps in the examination of certain plans and actions taken by the management and ensures that actions taken by the management are in the best interest of the organization. It ensures that the approved expenditures must bring an optimum benefit measurable in monetary term and the approved plans are in congruence with the organizational goal. Cost audit functions as a powerful tool of management control in all sphere of management activity.

The objective of financial audit is to assure that the expenditures shown by the management are correct so as to ensure genuine profit to the stakeholders. However, the profitability of a product depends on the productivity of the factors of production. And, productivity can be

improved with cost audit. There is no substitute of cost audit for nurturing cost culture in the country. Hence, cost audit should be in line with financial audit. It will build a good team of auditors sharing the professional expertise and can act as a motivational factor for each other thereby strengthening professional scepticism.

Conclusion

Professional scepticism is the combination of right education, motivation, self confidence and competencies. It is an essential element of quality control, and safeguarding the credibility of the audit opinion. However, being too sceptical can be detrimental to the audit. Too much scepticism can lead to over-auditing and it can be detrimental for overall economics of the audit engagement. Therefore, it is also important to ensure the level of scepticism or achieving the right balance. Some may also argue that the tangible demonstration of professional scepticism is difficult. Audit documentation is a tool for demonstrating the challenges and the auditor's documentation of audit judgments should be conclusive. However there is no single way in which the auditor's professional scepticism is documented. Audit is viewed as a purchase of service and buyers of this service seek to reduce the audit cost and it puts considerable pressure on auditor. Generally, the auditors have time saving checklists and audit staffs think to tick the box and get the things done. But this box ticking methodology will not enable the auditor to apply sceptical mind. Professional scepticism is a mind-set issue which talks about self confidence and mind full of curiosity which remains inquisitive about the things presented by management on the plate. The audit team should have an attitude of **"think the worst, and prove the best"**. 

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cwakyani@gmail.com

AUDITOR OBJECTIVITY AND SCEPTICISM

IS THE AUDITOR RESPONSIBLE
FOR
EVERYTHING?



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In the famous historic case of the Kingston Cotton Mill Co., Ltd., in 1896, the ruling given by the Lindley L.J under Sec.10 of companies (winding-up) Act, 1890 in favour of the Auditors of the company Mr. Pickering and Mr. Peasegood. He pronounced that the auditors are meant to carry out the role of “watchdogs” but not “bloodhounds” with regards to detection and prevention of frauds and errors and hence they cannot be liable for any wrongdoings which they had no reason to suspect were taking place. The auditor completely depends on an inventory certificate given by a manager of the company. The audit work on the inventories he had done was checking the details of the certificate to the inventory records without attending any physical inventory count. Actually, the inventories were overstated. However, the auditors were held not to be liable. It is an important legal precedent which is still relevant today.

Objectives:

The objectives of the present paper is

- To analyse Auditors Objectivity & scepticism
- To study & analyse the role of an Auditor
- To examine the liabilities of an Auditor

The Role of an Auditor:

The auditor plays vital role in any business organisation. He has to certify the Management and Board of Directors of the Company under Section 134(5) of the Companies Act, 2013 that they prepared financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company are in accordance with the accounting principles generally accepted in India and also followed the Accounting Standards as set out under Section 133 read with rule 7 of Companies (Accounts) Rules, 2014.

Under the Act, the auditor further report that:

- a. they have sought and obtained all the information and explanations which were necessary for the purpose of

their audit;

- b. in their opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- c. the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
- d. in their opinion, the financial statements comply with the applicable Accounting Standards as set out under the Act.
- e. on the basis of written representations received from the directors as on March 31, the year and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, of the year, from being appointed as a director in terms of Section 164(2) of the Act.
- f. In their opinion and to the best of their information and according to the explanations given to them, they report as under with respect to other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014:
 - (1) The Company does not have any pending litigations which would otherwise impact the financial position of the company.
 - (2) The Company did not have any long-term contracts including derivative contracts which would leads to losses.
 - (3) Any unpaid dividend amount transferred to investor education and protection fund as per the statute.

Compliances:

The compliance required to be followed as:

◆ Financial Statements are Balance Sheet, Profit and Loss and Cash Flow Statement. The cash flow statement is not required in case of an OPC i.e., One Person Company, Small Company and Dormant Company.

◆ uniform financial year, i.e., 1 April to 31 March, with limited exemptions

◆ The Companies need to prepare and maintain financial statements in an electronic format. In addition, XBRL reporting has been made mandatory for some specified companies.

◆ CFS is to be prepared and laid before an AGM, in addition to SFS. Audited accounts of the listed companies, along with those of the subsidiaries, have to be made available on the website

◆ Audited accounts of all of the subsidiaries are required to be prepared and provided to shareholders on request

◆ Financial statements need to be signed at least by the Chairperson of the company, if authorized, by the board or two Directors, including Managing Director (MD), Officer (CFO) and Company Secretary (CS), wherever they are appointed. In case of an OPC's balance sheet and statement of profit and loss, only one Director is required to sign.

SATYAM COMPUTERS – A Myth:

In the light of recent developments, the auditors are charged with negligence and not paying due care while auditing the documents and certifying the financial statements. In Satyam scam the auditors were held responsible. On 7th January 2009, the chairman of Satyam, Mr B Ramalinga Raju resigned and confessed that he had manipulated the accounts of Rs.14162 crores in several forms. The entire corporate world was shocked. The auditing firms price water house Cooper's Indian arm was fined \$6 million by the US securities and Exchange Commission for failing in uplifting the code of conduct and auditing standards which performing their duties relating to

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the accounts of Satyam Computers Services. The Securities and Exchange Board of India also barred price water house from auditing any listed company in India for 2 years as they did not comply with auditing standards.

The auditor relied on the false information provided by the management of Satyam rendered its audit reports become inaccurate and unreliable.

The company inflated its revenues, falsifying accounts and income tax returns, fabricating invoices are other findings of the scam.

SHELL COMPANIES – A Challenge:

The Indian Government under the head ship of Prime Minister Narendra Modi took a step to battle against black money in the process of check black money more than 1.75 lakh shell companies are deregistered. These are the companies not doing any business activities and not having significant assets on their own. The main motto is to carry out some legitimate and illegitimate things of hiding the data of ownership, money laundering and avoid tax. The Serious Fraud Investigation Office (SFIO), Ministry of Corporate Affairs (MCA), Registrar of Companies (ROC), Income Tax (IT) departments are finding many shell companies which are having same address, same auditors and same directors etc., whereas auditors are failed nailed off. The auditors should be vigilant with any such suspicious data to find and avoid wrong things at the beginning.

The Liability of an Auditor:

A Company auditor is appointed under the Companies Act, 2013, and hence, his position differs from that of one appointed by a private concern. His appointment, remuneration, rights and duties, liabilities and responsibilities, etc. are defined and laid down by the Companies Act.

The Auditors liabilities may be kept under the following heads:

Liability for Negligence:

The auditor safeguards the interests of the shareholders as

such he perform his duties as an agent of the shareholders. The auditor should pay a reasonable care and diligence in the performance of his duties as lay down by the statute.

**ON 7TH JANUARY 2009,
THE CHAIRMAN OF SATYAM,
MR. B RAMALINGA RAJU RESIGNED
AND CONFESSED THAT HE HAD
MANIPULATED THE ACCOUNTS OF
RS.14162 CRORES IN SEVERAL FORMS.
THE ENTIRE CORPORATE WORLD
WAS SHOCKED**

If the auditor fails to do in his services, the principal i.e., shareholders suffer a loss and the auditor is held responsible to make good the loss under the law of agency. At the same time he is not responsible for the other losses caused to the principal. The same upheld in the case of Liverpool &

Wigan Supply Association Ltd., in 1907. The auditor is not liable for loss without negligence and negligence without loss.

Liability for Misfeasance:

The interests of the shareholders vested on the auditor of a company. He is liable for negligence in the performance of his duties if he commits a misfeasance i.e., a breach of trust or duty. It implies a wrong done. An auditor does something wrong in performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance.

Criminal Liability:

The auditor is liable for his acts of omission or commission which can be construed as an offence under the provisions of the companies act. He will be punished with imprisonment, fine or both.

Conclusion:

Errors are inevitable while writing and maintaining numerous transactions and books of accounts. The unintentional errors are called mistakes whereas intentional errors are called fraud. An auditor should be vigilant to differentiate between these two and apply his professional knowledge and skills. The professional scepticism takes him to new heights in his profession otherwise it becomes suicidal to his career. **MA**

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PROFESSIONAL SCEPTICISM- AN INSIGHT INTO CONCEPT, APPLICABILITY AND ITS BARRIERS



The recent financial crisis along with complex global business environment emphasizes the importance of high quality and with credibility financial reporting. The contemporary business environment imposes the need for additional and more relevant information related to the entities and processes that support better quality of financial reporting. Auditors though adhere to professional standards along with legal and regulatory requirements while performing financial statement audits, they also require to apply professional scepticism appropriately in the exercise of professional judgment. The wide spread and diversification of business in this modern day, has continued to increase the complexity of business transactions and of accounting standards. Given the increased level of complexity and subjectivity together with a continued emphasis on reliable financial reporting, the need for application of high degree of professional scepticism by the auditors is the need of the hour. While the responsibility of applying appropriate professional scepticism is not the sole domain of financial statement audit, this paper focuses on the areas, where professional skepticism must be applied by auditors in the conduct of a financial statement audit. It also tends to identify and highlight the barriers in successful implementation of professional scepticism.

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Professional scepticism is not a new term to any accounting or auditing personnel. It is often perceived as one of the most important elements of audit quality. With the advent of time as the business environment is getting complicated, auditors have duly demonstrated sufficient professional scepticism during the audit of financial statements and had gained immense importance in the eyes of the regulators. International Forum of Independent Audit Regulators (IFIAR) concluded from its 2014 Survey of Inspection Findings that, "A factor underlying many audit deficiencies is insufficient exercise of professional scepticism during performance of the audit" (IFIAR, 2015, p. 3). Hence, "Enhanced professional scepticism by auditors will contribute significantly to improve the quality of the audit and that firms should prioritize efforts in this area" (IAASB, 2015, p. 12). Again the 2015 Quality Assurance Report published by the Hong Kong Institute of Certified Public Accountants (HKICPA) highlighted a number of deficiencies in practice which hindered audit effectiveness, one of them being the auditors' failure in maintaining an appropriate attitude of professional scepticism. Thus, the importance of professional scepticism in quality audit practice is immense and remains undisputed. Through our study we try to understand the concept of professional scepticism, its applicability and some practical barriers that can come on its way.

1. Review of literatures

In spite of its alleged importance and popularity both among academics and practitioners, professional scepticism remains as a vague concept and is not well understood by most of us. However, academicians have defined professional scepticism in terms of (relative) stable differences between individuals (i.e. as a trait) (Hurt, 2010; Quadackers et al., 2014). Professional scepticism has also been identified as an important input to auditors' judgment and decision-making and is thought to be of value because

it enhances audit quality (Nelson, 2009; IAASB, 2015). Professional scepticism can also be described as a trait, as the propensity of an individual to defer conclusion until the evidence provides sufficient support for one alternative/explanation over others (Hurt, 2010, p. 151). In this context, some authors highlighted professional scepticism as the opposite of trust (Shaub, 1996), being the propensity to trust (nearly all) those with whom one interacts and a general tendency to make positive attributions about others' intentions (Rotter, 1954, 1967). Professional scepticism may also be understood as an emergent state (Grohnert et al., 2017; Nolder & Kadous, 2017; Robinson et al., 2017). Emergent state may refer to cognitive, motivational, and affective states that are dynamic in nature and vary as a function of situational characteristics as well as inputs, processes, and outcomes (Marks et al., 2001).

2. Objectives of the study

Our study is based mainly on the following objectives -

- (i) To understand the concept of professional scepticism by analysing the views of different professional bodies regarding the same and to evaluate its need in audit as a profession.
- (ii) To highlight the areas of audit where professional scepticism is necessary.
- (iii) To point out the factors that act as barriers to successful implementation of professional scepticism.

3. Research methodology

This study is a result of descriptive and exploratory research. No statistical tools have been used for the purpose of this study. Thus, it is purely qualitative in nature.

4. Discussion and analysis:

4.1. Conceptual Framework:

Professional scepticism is though not a new theme, but has rapidly increased in importance over the past decade. Reference to the concept of professional scepticism before the 1990s is close to non-existent. Increased practice of window dressing and sophisticated earnings management techniques of recent times have further increased the importance of professional scepticism of an auditor. The concept of professional scepticism only started to get real attention due to the unraveling of a series of high-profile accounting scandals including Enron and WorldCom.

American Accounting Association defines 'Professional Scepticism' as, "Professional scepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence." The standards describe professional scepticism using three elements as follows –

Figure 1: Three elements of professional scepticism



[Source: Center for Audit Quality (2013), Auditor Objectivity and Scepticism – What'sNext, American Accounting Association Annual Meeting, slide 5]

The Standard on Auditing (SA) 200 issued by The Institute of Chartered Accountants of India (ICAI) defines the term 'Professional Scepticism' as, "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence".

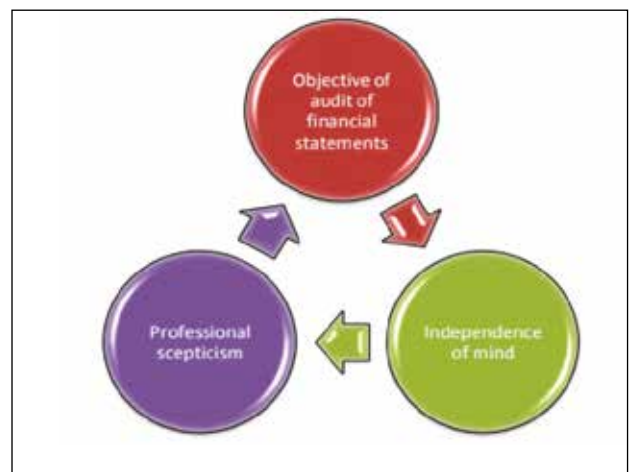
Thus, professional scepticism in auditing implies an attitude that includes a questioning mind and a critical assessment of audit evidence without being overtly suspicious or sceptical. Auditors adopt an attitude of

professional scepticism when they evaluate audit evidence. When the auditor adopts such an attitude, the auditor does not accept evidences gathered at its face value; rather the auditor evaluates the evidences bearing in mind the possibilities that,

- (i) The evidences may be misleading,
- (ii) The evidences may be incomplete, or
- (iii) The persons providing the evidences may be either incompetent or motivated to provide evidences that are misleading or incomplete.

The lower the acceptable level of audit risk or the greater the risk of material misstatement, the greater is the need of application of the attitude of professional scepticism by an auditor. The above discussions bring to the conclusion that the following three elements are interrelated–

Figure 2: Relationship of audit objective and

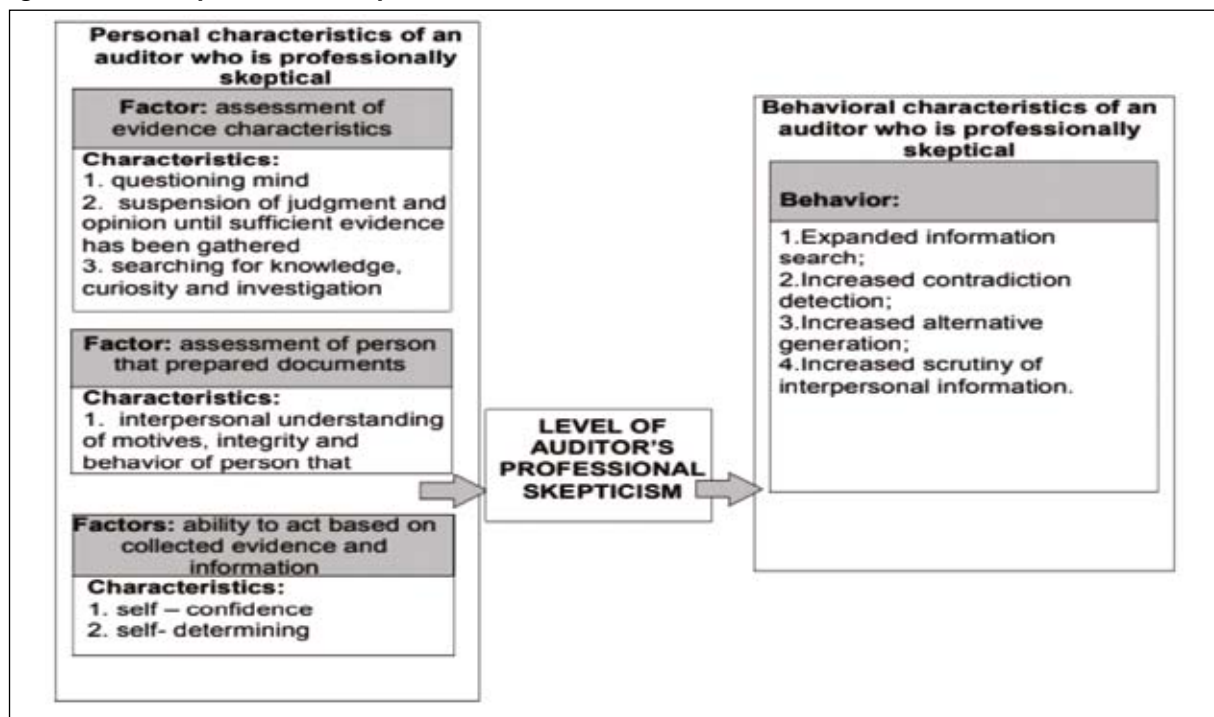


independence of mind with professional scepticism

[Source: Hong Kong Institute of Certified Public Accountants (Spring 2017 issue), p. 2]

The auditor, therefore, needs to plan and perform an audit with professional scepticism, so that he can recognise that circumstances may exist that cause the financial statements to be materially misstated. How far a particular auditor will be sceptical regarding a given situation depends both on his personal traits as well as the characteristics of those persons from whom such audit evidences are collected. This phenomenon can be explained as under –

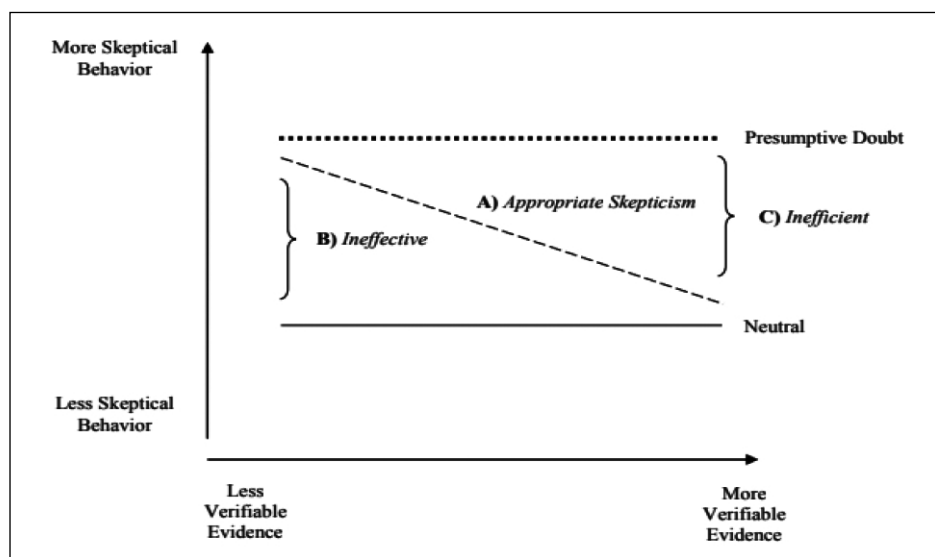
Figure 3: Level of professional scepticism and auditor's characteristics



[Source: Dimitrova J. and Sorova A. (2015), *The Role of Professional Scepticism in Financial Statement Audit and Its Appropriate Application*, Brigham Young University, p.4]

An auditor however, should act like a watchdog. He is not a bloodhound. Thus, being too much sceptical without having sufficient verifiable evidence in hand may create potential threats to efficiency and effectiveness of an audit programme and may also hamper the audit quality.

Figure 4: Potential threats to efficiency and effectiveness due to scepticism



[Source: Erin Burrell Nickell (2012), *An Examination of Issues Related to Professional Scepticism in Auditing*, Electronic Theses and Dissertations, University of Central Florida, p. 61]

4.2. Areas of Audit Where Professional Scepticism is Necessary:

✱ **Accounting estimates, such as fair value assessment** - The financial reporting aspect is becoming more complex for the companies. One of the main reasons is the increasing reliance on fair value estimation which may be highly subjective. Auditors are advised to exercise professional scepticism in the audit of accounting estimates, for example, in testing impairment of goodwill and other intangible assets and auditing the fair value of investment properties. In practice, auditors need to analyze and find out what are the key assumptions in the making of accounting estimates used by the entity's management; review the underlying assumptions and decisions made by the management in the making of accounting estimates; challenge and question rigorously whether the basis of such assumptions used by the management are reasonable or plausible; and assess critically whether sufficient evidence has been obtained to support that the management's assumptions are relevant, reasonable or, more importantly, to suggest that the management is not inappropriate or too optimistic with regard to such assumptions.

✱ **Related party relationships and transactions** - Related party transactions may not be readily apparent to the auditors, especially if there is intentional concealment from the management. The varied nature of related party relationships and transactions may also lead to higher risks of material misstatement for the entity. At all times, the auditor should be vigilant to significant transactions which are taking place outside the normal course of business of the entity, for example, transactions taking place with offshore entities in locations with weak corporate laws and sales transactions with unusually large returns or discounts. These may further attract the auditor's attention on whether there is possible fraudulent financial reporting, disclosure or misappropriation of assets, other than concealed related party relationships and transactions. SA-550 issued by Institute of Chartered Accountants of India deals with auditor's responsibility regarding related party relationships and transactions when performing an audit of financial statements. Related party relationships can be in many forms and the auditor has to exercise professional scepticism to understand the impact of such business.

✱ **Consideration of laws and regulations** - The auditor should be alert throughout the audit for indications that there may have been a suspected non-compliance with laws and regulations as per the statutory requirements. The auditor may have to use his sceptical mind to identify such non-compliance or non-adherence of laws and regulations in preparation of financial statements and also try to understand the impact of the same.

✱ **Going concern** - The going concern assumption is the fundamental premise for any company in preparing the financial statements. The auditor has to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of financial statements and to conclude whether there is a material uncertainty about the entity's future ability to continue as a going concern. Specifically, the auditor needs to examine the management's plans for future action and to judge whether such plans are feasible in the relevant circumstances. This may include evaluating critically whether the management's assumptions and forecasts about the future are appropriate; considering whether the discount rate considered in conducting the cash flow forecast is realistic; and assessing whether the outcome of the management's future plan can improve the current situation to support the appropriateness of the going concern assumption.

✱ **Identification of accounting frauds from suspicious activities/transactions** - The auditor has to be very careful in identifying any suspicious activities or transactions that take place in normal course of business. The controls in place may not be efficient enough to detect such transactions and over reliance on controls by the auditor may be misleading at times. The auditor should use his professional scepticism in its true form to understand the situation and try to identify such frauds that already exist and shall try to collect enough audit evidence to support his views of fraud.

4.3. Documentation of Application of Professional Scepticism:

It is inherently difficult to evidence the application of professional scepticism during planning and performing the audit engagement as it is problematic to document the "mindset" of the auditor at the point at which the work

was performed. The auditor should provide documentation which evidences:

- ✱ discussions with the management of significant matters and key audit issues, particularly what the management said, what questions the auditor asked to challenge the management and what evidence was provided by the management;
- ✱ evaluation on the appropriateness and sufficiency of the audit evidence (i.e. the strength of the audit evidence), including any specific procedures performed to corroborate management's responses to the auditor's enquiries; and
- ✱ how the issues are addressed, why the auditor agrees with the management's views or whether alternative views have been assessed, together with a rationale for such conclusion.

4.4. Common Judgment Tendencies that Can Lead to Bias and Weaken Scepticism:

- ✱ **Overconfidence** – The decision makers have a tendency of overestimating their own capacity to perform tasks or make accurate assessments of risk or other judgments and decisions. Overconfidence may lead to lesser focus in understanding issues and audit objectives; insufficient challenging of management's, views, preferences and reporting choices; reduced importance on the nature of the audit procedure and potential alternatives; or limiting evidence search, all of which can manifest themselves in terms of a suboptimal level of professional scepticism.
- ✱ **Confirmation** – The attitude to collect and overweight confirming information in the information gathering and evaluation steps in the course of an audit, and to favour conclusions that are consistent with initial beliefs or preferences. The sense of confirmation can influence and act as a bias to a wide variety of auditor judgments. This can range from an auditor collecting evidence that is consistent with a supervisor's or client's explanation for an unusual pattern in financial data, to putting disproportionate weightage on audit evidence that is consistent with a preferred audit outcome.
- ✱ **Anchoring** – This refers to the practice of making assessments in gathering and evaluating information from an initial value and then making adjustments

insufficiently away from that initial value in forming a final opinion. Anchoring is generally performed when auditors begin the audit of a specific account or account balances by going through the account details from the previous year or by examining unaudited balances. The auditor may be wrongly influenced by such numbers or the auditor may unknowingly fail to adequately adjust away from an initial starting point, resulting in a lack of objectivity in auditing transactions, estimated levels, and account balances.

- ✱ **Availability** – There is a tendency for decision makers to base their judgment on information that is more readily available from memory as being more likely and relevant. This tendency limits alternatives that can be considered or information gathered for those alternatives or information that readily come to mind. Availability of information can be especially common as auditors typically work with several clients. Information from current events and audits may be fresh in the mind, and an auditor may in an unconscious state of mind may attempt to apply less relevant information or conclusions from prior situations to the current audit which may not be applicable.

4.5. Factors That Act as Barriers to Successful Implementation of Professional Scepticism:

4.5.1. Individual Auditor – Pertains to each individual auditor on any given engagement

Barriers – Some of the potential barriers to professional scepticism that may exist at the Individual Auditor level include:

- ✱ **Judgment traps and biases, lack of knowledge and expertise** – The auditor may fall prey to judgement traps or biases which leads to wrong understanding of the situation that is in a way he is forcefully made to understand the facts and figures which are window dressed. This happens due to insufficient scepticism on the part of the auditor which may be due to lack of knowledge, expertise or adequate relevant experience.
- ✱ **Deadline pressure, inherited preferences and expectations** – For any auditor there is a deadline within which audit engagement has to be completed. But many a times this kind of stringent deadlines affect the judgments of the auditor in a compromising with scepticism and as a result,

the auditor satisfies himself with the inherited preferences and expectations due to paucity of time.

- ✱ **Character of the auditor, and his personal and cultural attributes**-A lot depends on the character of the auditor in exercising scepticism. Personal and cultural attributes also play an important role in determining the extent of quality audit work by using professional scepticism.
- ✱ **Performance and compensation structure and incentives that do not effectively encourage professional scepticism**-There should be a performance and compensation structure that highly rewards the auditors for quality work and so that they also feel encouraged to exercise scepticism in relevant areas of their audit work to prevent any kind of fraudulent activities in the future.

4.5.2. Engagement Team – Pertains to each engagement team assigned to a specific client

Barriers – Some of the potential barriers to professional scepticism that exist at the engagement team level include:

- ✱ **Business development goals and client service that create conflict of interest**- The fear of loss of business relationships with clients and prospective clients may act as a possible threat to the engagement team as a result of which scepticism behavior may be restricted. This creates conflict of interest for the members of the engagement team.
- ✱ **Limited resources and Inadequate time management** -Effective time management forms an integral part of audit engagement and becomes quite challenging for the engagement team to finish the audit work within deadline specially with limited resources.

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INVITES APPLICATIONS FOR ADMISSION TO THE FELLOW (DOCTORAL / PH.D) PROGRAMME COMMENCING JUNE 2019

Applicant must have either a First Class Master's degree in any discipline or CA with minimum 50% marks or CS/CMA with minimum 55% marks and a three-year Bachelor's degree with at least 50% marks in the aggregate OR First Class Bachelor's degree in Engineering, Non-engineering candidates who have undergone 10+2+5 years will be considered eligible to apply. In addition, applicant must have obtained a minimum of 50% marks in the aggregate in either the Secondary or the Higher Secondary Examination of a Board (or equivalent). See IIMC website (<https://www.iimcal.ac.in/programs/doctoral>) for details.

Applicant can apply to at most two "areas of specialization". Applicant is required to have taken the Common Admission Test (CAT) OR, depending on chosen specialization(s), alternative test(s) in lieu of the CAT as specified below. **The test score(s) should be valid on January 27th, 2019.**

Area of Specialization	Test(s) in lieu of CAT
Economics	GMAT/GRE / UGC-NET in Business Economics / Development Economics / Economics
Finance & Control	GMAT / GRE / UGC-JRF in Commerce / Economics / Management
Human Resource Management	GMAT / GRE / GATE / UGC-JRF in any discipline
Management Information Systems	GMAT / GRE / GATE / UGC-JRF in any discipline
Marketing	GMAT / GRE / GATE / UGC-JRF in Economics / Psychology / Sociology / Anthropology / Management
Operations Management	GMAT / GRE
Organizational Behaviour	GMAT / GRE / GATE / UGC-JRF in any discipline
Public Policy & Management	GRE / UGC-NET in Anthropology / Economics / Environmental Science / Geography / History / International and Area Studies / Law / Management / Political Science / Psychology / Public Administration / Social Work / Sociology
Regional Development	GRE / UGC-NET in Anthropology / Economics / Geography / Population Studies / Public Administration / Sociology
Sociology	UGC-NET in Anthropology / Economics / Political Science / Sociology
Strategic Management	GMAT / GRE / GATE / UGC-JRF in Anthropology / Commerce / Defence and Strategic Studies / Economics / Environmental Science / Geography / History / Law / Management / Political Science / Psychology / Public Administration / Sociology

Financial Support: Stipend of Rs. 30,000 - 35,000 per month, Contingency Grant of Rs. 25,000 per year, Computer Grant of Rs. 40,000, Fieldwork Grant, Teaching Assistantship in the research phase, full support for participation in up to three International Conferences.

How to Apply: A candidate can apply to a maximum of two Areas of Specialization. Applicants are required to pay an application fee of Rs. 1000/- SC / ST / OBC / PWD applicant submitting attested copy of SC / ST / OBC / PWD certificate does not have to pay Application Fee. Applications will be received from November 02nd, 2018 to January 27th, 2019. For further details please visit IIMC website: <https://www.iimcal.ac.in/programs/doctoral/admissions>

- ✱ **Preferences of management and partner, tone or practices of engagement leadership that do not adequately emphasize professional scepticism** - Many times it is observed that the preferences of top management and the practices of the engagement leadership or the partner do not support the exercising of professional scepticism behavior.

4.5.3. Profession/Audit Firm – Pertains to the external auditing profession; encompasses public accounting firms and the economic and regulatory environment in which they operate

Barriers – Some of the potential barriers to professional scepticism that exist at the profession and firm level include:

- ✱ Conflicts of interest arising from payor/selector model- This is a common factor which creates a major conflict of interest and put forwards the question 'how independent is the independent auditor'. Since the client pays the fees for the audit, the auditor tends to value their comments thereby compromising on scepticism and avoiding conflict of interest.
- ✱ Inadequate resources devoted to the audit, or competition primarily based on audit fees- Many times the audit firms tend to put more focus on firms which pay relatively more fees and direct maximum resources to it. This often results in inadequate resources being devoted to audits with relatively lesser fees.

In this study we have tried to identify and analyze the main barriers that can affect or influence the effective exercise of professional scepticism by auditors at different levels while performing the audit. There can be even more barriers than what has been identified above.

Conclusion

Maintaining professional scepticism is necessary to reduce the risks of overlooking unusual circumstances and over generalizing the facts when drawing conclusions from audit observations. It also helps an auditor to avoid using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results. Academic researchers emphasize that professional scepticism is fundamental to the role and performance of the auditors. The application of professional scepticism throughout the audit is a foundational aspect of audit quality and the integrity of the audit process and also

helps to assure reliable outcomes.

There is currently a lack of practical guidance around the appropriate application of professional scepticism in audit standards and in the professional literatures. These represent an important opportunity for the professionals, academicians, standard setters and regulators, to develop more comprehensive and practical approach to professional scepticism. However, the good news is that they are increasingly focusing their attention on advancing the understanding and applicability of professional scepticism and also working on improving its effectiveness. Co-ordinated efforts by all of the key stakeholders will increase the likelihood that audit quality will be improved and the transparency and reliability of reported financial information is enhanced. **MA**

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SKEPTICISM AND COST INFORMATION

Is a questioning mind better than positive ones? Not sure, but certainly it has greater ability and standing while considering an aspect in length width and depth. Being alertness to conditions which may lead to material misstatement due to error or fraud, this attitude demands a critical assessment based on scientific evidence to support a claim and not merely rely on belief or custom. Applying professional skepticism is key to audit quality. External auditors clearly have the responsibility to apply appropriate professional skepticism in audit. While auditors can and must do better in their central role, but complete solution to the problem of enhancing auditor professional skepticism and creating the values to entity, requires an approach that addresses threats at all structural levels and that involves all of the key stakeholders in stream to shared responsibility and enhancing the reliability of the financial reporting and non-financial reporting process. While audit committees, internal auditors, managements, analysts, trade exchanges, and regulators also have the responsibility to properly apply skepticism in their respective reporting roles, here this papers attempt to highlight the contribution that that can be yield by applying skepticism in cost information.

Credible financial information is vital not only to investor confidence but to all stakeholders. The financial reporting information chain involves many stakeholders who have responsibilities that promote reliable financial reporting. Although, independent, external financial statement by the auditors play an important role in the financial reporting process by providing an independent opinion that financial statements presenting a true and fair view in all material respects of the reporting entity's, such as financial position, results of operations, and cash flows, in accordance with an applicable regulatory reporting framework. Still there are possible risk of misstatements and fraud. Fraud prevention and risk mitigation is key responsibility of professionals

engaged in financial management at different levels. Often ignored Non-financial areas are equally important that offers great potential of fraud and can be addressed by establishment of fraud prevention enabling mechanism essentially lies in robust and *cost-effective controls* that capable to prevent fraudulent behavior and practices. It is very unlikely that, all frauds will be prevented with even the best internal controls are in place. Thus, every organization should have the prime goal of detecting fraud early so as to address them appropriately and minimize its financial impact on ecosystem.

Fraud, risk and cost information

In general, there are three potential areas of frauds

1. Asset misappropriation
2. Financial numbers
3. Corruption

The majority of frauds are in asset misappropriations (as they bears heavy monetary values), which involve the theft or misuse of an organization's assets. Fraudulent financial statements presents the smallest percentage of reported in term of numbers, but represent the highest losses per case. Corruption is general term involving dishonest or fraudulent conduct by those are in power.

Cost information of different element such as material cost, employee cost, cost of utilities, overheads, research and development cost, cost to quality, pollution control cost, interest and finance cost etc. provide comprehensive picture and fine connectivity with financial item of auditing. On operational front capacity utilization, element wise consumption of materials, and the other elements of cost in detail connect the pin point information to enable to comment on organization ability and risk on operational front. Cost information and cost audit encourage adoption of

technology and scientific tools like quantitative techniques, technical or benchmarked standards, information systems in identifying wasteful expenditure, underutilized resources, other inefficiencies/bottleneck offer extended horizons to apply scientific and logical deduction in skepticism.

Assessment of productivity of resources, opportunities and risk, internal governance, external governance and detection and correction of factors that may lead to frauds in are captured by the cost information with great details

Professional skepticism is not the only domain of financial auditors, the concepts underlying professional skepticism are relatively straightforward and there is a lack of common understanding or practical guidance on what professional skepticism is and how it can be demonstrated and documented. Auditor professional skepticism can be enhanced through the cooperative efforts of other stakeholders in the financial reporting process, including directors and audit committees, regulators, guidance documents and standards. Auditing and assurance standards, Cost Audit and Assurance Standard and other relevant guiding notes provide comprehensive literature on subject.

Even though management accountants are not under the same regulatory as external auditors in term of financial statements, still they have a great role to play not only in

the management decision making, in preparation of true cost records, cost audit, operational audit, management audit, internal audit risk audit, but to financial numbers as well. In fact cost information are comprehensive in nature and by adopting an elevated attitude of skepticism, a management accountant can detect fraud within their respective organizations. Management accountants often have insights to details that may go unnoticed or unaudited by external or internal auditors. They certainly have intimate knowledge of financial activities, the corporate environment, and employee actions. This insider perspective can put them in a position to detect many symptoms of fraud that may not be as obvious to an outsider, such as external auditors.

Professional skepticism is the standard of behavior for fraud detection, it really interesting to understand how well management accountants utilize professional skepticism. As friend philosopher and true guide corporations, they enjoy a better position to recognize even dome of behavioral signs than an outsider who has limited contact. By having a better understanding of professional skepticism, the management accounting profession can develop guidelines to implement it more effectively.

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Obituary



The Institute and its members deeply mourn the demise of CMA Nani Gopal Das who left for heavenly abode on August 17, 2018 at Kolkata. CMA Nani Gopal Das initiated the pivotal role in setting up the Agartala Chapter of the Institute with the assistance of State Government. He also served as the Chairman cum Principal Officer of Agartala Chapter since 25 long years.

May his family have the courage and strength to overcome the loss.



PROFESSIONAL SCEPTICISM AND CORPORATE FINANCIAL FRAUDS IN INDIA



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The Corporate Financial Frauds are getting higher and far more complex, but common to both is the question ‘High Quality Audit’ and Professional Scepticism. In this background the present study is chosen to identify and determine the reasons for the corporate financial frauds in India. To achieve the aforesaid objective, data is gathered from secondary sources. From the study, it is found that inspite of number of measures initiated by the Government of India and other regulatory bodies, frauds are increased year by year, Researcher felt that “Lack of Professional Scepticism” could be one of the reason for the increase of corporate financial frauds in India. It is the need of the hour for the regulatory bodies as well Government of India to inculcate the Professional Scepticism for every auditor to overcome tendencies like relying excessive on what the client says as well to work with ethically to stop sophisticated white collar frauds.

In recent years various National and International Auditing and Financial Reporting regulatory bodies highlighted the importance of professional scepticism due to increase of corporate financial frauds as well as window dressing/misstatement due to frauds. The recent corporate financial frauds across world including India focused attention on Professional Scepticism. The recent corporate financial frauds including banking sector in India are indicating lack of ‘High Quality Audit’ due to lack of Professional Scepticism. As the United Kingdom (UK’s) Financial Reporting Council (FRC) suggests that Professional Scepticism is the ‘Cornerstone of Audit Quality’, which lacks today during Audit Process. Adopting and Applying a Professional Scepticism is a personal and professional responsibility as well as basic ethical consideration of every auditor.

Professional Scepticism:

International Auditing and Assurance Standards Board (IAASB) Handbook contains the following definition on Professional Scepticism, “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence”.

Statement of the Problem:

Most of the Auditing and Financial Reporting regulatory bodies indicates adopting and applying a Professional Scepticism is a personal and professional responsibility by an every auditor. In spite of the above, there large number of corporate financial frauds are reported. Is it because of lack of training and expertise? Is it because of conducting audit with trust in management? Is it because of pressure in the audit process? Is it because of lack of Professional Scepticism? To answer the above present study is chosen.

Objectives of the Study:

To identify and determine the reasons for Corporate Financial Frauds in India.

Scope of the Study:

The present study is confined to corporate financial frauds in India and data is gathered for the period of four years from 2014-15 to 2017-18.

Data Collection:

To achieve aforesaid objectives data is gathered from secondary sources from Ministry of Corporate Affairs, Government of India.

Discussion and Analysis:

Table No.1

Table Showing State wise and Year-wise details of fraud cases involving companies where investigation has been ordered by the Government of India and carried out/to be carried out by SFIO.

Sl.No.	State	Financial Year				Total
		2014-15	2015-16	2016-17	2017-18 (Current Year as on 01.03.2018)	
1	Assam	-	06	-	-	06
2	Andhra Pradesh	-	-	03	05	08
3	Bihar	02	-	02	02	06
4	Chandigarh	-	-	12	01	13
5	Delhi	15	89	29	34	167
6	Gujarat	-	01	06	04	11
7	Haryana	-	10	-	-	10
8	Jammu	-	-	-	01	01
9	Jharkhand	02	-	01	-	03
10	Karnataka	-	-	03	06	09
11	Kerala	-	-	01	-	01
12	Maharashtra	05	20	23	109	157
13	Meghalaya	-	-	02	-	02
14	Odisha	18	08	01	05	32
15	Punjab	-	03	01	-	04
16	Rajasthan	-	02	01	01	04
17	Tamil Nadu	-	01	02	04	07
18	Uttar Pradesh	-	10	02	16	28
19	Uttarakhand	-	02	-	-	02
20	West Bengal	29	32	22	21	104
21	Total	71	184	111	209	575

Sources: Government of India, Ministry of Corporate Affairs, Rajya Sabha, Unstarred Question No. 2754, answered on Tuesday, 20th March 2018.

Table No. 2

Table Showing the Percentage of Frauds Went Up in India

Sl.No.	Year	No. of Cases	% of frauds Went up
1	2014-15	71	-
2	2015-16	184	159.15%
3	2016-17	111	-39.67%
4	2017-18 (Current year as on 01.03.2018)	209	88.29%
	Total	575	-

Sources: Government of India, Ministry of Corporate Affairs, Rajya Sabha, Unstarred Question No. 2754, answered on Tuesday, 20th March 2018.

Discussion:

In view of increase of corporate financial frauds in India (Table No.1 and Table No. 2), doubt about the 'Quality of Auditing' in India is reasonable. From the study, it is found that number of companies involving in fraud cases are increasing consecutively on yearly basis. Researcher felt that, the measures taken by the Government of India and other regulatory bodies to curb the cases of fraud in India are not effective and fruitful.

Ministry of Corporate affairs, Government of India have taken number of measures to curb fraud cases like; Fraud as a substantive offence has been introduced in the companies act; statutory status to the Serious Fraud Investigation office(SFIO) has been granted under the companies act;

Stricter norms for Corporate Governance have been prescribed and Use of ICT for early detection of frauds and other regulatory bodies like Institute of Chartered Accountants of India (ICAI) introduced "Rotation of Auditors" for the demolition of the comfortable relationship that existed between the auditor and a company.

In spite of above measures taken by Government of India, ICAI and other regulatory bodies, the frauds involving by companies increasing repeatedly on yearly basis in India. *It could be because of lack of Professional Scepticism by an Auditor, it may be due to pressure in the audit process, faith in management, lack of training & expertise and due to neglect of unusual of circumstances in the audit process.*

Conclusions

The objective of any corporate is to protect the interest of stakeholders, due to increase of corporate frauds, stakeholders lacks the reliability and trust in financial reports as well on management. It is the moral responsibility of every auditor to conduct audit with high level of professional scepticism to protect the interest of stakeholders. Government of India, ICAI and other regulatory bodies needs to take a hard look at the design and implementation of Auditing standards for Auditors to eliminate the frauds completely in the corporates for the

interest of stakeholders as well for the larger interest of the nation. **MA**

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ICAI-CMA SNAPSHOTS



CMA H Padmanabhan, Central Council Member of the Institute addressing in Study Circle Meet at ICAI-SIRC with Sri. Chinnasamy Ganeshan, Resource Person and CMA K Suryanarayanan, RCM-SIRC on the dais



CMA H Padmanabhan, Central Council Member of the Institute during Educational course on Valuation after distribution of certificates to participants in Chennai



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E-WAY BILL : OBLIGATION OF GENERATING AND POSITION OF AN EPC CONTRACTOR UNDER VARIOUS CIRCUMSTANCES



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Mumbai

E Way Bill: Basic Understanding

What it is ?: It's an electronic way bill, generated in E-Way Bill portal, contains the details like name and GSTIN of supplier and recipient, place of supply, value of supply, Vehicle Number etc. It is required for movement of good valuing exceeding Rs 50,000/- in a single invoice, Delivery challan or bill of supply. Presently, this is requires for inter-State movement of goods. States to implement this E-Way Bill in phase manner.

Three parties are involved in any movement of goods: Supplier of Goods, Recipient of Goods and the Transporter. When an E-Way Bill is generated in portal, a 15 digit unique number (EBN) is generated and available to all three parties.

In the following two circumstances, E-Way Bill is compulsory irrespective the value of consignment.

1. When goods are sent by a principal located in one State or UT to a job worker



located in other State or UT. E-Way Bill can be generated either by principal or by **job worker**, if registered.

- When **handicraft goods are transported** to from one State/UT to another by a person who is exempted from registration U/S 24(I and ii) of CGST Act, 2017. [Rule 128(1)]

** for the purpose of computing Rs 50,000/-, value shall be determined in accordance with the provisions of Section 15 of CGST Act, as declared in Invoice, Bill of supply or delivery challan. It also includes IGST, CGST, SGST and UGST but does not include value of exempted supply of goods if included in the same invoice/bill/challan.

Who should generate E-Way Bill? : An E-Way Bill can be generated by any of the following persons

- A **registered person** either as a Consignor or the recipient of supply as consignee.
- An **unregistered person**.
- A **Transporter**.
- An authorized **E-Commerce operator or Courier agency**.

When Should E way bill be generated? : As per Rule 138(1) E -waybill shall be generated when there is a movement of goods of consignment value exceeding Rs 50,000/-

- In relation to a supply ; (example: supply of goods from seller to buyer / branch transfer) or
- For reasons other than supply; (example: sales return) or
- Due to inward supply from an unregistered person.

Note 1: supply may be for a consideration or without consideration.

Note 2: Supply may or may not be in the course of or furtherance of business.

When E- way bill need not be generated? : E-Way Bill need not be generated in certain circumstances.

- When the value of goods transported is less than Rs

50,000 in a single Invoice/Bill of Supply/Delivery Challan.

- In other circumstances as mentioned in Rule 138(14) as follows.

- where the goods being transported are specified in Annexure; (LPG, Kerosene, Used personal Goods etc)
- where the goods are being transported by a non-motorised conveyance;
- where the goods are being transported from the customs port, airport, air cargo complex and land customs station to an inland container depot or a container freight station for clearance by Customs;
- in respect of movement of goods within such areas as are notified under clause (d) of sub-rule (14) of rule 138 of the State or Union territory Goods and Services Tax Rules in that particular State or Union territory;
- where the goods, other than de-oiled cake, being transported, are specified in the Schedule appended to notification No. 2/2017- Central tax (Rate) dated the 28th June, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 674 (E) dated the 28th June, 2017 as amended from time to time;
- where the goods being transported are alcoholic liquor for human consumption, petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas or aviation turbine fuel;
- where the supply of goods being transported is treated as no supply under Schedule III of the Act;
- where the goods are being transported— (i) under customs bond from an inland container depot or a container freight station to a customs port, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port, or (ii) under customs supervision or under customs seal;
- where the goods being transported are transit cargo from or to Nepal or Bhutan;
- where the goods being transported are exempt from



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tax under notification No. 7/2017-Central Tax (Rate), dated 28th June 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 679(E) dated the 28th June, 2017 as amended from time to time and notification No. 26/2017- Central Tax (Rate), dated the 21st September, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 1181(E) dated the 21st September, 2017 as amended from time to time;

- k) any movement of goods caused by defence formation under Ministry of defence as a consignor or consignee;
- l) here the consignor of goods is the Central Government, Government of any State or a local authority for transport of goods by rail;
- m) where empty cargo containers are being transported; and
- n) where the goods are being transported upto a distance of twenty kilometers from the place of the business of the consignor to a weighbridge for weighment or from

the weighbridge back to the place of the business of the said consignor subject to the condition that the movement of goods is accompanied by a delivery challan issued in accordance with rule 55.

Steps and procedure for Generating E-Way Bill by the above mentioned persons

A. By a Registered Person:

1. Every Registered person who causes movement of goods of consignment value exceeding fifty thousand rupees shall, **before commencement of such movement**, furnish information relating to the said goods as specified in **part A** of Form GST EWB -01 electronically in the common portal. A unique number will be generated on the portal. Rule 138(1)
2. Where the goods are transported by the registered person as a consignor or the recipient of supply as the consignee, whether in this own conveyance or a hired one or a public conveyance **by road** the said person shall generate E waybill, **before commencement of movement of goods**, in form EWB-01 after furnishing information in **part B** of Form GST EWB-01 (transport

details). Rule 138(2)

- Where the goods are transported by railways, or by air or vessel, the registered person, being the supplier or the recipient, **shall either before, or after the commencement of movement**, furnish on the common portal, the information in Part B of GST EWB-01. Rule 138(2A).

E-Way bill is required to be produced at the time of receiving of delivery from Railway.

B. By a Transporter:

1. On an authorization received from the registered person, a transporter may furnish information in part A of FORM GST EWB-01 electronically along with other required details. A unique number will be generated on the portal. Rule 138(1).

2. When E-Way Bill is not generated under Rule 138(2) by a registered person and goods are handed over to a transporter for transportation by road, the registered person shall furnish the information relating to the transporter in the common portal and the E-Way Bill shall be generated by the transporter on the basis of the information furnished by the registered person in part A of the FORM GST EWB-01.

Hawk Eye View: From the above discussion we have understood following important aspect on generating E-Way Bills

- Transporter can generate E-Way Bill only in case of transportation by Road.
- Transporter can generate E-Way Bill only when part A of FORM GST EWB-01 is filled by the registered person (supplier or recipient)
- In case of transportation by Rail, Air or Vessel, Only Registered Person (supplier or recipient) can fill the part B of FORM GST EWB-01. As contrary to transportation by Road, nothing has been mentioned specifically regarding generation of e way bill by Rail Way / Vessel/Air transport. Can Rail Way / Vessel/Air transport can generate e-way bill? Answer probably is 'NO'.

C. By an Unregistered Person

- Where the movement is caused by an unregistered

person (Supplier or Recipient) either in his own conveyance or a hired one or through a transporter, he or the transporter may, at their option, generate the E-Way Bill in FORM GST EWB-01. In the manner specified. Rule 138(3) –Second Provisions.

- When the information has been furnished by an unregistered supplier or unregistered recipient in FORM GST EWB-01, he shall be informed electronically, if the mobile number or the e-mail is available. Rule 138(8)–First Provision.

D. By an E-commerce Operator

- Where the goods to be transported are supplied through an e-commerce operator or a courier agency, on an authorization received from the consignor, the information in Part A of FORM GST EWB-01 may be furnished by such e-commerce operator or courier agency. A Unique number is generated on the portal.

Rule 138(1) second Provisions and Rule 138(7) First Provision.

Other Important aspects of E-way Bill

- The unique No generated after updating of part A of EWB-01 remains valid for 15 days. Part B to be filled and E-Way Bill to be generated within 15 days.
- E way bill can be cancelled in portal electronically within 24 hours of generations.
- E way bill cannot be canceled if movement starts and verified with the provisions of Rule 138B.
- E way bill generated in rule 138 is valid for all States and UT.

So far we have discussed the general principal of generating E-Way Bill. Now we will discuss the procedure and responsibility of generating E-Way Bill in various different situations in case of Construction service, specifically in EPC sectors. The relevant aspects which have not considered above will be considered in the following sections in the appropriate headings.

Situation 1:

1.A single 'Work Contract' Service to be rendered

Conditions:

1. Consolidated Order Value – Single Contract from Customer.
2. Running Account Bills to be raised as works contract on customer as per BOQ on work done basis.
3. Material will be procured in the name of Contractor.
4. No separate Materials will be sold to customer as Materials.

Order Structure and E-Way Bill process:

A. Billing address and place of supply of Materials at same Places. (Order from Site ,Bill from Site and Materials at site)

1. Procedure of Billing and shipping of materials :

- a) Order is placed for supplying of goods from the other States different from the State where the Work is executed.
- b) Order is placed from the place of execution of work.
- c) Instruction has been given to Vendors for raising the Invoices at the address of work.
- d) Materials will be supplied at the place of work.
- e) Materials are procured from Registered Vendor.

2. Obligation to generate EWB and Procedure to follow.

2A. Transportation in the Scope of Vendor (as Consignor):

- a) In this case the scope of transportation will be assigned to the supplier. It means the vendor will arrange to transport the goods either through his own transport or through hiring of transport by the vendor.
- b) Invoice details, i.e. the place of supply, GST No of supplier, GST no of recipient , value of supply etc will may be uploaded in part A of FORM EWB -01 either by supplier or by Contractor. **It is recommended that, through agreement in Purchase Order, this scope may be assigned to the Supplier.**
- c) Transport details in Part B of EWB – 01 may be filled by either vendor or the transporter as per the agreement between them.
- d) E-Way Bill may be generated either by Supplier or

the Transporter. **Contractor has no role to play in generating e- way bill.**

- e) 'Value' to be declared in E-Way Bill is the 'Invoice Value'. Value of any exempted supplies, if included in Invoice, needs to be deducted. Contractor's 'sale value' will never come into picture.

Note: If the goods are purchased from Unregistered Supplier, all the above mentioned procedures are to be followed by Contractor. It is highly recommended that no Inter-State materials should be purchased from any Unregistered Vendor.

2B. Transportation in the Scope of Contractor (as Consignee).

- a) Vendor will supply goods on ex-works basis.
- b) Contractor will have to arrange for transportation of goods from the place of supply to the place of delivery.
- c) In this case also, Invoice details, i.e. the place of supply, GST No of supplier, GST no of recipient , value of supply etc as per invoice may be uploaded in part A of FORM EWB -01 either by supplier or by Contractor.
- d) Transporter details to be filled either by transporter or by Contractor.
- e) E-Way Bill may be generated either by Transporter or by Contractor.
- f) 'Value' to be declared in E-Way Bill is the 'Invoice Value'. Value of any exempted supplies, if included in Invoice, needs to be deducted. Contractor's 'sale value' will never come into picture.

Recommendations.

1. Inter-State purchases should be always from the registered Vendors.
2. Scope of transportation should preferable be given to the Vendor along with the responsibility of generating E-Way Bill.
3. Obviously, comparison should be done between the cost of transportation by vendor and cost of transportation arranged by Contractor.

B. Billing and shipping of Material at Different Place.

('Bill To' ' Ship To' Model)

1. Procedure of Billing and shipping.

- Order is placed for supplying of goods from the other States different from the State where the Work is executed.
- Order is placed from the place of execution of work or from the other place (In the same State or in different State)
- Instruction has been given to Vendors for raising the Invoices at an address different from the place of supply
- Materials will be supplied at the place of work.
- Materials are procured from Registered Vendor.

Example: Contractor places an order from Mumbai on 'X' located at Ahmadabad, Gujarat (or Pune Maharashtra) for supplies of Materials at Chennai(Tamilnadu) / Bhuj (Gujarat). Contractor ,Mumabi (Maharashtra) and Contractor Chennai (Tamilnadu) has different GST number. Instruction has been given to X to supply the goods to Chennai / Bhuj but Invoices to be raised on Contractor Mumbai ,Maharashtra.

'Bill To' and 'Ship To' Model, determination of Place of supply and applicability of GST

- In the above example, 'Bill To' be done at Maharashtra but 'shipped to' be at Tamilnadu as per business requirements. This model is called 'Billed To' 'Ship To' Model.
- Now question arises, which address to put in E-Way Bill. There is provision in E-Way Bill to put both the addresses in E-Way Bill.
- There are two portions in the 'TO' Section. In the Left hand side, Trade Name, address and GSTN of the Mumbai Office of Contractor is to be mentioned as 'Billing To'. In the right hand side 'Ship To' address is to be mentioned. In our cases, address of Tamilnadu to be mentioned.
- All other details in E-Way Bill to be mentioned as per invoice as discussed above.
- Next question arises, how to determine whether it is 'Intra-State' sale or 'Inter-State' sale to charge CGST/SGST/UGST or IGST.

- The Rule says, If the 'Ship To' State are different from the 'Bill To' State, tax component are entered as per billing State party. That is if the 'Bill to' Location is Inter-State for supplier, IGST will be applicable, If the Bill to location for the supplier is Intra-State, CGST/SGST will be applicable irrespective of the movement of the goods whether the movement happened within the State or outside the State,

Let us now analyze the various possible situations from the above example

Situation 1: X from Ahmadabad delivers goods to Chennai and Bill to Mumbai. Ahmadabad and Maharashtra are at different States and IGST will be applicable.

Situation 2: X from Ahmadabad delivers goods to Bhuj and Bill to Mumbai. Ahmadabad and Maharashtra are at different States and IGST will be applicable even though the delivery at same State.

Situation 3: X from Pune delivers goods to Chennai and Bills to Mumbai. Pune and Mumbai are in same State and CGST/SGST will be applicable.

Situation 4: X from Pune delivers goods to Bhuj and Bills to Mumbai. Pune and Mumbai are in same State and CGST/SGST will be applicable even though 'Bill To' and 'Ship To' are at different State.

'Bill from' and ' Dispatch From' Model, determination of Place of supply and applicability of GST

- Sometimes Invoice are raised by the supplier from his business premises to consignee but goods are actually delivered from some other premises located at different place (say from Warehouse at different place) to consignee. This is known as 'Billing from' and 'Dispatching from'.
- In this case also there are two options under 'FROM' section of E-Way Bill. In the 'Bill From' section supplier's address, GST No and trade name is entered' and in the 'Despatch from' section address of the dispatching place is entered.
- All other details in E-Way Bill to be mentioned as per invoice as discussed above.
- Whether it will be Inter-State sale or Intra-State sale will depend upon the location of 'Billing from' State and the

State of actual Dispatch.

5. If the billing party is inter-State for Supplier (Bill from) IGST will be applicable. If the billing party is Intra-State for supplier (Bill from) then CGST/SGST will be applicable irrespective of the movement of goods whether movement happens within the State or outside the State.

2. Obligation to generate EWB and procedure to follow.

2A. Transportation in the Scope of Vendor (as Consignor):

- f) In this case the scope of transportation will be assigned to the supplier. It means the vendor will arrange to transport the goods either through his own transport or through hiring of transport by the vendor.
- g) Invoice details, i.e. the place of supply, GST No of supplier, GST no of recipient, value of supply etc will may be uploaded in part A of FORM EWB -01 either by supplier or by Contractor. It is recommended that, through agreement in Purchase Order, this scope may be assigned to the Supplier.
- h) Transport details in Part B of EWB - 01 may be filled by either vendor or the transporter as per the agreement between them.
- i) E-Way Bill may be generated either by Supplier or the Transporter. Contractorstructure has no role to play in generating e- way bill.
- j) 'Value' to be declared in E-Way Bill is the 'Invoice Value'. Value of any exempted supplies, if included in Invoice, needs to be deducted. Contractor's 'sale value' will never come into picture.

2B. Transportation in the Scope of Contractor (as Consignee).

- g) Vendor will supply goods on ex-works basis.
- h) Contractor will have to arrange for transportation of goods from the place of supply to the place of delivery.
- i) In this case also, Invoice details, i.e. the place of supply, GST No of supplier, GST no of recipient, value of supply etc as per invoice may be uploaded in part A of

FORM EWB -01 either by supplier or by Contractor.

- j) Transporter details to be filled either by transporter or by Contractor.
- k) E-Way Bill may be generated either by Transporter or by Contractor.
- l) 'Value' to be declared in E-Way Bill is the 'Invoice Value'. Value of any exempted supplies, if included in Invoice, needs to be deducted. Contractor's 'sale value' will never come into picture.

Situation 2:

2.Two Separate Contract for Supply of Material and Supply of service as Work Contract.

Conditions:

1. Two orders have been received: One for Material supply and other for WC service.
2. Materials are purchased by us from different source send to construction sites.
3. Materials are sold to Customer after reaching at construction site. Separate invoice for Materials are raised.
4. Free issue of Materials are received at site from Customer for construction.
5. Running Account Bills to be raised as works contract on customer as per BOQ on work done basis.

Order Structure and E-Way Bill process:

A. Billing and Shipping of Materials at same Places. (Order from Site, Bill from Site and Materials at site)

✳ Same Procedure as discussed above.

B. Billing and shipping of Material at Different Place. (Bill to Ship To Model)

1. Procedure of Billing and shipping.

✳ Same procedure as discussed above.

2. Obligation to generate EWB and procedure to follow.

A. Transportation in the Scope of Vendor (Consignor)

✱ Same Procedure as discussed above

B. Transportation in the Scope of Us (Consignee).

✱ Same procedure as discussed above.

Situation 3:

3.E way Bill on Free Issue of Materials.

1. It is assumed that the Materials are delivered at project site before sale.
2. Materials are sold to Customer by raising Invoices under CGST/SGST (Intra State).
3. There is no physical movement of goods at the time of sale by Contractor to customer and no E-Way Bill is required for such sale.
4. Materials are not shipped by the customer after such sale to customer.
5. Free issue of materials are received from the site itself.
6. No E-Way Bill is required to be issued.

Situation 4:

4.E way Bill for multiple consignments.

Sometimes it may so happen that Goods are delivered in knocked down or semi knocked down version. One invoice is raised for entire consignments and delivered in multiple trucks. In this cases.

- a) A complete invoice needs to be issued before delivery of first consignments and accompany with Last consignment.
- b) Separate E-Way Bill to be generate for each truck.
- c) Delivery challan to be issued and accompany in all subsequent consignments. Reference of Invoices to be given in Delivery Challan. Duly certified copy of Invoices to be accompanied in all consignments.
- d) Process of generating of E way bill remains same as discussed above.

Situation 5:

5.Import of Goods

Import of goods means bringing of goods into India from a place outside India. In case of Import, three possible situations can happen as mentioned below

1. Contractor will import the material in it's own account, will do the necessary Custom clearance

thorough CHA, bring the materials to project site, utilize in Work Contract and raises Invoices on Customer as WC on the basis of BBU. In this Cases following procedure is recommended.

- a) Custom Clearance to be done through CHA by paying necessary IGST.
- b) Transportation to be arranged either through the CHA or to be arranged by Contractor.
- c) E-Way Bill procedure is same as discussed above for transporting of goods after custom clearance.
- d) Invoice value of the exporter is relevant for declaration in E- way bill.**
- e) It is recommended that transportation may be given in the scope of CHA along with the responsibility of generating E-Way Bill .
- f) In Case of Import, generally, multiple transports are required for shipping single consignment. E-Way Bill procedure to be followed as discussed above for

2. Contractor will import the material in it's own account, will do the necessary Custom clearance thorough CHA, bring the materials to project site, and Sale it to the Customer as Material as per agreed contract. In this cases following procedure is recommended.

- a) Custom Clearance to be done through CHA by paying necessary IGST.
- b) Transportation to be arranged either through the CHA or to be arranged by Contractor.
- c) E-Way Bill procedure is same as discussed above for transporting goods after custom clearance.
- d) Invoice value of the exporter is relevant for declaration in E- way bill.** Contractor's sales value has no relevance.
- e) It is recommended that transportation may be given in the scope of CHA along with the responsibility of generating E-Way Bill .
- f) Materials are sold to customer after reaching sites. No e- way bill is required as there is no movement of goods.

g) Materials are received as free for construction purposes and relevant procedure has already been discussed in previous section.

3. High Sea sale: Materials are sold to customer in the course of movement of goods in High Sea by transferring the documents of title during the movement. Goods are then cleared from the custom stations by Contractor through CHA on behalf of Customer. In this case the following procedure is to be followed.

- a) An 'High-Sea sale' agreement is entered into with the Customer. Sale value is predetermined and mentioned in the sale agreement.
- b) Ownership of the goods remains with the Customer. Contractor will act as agent only.
- c) In this case, the relevant invoice value is the value entered between Contractor and Customer. Original Purchase value by Contractor is irrelevant.**
- d) Custom Clearance to be done through CHA by paying necessary IGST.
- e) Transportation to be arranged either through the CHA or to be arranged by Contractor.
- f) E-Way Bill procedure is same as discussed above for transporting goods after custom clearance.
- g) It is recommended that transportation may be given in the scope of CHA along with the responsibility of generating E-Way Bill .
- h) Materials are received as free for construction purposes and relevant procedure has already been discussed in previous section.

Situation 6:

6.Sale of Scrape: procedure , requirement of E-Way Bill and Obligation of generation.

1. Generally scrap are sold from the site on 'as-it is ' basis.
2. Tender / Quotation is invited from the tentative buyer.
3. Highest bidder is selected to sale the scrape.
4. They are given entire responsibility for arranging transport on their own.

5. Goods may be transported to another place in the same State or other State.

6. As off Now, No E- Way Bill is required for Intra-State movement of goods.

7. For Movement of goods to another State, W-Way Bill will be generated by the Purchaser or Transporter.

8. Value for this purpose will be the invoice value raised by Contractor charging appropriate GST on such sale price.

Situation 7:

7.Transfer of Assets from Site to Site / Assets given on Rental basis.

1. Sometimes some of the business assets are transferred from on site to another either in the same State or in different State.
2. Asset are also given on hire to some another party located in same State or other State.
3. Separate Invoice for such stock transfer is required to be raised irrespective of Inter-State or Intra-State movement of Assets.
4. E-Way Bill is also required to be generate for such transfer.
5. In the cases, assets being given on hire, arrangement of transportation is generally done by the person taking on hire. Responsibility of generating of E-Way Bill may be given to such person (assuming he is registered person)
6. In case of transfer of assets, E-Way Bill needs to be generated either by Contractor or by Transporter. But necessary information in part A of EWB-01 to be furnished by Contractor only.

7. Value for such purpose will be the 'Written Down Value' as per the asset register.

**** As of now no E-Way Bill is required to be generated for 'Intra-State' movement of goods.**

Situation 8:

8.Job Work: Procedure of transportation and requirement of E-Way Bill

1. When goods are sent by a principal located in one State

or UT to a job worker located in other State or UT. E-Way Bill can be generated either by principal or by job worker, if registered.

2. As per Rule 45(1) of the CGST Rule, inputs, semi-finished goods or capital goods shall be send to the job worker **by principal** under the cover of a delivery challan issued by the principal, including where the goods are send directly to a job worker.
3. As per Rule 55 of CGST Rules, for the purpose transportation of goods for job work, the **consignor** may issue a deliver challan in lieu of Invoices . The delivery challan shall be serially numbered, and dated. It will also contains the,. It also contains the other details as requires in Invoice.
4. Third proviso to rule 138(1) of the CGST Rules provides that the e-way bill shall be generated either by the principal or by the registered job worker **irrespective of the value of the consignment**, where goods are sent by a principal located in one State/Union territory to a job worker located in any other State/ Union.
5. E-Way Bill will be generated on the basis of information provided in the '**Delivery Challan**'.
6. As per Explanation 1 to rule 138(3) of the CGST Rules, where the goods are supplied by an unregistered supplier to a registered recipient, the movement shall be said to be caused by such recipient if the recipient is known at the time of commencement of the movement of goods.
7. To conclude:
 - a) When both Principal and Job Worker are registered, any one of them can generate E-Way Bill.
 - b) Principal will generate E-Way Bill when Job Worker is unregistered.
 - c) Registered Job worker will generate E-Way Bill when principal is unregistered.

Other Important Aspects with respect to E-Way Bill.

1. Time limit for generating E-Way Bill: Once the Part A of FORM EWB-01 is filled up into the portal, an unique number is generated. This number is valid for 15 days for generation of W-Way Bill. Part B of FORM EWB -01 to be uploaded and journey should commence within this period. Validity of E-Way bill starts when first entry in Part B is

made. If the transporter details in part B is required to be changed for any reasons (Change of conveyance, form Truck to Rail etc) validly period is not re calculated.

2. Validity of E way bill: E-Way Bill once is valid for the period as listed below.


- A. Other than over dimensional Cargo:**
 - i) Less than 100 KM : 1 day
 - ii) For every additional 100 Km or part there of : additional 1 day.
- B. Over dimensional Cargo:**
 - i) Less than 20 KM : 1 day
 - ii) For every additional 20 Km or part there of : additional 1 day.

3. Extension of Validity Period of E-Way Bill: validity period of E-Way bill can be extended by the transporter. This can be extended within 4 hours before or 4 hour after the expiry of validity. Transporter, from his current location, will enter the E-Way Bill number , reason for such request for extension, transport details and approximate distance to travel. He will get the extended validity based on the remaining distance to travel.

4. Cancellation: E-Way Bill once generated, can be cancelled electronically within 24 hours of generation. This way bill can be cancelled when goods are either not transported or are not transported as per the details furnished in the E-Way Bill. An E-Way Bill cannot be cancelled if it has been verified in transit in accordance with the provisions of Section 138B.

5. Modification or Editing: Once the E-Way Bill is generated, it cannot be modified or edited. Only Part B can be updated. If any E-Way Bill is generated with wrong information furnished in Part A, It cancelled and generated a fresh with correct information.

Conclusion

Intention of the Law is very wise. All movements of goods can be tracked in system by the authority. Unauthorized or illegal movement of the goods can be minimized. Moreover, GSTR-1 can be auto populated from the system itself. Chances of mismatched reduced to a considerable extent. Human intervention in the form of Audit will be considerably reduced. Number of litigations is also likely to reduce. Portal should work properly to run the show smoothly. Let us all ride in a fare way and enjoy the journey. 

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AUTHORIZED REPRESENTATIVES TO CLASS OF CREDITORS UNDER CORPORATE INSOLVENCY RESOLUTION PROCESS

Insolvency and Bankruptcy Code, 2016 paved the way for ease of doing business in India. Because of this process the rank of India in the world scenario is reduced to 100 from 138 in the previous year. The Committee of Creditors plays a vital role in the corporate insolvency resolution process. The Government appointed a Law Committee to review the code and the provisions of regulations and to give recommendations. The Law Committee, among the others, recommended for the appointment of 'authorized representatives' for the class(es) of creditors to represent them in the Committee of Creditors, by which the Committee can take decisions effectively and efficiently. This article discusses the changes that have taken place in the action of Committee of Creditors especially in the appointment of authorized representatives to the Class(es) of Creditors.

Insolvency and Bankruptcy Code, 2016 ('Code' for short) provides for the procedure of corporate insolvency resolution process. The corporate insolvency resolution process can be initiated by a financial creditor or an operational creditor or the corporate applicant itself. Most of the applications for initiation of corporate insolvency resolution process are filed by the financial creditors. As on 31st March 2018, out of 701 applications admitted by the Adjudicating Authority, 262 applications were of those financial creditors. The resolution process benefited the financial creditors and able to recover the corporate debts at the earlier period than in the previous era. The Committee of Creditors ('CoC' for short) plays a vital role in the resolution process. The financial creditors occupy the CoC in the resolution process.

Initiation by financial creditor

Section 7(1) of the Code provides that a financial creditor either by itself or jointly with other financial creditors may file an application for initiating corporate insolvency resolution process against a corporate debtor before the Adjudicating Authority when a default has occurred.

The Adjudicating Authority, if satisfied that there exists a dispute, shall admit the application. On admission of the application the Adjudicating Authority shall, by an order-

- ❖ declare a moratorium;
- ❖ cause a public announcement of the initiation of corporate insolvency resolution process and call for the submission of claims
- ❖ appoint an interim resolution professional.

Committee of Creditors

From the date of appointment the management of the corporate debtor shall vest on the Interim resolution professional. Section 18(1) © of the Code provides that the Interim resolution professional shall constitute a CoC. The interim resolution professional shall after collation of all claims received against the corporate debtor and determination of the financial position of the corporate debtor, constitute a committee of creditors. The committee of creditors shall comprise all financial creditors of the corporate debtor. Where the corporate

debtor owes financial debts to two or more financial creditors as part of a consortium or agreement, each such financial creditor shall be part of the committee of creditors and their voting share shall be determined on the basis of the financial debts owed to them.

Where the terms of the financial debt extended as part of a consortium arrangement or syndicated facility or issued as securities provide for a single trustee or agent to act for all financial creditors, each financial creditor may-

- ❖ authorize the trustee or agent to act on his behalf in the committee of creditors to the extent of his voting share;
- ❖ represent himself in the committee of creditors to the extent of his voting share;
- ❖ appoint an insolvency professional (other than the resolution professional) at his own cost to represent himself in the committee of creditors to the extent of his voting share; or
- ❖ exercise his right to vote to the extent of his voting share with one or more financial creditors jointly or severally.

The first meeting of the CoC shall be held within seven days of the constitution of the CoC. The CoC, may, in the first meeting, by a majority vote of not less than 66% of the voting share of the financial creditors, either resolve to appoint the interim resolution professional as a resolution professional or to replace the interim resolution professional by another resolution professional.

Meeting of CoC

Section 24 provides the procedure for conducting the meeting of CoC. Section 24(5) provides that any creditor who is a member of the committee of creditors may appoint an insolvency professional other than the resolution professional to represent such creditor in a meeting of the committee of creditors. The fees payable to such insolvency professional representing any individual creditor will be borne by such creditor.

Obligations of Resolution Professional

The resolution professional, during the corporate insolvency resolution process, shall not take any of the following actions without the prior approval of the committee of creditors-

- ❖ raise any interim finance in excess of the amount as may be decided by the committee of creditors in their meeting;
- ❖ create any security interest over the assets of the corporate debtor;
- ❖ change the capital structure of the corporate debtor, including by way of issuance of additional securities, creating a new class of securities or buying back or redemption of issued securities in case the corporate debtor is a company;
- ❖ record any change in the ownership interest of the corporate debtor;
- ❖ give instructions to financial institutions maintaining accounts of the corporate debtor for a debit transaction from any such accounts in excess of the amount as may be decided by the committee of creditors in their meeting;
- ❖ undertake any related party transaction;
- ❖ amend any constitutional documents of the corporate debtor;
- ❖ delegate its authority to any other person;
- ❖ dispose of or permit the disposal of shares of any shareholder of the corporate debtor or their nominees to third parties;
- ❖ make any change in the management of the corporate debtor or its subsidiary;
- ❖ transfer rights or financial debts or operational debts under material contracts otherwise than in the ordinary course of business;
- ❖ make changes in the appointment or terms of contract of such personnel as specified by the committee of creditors; or
- ❖ make changes in the appointment or terms of contract of statutory auditors or internal auditors of the corporate debtor.

The resolution professional shall convene a meeting of the committee of creditors and seek the vote of the creditors prior to taking any of the actions as above. Where any action under sub-section (1) is taken by the resolution professional without seeking the approval of the committee of creditors in the manner as required in this section, such action shall be void.

Problems to financial creditors

Many a problem has been faced by the financial creditors in the corporate insolvency resolution process. Companies may have a large number of creditors to whom certain debts may be owed, for instance debenture holders or fixed deposit holders. Such creditors being financial creditors are entitled to attend and vote at the meetings of the CoC as per

the current provisions of the Code. In practice, the number of such creditors may be huge in case of large companies and it may be inefficient, unmanageable and expensive to hold meetings of the CoC with all such creditors present. The Code provides short time for completion of insolvency resolution process. If the time frame is not complied with then it will lead to liquidation proceedings. Therefore it was considered essential to make ease of the meeting of CoC in a fruitful way and at the same time to comply with the short time frame in conducting the resolution process. Therefore the Government constituted the Insolvency Law Committee by the Ministry of Corporate Affairs to conduct a detailed review of the Insolvency and Bankruptcy Code, 2016 in consultation with keys.

Insolvency Law Committee report

The Insolvency Law Committee, on deliberating the distinct jurisprudence under Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the intent of the Code, reached a consensus that the intent of the Code was not to bar a guardian of a financial creditor, administrator or executor of estate of a financial creditor or debenture trustee and the like to trigger insolvency of a corporate debtor, and be a part of the CoC. The Committee recommended making amendments to the sections relating to CoC in the Code and in CIRP Rules that the authorized representatives may be authorized to-

- ❖ file application on behalf of the financial creditor, and
- ❖ may attend and vote in the meetings to the extent of the voting share of the financial creditor and as per their instructions.

And also to incorporate an enabling provision to notify other entities who may file an application on behalf of financial creditors may be provided for in the Code.

The Committee also considered the challenges in large CoC as below-

- ❖ Logistical challenges
 - ★ Notices have to be issued to a huge number of persons for the CoC meeting and arrangement has to be made for a venue which accommodates them, which may be a huge logistical challenge and drain resources of the corporate debtor.
 - ★ It is difficult to have a constructive decision-oriented discussion with a large number of participants with varying interests and too large a forum may

significantly jeopardize the constructive discussion and decision-making ability of the CoC

- ★ If too many participants join in through audio or video conference, then it would be difficult to have a coherent discussion.
- ★ If the CoC comprises of a large number of creditors, then the likelihood of abstinence by individual financial creditors is very high, leading to disruption of decision making ability of the CoC

❖ Technical problems-

- ★ In large CoCs, it may be a technical challenge to have a large number of voters registered on the e-voting portal and then to ensure that each one of them has access to it.
- ★ Due to technical glitches, some of the financial creditors are not able to exercise their right to vote on the e-voting portal and request for taking note of their vote through email.

The Committee felt that a mechanism requires to be provided in the Code to mandate representation in meetings of security holders, deposit holders, and all other classes of financial creditors which exceed a certain number, through an authorized representative.

This can be done by adding a new provision to section 21 of the Code. Such a representative may either be a trustee or an agent appointed under the terms of the debt agreement of such creditors, otherwise an insolvency professional may be appointed by the NCLT for each such class of financial creditors.

The representative shall act and attend the meetings on behalf of the respective class of financial creditors and shall vote on behalf of each of the financial creditor to the extent of the voting share of each such creditor, and as per their instructions.

Amendment to regulations

Taking into consideration of the recommendations of the Committee, the Board has notified the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) (Third Amendment) Regulations, 2018 vide Notification No. IBBI/PR/2018/21, dated 03.07.2018 which came into effect from 04.07.2018. The amended regulations provide that wherever the corporate debtor has classes of creditors having at least ten creditors in the class, the interim resolution professional shall offer a choice of three insolvency professionals in the public

announcement to act as the authorized representative of creditors in each class. A creditor in a class may indicate its choice of an insolvency professional, from amongst the three choices provided by the interim resolution professional, to act as its authorized representative. The insolvency professional, who is the choice of the highest number of creditors in the class, shall be appointed as the authorized representative of the creditors of the respective class.

Class of creditors

Regulation 2(1)(aa) defines the expression 'class of creditors' as class with at least ten financial creditors under clause (b) of sub-section (6A) of section 21 and the expression, "creditors in a class" shall be construed accordingly.

Choice of authorized representative

Regulation 4A (1) provides that on an examination of books of account and other relevant records of the corporate debtor, the interim resolution professional shall ascertain class(s) of creditors, if any.

Regulation 4A (2) provides that for representation of creditors in a class ascertained under sub-regulation (1) in the committee, the interim resolution professional shall identify three insolvency professionals who are-

- ❖ not his relatives or related parties;
- ❖ eligible to be insolvency professionals under regulation 3; and
- ❖ willing to act as authorized representative of creditors in the class.

Regulation 4A(3) provides that the interim resolution professional shall obtain the consent of each insolvency professional identified under sub-regulation (2) to act as the authorized representative of creditors in the class in Form AB of the Schedule

Claims by creditors in a class

Regulation 8A provides that a person claiming to be a creditor in a class shall submit claim with proof to the interim resolution professional in electronic form in Form CA of the Schedule.

The existence of debt due to a creditor in a class may be proved on the basis of-

- ❖ the records available with an information utility, if any; or

❖ other relevant documents, including any-

- ★ agreement for sale;
- ★ letter of allotment;
- ★ receipt of payment made; or
- ★ such other document, evidencing existence of debt.

A creditor in a class may indicate its choice of an insolvency professional, from amongst the three choices provided by the interim resolution professional in the public announcement, to act as its authorized representative.

Authorized representative

Regulation 16A provides that the interim resolution professional shall select the insolvency professional, who is the choice of the highest number of financial creditors in the class in Form CA received under regulation 12(1), to act as the authorized representative of the creditors of the respective class. The choice for an insolvency professional to act as authorized representative in Form CA received under sub-regulation (2) of regulation 12 shall not be considered.

- ❖ The interim resolution professional shall apply to the Adjudicating Authority for appointment of the authorized representatives selected under sub-regulation (1) within two days of the verification of claims received under sub-regulation (1) of regulation 12.
- ❖ Any delay in appointment of the authorized representative for any class of creditors shall not affect the validity of any decision taken by the committee.
- ❖ The interim resolution professional shall provide the list of creditors in each class to the respective authorized representative appointed by the Adjudicating Authority.
- ❖ The interim resolution professional or the resolution professional, as the case may be, shall provide an updated list of creditors in each class to the respective authorized representative as and when the list is updated. The authorized representative shall have no role in receipt or verification of claims of creditors of the class he represents.
- ❖ The interim resolution professional or the resolution professional, as the case may be, shall provide electronic means of communication between the authorized representative and the creditors in the class.
- ❖ The voting share of a creditor in a class shall be in proportion to the financial debt which includes

an interest at the rate of eight per cent per annum unless a different rate has been agreed to between the parties.

- ❖ The authorized representative of creditors in a class shall be entitled to receive fee for every meeting of the committee attended by him in the following manner, namely:

- ★ Rs.15,000/- per meeting of committee if the number of creditors in the class is between 10 to 100;
- ★ Rs.20,000/- per meeting of committee if the number of creditors in the class is between 101 to 1000;
- ★ Rs.25,000/- per meeting of committee if the number of creditors in the class is more than 1000;

- ❖ The authorized representative shall circulate the agenda to creditors in a class and announce the voting window at least twenty-four hours before the window opens for voting instructions and keep the voting window open for at least twelve hours.

It is clarified by the Board that wherever the approval of resolution plan under regulation 39 (3) of the Regulations is at least 15 days away, the resolution professional shall expeditiously obtain, by electronic means, the choice of

the insolvency professional from creditors in a class to act as the authorized representative of the class and proceed further in the manner as specified in regulation 16A of the Regulations.

Committee only with creditors in a class

Regulation 16B provides that where the corporate debtor has only creditors in a class and no other financial creditor eligible to join the committee, the committee shall consist of only the authorized representative(s).

Conclusion

The Board, by amending the regulations, paved the way to appoint authorized representatives by the classes of creditors to represent before the Committee of Creditors for the ease of doing the corporate insolvency resolution process. Since the Authorized representatives are to be the insolvency professionals, it is another area for practicing Cost Accountants to widen their practicing field by acting authorized representatives of the classes of creditors and do the effective corporate insolvency resolution process. **MA**

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CHAPTER NOTICE

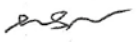
Ref.No.:G/82(116)/08/2018

August 23, 2018

NOTIFICATION

In pursuance of Regulation 146 of the Cost and Works Accountants Regulations, 1959, the Council of the Institute at its 313th Meeting held on 21st July, 2018, by virtue of power conferred therein, has constituted the following Chapter of The Institute of Cost Accountants of India covering the areas of Bankura District in the State of West Bengal.

The Institute of Cost Accountants of India – Bankura Chapter
At Office of St. John Ambulance Association, Bankura District Centre
Tamlibandh,
P.O. & Dist. Bankura - 722 101
West Bengal.


CMA L. Gurumurthy
Secretary (Acting)



CMA (Dr.) Subhash Chandra Das
Former Director (Finance)
HPC Ltd. Kolkata

SEBI (LODR)(AMENDMENT) REGULATIONS, 2018 ON CORPORATE GOVERNANCE

SEBI released the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 on 9th May 2018 on Corporate Governance in order to adopt and give effect to several recommendations of Kotak Committee and accordingly issued a Circular on 10th May, 2018.

This article explores how these corporate governance amendments provide a mechanism to the listed entities in creating long term value and protect stakeholders' interest with proper care, skills and diligence to corporate decisions.

SEBI appointed a Committee on 2nd June, 2017 under the Chairmanship of Mr. Uday Kotak (herein after referred to as Kotak Committee) on further improvement of Corporate Governance norms in line with International Standard. Kotak Committee submitted the report on 5th October, 2017 to SEBI for consideration.

The Kotak Committee made 81 recommendations to the SEBI with a view to improving the standard of Corporate Governance of listed companies in India. The objective of the Committee recommendations were as follows:

- a) Improving the role, composition and effectiveness of the board and its committees, including evaluation practices
- b) Ensuring independence of Independent Directors and their active participation in the functioning of the company
- c) Improving safeguards and disclosures pertaining to Related Party Transactions
- d) Improving transparency in accounting and auditing practices by the listed companies
- e) Addressing issues confronted by investors on voting and participation in general meetings
- f) Enhanced monitoring of group entities
- g) Disclosure and transparency of related issues, etc.

Out of 82 recommendations placed by the Kotak Committee, SEBI accepted 28 recommendations without modifications and 14 accepted with modifications. Eight recommendations were sent to various agencies such as Government, professional bodies and other regulators for their considerations. The balance 32 recommendations of the Committee were not notified by SEBI.

SEBI released the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 on 9th May 2018 on Corporate Governance in order to adopt and give effect to several recommendations of Kotak Committee and accordingly issued a Circular on 10th May, 2018.

SEBI has given a time-line to the corporate entities to implement most of these amendments in phased manner w.e.f 1st October, 2018 to 1st April, 2020 so as to enable them to cope up with new governance requirements as also to overcome the challenges for implementation.

We summarise below some of the Amendments to the provisions of SEBI (LODR) (Amendment) Regulations, 2018 based on the recommendations of Kotak Committee on Corporate Governance:

(A) Amendments effective for half year ending 31st March, 2019 (Compliance for FY 2018-19)
Subject: Composition and the Role of the Board of Directors

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-I	Para 3(d)(i)(1) Circular No. SEBI/HO/CFD/CMD/CIR/P/2018/79, dated May 10, 2018	<p>(a) The top 500 listed entities shall appoint at least one independent Women Director on the board.</p> <p>(b) The listed entity shall consider the disclosures on Board evaluation:</p> <p>(i) observation of the Board evaluation carried out for the year</p> <p>(ii) previous year's observations and action taken</p> <p>(iii) proposed actions based on current year observations</p>

Subject: The Institution of Independent Directors (IDs)

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter –II	Para 3(v) Para 3(c)(i) Para 3(d)(vi) Para 3(d)(l)(i) Para 3(l)(ii) Para 3(x)(c)(i)(2)	<p>(a) Definition of IDs shall exclude persons belonging to "Promoter Group of a listed entity".</p> <p>(b) Definition also shall exclude "board inter-locks".</p> <p>(c) IDs shall submit a declaration stating that they meet the criteria of Independence specified in the definition of ID and a confirmation that IDs were not aware of a situation existing to impair their ability to discharge duties with Independence.</p> <p>(d) Board of Directors shall assess the veracity of the declaration and confirmation given by IDs.</p> <p>(e) Listed entities shall disclose to the Stock Exchange and in the CG Report, the detailed reasons for resignation of IDs before expiry of their tenure.</p> <p>(f) Top 500 listed entities shall undertake Directors and Officers (D & O) insurance for all IDs.</p> <p>(g) An alternate Director cannot be/continue to be appointed as an ID of a listed entity.</p>

Subject: Board Committees

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-III	Para 3(c)(iii) Para 3(f)(a) Para 3(f)(b) Para 3(g) Para 3(h)(a) Para 3(h)(b) Para 3(u)(a) Para 3(u)(b)(i) Para 3(u)(b)(2)	<p>(a) Audit Committee shall review utilisations of loans/advances/investments by the holding company in the subsidiary exceeding Rs.100crore or 10% of the asset size of the subsidiary, whichever is lower.</p> <p>(b) "Senior Management" comprises all members of the management one level below the CEO/MD/WTD/Manager/CS/CFO.</p> <p>(c) NRC shall recommend to the Board on all payments made to the senior management.</p> <p>(d) SRC shall comprise minimum 3 Directors, with at least one ID. SRC will meet at least once a year.</p> <p>(e) Role and responsibilities of SRC have been widen.</p> <p>(f) The quorum for NRC meetings are two members or 1/3 of the committee members, whichever is higher, including at least one ID in attendance.</p> <p>(g) NRC will meet at once a year.</p> <p>(h) RMC of top 500 listed entities shall ensure cyber security, cyber and digital technology.</p> <p>(i) RMC will meet at least once a year.</p>

Subject: Enhanced Monitoring of Group Entities

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-IV	Para 3(c)(ii) Para 3(j)(a) Para 3(j)(b)	<p>(a) Material subsidiary means a subsidiary whose income or net worth exceeds 10% of the consolidated income or net worth of the listed entity and its subsidiaries respectively, in the immediately preceding accounting year.</p> <p>(b) Material subsidy is based on 20% threshold for appointment of an ID of a listed entity as a Director on the Board of an unlisted material subsidiary.</p> <p>(c) The Board of a listed entity shall have under its purview all significant transactions and arrangements by all its unlisted subsidiaries and the same would be brought to the notice of Board of the listed entity by the unlisted subsidiary periodically.</p>

Subject: Promoters/Controlling Shareholders and Related Party Transactions (RPTs)

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-V	Para 3(a) Para 3(d)(v)(1) Para 3(d)(v)(2) Para 3(i)(a) Para 3(i)(b) Para 3(i)(c) Para 3(i)(d) Para 3(i)(e) Para 3(x)(a)	<p>(a) Definition of "related party" shall include any person or entity belonging to the promoter and or promoter group and holding 20% or more shares in the listed entity.</p> <p>(b) Listed companies shall disclose RPTs on a consolidated basis to Stock Exchanges and on website within 30 days of publication of financial results for the half year.</p> <p>Related parties are allowed to cast a negative vote on RPTs.</p> <p>(c) A threshold of 2% of the annual consolidated turnover of the listed entity is specified for Royalty and Brand payments to related parties.</p> <p>(d) Total remuneration paid to the Executive Promoter Directors requires shareholders' approval by a special resolution, if such annual remuneration exceeds Rs. 5 crore or 2.5% of the net profits of the listed entity, whichever is higher.</p> <p>In case of more than one such Director, the total annual remuneration if exceeds 5% of the net profits.</p> <p>(e) Total remuneration paid to a NED requires shareholders' approval by a special resolution if it exceeds 50% of the total annual remuneration payable to all NEDs.</p> <p>(f) The listed entities shall formulate a materiality policy of RPTs and disclose board approved thresholds for material RPTs.</p>

Subject: Disclosures and Transparency

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-VI	Para 3(q) Para 3(r)(i) Para 3(t)(ii) Para 3(x)(c)(ii)	<p>(a) The listed entities require submission of Annual Report to the Stock Exchange within 21 working days of its approval and adoption in the AGM and publish on the website.</p> <p>(b) A copy of the Annual Report shall be sent to the shareholders along with the notice of the AGM.</p> <p>(c) The listed entities shall send softcopies of full Annual Report to all shareholders having registered their E-mail addresses with the listed entities or depository.</p> <p>(d) The listed entities shall disclose all credit ratings for its outstanding instruments in website and Corporate Governance report.</p> <p>(e) The listed entities require disclosure to Stock Exchanges, in XBRL format, as per guidelines specified by Stock Exchanges and on the website through a searchable tool.</p>

Amendments effective for the year ending 31st March, 2019 (Compliance for FY 2018-19) Subject: Composition and the Role of the Board of Directors

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-I	Para 3 (d)(i)(I) Para 3 (e) Para 3 (x)(c)(i)(2)	(a) The listed entities shall disclose skills/expertise/competencies possessed by the Board members without disclosing their names. (b) Maximum directorships are restricted to 8 listed entities. (c) At least one independent woman director shall be on the board of the top 500 listed entities.

Subject: Enhanced Monitoring of Group Entities

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-IV	Para 3(k)	(a) The listed entity and its material unlisted Indian subsidiaries shall conduct a secretarial audit and annex secretarial audit report in the annual report.

Subject: Disclosure and Transparency

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-VI	Para 3(m) Para 3(n) Para 3(t)(ii) Para 3(x)(b) Para 3(x)(c)(i) Para 3(x)(c)(iii)	(a) The listed entities require to disclose in the MD&A section of the Annual Report details of the significant changes (i.e. changes of 25% or more of the preceding year) on (1) Debtors turnover (2) Inventory turnover (3) Interest coverage ratio (4) Current ratio (5) Debt equity ratio (6) Operating profit margin (%) (7) Net profit margin (%), and detailed explanation thereof. (b) The listed entities shall disclose details of utilisations of funds raised through preferential allotment or QIP in the CG report. (c) The listed entities shall disclose separately the names of the listed entities where the person is a Director and the category of Directorship. (d) The listed entities shall disclose a certificate from a practising Company Secretary that none of the Directors on the Board have been debarred or disqualified from appointment as Directors by the Board/MCA/any such statutory authority. (e) Separately audited financial statements of each subsidiary of the listed entity shall be uploaded on the website at least 21 days before the date AGM to consider accounts of the listed entity of that financial year. (f) The listed entities shall give prior intimation to Stock Exchange regarding Board Meeting to discuss bonus issue. (g) The listed entities shall disclose in the Annual Report, along with the reasons thereof, where the Board have not accepted recommendations of any Committee of the Board.

Subject: Accounting and Audit Related Issues

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter – VII		(a) Where audit qualifications are not quantifiable the management mandatorily shall make an estimate to be reviewed by the auditor and report.
		(b) The listed entity shall submit consolidated financial results on a quarterly/year-to-date basis.
	Para 3(o)	(c) The listed entity shall ensure, for the purpose of quarterly consolidated financial results that at least 80% of each of the consolidated revenue, assets and profits, respectively shall have been subject to audit or in case of unaudited results, subjected to limited review.
	Para 3(r)(ii)	(d) The listed entity shall submit a statement of cash flows for the half-year as part of its standalone and consolidated financial results for the half-year.
	Para 3(v)	(e) The statutory auditor shall undertake a limited review of the audit of all the entities / companies whose accounts are to be consolidated with the listed entity.
	Para 3(w)	(f) The listed entity must disclose to the stock exchanges not later than 24 hours from receipt of letter of resignation from the auditors, detailed reasons for resignation of auditors.
	Para 3(x)(c)(iii)	(g) The listed entity and its subsidiaries shall disclose total fees for all services paid on a consolidated basis, to the statutory auditor and the same shall be disclosed in the Corporate Governance Report.
		(h) The listed shall disclose as a part of the explanatory statement to the notice sent to shareholders for an AGM (a) proposed fees payable to the statutory auditor(s) along with terms of appointment and (b) basis of recommendation for appointment, including the details in relation to and credentials of, the statutory auditor(s).

Subject: Investor Participation in Meetings of Listed Entities

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter VIII	Para 3(s)(ii)	(a) The top 100 listed entities by market capitalisation shall reduce the timeline for holding AGM within a period of 5 (five) months from the date of closing of the financial year.
		(b) The top 100 listed entities shall provide one-way live webcast of the proceedings of the AGM.

Amendments effective from 1st April, 2019 (Compliance for FY 2019-2020) Subject: Composition and the Role of the Board of Directors

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-I	Para 3(d)(i)(1) Para 3(d)(i)(2) Para 3(d)(ii) Para 3(d)(iv) Para 3(e) Para 3(x)(c)(i)(2)	(a) The top 1000 listed entities shall have minimum six Directors on the Board. (b) The top 1000 listed entities shall appoint at least one independent Women Director on the board. (c) The listed entities shall disclose skills/expertise/competencies possessed by the Board members with disclosing their names. (d) The listed entities shall obtain shareholders' approval under special resolution for appointment/continuation of a Non-Executive Director on attaining the age of 75 years. (e) Board of Directors' meetings of the top 1000 listed entities shall have quorum to be 1/3 of their total strength or 3 Directors, whichever is higher. (f) Maximum Directorships are restricted to 8 listed entities. (g) Directorship as ID is restricted to 7 listed entities except a person serving as whole-time Director/MD who can serve maximum up to 3 listed entities as ID.

Amendments effective from 1st April, 2020 ((Compliance for FY 2020-2021) Subject: Composition and the Role of the Board of Directors

Ref. of Kotak Committee's Recommendations	Ref. of SEBI (LODR) Amendment Regulations 2018	Details of Amendment Regulations
Chapter-I	Para 3(d)(i)(1) Para 3(d)(i)(2) Para 3(d)(iii) Para 3(d)(iv) Para 3(e) Para 3(u)(c)	(a) The top 2000 listed entities must have minimum six Directors on the Board. (b) Board of Directors' meetings of the top 2000 listed entities must have quorum to be 1/3 of their total strength or 3 Directors, whichever is higher. (c) The listed entities shall have Chairperson of the Board as a Non-Executive Director not related to MD/CEO. (d) Maximum Directorships are restricted to 7 listed entities. (e) Directorship as ID is restricted to 7 listed entities except a person serving as whole-time Director/MD who can serve maximum up to 3 listed entities as ID.

Kotak Committees' Recommendations referred to Other Agencies

Apart from the above Amendment Regulations, SEBI decided to refer 8 other recommendations of the Kotak Committee to various agencies viz. Government, other regulators and administrative authorities, professional bodies etc. as the matters involved relate to them and are beyond the regulatory ambit of SEBI. These recommendations include (i) Group audits,

(ii) internal financial controls, (iii) Audit quality indicators, (iv) Ind A S Adoption, (v) Strengthening the role of ICAI, (vi) Strengthening the independent functioning of QRB, (vii) E-voting of proceedings of the meeting, and (viii) Governance aspects of PSEs. The recommendations of the Committee mentioned in items (i), (ii) and (iii) have been referred to the ICAI, item (iv) to RBI, IRDAI, and MCA, item

(v) to MCA and ICAI, items (vi) & (vii) to the respective Regulatory Authorities viz. MCA, and item (viii) to GOI.


Kotak Committees' Recommendations not Notified by SEBI

SEBI's notification of the Amendments on 9th May, 2018 and its Circular dated 10th May, 2018 do not have a reference to 32 other recommendations made by the Kotak Committee, a list of which is given below:

1. Attendance of Directors
2. Minimum number of Board Meeting
3. Up-dating knowledge of the Board Members
4. NED engagement with the Management
5. Matrix Reporting structure
6. Minimum number of IDs
7. Minimum compensation to IDs
8. Induction and training of IDs
9. Lead ID in Companies with non-independent Chairperson
10. Exclusive meeting of IDs
11. Casual vacancy of office of ID
12. Minimum number of Committee Meetings
13. Composition of NRC
14. Membership and Chairpersonship limit
15. IT Committee
16. Sharing of information with controlling promoters/ shareholders with nominee Directors
17. Re-classification of promoters/classification of entities as professionally managed
18. Disclosures pertaining to holders of depository receipts
19. Harmonisation of disclosures
20. Disclosures pertaining to analyst/Institutional investor meets
21. Disclosures in valuation reports in schemes of arrangement
22. Disclosures on website
23. Disclosures on long-term and medium-term strategy
24. Commodity risk disclosures
25. Independent external opinion by Auditors
26. Strengthening monitoring, oversight and enforcement by SEBI—review of Audit qualifications
27. Strengthening monitoring, oversight and enforcement by SEBI—powers of SEBI with respect to Auditors and other statutory third party fiduciaries for listed entities
28. Stewardship Code
29. Treasury stock
30. Resolutions sent to shareholders without Board's recommendation

31. Leniency mechanism
32. Capacity building in SEBI for enhancing Corporate Governance in listed entities

Conclusion

Nevertheless, the recommendations adopted by SEBI in the form Amendments pave the path for aligning with some of the best practices followed internationally and bring in a renewed focus on improved corporate governance by way of better governance structure, more strict checks and balances and greater independence of corporate boards and auditors. 

Abbreviation:

LODR: Listing Obligations & Disclosure Requirements
ID: Independent Director
WTD: Whole Time Director
SRC: Stakeholders Relationship Committee
NRC: Nomination and Remuneration Committee
RMC: Risk Management Committee
RPT: Related Party Transaction
NED: Non-executive Director
MD & A: Management Discussion & Analysis
QIP: Qualified Institutional Placement
CG: Corporate Governance
MCA: Ministry of Corporate Affairs
QRB: Quality Review Board
IRDAI: Insurance Regulatory Development Authority of India
Gol: Government of India

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AMENDMENTS TO INSOLVENCY & BANKRUPTCY CODE, 2016

The recent amendments to Insolvency and Bankruptcy Code, 2016 (IBC) by Central Government by way of a notification on 6th June, 2018 through a presidential ordinance is a welcome move and cheered by many investment banking communities. This is the second amendment to this Code, after the original Code was put into force with effect from 1st December, 2016 and had its first amendment with effect from 23rd November, 2017.

Though the Code is new with just over a year and half but is an important one for successful resolution of bad loan grappling banks and financial institutions. There were quite a few open ends and phrasing of words and language in the original code that had opened the floodgates for legal interpretation and applicability. Some took advantage of legal means and derailed the time bound insolvency & bankruptcy process through petitions and appeals. National Company Law Appellate Tribunal (NCLAT) and Honorable Supreme Court (SC) had to hear those petitions & appeals arising out of those cases. The sanctity of 180 days (normal period) or 270 days (with an extension) in insolvency resolution period from the insolvency commencement date has been lost due to these legal cases.

It is pertinent to note that now our law makers have brought some important changes by way of second amendment to the Code, after some landmark judgment & pronouncement of Apex court. Following are few important examples of those cases;

(i) Dispute: Corporate debtors against whom operational creditors had filled insolvency resolution applications were taking shelter of the word “and” in section 8(2)(a). As per section 8(1) of the Code, an operational creditor is required to deliver to the corporate debtor a demand notice of payment along with a copy of an invoice demanding


payment of the amount involved on occurrence of default. Section 8(2)(a) gives an opportunity to the corporate debtor to bring to the notice of operational creditor within 10 days of receipt of the same notice “existence of a dispute, if any and record of the pendency of the suit or arbitration proceedings filed before the receipt of such notice or invoices in relation to such dispute”. The word “and” interpreted by many as a mandatory requirement of “pendency of the suit or arbitration proceedings” along with the matter of dispute. We have seen lot of appeals and petitions in the past one year and half at NCLAT and SC whether to admit these cases under IBC or reject due to existence of dispute or not. Finally, the apex court judgement in the matter of Mobilox Innovations Pvt. Ltd (Corporate Debtor) v/s Kirusa Software Pvt. Ltd (Operational Creditor) held that so long a dispute truly exists and not spurious, hypothetical or illusory adjudicating authorities (NCLT / NCLAT) has the power to reject insolvency application/petition under the ground of existence of dispute. The apex court ignored the word “and” and interpreted as not mandatory to have “pendency of the suit or arbitration proceedings”. Some corporate debtors currently undergoing petition of insolvency got shy of relief due to this judgement but what lost was valuable time in this insolvency resolution process. It is surprising that law makers inadvertently drafted some clauses of such an important Act, which derailed the process due to litigations and proceedings in court of law. Finally, they make it up after the apex court verdict in the aforesaid matter and made the amendment to the Code by replacing the word “and” with “or” in section 8(2)(a) of the Code. But this amendment could have come earlier.

(ii) Certificate from financial institution: Section 9(3) (c) of the Code mandatorily required along with filing an application for initiation of corporate insolvency resolution process by operational creditor “a copy of certificate

from financial institutions maintaining accounts of the operational creditor confirming that there is no payment of an unpaid operational debt by the corporate debtor". This clause has been a matter of debate in number of cases as the definition of "financial institution" under section 3(14) does not include foreign banks and non-scheduled banks. This clause virtually precluded lot of foreign operational creditors from initiating corporate insolvency process. Some foreign operational creditors filled petition and appeal in NCLAT and SC against this requirement, as it was impossible for them to full-fill.

Apex court in a landmark judgement in the matter of Macquarie Bank Limited (Operational Creditor) Vs Shilpi Cable Technology Ltd (Corporate Debtor) held that section 9(3)(c) is a procedural provision which should be "directory" in nature instead of "mandatory". Moreover, Code can't be discriminatory by not applying to foreign creditors (as they come under the definition of "person" covering resident outside India). Apex court also mentioned that this kind of condition precedent, impossible of compliance can't be put a threshold bar to the processing of an applicant under section of the Code. After this important judgement, foreign operational creditors got shy of relief and now poised to

move application seamlessly against defaulting corporate debtors. Our law markers' too took cognizance of this judgment of Apex court and compelled to come out with the second amendment to section 9(3)(c) by inserting word "if available" at the end and inserting two new clauses 9(3) (d) "a copy of any record with information utility confirming that there is no payment of an unpaid operational debt by the corporate debtor, if available"; and clause 9(3)(e) "any other proof confirming that there is no payment of any unpaid operational debt by the corporate debtor or such other information, as may be prescribed".

There are several other amendments notified in the second amendment to the IBC with rules and regulation better shaped now after several judicial pronouncements by NCLAT and SC. Hope the Code with these amendments in place, is posed to deliver insolvency resolution in a seamless manner and will avoid unnecessary legal battle and save valuable time so as to conclude insolvency resolution process within a time bound manner. 

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CHAPTER NOTICE


Ref.No.:G/82(118)/08/2018

August 23, 2018

NOTIFICATION

In pursuance of Regulation 146 of the Cost and Works Accountants Regulations, 1959, the Council of the Institute at its 313th Meeting held on 21st July, 2018, by virtue of power conferred therein, has constituted the following Chapter of The Institute of Cost Accountants of India covering the areas of District of Bellary comprising taluks of Bellary City, Bellary rural, Hospet, Sandur, Hagaribommanahalli, Kudlagi, Siruguppa, Kampli and Kurugodu in the state of Karnataka.

The Institute of Cost Accountants of India – Bellary Chapter
SSA Govt. First Grade Degree College
Ballari – 583 101
Karnataka.


CMA L. Gurumurthy
Secretary (Acting)



CMA K.R. Sreedhar
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The Akshaya Patra Foundation
Bangalore

BIG DATA : BIG INSIGHT FROM MULTIPLE SOURCES FOR MANAGEMENT ACCOUNTANTS

The exploding digitization of activities both in B2B and B2C space has made available a huge amount of data for analysis from multiple sources in various forms. Big Data tools enables Management Accounts to analysis of such huge data to gain in -depth insights for managerial decision making. This article introduces the Big Data concept and discusses how Management accountant can use these tools for gaining valuable insights for formulating organization strategy for enhancing value for all stakeholders

The past decade has seen the massive explosion of digital technology in all aspects of daily life. Digital products such as Facebook, Twitter, WhatsApp, YouTube, smartphone, Flip kart / Amazon and other e-commerce sites, digital wallets have become pervasive in our life. Likewise, in the B2B scenarios in addition to typical ERP and other commercial applications, Point of Sale billing machines, Debit / Credit card swiping machines, CCTV footage, Barcode Readers, RFID sensors, machine sensors etc., are also generating a huge amount of digital data. This phenomenon, coupled with the great advances in the computing technology, (covering both storage and processing) have made available, a huge reservoir of data for analysis for a management accountant.

BIG DATA is the technology which enables the collation, processing and generating analytical reports of huge amount of data coming from different varied sources.

This article introduces the concept of Big Data, its functionalities and coverage from a non-technical perspective to the Management Accountant and later discusses how management accountant can use the same to enhance the efficiency and effectiveness of his/ her role.

What is Big Data:

Wikipedia defines Big Data as under:

“Big data represents the information assets characterized by such a high volume, velocity and variety to require specific technology and analytical methods for its transformation into value”

As per the above definition, the following are the main characters of BIG DATA which distinguishes from other IT applications (such as ERP, CRM, etc.).

High Volume: Storing and processing huge amount of data in terms of terabytes(1024GB) and petabytes (1024Terabytes)

High Velocity: Big Data tools should be able to handle the huge volume of data is getting generated at a rapid pace / speed. If an FMCG company, promoting its brand during a special event like IPL, has to be track public response in social media, it has to analyze a) Twitter feed consisting of roughly 175 million tweets every day and b) 34,722 Likes

every minute of the day, expressed by the users in Facebook.

High Variety: Big Data should be able to handle multiple varieties of data coming from different sources

Other literatures on the subject, add the following additional distinguishing features to the above list.

Veracity: Since Big Data would handle a huge volume of varied data, it would encounter the problem of verifying the veracity of the data i.e., ensuring that the bits of data which are unreliable, due to biases, noises and abnormality in data, are identified and appropriately handled.

Validity: Big Data applications are intended for a specific objective and a lot of data being processed, may not be valid or required for the intended purpose. Filtering of the huge data coming from large, varied sources so as to pick up what is required, and to ensure the data is correct and accurate i.e., in other words, ensuring the validity of the data would be a challenge.

Volatility: Not all the huge data collected need to be stored for a long time. After the analysis the same may be discarded if not required for future use. Volatility refers to the issue of how long the data should be stored and used.

Varieties of data

Based on the Source

1. Internal:

ERP Data covering supply chain and financial accounting activities

CRM Data covering customer relation management process

Data from function specific application packages kept outside the scope of ERP

➤ Quality Control

➤ HR, Payroll, attendance data etc.,

➤ Security and other administration related data.

➤ Point of Sale billing data

Data from Company website, click through data, browser's profile etc.

Data captured by the machines / equipment during operation (CNC Machines, IT servers etc.,)

Data generated through Internet of Things (IOT). RFID etc.,

Emails, and texts (XL, Word, PDF etc.) generated during the day to day working.

Images from CC TV Cameras and other internal sources.

2. External Data

Data from supply chain partner for example distributors', Point of Sale, stock data etc.,

Data from official sources: Census data, Govt official statistics, Data from industry associations, Non-Government think tanks etc.,

Data from social media: Facebook, Twitter, Instagram etc.,

Data from Web pages: Websites, Blogs,

Using the Big Data Tools, the Management Accountant can conduct analysis in a holistic manner, combining the data from different disparate sources as listed above, so as to get much better insights.

Based on Structure of data

Structured Data: As defined by Techopedia, "Structure Data are the data that are organized in a format easily used by a database or other technology. Data conform to fixed fields. That means those utilizing the data can anticipate having fixed – length pieces of information and consistent models in order to process that information".

The data from application packages such as ERP, RFID, Point of Sale Data etc., are the examples.

Unstructured data: As defined by Techopedia “Unstructured data represents any data that does not have a recognizable structure. Unstructured data also may be identified as loosely structured data, wherein the data sources include a structure, but not all data in a data set follow the same structure. Unstructured data usually does not include a predefined data model, and it may not match well with relational tables.”.

Text data from internal sources such as “Emails, Word, PP, PDF docs”, Social media data on face book and twitter, data in webpages are the examples of unstructured data.

Text Analytics, an important additional tool for Management Accountant;

Having Predominantly worked with numbers as input throughout their professional life and extensively used ERP as the source of input data, Management accountants are very much aware of the usage of structured Data to derive information and insight. They can add Text Analytics as a very important tool in their armory.

A very brief introduction to the Text Analytics is given below.

Wikipedia defines Text Analytics (Or Text Mining) as under

Text mining, also referred to as text data mining, roughly equivalent to text analytics, is the process of deriving high-quality information from text. Text mining usually involves the process of structuring the input text (usually parsing, along with the addition of some derived linguistic features and the removal of others, and subsequent insertion into a database), deriving patterns within the structured data, and finally evaluation and interpretation of the output.

Text Analytics aims to provide the following types of outputs

(Source: Practical Text Mining and Statistical analysis for Non - Structured text data Application: by G Miner and others)

1) Search and Information Retrieval: Storage and Retrieval of Text Documents, including search engines and keyword search

2) Document Clustering: Grouping and Categorizing terms, snippets, paragraphs or documents,

using data mining clustering methods.

3) Document Classification: Grouping and Categorizing terms, snippets, paragraphs or documents, using datamining classification methods based on models trained on labelled methods.

4) Web Mining: Data and Text mining on the internet, with a specific focus on the scale and interconnectedness of the web.

5) Information Extraction: Identification and Extraction of the relevant facts and relationships from unstructured text; the process of making structured data from unstructured and semi structured text.

6) Natural Language Processing: Low level language processing and understanding tasks. (e.g. tagging parts of speech) often used synonymously with computational linguistics

7) Concept Extraction: Grouping of words and phrases into semantically similar groups.

Management Accountant adding value using Big Data.

Management Accountant primarily adds value to the organization by

- i. Assisting the Sr. Management in formulating the Organization's strategy, which involves, providing cost and revenue inputs for developing different financial forecast models under various assumptions, interpreting and analyzing the results shown up in the models and assessing the controllable and uncontrollable risks involved in executing the various possible strategic options.
- ii. Devising and implementing the planning systems to execute the above strategy and performance management systems to track the actuals so that he can highlight the areas of inefficiencies and losses and opportunities for improvement.

Below table shows how BIG DATA would broaden availability of Data / Information for Management accountant so that he can enhance his contribution, many

more times, to the organization in above areas.

Types / Areas of Data, information	Traditional Data used by Management Accountant (mainly ERP)	BIG Data Tools.
Nature of Data	Structured	Structured and Unstructured (Text)
Source of Data	Totally internal to organization	Internal + External to organization
Scope of usage of internal Structured Data	Financial + Operational Data to the extent integrated with ERP	ERP Data + structured data from Non ERP sources (sensors and machine data coming from CNC machines, Internet of Things etc., Function specific applications such as Quality, Point of sales data etc.,)
Scope of usage of Un Structured Data (Text)	Unstructured Text Data is not analyzed.	Both internal and External Text data is analyzed.
Granularity of Data	Granular transaction wise to the extent recorded in ERP	Much more granular than ERP data. (Point of Sale data is much more granular than day wise, item wise, sales summary recorded in ERP in a retail chain)
Combining data of different applications	Quite complicated, even though there is concept of data warehouse / data mart, but with limited capability.	Much Simpler under Big Data Tools, can combine data from different sources with different structures including unstructured data.
Focus of reporting	Mostly Day to day canned reports in standard formats. Data mining tools are used for gaining deeper insight.	Predominantly used for gaining deeper insight, through special analysis.

Practical areas for usage of BIG DATA by Management Accountant.

a) Getting the Voice of the Customer in a formal structured manner into the Planning and performance management systems:

Perhaps due to unavailability of solid verifiable data in a summary usable manner, Management Accountants to a very large extent were not incorporating the voice of the customers into their analytical reports.

Oscar Wilde (a noted English Poet) is said to have quipped “cynic was a man who knows the price of everything and the value of nothing.” This is all the more applicable to typical accountants (including management accountants) who concern themselves only and only about the financially measurable facts (costs and revenue) of a transaction but not the value it generated to the customers.

The maximization of the value generated for the customer, within the targeted revenue and cost structure, is the ultimate purpose of any business strategy. However, “Value generated for the customer” is a very nebulous concept as it varies from customer to customer depends upon his / her socio economic background, personal preferences, fashion / hype of the day and such other factors. Any serious misunderstanding at a business strategy level of what customer wants as a value proposition in the product

would lead disastrous consequences. Remember the astounding failure of Nano Car, which came to market with a lot of fanfare and promise to revolutionize entry level car segment, but ultimately fizzled out as the customers gave Thumbs Down to the value / price equation of the car.

By analyzing the social media and the unstructured customer interactions recorded in CRM applications, organization’s website, BIG DATA tools can answer the most important questions on customers’ perception about their wants in the space where the organization is operating, how they feel about the organization offering vis some vis the competition etc., in a reliable structured methodical manner.

In a nutshell, Big Data analytics can provide insight about the “Value generated to the customer from the organization’s operations “as perceived by the customers. Management Accountant can incorporate this important insight along with the usual data on revenue and costs while advising management on formulating the future strategies.

b) Developing unique / differentiated highly flexible offerings to customers (Dynamic Pricing) for maximizing value to all stake holders

With the insight from customer’s voices, companies can develop unique / differentiated flexible offerings to the customers.

In respect of a Dynamic pricing proposal, the challenge for the Management Accountant would be to evaluate / project on the following parameters and recommend appropriate strategy.

- a) the likely increase in the net overall revenue through this strategy,
- b) the likely increase in incremental cash cost (i.e., keeping aside the sunk cost)
- c) the likely increase in the intangible gains to the organization which is expected to pay off in the long run (Brand Equity built during short period discount sale at loss, paying off in the long run)

Of course, after the strategy is implemented, Management accountant would have to continuously monitor the actual performance of the strategy on the ground and suggest course corrections.

Combining the of data on customer's needs and value perceptions (which comes from the company's website, CRM and social media data) with the inventory / cost data (which comes from ERP data from procurement / stores / financials module), management accountant can develop an appropriate Dynamic pricing strategy. Subsequently for monitoring the actual performance, Management Accountant, can use the data coming from different sources (E –Commerce, POS platforms, sensors, ERP data on inventory status and cost structure etc.,) through Big Data tools.

E- Commerce companies heavily use this technique to maximize the sales, as they have the advantage of customer interacting with them totally in a digital mode. Businesses in large organized service industries such as Airlines and Hotels, (where the demand fluctuates considerably due to various predictable and unpredictable reasons, but the supply remains fixed with heavy fixed costs) have been using this technique for a long time.

Macy Inc. a US based premier Omni-channel retailer with iconic brands, adjusts pricing in near real time for 73 million items, based on demand and inventory using technology.

The increasing share of electricity generated from renewables, has created a situation where the supply of electricity into the grid is dynamic and volatile. Since electricity cannot be stored, it is better to incentivize the consumers to consume more during the periods of excess

supply, through dynamic pricing. Even with conventional thermal power plants also, to boost up the capacity utilization, there is a need to increase the consumption during non – peak period.

This Technology has been deployed in some western countries where Sensors have been deployed to measure the electricity consumption during various points of time and bills are generated at different rates applicable for corresponding time buckets.

With the wide availability of user friendly, cost effective Big Data Tools, more and more industries can move towards Dynamic Pricing model for better customer value delivery, efficient utilization of resources and hence benefitting all stakeholders. Management accountant has a greater role to play in this regard.

c) Stricter monitoring and control of costs at operational levels:

Since Big Data tools provide much more granular level information at a much shorter time interval, a much stricter monitoring and control of costs and efficient utilization of resources would be possible.

In Advertising:

The famous / age old joke on advertising, but which has a lot of grain of truth, goes as follows

“I know that half of my advertising dollars are wasted ... I just don't know which half”.

With the increased digitization, it is possible to design and execute unique, differentiated advertising strategy for target customer groups. Using Big Data tools one can get data on customers' response to the various advertising campaigns on a near real time basis, so that the campaign course corrections may be efficiently and effectively tailored to deliver maximum value.

Internet of Things (IOT) to monitor the health of machines:

The sensors, embedded into the machines, can continuously monitor the health parameters and send out signals when the parameters are going out of range for immediate corrective action, so as to prevent a bigger failure.

A marketing brochure issued by DELL, claimed that by

utilizing Internet of Things (IOT) and Big Data tools best in class companies have increased the efficiency of operations in a big way by


- a) reducing unplanned downtime by 3.5%
- b) improve the overall effectiveness to 89%
- c) Reduce maintenance cost by 13% YOY
- d) Increase Return on Assets by 24%

In ABC Costing for better allocation of costs to understand the true nature of cost behavior

ABC costing aims at recognizing the casual relationship of cost drivers to activities and to assign costs to cost objects based on their use of activities. In this exercise, the higher the quality of data on behavior of cost drivers, on their relationship to costs and on utilization of cost drivers by a specific cost object better would be the result of ABC costing exercise.

High quality digital data from various sources (e.g., Machine Sensor / IOT Data, data from other application packages (Quality etc.,) could be used to identify the cost drivers. By combining the data on cost drivers with the cost data from ERP, a more insightful relationship can be understood and appropriate ABC costing methodology can be developed.

Conclusion

Big Data tools open up a great opportunity for the Management accountant to access a huge amount of digital data, from various sources in both structured and unstructured format and analyze the same a cost and time effective manner. With this deeper insight, he / she can add a lot of value to the strategy formulation and planning and performance management process of the organization. 

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Seeking Professional Queries from Members

20th August 2018

Dear Sir / Madam,

We are happy to inform you that the Institute has reconstituted the Technical Cell for the year 2018-19 to be headed by CMA (Dr) Dhananjay Vishnu Joshi, Former President of the Institute. The cell consists of eminent professionals from across the Country. The Technical Cell is committed to take initiatives for the capacity building of the members and other stakeholders.

The Technical Cell in its first meeting held on 13th and 14th August 2018 at New Delhi has decided to give proper emphasis on providing assistance to the industry and the members of the Institute in resolving their queries relating to Maintenance of Cost Records, Cost Accounting Standards, Standards on Cost Auditing, Cost Audit and Companies (Cost Records and Audit) Rules, 2014 (as amended from time to time).

Members are encouraged to send their queries to the Technical Cell through email on the following email id and the same shall be responded to by the Technical Cell in due course. **Members are requested to keep their queries limited to the above mentioned areas only.**

Email id: technicalcell@icmai.in

We are looking forward to your continued cooperation to the technical activities of the Institute.

With warm regards,

CMA Tarun Kumar
Joint Director and Secretary, Technical Cell
The Institute of Cost Accountants of India



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BASE EROSION & PROFIT SHIFTING – INDIAN INITIATIVES

*“The hardest thing in the world to understand is the **INCOME TAX** – Albert Einstein”.* With all the nuances that the taxation system in the world is grappling with, the above quote from one of the greatest minds is clearly standing the test of time in its widest sense.¹

The globe has become a “village” for Multinational Enterprises (MNEs) and technology advancement has given wings to MNEs to fly over the entire global village. In the globalised economy no one is restricted from doing business worldwide. Rapid changes in business structures, cross border transactions, global economy etc. provide for a wide range of opportunities to MNEs to restructure their business activities with an objective to achieve cost minimisation and ROI maximisation. The world is going through a sea of changes in the way the businesses are run. Across the world there is a huge outcry against tax heavens and offshore companies which are claiming to siphon out taxable profits from legitimate jurisdiction to tax-friendly countries either under the guise of a favourable treaty or by arranging business transactions to ensure maximum profits to entities in ‘tax-friendly’ jurisdiction² There is a stiff challenge for tax authorities to define tax laws. Tax authorities across the globe are worried as to what should be their share of income on which they can levy taxes. Every tax jurisdiction is struggling to widen the “tax net” by bringing all the incomes and profits eroded and shifted to other jurisdictions.



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Prelude to the problem

What constitutes the right of one country to tax the income of a tax payer in preference to any other country? It does not seem probable that there would be serious difference of opinion on this matter. A widespread view considers that the country from whose territories the income is derived should in every case have the right to levy a tax thereon. At the same time it is agreed that as regards income derived elsewhere, the country of domicile should have the privileged position.³ Due to widespread globalisation, businesses started to cross border, where multinational corporations realised existence of friendly offshore jurisdictions and structures were built to manage taxes efficiently through these economies such that overall tax impact (popularly known as Effective Tax Rate – ETR) for the group remains minimum.⁴

Assume that a company having registered its head office in “Cayman Islands”, where no direct tax is imposed on company’s profit, does a worldwide business. Further assume that –

1. It deals in product “X”, which is mainly sold in European countries
2. Raw materials are procured from India
3. Assembly of product is done in China
4. Technology is purchased from Japan
5. Finishing of product is done in Canada
6. Research and Development activities are done in Switzerland
7. Online advertisement is done through Google
8. Product is sold through Amazon.com online portal

Now, the company books its profit in Cayman Islands and pays no corporate tax on its profits. However, all the participatory countries have contributed in earning profits for the company. Because, profit is a result of all the activities commencing from purchase of raw material till the product reaches consumers including the activity of research and development.

Taxes are not international. It is every country’s domestic tax law which levies tax on international transactions. We do not have global tax law that governs international

taxation. Prof. Roy Rohatgi⁵ (2005) says that international tax planning is the art of arranging cross border transactions with the knowledge of international tax principles to achieve a tax effective and lawful routing of business activities and capital flows. However, Luc Hinnekens,⁶ says International tax planning is a tax driven proactive arrangement of a person’s affairs to minimise his tax results. It not only looks at legal tax saving opportunities but also at tax risks such as double taxation and prospects of counteracting tax legislation.

In the name of international tax planning many MNEs started shifting their money from high tax jurisdictions to low tax jurisdictions. Globalisation provided many opportunities to minimise and avoid tax burden through relocation of mobile capital. It might result in a shift of the burden of taxation from large multinational enterprises to small national ones. Thus, the ability of large multinational enterprises to reduce their tax burden significantly or escape it altogether might entail more regressive tax system. Most of the studies undertaken before 1990 in European countries conclude that FDI flows are not very sensitive to tax differential but recent studies indicate that inflows in particular are very sensitive to host country taxation.⁷

Before the launch of the Base Erosion and Profit Shifting (BEPS) project, the Organisation for Economic Cooperation and Development (OECD) estimated that global corporate income tax (CIT) revenue losses were somewhere between 4% to 10% of global CIT revenues, i.e., USD 100 to 240 billion annually. As per the OECD, these statistics confirmed the magnitude of the problem, and established the need for and criticality of the BEPS project.⁸

Base Erosion and Profit Shifting (BEPS)

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits ‘disappear’ for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low, resulting in little or no overall corporate tax being paid.⁹

BEPS, is a technical term which is an art of arranging cross border transactions with the help of existing loopholes available in tax laws of various jurisdictions and thereby achieving a reduced effective tax rate of MNE group as a whole. BEPS action plan is an attempt by the world’s major economies to try to rewrite the rules on corporate taxation to address the widespread perception that the corporations don’t pay their fair share of taxes.¹⁰

When MNEs succeed in minimising effective tax rate or

availing double non-taxation or paying less than full single taxation by extracting the benefits of various jurisdictions' tax laws is not per se a cause of concern, but it becomes so when it is associated with practices that artificially segregate taxable income from the activities that generates it. Although some schemes used are illegal, most are not. Largely, they just take advantage of current rules that are still grounded in brick and mortar economic environment when the need is to suit to click and order environment of global players, which is characterised by the increasing importance of intangibles and risk management.¹¹ BEPS is an OECD project consisting of different action plans to avoid erosion of tax base and shifting of profit from one tax jurisdiction to another.

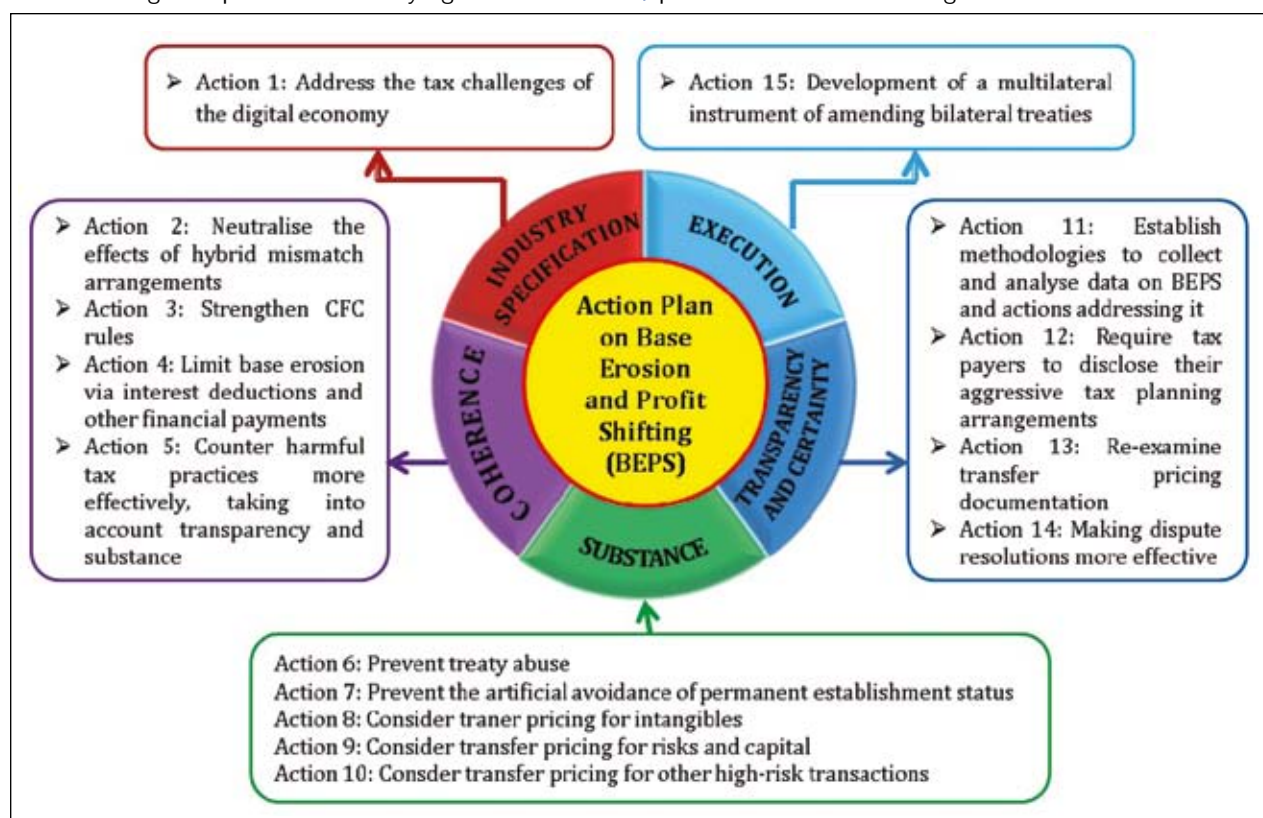
Five pillars of the BEPS project:

All BEPS action plans focus on achievement of the following five pillars or underlying themes of the

BEPS project:¹²

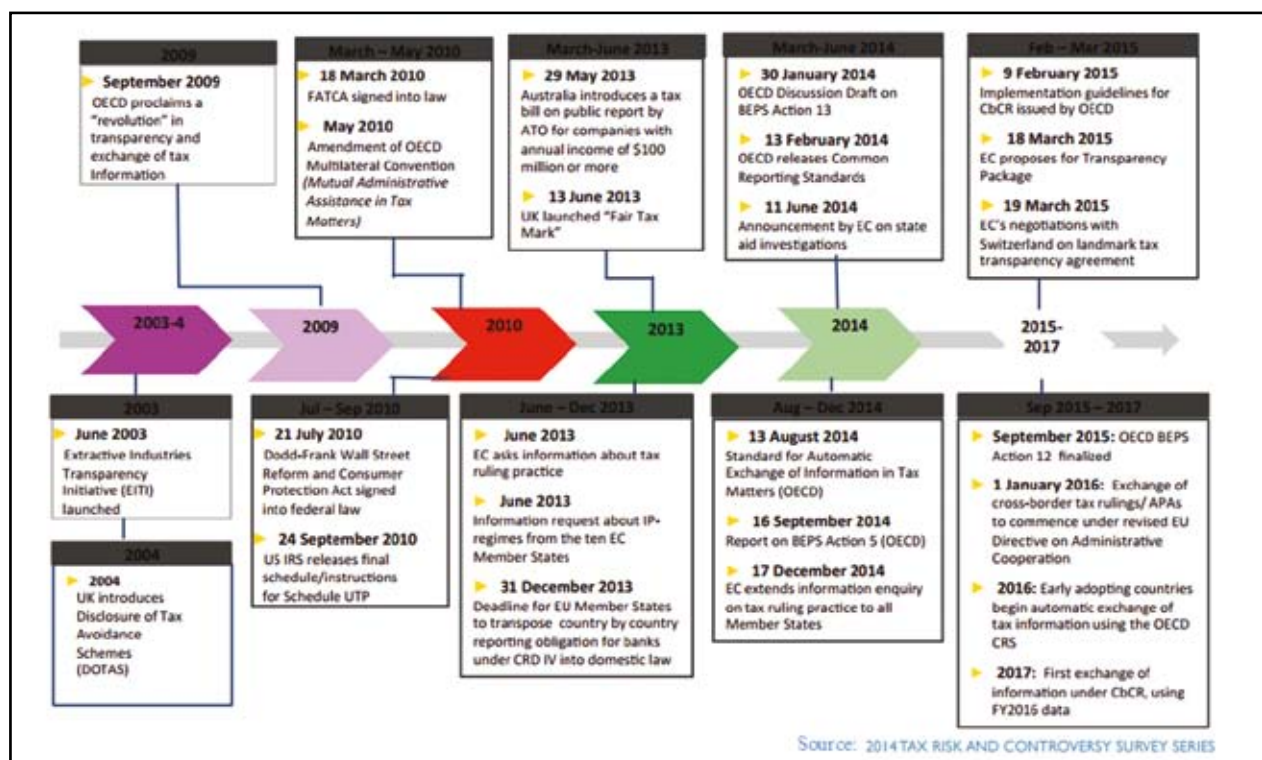
- Need for increased transparency of multinational companies' operations.
- Emphasis on substance.
- Alignment of taxation with location of economic activity and value creation.
- Updating of international tax treaties and coherence in domestic rules that affect cross-border activities.
- Need for certainty for businesses and governments.

OECD broadly classifies the BEPS action plans under 5 categories. The diagram below summarises BEPS action plans under the said 5 categories.¹³



Road Map of BEPS:

BEPS action plan have not taken shape but they have emerged by the efforts of many countries. OECD took initiation and travelled through various stages of drafting of action plans which will address various issues of BEPS. In drafting BEPS action plan more than 100 countries have participated including G20 (India is a member country) members, developed economies and developing countries. The following diagram briefs the timeline how the BEPS have emerged over a period of time.¹⁴



The 2012, G20 Los Cabos summit referred to "the need to prevent base erosion and profit shifting" in their final declaration and tasked the OECD to develop an Action Plan. The G20 Leaders endorsed the BEPS Action Plan at the 2013, G-20 St. Petersburg summit. The BEPS Package consisting of reports on 15 actions designed to be implemented domestically and through tax treaty provisions was agreed at the 2015, G20 Antalya summit.¹⁵

All fifteen Action Plans were released on 5th October, 2015 which are mentioned below:

- Action 1: Addressing the Tax Challenges of the Digital Economy.
- Action 2: Neutralising the Effects of Hybrid Mismatch Arrangements.
- Action 3: Designing Effective Controlled Foreign Company Rules.
- Action 4: Limiting Base Erosion via Interest Deductions and Other Financial Payments.
- Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance.

- Action 6: Preventing Treaty Abuse.
- Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status.
- Actions 8-10: Assuring that Transfer Pricing Outcomes are in line with Value Creation.
 - Action 8 – Transfer Pricing and Intangibles
 - Action 9 - Transfer Pricing and Risk / Capital
 - Action 10 - Transfer Pricing and other high risk transactions
- Action 11: Establishing Methodologies to Collect and Analyse Data on BEPS and Actions to Address it.
- Action 12: Require Taxpayers to Disclose their Aggressive Tax Planning Arrangements.
- Action 13: Guidance on Transfer Pricing Documentation and Country-by-Country Reporting.
- Action 14: Making Dispute Resolution Mechanisms More Effective.
- Action 15: Developing a Multilateral Instrument to Modify Bilateral Tax Treaties.

The OECD and the G20 countries in the BEPS project have set out the above action plans to put an end to tax avoidance models adopted by businesses. India has been extensively engaged in the implementation of the recommendations. The Central Board of Direct Taxes (CBDT) has also committed to design rules and ensure successful implementation of the recommendations of BEPS project.

Indian Initiatives on BEPS Action Plan:

From an Indian perspective, measures to deal with treaty shopping and other forms of treaty abuse, transfer pricing rules in the key area of intangibles and Country-by-Country Reporting (CbCR) are of great importance. Equally important is the agreement to implement BEPS measures through a multilateral instrument as well as shift in the approach of taxing the digital economy.

Key initiatives by India to implement BEPS action plans are:

1. Equalisation levy – Google Tax (Action Plan 1)
2. Redefining the concept of residential status of Company - PoEM (Action Plan 3)
3. Thin Capitalisation: Limitation on Interest Benefit (Action Plan 4)
4. Harmful tax practices (Action Plan 5)
5. GAAR – General Anti Avoidance Agreement Rules (Action Plan 6)
6. Artificial avoidance of PE in India (Action Plan 7)
7. Aligning Transfer Pricing Outcomes With Value Creation (Action Plan 8 9 10)
8. Country by Country Reporting (Action Plan 13)
9. Making Dispute Resolution Mechanism More Effective (Action Plan 14)
10. Signing Multilateral Agreements (Action Plan 15)

Action Plan 1: Equalisation Levy (Popularly known as Google Tax or Face book Tax)

With the innovative developments in the area of digital and communication technology, the way of supply and procurement of goods and services have undergone tremendous changes. In the digital world business may

be done without any national boundaries and it does not need any physical presence of business in any country but instead takes place in the nebulous world of “Cyberspace”. The faster growth of more and more e-commerce companies posed various typical tax challenges such as characterising the nature of payment, establishing a nexus between a taxable transaction, activity, and a taxing jurisdiction, the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.¹⁶

Considering these new challenges of digital economy and to address them, Indian Government vide Finance Act 2016 has inserted a new chapter entitled “Equalisation Levy”. It is applicable with effect from 1.6.2016. Equalisation levy at 6% is levied on the amount of consideration for any specified service received or receivable by a person, being a non-resident from (i) a person resident in India and carrying on business or profession or (ii) a non-resident having a permanent establishment (PE) in India. However, it is applicable only if the aggregate amount of consideration exceeds Rupees One Lakh. The finance bill 2018 expanded the scope of the provision by including the significant economic presence as part of the business connection.

Salient features of equalisation levy are as under:^{17&18}

1. It is charged only on non-residents of India and hence, Indian e-commerce companies like flipkart, snapdeal etc. are not liable for equalisation levy.
2. It is applicable to the specified services of e-commerce transactions/digital business which is conducted without regard to national boundaries.
3. Specified services means online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement (and includes any other services as may be notified by the Central Government).
4. There is no such levy if goods are sold through e-commerce.
5. This levy is not applicable if service provider is resident in India or if a non-resident having PE in India.
6. Anybody having digital transactions in India and having significant economic presence without being physically present in India will still be taxable in India to the extent of their activities in India.

Action Plan 3: Redefining definition of residential status of Company – PoEM

India had proposed CFC rules in much debated draft of Direct Taxes Code. CFC could not find its place in the legislation as Direct Taxes Code did not takeoff. However, by redefining the definition of residential status of company India can indirectly substitute the CFC rules.

The residential status of a company is decided on the basis of its PoEM. Earlier provision stated “a company would become resident in India in any previous year, if it is an Indian Company or during that year, the control and management of its affairs was situated wholly in India”. But in the era of advanced telecommunication and technology revolution, use of internet, video conferencing etc, it is no longer necessary to gather physically in one place and hold meeting to take decisions.¹⁹ Therefore, the provisions of section 6(3) of the Income Tax Act were amended vide Finance Act 2016 with effect from 1.4.2017 to provide that “a company is said to be resident in India in any previous year, if it is an Indian Company or its PoEM in that year is in India”²⁰. PoEM is defined in the Act to mean “a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made.”²¹

Earlier provision provided ample opportunity of tax avoidance in case of companies by artificially shifting insignificant and isolated events related with control and management outside India in order to manipulate the jurisdiction of residential status. Now, amended provision addresses these issues. PoEM is an internationally recognised test for determination of residence of a company incorporated in a foreign jurisdiction. Most of the tax treaties signed by India recognise the concept of PoEM for determination of residence of a company as a tie-breaker rule for avoidance of double taxation.

The test of PoEM is one of “substance over form” and is to be determined with regard to the facts and circumstances of each case on a yearly basis²². The guiding principles for determination of PoEM enumerates that “an entity may have more than one place of management, but it can have only one place of effective management at any point of time.” Therefore, the process of determination of PoEM would be primarily based on the fact as to whether or not the company is engaged in active business outside India.²³

As per the guiding principles for determination of PoEM of a company issued on 23.2.2017, vide Circular No. 08 of 2017, PoEM provisions shall not apply to a company

having turnover or gross receipts of Rs. 50 crore or less in a financial year. As per these guidelines PoEM may get triggered in cases of certain multinational companies with regional headquarter structure merely on the ground that certain employees having multi-country responsibility or oversight over the operations in other countries of the region are working from India, and consequently, their income from operations outside India may be taxed in India. As per Circular No. 25 of 2017 dated 23.10.2017, it has been clarified that “the PoEM in case of a company engaged in active business outside India shall be presumed to be outside India if the majority meetings of the board of directors of the company are held outside India. However, caution is also provided in the clarification that GAAR provision may get triggered if this clarification is found to be used for abusive / aggressive tax planning.

Action Plan 4: Thin Capitalisation: Limitation of Interest Benefit

Indian Government has inserted section 94B with effect from 1.4.2018 to counter cross border shifting of profit through excessive interest payment, which is in line with BEPS action plan 4 titled “Limiting Base Erosion Involving Interest Deduction and other Financial Payments”. Thin capitalisation refers to hidden equity capitalisation by borrowing higher level of debt as compared to equity and leveraging capital structure, which leads to reducing taxable profit to the extent of interest paid on debt borrowings. Multinational groups strategize their financing arrangements to create tax-efficient mixture of debt and equity in borrowing from jurisdiction wherein interest expense can be claimed as deduction in computation of tax profits and lending to jurisdictions that either exempts interest income from tax or interest taxed at lower rates.²⁴

Company normally finances their projects either by equity or debt or mixture of both. However if we look from the view point of cost, debt is better than equity, as debt is not only less expensive but also tax friendly as interest payment is a deductible expense whereas dividend is not. This prompts many international companies to artificially classify their capital as debt and claim interest as expenses leading to shifting of profit to low tax jurisdiction.²⁵

To prevent these kinds of tax avoidance by excessive leveraging, India felt thin capitalisation rules necessary and inserted section 94B in the Income Tax Act. Salient features of section 94B are as follows:

1. Interest amount in excess of 30% of the earnings before interest, taxes, depreciation and amortisation

is disallowed.

2. It is applicable to payment made by the Indian Company or a PE of the foreign company in India to its Associated Enterprises abroad.
3. This provision gets triggered only when payment of interest or similar consideration exceeds Rs. 1 crore.
4. Borrower is either an Indian Company or PE of a foreign company in India and Lender is a non-resident located outside India and is an AE of such borrower.
5. Section 94B shall not apply if assessee is engaged in the business of banking or insurance.
6. The provisions allow for carry forward of disallowed interest expense up to eight assessment years immediately succeeding the assessment year in which the disallowance was first made and deduction against the income computed under the head profit and gains from business and profession to the extent of maximum allowable interest expenditure.

This provision of limitation on interest benefit is in line with the BEPS roadmap that India had set out to follow and is expected to counter cross border shifting of profit through excessive interest payments, and protect India's tax base.

Action Plan 5: Countering Harmful Tax Practices

As a part of implementation of BEPS action plan 5, India inserted a new section 115BBF which levies tax on royalty income. Royalty is an amount paid or payable to a foreign collaborator for transfer of technology, usage of brand or trademark or intellectual property etc. From the view point of India it is observed that royalty outflow has surged in the recent past and needs to be analysed. The outflow on account of royalty and fee for technical services, taken together, are estimated to be as high as 15-18% of the FDI inflows over 2009-10 and 2012-13.²⁶ Hence, India has introduced a concessional regime for taxation of royalty income from patents @ 10% of gross income, in respect of patent developed and registered in India by a person resident in India. Salient features of section 115BBF27 are as follows:

1. It is applicable to eligible assessee (i.e. person resident in India and who is a patentee) having income by way of royalty in respect of patents developed and registered in India.
2. A concessional tax rate @ 10% on such royalty income is levied.
3. No deduction in respect of any expenditure or allowance shall be allowed to the eligible assessee while

computing royalty income.

4. This concessional tax rate is optional and if assessee chooses not to claim the benefit then assessee is not eligible to claim benefit of this provision for next 5 assessment year subsequent to the year in which such royalty income has not been offered to tax.

5. The benefit of this provision is available only to "True and First Inventor of the Invention".

Action Plan 6: General Anti Avoidance Rules (Gaar)

A landmark decision in Azadi Bachao Andolan case²⁸ said that "Tax evasion is illegal but Tax Avoidance is legal". This phenomenon provided ample scope for big corporate for aggressive tax planning which resulted in large amount of revenue loss to the Government. Therefore, to counter the aggressive tax planning by corporate, Government of India introduced GAAR in line with BEPS action plan 6 i.e. Preventing Treaty Abuse.

GAAR provisions are anti tax avoidance regulations. These regulations empower the revenue authorities in a country to deny tax benefits to transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefits. These kinds of rules are introduced by Australia way back in 1981. GAAR provisions are broad rules which are based on general principles to check the potential avoidance the tax in general, in a form which cannot be predicted and thus cannot be provided at the time when it is legislated.²⁹

Initially GAAR concept was proposed in the year 2009 in DTC bill. Later, it was revised in 2010 DTC bill with an aim to implement it with effect from 1.4.2012. But due to lack of clarity, lack of safeguards, substantive scope for subjective authorization by the tax officials and several criticisms, implementation of GAAR was deferred for three years. Later the Government formed Parthasarathy Shome Committee to review the proposals. Finally, provisions of GAAR are in place and shall apply to any assessment year beginning on or after 1.4.2018 (Financial Year 2017-18)

Some of the key recommendations of GAAR are:³⁰

1. Tax mitigation should be distinguished from tax avoidance before invoking GAAR.
2. GAAR should not be invoked in intra-group transactions which may result in tax benefit to one person but overall tax revenue is not affected either by actual loss of revenue or deferral of revenue.
3. GAAR is to be applicable only in cases of abusive,

contrived and artificial arrangements.

4. A monetary threshold of Rs. 3 crore of tax benefit, to a tax payer in a year should be used for the applicability of GAAR provisions.
5. Where Specific Anti Avoidance Rule (SAAR) is applicable to a particular aspect/element, then GAAR shall not be invoked to look into that aspect/element.
6. If there is any conflict between tax treaty and GAAR, then tax treaty provisions will override the GAAR except when there is Impermissible Avoidance Arrangements (IAAs).

However, circular No. 7 of 2017 dated 27.1.2017 while providing clarification on implementation of GAAR says that “it is internationally accepted that specific anti avoidance provisions may not address all situations of abuse and there is a need for general anti-abuse provisions in the domestic legislations. The provisions of GAAR and SAAR can coexist and are applicable, as may be necessary, in the facts and circumstances of the case.”

Action Plan 7: Preventing Artificial avoidance of Permanent Establishment in India

Two amendments have been made in section 9 as measures to curb strategies used by MNEs for artificial avoidance of PE. The first amendment is substitution of clause (a) in explanation 2 to section 9(1)(i) wherein the meaning of “Business Connection” expanded. The second amendment is insertion of new explanation 2A to section 9(1)(i) which defines the meaning of “Significant Economic Presence”.

Agency PE:

Action plan 7 of the OECD deals with preventing the artificial avoidance of PE status. It identifies the methods for circumventing the existence of a PE by way of “commissionaire arrangements” or fragmentation of business activities. Therefore, it recommended for amending article 5 of OECD Model Convention.³¹

To address these issues and with a view to preventing BEPS, recommendations under action plan 7 have been included in Article 12 of Multilateral Instruments (MLI) to which India is also a signatory. Consequently, if treaty partner opted for Article 12, then India’s bilateral tax treaties will automatically get modified to cover the Dependent Agency PE provision as per Article 5(5) of Indian Tax Treaties with wider scope as per amended explanation 2 to section 9(1)(i).³²

Amended provision of explanation 2 to section 9(1)(i) is:

“Business Connection: shall include any business activities carried by a person who, acting on behalf of the non-resident, –

- ✱ habitually concludes contracts or
- ✱ habitually plays the principal role leading to the conclusion of contracts by the non-residents and
- ✱ the contracts are
 - i. in the name of the non-residents; or
 - ii. for the transfer of the ownership of, or for the granting of the right to use, property owned by that non-resident or that the non-resident has the right to use; or
 - iii. for the provision of services by that non-resident.

Digital PE:

The second proposal is to incorporate the existence of a digital PE in India by insertion of explanation 2A to section 9(1)(i) to include significant economic presence in India as part of Business Connection.

Explanation 2A: The significant economic presence of a non-resident in India shall constitute “business connection” in India and shall mean –

- ✱ any transaction in respect of any goods, services or property carried out by a non-resident in India including the provision of download of data or software in India if the aggregate of payments arising from such transaction or transactions during the previous year exceeds the amount as may be prescribed; or
- ✱ systematic and continuous soliciting of its business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means.

These amendments will take effect from 01.04.2019 and will, accordingly, apply in relation to the AY 2019-20.

The business connection rules defined in India’s direct tax laws determine the eligibility for taxation of the share of a foreign entity’s profit which can be reasonably attributed to operations carried out in India. However, after the implementation of Digital PE and testing for a significant economic presence, the portion of income attributable to

the transactions or activities described above would also be liable to tax in India. No existing Indian tax treaty (nor the MLI) incorporates the concept of digital PE or significant economic presence. This will impact taxpayers who are tax residents in a jurisdiction which does not have a tax treaty with India. However, Indian government has clarified that the proposed amendments to its domestic laws will enable India to negotiate the inclusion of a new nexus rule in its tax treaties in the form of rules to determine significant economic presence.³³

Action Plan 8, 9, 10: Aligning Transfer Pricing outcomes with Value Creation

Existing safe harbour provisions address these BEPS action plans which are introduced by India from 18.09.2013. This has been done to overcome the problem of transfer pricing disputes. The Government has notified the activities belonging to following six sectors with safe harbour margins:

- a. Information Technology Sector
- b. Information Technology Enabled Services Sector
- c. Contract Research and Development
- d. Financial Transactions – Outbound loans
- e. Financial Transactions – Corporate guarantee
- f. Auto ancillaries – Original Equipments

The safe harbour rules help in overcoming the confrontation and resolve TP issues amicably.

Amended Safe Harbour rules: CBDT vide Notification 46 dated 7 June 2017, amended Indian safe harbour rules in transfer pricing for international transactions, and has notified the rules on the lines of the guidance laid out by OECD and G20 BEPS Action points. To optimise the wide net of transfer pricing issues involved in intra-group services, a new category of international transaction called 'low value-added intra-group services' from a cost perspective for Indian company has been included in the notified rules. According to the new category, a service provider (foreign AE) shall apply a mark-up to the costs separately identified in providing the low value-added services to service recipients of an MNE group. This mark-up should command a limited profit mark-up, not exceeding 5%. However, in a bid to reduce taxpayer's transfer pricing documentation, the mark-up does not need to be justified by a benchmarking study. These amended rules notify that the low value-added intra-group services shall be subject to a threshold limit of INR 10 crore.³⁴

Action Plan 13: Country by country (CbyC) reporting

The main objective of Transfer Pricing Documentation and Country-by-Country Reporting of Action Plan 13 as mentioned in its final report is "the development of "rules regarding transfer pricing documentation to enhance transparency for tax administration, taking into consideration the compliance costs for business. The rules to be developed will include a requirement that MNEs provide all relevant governments with needed information on their global allocation of the income, economic activity and taxes paid among countries according to a common template"³⁵

BEPS action plan 13 recommends three tiered standardised approach for transfer pricing documentation, wherein information are prepared and provided in three segments namely "Master File", "Local File" and "Country-by-Country Reporting".

Master File: It is a comprehensive documentation consisting of all transfer pricing policies adopted by MNEs and their global business operations covering global allocation of income and economic activities.

Local File: It is specific to each country, identifying related party transactions, involvement of amount, analysis of the transfer pricing determinations etc.

Country-by-Country Reporting: This report consist of country wise amount of revenue, PBIT, taxes, capital, retained earnings, tangible assets, number of employees etc. This is to be submitted annually to each country in which MNEs are doing their business.

In pace with implementation of BEPS, Indian Government has come up with several amendments to its income tax law and also issued rules in respect of country by country reporting and furnishing of master file vide draft rules F.No. 370142/25/2017-TPL dated 6.10.2017. In keeping with India's commitment to implement the recommendations of 2015 Final Report on Action 13, titled "Transfer Pricing Documentation and Country-by-Country Reporting", identified under the OECD-BEPS Project, section 286 of the Income-tax Act, 1961 was inserted vide Finance Act, 2016, providing for furnishing of a Country-by-Country report in respect of an international group by its constituent or parent entity. Section 92D of the Act was also amended vide Finance Act, 2016 to provide for keeping and maintaining of Master File by every constituent entity of an international group, which was to be furnished as per rules prescribed in this regard.³⁶

On 1st November 2017, CBDT notified rules in respect of Country-By-Country Reporting and furnishing of Master File. Salient feature of the rules are as follows:³⁷

1. The threshold limit for the Master File is

- the consolidated revenue of the international group, of which such taxpayer is a constituent entity (as reflected in the consolidated financial statement of the international group for the accounting year) exceeds Rs. 500 crore and
- Either of the below said transactional thresholds is achieved for the accounting year:
 - The aggregate value of international transactions (as per the books of accounts maintained by the taxpayer) exceeds Rs. 50 crore; or
 - The purchase, sale, transfer, lease or use of intangible property (IP) (as per the books of accounts maintained by the taxpayer) exceeds Rs. 10 crore.
- ✱ An international group having multiple Indian constituent entities may designate one constituent entity to file the Master File.
- ✱ The threshold limit for the Country-By-Country Report is the total consolidated group revenue (as reflected in the consolidated financial statement for the preceding accounting year) of Rs. 5,500 crore or more.
- ✱ Recommended forms for submission of report are
 - Form 3CEAA – Report of Master File and
 - Form 3CEAD – Country-by-Country Report

The deadline for filing the Country-by-Country report for the financial year 2016-17 was extended to 31.3.2018 vide circular No. 26/2017 as it was the first reporting year. Similarly, the date of compliance for furnishing the Master File for FY 2016-17 was also extended to 31.3.2018 as a one-time relief measure.³⁸ The due date from the next year onwards i.e. FY 2017-18 would be the due date as applicable for filing of their regular income tax return.

Action Plan 14: Making Dispute Resolution Mechanism More Effective

Approaches adopted by India in making dispute resolution mechanism more effective are MAP and APAs.

Mutual Agreement Procedure (MAP):

One of the major concerns from the point of view of developing countries is the approach adopted for making dispute resolution mechanisms more effective which includes introduction of mandatory and binding arbitration in the mutual agreement procedure of the tax treaties. This not only impinges on the sovereign rights of developing countries in taxation, but will also limit the ability of the developing countries to apply their domestic laws for taxing non-residents and foreign companies.³⁹

India has entered into more than 100 double tax avoidance agreements with foreign nations. Almost all these tax treaties contain an article on Mutual Agreement Procedure (MAP) setting out how India and its treaty partners would resolve, at the instance of the taxpayer, disputes that lead to “taxation not in accordance with the treaty.” International tax dispute resolution by way of MAP is not a new concept and is featured in many tax treaties, with some variation with respect to the timeline for submitting MAP requests etc. The attempt however has always been to resolve tax treaty disputes as “effectively” as possible. The OECD’s Report on Base Erosion and Profit Shifting (BEPS) Action 14, on making dispute resolution mechanisms more effective, seeks to further this objective by proposing a mandatory, binding arbitration to settle MAP cases. The proposal to introduce mandatory, binding arbitration as a means to effectively settle MAP cases has largely met with dissent, with numerous countries, including India, expressing reservations on introducing such a clause in their tax treaties.⁴⁰

Advance Pricing Agreement (APA):

The Advance Pricing Agreement (APA) regime was introduced in India by the Finance Act, 2012 w.e.f. July 1, 2012. This scheme has empowered the Central Board of Direct Taxes, with the prior approval of the Central Government, to enter into an Advance Pricing Agreement with the taxpayer. The Advance Pricing Agreements are expected to reduce transfer pricing litigations in India and likely to provide certainty to taxpayers. APA mechanism is a negotiated truce between the taxpayer and the payee for an agreed period. It helps in overcoming hassels associated with international business transactions between associated enterprises.⁴¹

Action Plan 15: Multilateral Instruments

India joined hands with 68 countries in signing the MLI on 7th June 2017 at Paris. This sets the tone for changes in virtually all the 93 comprehensive tax treaties entered into by India and paves the way for implementation of

recommendations under the BEPS project. The international tax regime is set to witness a massive and unprecedented change. Implementation of BEPS action plans requires amendments to the tax treaties across the world, which was a herculean task as there exist more than 3000 tax treaties around the world. To address this, the OECD constituted an ad hoc group of member countries to prepare the text of the MLI, which, once signed will simultaneously amend a large number of tax treaties.⁴² However, the signing of the MLI does not automatically result in amendments to the tax treaties. Tax treaties get amended after the participating countries follow the due process laid under the MLI as well as under their own domestic laws. Taxpayers need to evaluate their existing tax structures and tax positions in the light of the expected changes in the tax-treaties. By signing MLI, India moved a step ahead in implementing BEPS action plans.

Conclusion

The practice of tax avoidance and tax evasion by business enterprises is as old as the tax itself. However, the innovations in and intensity of tax avoidance has increased in recent times owing to the enhanced significance of MNEs in global economy, prevailing differences in tax rules of different tax regimes and competition in commerce and industry to survive and grow. It is good that the world is getting united against aggressive tax planning at domestic and international level under the leadership of OECD and G20.

India is viewing the abuse of DTAA provisions and treaty shopping seriously and framing suitable legal structure in protecting its revenue interest. Indian initiatives towards implementation of BEPS action plan, discussed in the paper, prove that India is following the footsteps of the OECD and G20 and thereby participating in the creation of fair and transparent tax environment across the world. What is still desired are proactive measures from Indian side in taming the MNEs and at the same time making them contribute for the growth of Indian Economy. MA

Footnotes

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²⁹ <http://www.allbankingsolutions.com/Banking-Tutor/GAAR-What-is.htm>

³⁰ Guide to International Taxation by CA Kamal Garg, Bharat Law House Pvt Ltd publication, P. 574-575

³¹ Budget 2018 analysis, Finance Bill 2018 by Bansi S. Mehta & Co. P. 28

³² <https://blogs.compliancecalendar.in/union-budget-2018-19-proposed-amendments-in-international-tax-synopsis-by-ca-jaikumar-tejwani-252?/articles/details/union-budget-2018-19-proposed-amendments-in-international-tax-synopsis-by-ca-jaikumar-tejwani-252>

³³ Article by Pankaj Dev on India's 2018 Budget seals progress towards BEPS Project recommendations published on 08.03.2018 at <https://www.alliottgroup.net/practice-management-resources-for-owner-managed-firms/beps-india-implementation-progress-budget-2018/>

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³⁵ OECD (2015), Transfer Pricing Documentation and Country-by-Country Reporting, Action 13 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris. P. 9

³⁶ GOI, Ministry of Finance, Dept of Revenue, CBDT F.No. 370142/25/2017-TPL dated 6.10.2017

³⁷ EY Global Tax Alert, News from Transfer Pricing dated 6.11.2017.

³⁸ Press Information Bureau of GOI, Ministry of Finance "CBDT notifies rules in respect of Country-by-Country reporting and furnishing of Master File" dated 01.11.2017

³⁹ Shilpa Goel (Editor), 'A Case for MAP Arbitration in India', Kluwer International Tax Blog, January 2 2017, <http://kluwertaxblog.com/2017/01/02/a-case-for-map-arbitration-in-india/>

⁴⁰ Ibid

⁴¹ Mr. Jabiulla & Dr. Basavaraj C. S. Advance Pricing Agreements in India: Empirical Evidence, International Journal of Research in Management, Economics & Commerce, Volume 6 Issue 10, October 2016, PP 1-13.

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At the Helm



Our heartiest congratulations to CMA Dr. S K Gupta who has joined as the MD & CEO of Insolvency Professional Agency of the Institute. CMA Dr. Gupta is a Post Graduate in Commerce (Gold Medalist) with over 38 years of corporate experience in public and private sector organizations in leadership positions in the domain of Finance, Costing, Internal Audit, Legal and Company Secretarial functions. He was Director (Technical) of the Institute during 2012 - 14.

We wish CMA Dr. S K Gupta the very best for all his future endeavours.



CMA Dr. Sreehari Chava
Director
Shantiniketan Business School
Nagpur

JET AIRWAYS: A VOYAGE OF STRESS & STRAIN

01.00 The Scenario

Jet Airways (India) Limited (JAIL) is in news for its undue financial stress. Its Chairman, Naresh Goel, in his letter to the shareholders – through its Annual Report for 2017-18 – states ‘...Key external factors that slowed down our momentum were, weakening of the Indian rupee, around 16% increase in Brent rates with consequent rise in fuel costs, industry’s inability to pass on increased costs to the consumer and no corresponding increase in ticket fares. In addition, there was a considerable increase in Maintenance, Landing & Navigation costs during the year...’.

Incorporated in 1992 as a private limited company, Jet Airways commenced operations as an Air Taxi Operator in 1993 with a fleet of four leased Boeing 737 aircraft. The company was granted scheduled airline status in January 1995. The Company became a Public Limited Company in December 2004. Over the years, JAIL has grown to be second largest airlines in India with 16,558 employees, a domestic market share of about 16% and an international market share of about 14%. As on 31st March, 2018, the Company is reported to possess a fleet of 112 aircrafts.



On the strategic front, JAIL went public in December 2004, acquired Air Sahara in April 2007 and offloaded an equity stake of 24% to Etihad Airways in 2013-14. JAIL garnered about Rs.2000 crores by means of an IPO in 2004-05 and another Rs.2900 crores through the Etihad deal.

The acquisition of Air Sahara was intended to deliver potential cost and efficiency gains through network optimisation, operational rationalisation and fleet simplification. JAIL had rebranded Air Sahara as JetLite and started operating it as a value-based carrier, offering reduced frills, but positioned above the other low-cost carriers.

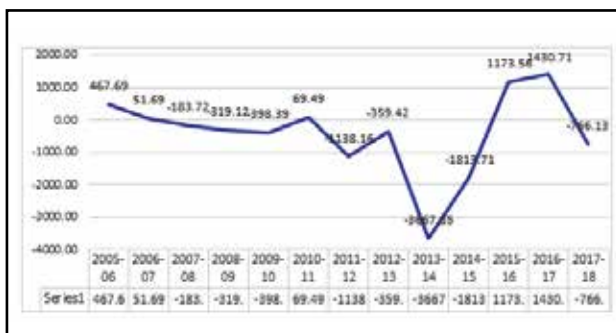
The strategic partnership, between JAIL and Etihad was considered to be mutually beneficial across all areas, including network growth, revenue enhancement, operational synergies and cost improvement. The underlined objective was aimed at seeking revenue and cost synergies by leveraging the partnership. Alarming, five years after the Etihad deal, JAIL is back to the losing front.

Here follows a brief analysis of the performance of JAIL over the last thirteen years from 2005-06 to 2017-18 covering some key dimensions concerning the stake holders. The period of thirteen years, chosen for the analysis of the performance of JAIL, is assumed to cover a fair timeline of aviation business cycle that can reveal the ups and downs as also causes and remedies.

02.00 The Bottomline

A look at the bottom-line of JAIL. The income of the company has surged from a moderate Rs.6,135 crores in 2005-06 to a bountiful 23,958 crores by 2017-18. However, the company's bottom line has been fluctuating up and down. Graph 1 exhibits the trend of the Profit After Tax (PAT) of JAIL.

Graph 1
JAIL: Profit After Tax (Rs. Crores)



The graph is quite revealing. The trend is more of a down swing. The company had posted a PAT of Rs.467.69 crores for 2005-06; slipped down to a loss of Rs.3,667.85 crores by 2013-14; turned around with a PAT of Rs.1,173.56 crores by 2015-16 and slipped back, again, to a loss of Rs.766.13 crores by 2017-18. It may be seen that the fall in PAT for 2013-14 is too steep. The reasons attributed for the fall by JAIL are similar to the rationale provided for the decline in 2017-18.

In the aggregate, JAIL has posted - a mind boggling - loss of Rs.5,453/- crores for the thirteen-year period. As a result, the positive Net Worth of Rs.2,205/- crores as at the beginning of April 2005 has been eroded to a negative Tangible Net Worth of Rs.7,959/- crores by March 2018. The worrisome perception, as of date, is that of jittery concerns across the stake-holding community with apprehended fears of stress and strains on the liquidity and solvency of JAIL.

03.00 Key Performance Measures

The performance of JAIL is proposed to be gauged by means of the following seven of the Key Performance Measures (KPMs) considered relevant for the purpose.

(i) Revenue per Passenger Kilo Meter (RPKM):

Revenue is the lead game player for any industry. Passengers are the basic source of revenue for the aviation sector. Revenue per Passenger Kilo Meter can be worked out by dividing the total revenue of the airline with the passenger kilometers. Passenger kilometers are calculated by multiplying the number of revenue paying passengers aboard the aircraft by the distance traveled.

$$\text{RPKM} = \frac{\text{Total Revenue}}{\text{Passenger Kilometers}}$$

Obviously, a higher numeral reveals better revenue generation and a lower numeral pinpoints a concern.

Fuel Margin per Kilo Litre of Aviation Turbine Fuel: Fuel expenses are a significant element of cost for the aviation. They may account for anything over 35% of the operating cost. The quantum of aviation fuel consumed bears a direct relationship with the kilometers travelled by an aircraft. The term "Fuel Margin" connotes the excess of 'Income from Operations' over 'Fuel Expenses'.

One simple way of calculating the quantum of the fuel consumed could be by dividing the fuel expenses with the average price of the aviation turbine fuel. Thereafter, Fuel

CASE STUDY

Margin per KL of ATF can be worked out by dividing the fuel margin with the quantum of ATF consumed.

Fuel Margin	=	(Income from Operations - Fuel Expenses)
ATF consumed in KL	=	(Fuel Expenses) / (Average Price of ATF)
Fuel Margin per KL of ATF	=	(Fuel Margin) / (ATF consumed in KL)

Uncertain Fuel Prices and Fluctuating Fuel Margins happen to be the basic constraint of the Aviation Industry all over the world. In the circumstances, 'Fuel Margin per Kilo Metre of Travel' may be adopted to serve as an excellent parameter to monitor the operational efficiency.

Passenger Load Factor (PLF): Capacity is created by an enterprise through investments in assets. The process, mostly, leads to the commitment of long term fixed costs. Optimum utilization is the essential prerequisite, if the fixed costs per unit of output are to be minimized. In the case of aviation, airline seats are the capacity created with the objective of providing the service of commuting the passengers from the origin to the destination.

Air carriers adapt the parameter of Passenger Load Factor (PLF) to measure the flight seat occupancy rate. PLF can be calculated by dividing the Available Seat Kilo Meters (ASKM) with Passenger Seat Kilo Meters (PSKM).

Passenger Load Factor	=	(Available Seat Kilo Meters) / (Passenger Seat Kilo Meters)
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Higher seat occupancy implies better utilization whereas lower occupancy means shortfalls.

Operating Productivity: In terms of financial numbers, output can be represented by operating income and input can be represented by operating expenses. The operating productivity, thus computed, indicates the operating income achieved for every rupee of the operating resources consumed.

Operating Productivity	=	(Operating Income) / (Operating Expenses)
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A higher ratio of the operating productivity indicates better utilization of the operational input resources and a

lower ratio indicates under-utilization. Diligence warrants that operating productivity should always be higher than unity in the long run.

Employee Productivity: Employees are ought to be perceived as the human capital that forms part of the basic infrastructure. Apart from traditional quantitative and qualitative elements, monitoring the financial performance of every employee is also crucial in achieving the targeted performance. One simple way to measure the performance of employees could be by computing the operating income per every rupee spent as employee cost. The resultant numeral reveals the employee productivity.

Employee Productivity	=	(Operating Income) / (Number of Employees)
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The rationality is that higher the numeral higher the productivity and vice versa.

Cost of Debt: Cost of debt refers to the effective rate of interest that an enterprise pays on its loan funds. An easier way of calculating the cost of debt could be by dividing the Finance Cost with the Loan Funds.

Cost of Debt	=	(Finance Cost) / (Loan Funds)
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Higher cost of debt is associated with higher outflows towards finance cost as also higher risk perception.

Brand Premium: Brand Premium signifies the additional amount that an investor is willing to pay over and above the book value of an equity share.

Brand Premium	=	(Market Price per Share - Book Value per Share)
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Brand premium is to be perceived as a symbol of confidence that a shareholder holds about the expected additional returns from the enterprise.

All the KPMs discussed above are complementary to each other. Good performance is characterised by positive momentum in the KPMs and below par performance is reflected by negative momentum.

04.00 KPMs of JAIL

The KPMs of JAIL relating to the financial years from 2005-06 to 2017-18 have been worked out by adopting the formulae discussed in the preceding paragraphs. The data

are furnished in table 1 that follows.

Table 1
JAIL: KPMs from 2005-06 to 2017-18

Year	RPKM (Rs.)	Fuel Margin per KL (Rs.)	PLF (%)	Operating Productivity	Employee Productivity	Cost of Debt (%)	Brand Premium (Rs.)
2005-06	6.41	84721	72.00	1.05	10.04	6.15	691.21
2006-07	6.01	78509	69.54	0.96	7.52	4.39	334.75
2007-08	5.61	73117	69.19	0.90	7.31	5.58	-37.23
2008-09	5.50	72876	67.75	0.86	8.14	5.34	-227.64
2009-10	4.69	91730	77.42	0.93	8.45	6.66	158.09
2010-11	4.79	88891	78.58	0.97	9.39	8.22	141.58
2011-12	4.95	78001	79.30	0.90	9.24	7.84	181.52
2012-13	5.90	99565	78.82	0.94	10.87	11.13	556.38
2013-14	5.95	105973	78.15	0.83	9.06	11.46	444.56
2014-15	5.89	130779	82.41	0.92	8.72	9.39	848.16
2015-16	5.59	153569	82.59	1.01	8.84	8.91	812.32
2016-17	5.61	143892	81.40	0.98	7.35	10.35	1096.01
2017-18	5.16	129355	83.49	0.94	7.76	13.47	1247.00
Highest	6.41	153569	83.49	1.05	10.87	13.47	1247.00
Lowest	4.69	72876	67.75	0.83	7.31	4.39	-227.64
Average	5.54	102383	76.97	0.94	8.67	8.38	480.52
SD	0.51	27983	5.49	0.06	1.07	2.73	443.66
CV	9.28	27.33	7.13	6.42	12.38	32.59	92.33

It may be observed from the table that Revenue per Passenger Km reveals a fluctuating trend; Fuel Margin per Kilo Litre of Aviation Turbine Fuel posts fair increases but for the last two years; Passenger Load Factor has been moving upwards slowly; Operating Productivity has been hovering below the unity for most of the time; Employee Productivity is indicative of a periodical downward movement; Cost of Debt is jumping up in general and Brand Premium is 'U' shaped.

The highest RPKM of Rs.6.41 was achieved in 2005-06; the highest fuel margin per KL of Rs.1,53,569 relates to 2015-16; The maximum PLF of 83.49% belongs to 2017-18; the optimum operating productivity of 1.05 dates back to 2005-06; the peak of 10.87 in employee productivity was of 2012-13; the cost of debt at 4.39% was the lowest in 2006-07; and the brand premium is the highest at Rs.1247/- in 2017-18.

The momentum of the KPMs is random and is not in synchronisation with each other. It can also be seen from the table that the average values of the KPMs appear to be away from the industry norms.

Coefficient of Variance, which reflects the level of volatility from year to year, appears to be fair (i.e. less than 10) in case of Revenue per Passenger Km, Passenger Load Factor and Operating Productivity; moderate (i.e. greater than 10, but less than 20) in case of Employee Productivity; and high (i.e. greater than 20, but less than 35) in case of Fuel Margin per Kilo Litre of Aviation Turbine Fuel and Cost of Debt; and abnormally high in case of Brand Premium.

The logical inference is that the KPMs of JAIL have been volatile, with differing magnitudes, throughout the span of the thirteen years, thus, reflecting continuous uncertainty. The complex trend may also be interpreted to reveal the fact of lack of synchronization in the multiple corrective

measures directed towards overcoming a difficult situation.

The equity shares of JAIL having a face value of Rs.10/- and a negative book value per share of Rs.637.50 were being quoted at a market price per share of Rs.609.50 as of 31st March 2018, the brand premium computing to an astonishing Rs. 1247/-, which is quite perplexing.

05.00 Cash Flow Tangle

Cash-flow statement is a financial statement that reveals and analyses the impact of changes in income & balance sheet on operating, financing and investing activities. Cash flow statement provides important insights about the liquidity and solvency of an enterprise which are vital for the survival and growth of any organization. Table 2 provides the data relating to the cash flows of JAIL for the period under review.

Table 2
JAIL: Annual Cashflows

Year	Cash flow from Activities – Rs.Crores			
	Operating	Investing	Finance	Total
2005-06	607.48	-2471.56	1587.83	-276.25
2006-07	687.46	-786.08	732.33	633.71
2007-08	862.66	-6176.8	5123.22	-190.92
2008-09	-376.3	-1153.65	1242.12	-287.83
2009-10	1651.42	160.10	-2083.52	-272.00
2010-11	1318.64	13.83	-1297.46	35.01
2011-12	2240.61	293.43	-2610.26	-76.22
2012-13	1839.04	1677.24	-3443.55	72.73
2013-14	921.26	-341.57	-426.63	153.06
2014-15	528.03	-172.65	304.76	660.14
2015-16	2531.14	-739.04	-2437.59	-645.49
2016-17	960.85	1644.87	-2378.58	227.14
2017-18	1697.64	-359.15	-1554.96	-216.47
Total	15469.93	-8411.03	-7242.29	-183.39

It is pertinent to observe that JAIL has been generating positive cashflows from operating activities throughout the period except for the year 2008-09. However, the outflows in relation to the investment and financing activities outweigh the inflows. The company has generated an aggregate cash of Rs.15,469.93 crores from the operating activities, consumed Rs.8,411.03 crores towards the investments and

incurred Rs.7,242.29 crores for the financing activities.

It is worth noting that outflow under the financing activities includes finance cost (Cost of Debt) amounting to Rs.10,358.74 crores. The aggregate cashflows after deducting the finance cost from operating activities may be represented as follows.

a. Cash generated from Operating Activities:	15469.93
b. Deduct: Finance Cost:	10358.74
c. Available Surplus (a-b):	5,111.19
d. Outflow towards Investing Activities:	(8,411.03)
e. Net Inflow from Financing activities:	3,116.45
f. Total(c+d+e):	(183.39)

As the things would have it, JAIL had invested Rs.8,411.03 crores as against an available surplus of Rs.5,111.19 crores. The net result is that the company has to look for fresh sources of finance to cater to its recurring shortfalls in investments and more importantly to meet its repayment obligations. In all probability, the IPO generations of 2004-05 and funds generated through the Etihad deal in 2013-14 were consumed to fill in such of these sourcing gaps.

A prudent rule of cash management is that the minimum cash that ought to be generated from operating activities should, at least, be sufficient to meet the requirements of finance cost (cost of debt) and loan repayment obligations which JAIL appears to have flouted by several counts.

The financial engineering adopted by JAIL under the guise of financial and operating leases appear to be short sighted. The end result is a big mismatch in the fund flow and liquidity stress that is being currently experienced by the company.

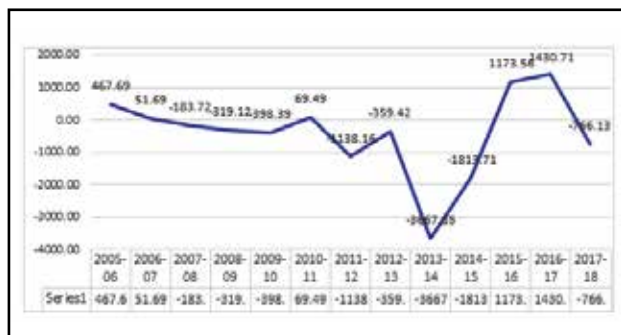
06.00 ATF Prices

The Aviation Turbine Fuel (ATF) prices, for the purpose of this analysis, are compiled from the price list notified for the domestic airlines by Indian Oil Corporation. The prices notified, on the first of every month, for the four metro cities – Delhi, Kolkata, Mumbai & Chennai – have been averaged out to derive the national average.

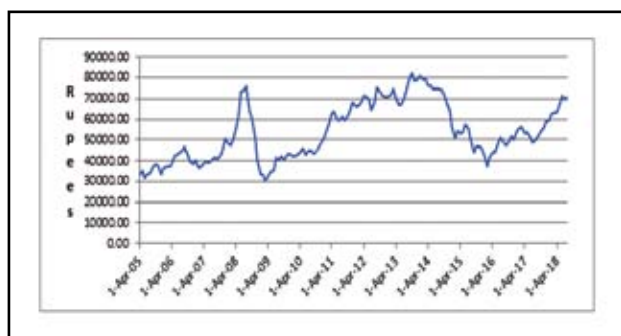
In the Indian context, the ATF prices are directly impacted by the changes in crude prices and the fluctuating foreign exchange rates. The uncertain crude prices compounded by the weakening Indian Rupee against the US Dollar has been a key concern for the aviation industry for the past many years. Graph 2 charts the trend of annual average of

the Indian Rupees per US Dollar from 2005-06 to 2017-18. Graph 3 depicts the price trend of ATF from April 2005 to August 2018.

Graph 2
Rupees per Dollar



Graph 3
ATF Prices (Rs. per KL)



As may be evident from graph 2, the dollar has been on the upward run continuously from 2005-6 through 2017-18. It was Rs.44.29 per USD in 2005-06 which shot up to Rs.65.04 for 2017-18. The dollar rate is around Rs.73/-, now, in August 2018.

The ATF prices depict a cyclical trend. The ATF per KL was Rs32,567/- in April 2005, bottomed to Rs.30,323/- in March 2009, went up to its highest of Rs.82,074/- in October 2013 and is available at Rs.70,541/- from 1st of August 2018. Overall, the fluctuations in the ATF prices are adverse and uncertain. Evidently, adverse fluctuations in fuel prices have been putting more and more pressures on the aviation operating costs.

Airline industry, all over the world, has adopted dynamic pricing models as a means of luring leisure travellers as also to make use of the demand spurts. However, no methodology could be evolved so far to link the uncertain escalations in fuel prices with the ticket pricing and pass on the unanticipated burden to the customers.

07.00 Appraisal

Mr. Naresh Goel is right in his attributions to external factors about weakening of the Indian rupee, increases in Brent rates with consequent rise in fuel costs and industry's inability to pass on increased costs to the consumer and no corresponding increase in ticket fares. True, these externalities hold good for the entire sector as such. But, Mr. Goel happens to be the custodian of JAIL holding charge on behalf of thousands and thousands of stakeholders.

The mute and vital questions are about the inhouse performance and competencies in terms of strengthening the bottom-line of the company by achieving normative KPMs, cost containment, diligent financial engineering, prudent cashflow management and equitable returns to stakeholders. It has to be appreciated that entrepreneurial core competency lies in overcoming the impact of external pressures on revenues and expenses through internal excellence.

Scanning through the annual reports of the company, we come across many initiatives taken by JAIL in the direction of sustaining the performance in times of turbulence. But, evidently, they are, just, not adequate to surmount the perils of the Indian Aviation.

Another disturbing aspect is probable elements of window dressing in relation to revenue provisions and asset classifications.

08.00 Turnaround

Explanations and excuses could be umpteen. Ultimately, it is the performance that matters. In order to usher in the sustainable turnaround, JAIL may have to reorient itself towards long term growth. The suggested course of action may include the following core aspects.

(i) Net worth: First and foremost, the company should wriggle out of the muddy pond of negative net worth. The need is that of infusing equity funds and containing the burden of debt. Aviation financial engineering (operational and financial leasing, etc.) is, no doubt, innovative. But, it does warrant appreciation of long term risk evaluation and caution.

The fund-sourcing proposition should always be a proper mix of equity and debt that would enable affordable cost of capital and long-run cashflow bonding.

(ii) Fair Book Value per Share (FBS): Inhouse research should work out the fair net worth of JAIL on the basis of net realizable value of the assets and find out the fair book value per share and as also reasonable market

value. For this purpose, market value shall be pegged to a maximum of two times the fair book value.

The sacred canon is that brand premium shall be in tune with the fair book value per share. The intention is prevention of speculation and facilitating fair returns to the shareholders.

(iii) KPMs: Normative Key Performance Measures may be set on the basis of fair tangible net worth. All of the Key Performance Measures would need consistent and significant improvement apart from strategizing an insulated shield from the external pulls and pressures. To start with, the average values as reflected in table 1 may be considered as the minimum benchmarks and the maximum values thereof may be considered as feasible targets. It is essential to recognize the complimentary permutations of the KPMs and monitor their real-time momentum in a synchronized manner.

A desirable start-up practice could be certification of the Analysis of Operational Performance, which forms part of Management Discussion and Analysis, by a Cost and Management Accountant.

(iv) Ticket Pricing: Dynamic ticket pricing may be rechristened by linking them to cost escalations attributable to external factors such as ATF prices, airport charges, etc. Apart from setting a floor price – linked to cost escalations – an ethical ceiling price, for e.g. three times the floor price, may also be enforced to guard against the demand-based exploitation of the air

travelers.

Such an ethical measure would certainly draw more and more customers and can be a game changer in terms of business volumes, revenue and passenger load factor.

09.00 Assimilation

On the global front, aviation industry is showing its resilience to slow economic growth by substantially outperforming global GDP. The same thing can hold good for India as well. However, JAIL's problems are a sign of deeper trouble brewing in the skies of Indian aviation. This is where the regulators should step in and take an immediate call to prevent JAIL going Kingfisher way.

No doubt, JAIL's voyage is that of stress and strain. But, everything is not, yet, lost. It is time to reorient and rejuvenate the entity with zeal, dedication and transparency. **MA**

Resources

1. Annual Reports of Jet Airways (India) Limited
2. Economic Survey of India, Various Periods
3. Annual Reports of Reserve Bank of India, Various Periods
4. Reserve Bank of India Bulletin, Various Issues
5. www.iocl.com

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CHAPTER NOTICE


Ref.No.:G/82(117)/08/2018

August 23, 2018

NOTIFICATION

In pursuance of Regulation 146 of the Cost and Works Accountants Regulations, 1959, the Council of the Institute at its 313th Meeting held on 21st July, 2018, by virtue of power conferred therein, has constituted the following Chapter of The Institute of Cost Accountants of India covering the areas of Chandrapura in Bokaro district of Jharkhand.

The Institute of Cost Accountants of India – Chandrapura Chapter
Office of the DGM (Finance)
DVC-CTPS,
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CMA L. Gurumurthy
Secretary (Acting)



Dr. Goutam Bhowmik
Associate Professor & Head
Department of Commerce
University of Gour Banga
West Bengal

Banking fraud has been in existence since long. In India, the frequency, magnitude and gravity of such frauds have been gigantic and significant. The recent addition to the list is the fraud at PNB which is considered to be the biggest fraud case came to the limelight involving around Rs. 14356 crore. The present case study is an attempt to capture the modus operandi of the fraud, factors responsible for it and ways to prevent such fraud in future

PUNJAB NATIONAL BANK (PNB) FRAUD -A CASE STUDY

The financial frauds in general and banking frauds in particular have been in existence for a very long time. Historical evidence suggests that Kautilya (around 300 BC) in his famous book “Arthashastra” penned down very graphic details of what we, in modern times, term as “fraud”. Kautilya describes forty ways of embezzlement, some of which are: “what is realised earlier is entered later on; what is realised later is entered earlier; what ought to be realised is not realised; what is hard to realise is shown as realised; what is collected is shown as not collected; what has not been collected is shown as collected; what is collected in part is entered as collected in full; what is collected in full is entered as collected in part; what is collected is of one sort, while what is entered is of another sort.” If we look closely we find that some of the above actions continue to be the modus operandi adopted in many banking fraud that have hit the headlines in recent times (Chakraborty, 2013).

In the context of Indian banking, there is no standard definition provided by the law and RBI had, per se, not defined the term “fraud” in its guidelines on Frauds. But a definition of fraud was, however, suggested in the context of electronic banking in the Report of RBI Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds, which reads as under: “A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank”.

In view of the above definition, the evidences suggest that Indian banking has witnessed several banking frauds starting with Harshad Mehta to Vijay Mallya and the recent addition to the list is the PNB fraud involving diamond merchant Nirav Modi and his associates which came to the limelight in February 2018. On 14 February 2018, India’s second-largest public sector bank, PNB, announced an alleged fraud worth \$1.8 billion (about Rs.11,400 crore) at a single branch in Mumbai. The fraud, by far is the biggest ever detected by any Indian bank till date. The detection of such big banking fraud at a time when the Indian banking system as a whole and PSBs in particular are struggling hard to manage the unsustainable level of stressed assets (As per Economic Survey, 2017 almost 20% of the loan book of Indian banks are stressed asset) assumed greater significance for the economy as a whole. The present case study aims at presenting the modus operandi of the fraud, response of the regulators so far and means and ways to prevent such menace in the days to come.

Modus Operandi of the Fraud

In simple term, the PNB fraud case involved siphoning off funds amounting Rs. 14356 crore by the companies belonging to billionaire diamond merchant Nirav Modi (Solar Exports, Stellar Diamonds and Diamond R US) and his uncle Mehul Choksi (Gitanjali Gems, Gili India and Nakshatra). The siphoning off fund took place by series of fraudulent 'Letters of undertakings (LoUs)' issued to the companies of Nirav Modi and Mehul Choksi in connivance with some PNB employees at its Brady House branch in Mumbai. These LoUs were issued over a long period of time (2011 – 2018) without asking for any counter authentication, margin money as security or any pre-approved credit limit. Both the borrowers and the PNB employees took advantage of the fact that the bank's Core Banking System (CBS)² was not linked to its SWIFT³ system, thereby allowing officers to clandestinely issue LoUs to Nirav Modi's companies and confirming them with counter-party banks overseas through the SWIFT system. The whole process allowed Mr. Modi's companies to obtain loans from the overseas branches of various Indian banks. According to PNB, the firms raised short-term credit from overseas branches of other Indian banks based on these LoUs, and in some instances used fraudulent foreign letters of credit (FLCs) in favour of foreign suppliers. Both Mr. Nirav Modi and his uncle, Mehul Choksi left the country just before the fraud became public and reportedly hiding in New York.

Let us understand the case without much technicalities. Mr. Nirav Modi being a multinational diamond merchant needed foreign currency loan in order to import diamond from foreign country. As foreign suppliers do not aware of the creditworthiness of Mr. Nirav Modi, they need bank guarantee in the form of LoU. He approached PNB for LoU in 2011 and PNB issued the LoU but very surprisingly it did not ask for any security/collateral/pre-approved credit limit. Generally, at least the full value of LoU is asked for security or collateral. Once Mr. Nirav Modi got the first LoU without any security/collateral or pre-approved credit limit, he got the foreign currency loan from the banks located in foreign country with which he served his purpose. The irregularity could not be detected as the LoU issued had never been brought to authentication because of the fact that PNB's Core Banking System was not integrated with the SWIFT system.

Interesting fact is that Mr. Nirav Modi did not pay back the money of first LoU, instead, he asked PNB officials to open another LoU for the debt owed plus interest. (So, if he had the initial LoU at \$10 million, the second LoU is \$10 million plus interest on first LoU). The money from

the second LoU was used to repay the first LoU. Thus, it's just rolling over credit. This can easily balloon into a larger amount, so large that it's too much. In effect many such arrangements have made with one LoU being opened to repay another and so on. It was found that during the seven years period total number of LoUs issued to the companies of Nirav Modi, his relatives and the Nirav Modi Group are 1213 and to Mehul Choksi, his relatives and the Gitanjali Group are 377 (Tribute, July 1).

Detection of Fraud

According to PNB sources, a representative of one of the accused firms presented a set of import documents to the Mumbai branch and requested buyers' credit to pay overseas suppliers on 16th January 2018. Since they had no pre-arranged credit limit, the branch official (by then the corrupt bank employees retired from service) asked the companies to put down the full amount as collateral so that bank could issue LoUs to authorize the credit. When the representative argued that they had used such facilities in the past without keeping any money as collateral, PNB scanned its records and found no trace of any transactions to the bank's account.

PNB authority then found that two junior employees (who retired from service by then) had issued LoUs over the SWIFT interbank messaging system without entering any of these transactions on the bank's own system (Core Banking System) and thereby bypass the authentication of transaction. Such transactions went on for seven years without detection.

It has also been observed that contrary to regulatory norm the SWIFT system and the core banking system work independently in PNB. In PNB's case the outstanding LoUs were not available on its core banking system and so went undetected.

In view of the above, PNB filed a criminal complaint with India's federal investigative agency, CBI against three companies and four people, including billionaire jeweler Nirav Modi and his uncle Mehul Choksi, the managing director of Gitanjali Gems, saying they had defrauded PNB and caused a loss of Rs 2,800 crore on 29 January 2018. In a regulatory filing on 14 February, however, the bank updated the sum involved in the fraud to Rs11,394 crores, which was determined after further investigation.

The bank alleges that two junior employees at its Brady House branch in Mumbai colluded with companies belonging to Modi and Choksi, and issued fraudulent LoUs,

without asking for any margin money as security, even though the firms did not have any pre-approved credit limit. The detection process can be streamlined under the following points:

- ❖ SWIFT based LoU issued through a group of corrupt employees of PNB.
- ❖ The orders never showed up in the Core Banking System (CBS) for monitoring.
- ❖ LoUs were rolled over all the way since 2011, and possibly increased over time too.
- ❖ The corrupt official retired in 2017, and the new officer refused to roll over the LoU which fall due in January 2018 because he couldn't find the past transactions in the system.
- ❖ No rollover means a default, since there was no money to pay.
- ❖ PNB quickly files an FIR thinking they have lost Rs. 280 crore on the January 2018 LoUs.
- ❖ Preliminary checking revealed that the amount of fraud was around Rs.11, 400 crore.
- ❖ Further investigation revealed that the fraud amount increased to Rs. 14,356 crore.

Factors Responsible for the PNB Fraud

The case details clearly points out that several factors are responsible for the biggest fraud took place in Indian banking. The followings are noteworthy among them:

- ❖ **The manipulative mindset of Mr. Nirav Modi and his associates:** The abovementioned points clearly reveal that Mr. Nirav Modi planned everything in connivance with the corrupt bank officials of PNB. So, it is the manipulative mindset of an industrialist which is primarily responsible for the fraud. In a country where industrialists have been given so many concessions and facilities in tax laws, interest rate and other formalities, this kind of mindset from the capitalist class is highly deplorable and frustrating.
- ❖ **Corruption among employees of PNB:** There is a saying that 'to clap you need both hands'. Same principle applies here. If manipulative mindset of Mr. Nirav Modi is responsible, the corrupt bank officials of PNB who helped him to execute his fraudulent plan are equally responsible for the fraud. Without their active support, such kind of fraud could not have been taken place.
- ❖ **Inadequate internal control system in PNB:** There is no doubt that internal checking and internal

control system of PNB failed miserably to detect the infringement of basic requirements of LoU based funding over the last seven years. It speaks about the inefficiency and ineffectiveness of the internal checking and internal control system that such kind of rollover of credit went on for years without having any authentication and collateral security.

- ❖ **Non Compliance with regulatory norm:** As per the RBI norm, bank's CBS should be linked with SWIFT system. But in case of PNB (may be for many other banks as well) the CBS has not been linked with the SWIFT system. Mr. Nirav Modi and the corrupt bank officials took advantage of this non-compliance of regulatory norm to implement their ulterior motive.

- ❖ **Poor managerial supervision in PNB:** It appears from the reported events that the higher management tries to convey a message that such big fraud over a long period of time took place without their knowledge. But one may raise several questions – why didn't PNB reconcile such huge credit in its 'Nostro Account'⁷⁴ in accounting? Why wouldn't PNB audit the SWIFT trail and reconcile it with CBS? (Jajodia, 2018). Even if we accept the claim of the higher management of PNB as true, does not it convey the poor managerial supervision and control on the part of management of the PNB?

- ❖ **Lapses on audit mechanism:** Like all other commercial banks, the account and processes of PNB were audited by independent auditor as per Banking Regulation Act. A natural question comes – how could such fraud remains undetected for such a long time given the due diligence check of statutory auditor? It is unlikely that the both the auditor and audit committee can escape from their responsibility of detecting the matter especially in view of the long period of time involved.

- ❖ **Regulatory Lapses:** The central bank cannot deny the lapses in regulatory oversight as it might have missed some valuable inputs like outgo of huge foreign exchange without any export revenue over the last seven years on LoUs issued by PNB. It is quite certain that failure on the part of the regulator can either be poor implementation of checks and balances or fraud prevention tools are inadequate and out of sync.

Actions taken against the offenders

- ❖ Soon after the announcement of the fraud, the PNB authority, Government of India and the apex bank

undertook several measures. The case has been probing by multiple investigation agencies like civil administration, CBI, Enforcement Directorate (ED) and RBI. The actions taken so far can be underlined as follows:

- ❖ A criminal complaint was filed by the PNB with India's federal investigative agency, Central Bureau of Investigation (CBI) on 29 January against three companies and four people, including billionaire jeweller Nirav Modi and his uncle Mehul Choksi.
- ❖ CBI has so far arrested more than 20 people including auditor of Nirav Modi Group of companies. All have been appeared in the court and been held in custody for further questioning. It also filed two charge sheets in the case before a Mumbai court against Mr. Nirav Modi and his associates.
- ❖ The case has also been probed by the Enforcement Directorate (ED) under the money laundering Act. ED has seized diamonds and jewellery worth Rs 5,674 crores (\$875 million) from Nirav Modi's home and offices. It has also seized nine luxury cars belonging to Nirav Modi (Livemint, 2018).
- ❖ The Reserve Bank of India (RBI) wrote to banks asking them to ensure that their SWIFT system was integrated with their main banking software by 30 April 2018. It says that it has conducted its scrutiny on PNB fraud case and the matter is currently under examination for "enforcement action".
- ❖ Capital market regulator, SEBI issued a warning letter to PNB authority for delay in disclosure to the stock exchange about the fraud perpetrated by Nirav Modi and his associates.
- ❖ The finance ministry has also written to banks telling them to take effective steps to avoid any similar fraud. The government has said it will not spare wrongdoers in the PNB case. Indian Government request group of countries to ban entry of Mr. Nirav Modi.
- ❖ PNB made provision to the tune of Rs. 7178 crore (50% of the total amount of fraud) in the fourth quarter of 2017-18. The remaining 50% will be covered in the upcoming three quarters of the current fiscal year.
- ❖ PNB has been made a party to the bankruptcy case filed in the US under Chapter 11 by Nirav Modi's firm – Firestar Diamond Inc. This gives PNB an opportunity to get something back from insolvency proceedings provided it is able to establish that the fraud money was used to run the operation of Firestar Diamond Inc.

Open Ended Issues

Given the nature of the fraud in PNB, it would be wrong on our part if we treat this as an isolated case.

Rather its lessons should be a pointer for developing an efficient framework for control and supervision of banking operations. It has thrown some open ended issues before the banking fraternity and to the regulators. These open ended issues are:

- ❖ It is apprehended that the CBS and SWIFT system are not integrated in many banks. Naturally, a general question arises – How could banks run their CBS independently inspite of having a regulatory requirement of integrating the CBS with SWIFT System?
- ❖ How did internal control mechanism fail to reconcile the huge credit to Nostro account of PNB for such a long period of time? Did other banks follow similar mistakes? If yes, think about the magnitude of the fraud in other banks as well as their implications for the overall banking system.
- ❖ LoU based credit is basically 'non-fund credit and there is a basic problem with non-fund based credit to importers – generally, it is much higher than the value of collaterals (because of relationship with the customer). May be six or seven times of collateral. These credits are contingent exposure to bank which are neither properly checked & audited not properly disclosed in the accounts. How can such exposure be regulated and controlled?
- ❖ Each time a fraud took place the role of auditor/audit committee attracted lot of criticism and Institute of Chartered Accountants of India (ICAI) come up with a panel for investigation. In most of the cases, the auditor is found to escapes from his legitimate share of guilt. In PNB fraud case also, the role of auditor is under scanner. The point is how to make auditor more responsible and if his role is under scrutiny, how to deal with it so that it leaves an impression to this extremely valuable profession on which the entire investment community and system depend on.
- ❖ The PNB fraud also raised a point on the privileges enjoyed by the industrialist class of our country in availing loan & advances from bank at favourable terms and conditions (in this case, without any security) and not paying back in time. Eventually, these become burden for the banks and economy in the form of NPAs and stressed assets. This is evident from that fact that large borrowers (i.e., debtors to whom lenders have an exposure, both fund based and non-fund based, of at least Rs. 5 crore) account for 56% of bank credit and

88% of their NPAs (RBI's Financial Stability Report, 2017).

- ❖ The PNB fraud case once again expose the dark reality of our system where financial offenders like Mr. Nirav Modi, Mehul Choksi, Mr. Vijay Mallya and may be many others who left the country after dubbing banks for sever thousand crores of rupees and taking shelter in foreign land in order to evade legal action. The PNB fraud case in particular raised a point as to how these practices of the so called big industrialists can be tackled so that they may not escape the legal proceedings and even if they flee how to bring them before law quickly.

Prevention Strategy

Inspite of the negative implications of the PNB fraud, it has offered an opportunity to revisit the essential elements of the system in place so as to prevent the recurrence of such incidents in future. The following points may be useful so far as prevention of banking fraud is concerned:

- ❖ Internal control and check followed by oversight by the Board of Directors/Audit Committee is the frontline defense against banking fraud. Integrated and robust technology should be used as a tool to strengthen the internal control and oversight mechanism of bank operations. An integrated and robust technology oriented system would make it – impossible or at least extremely difficult—for individual employees to bypass controls, as seems to have happened in this case. Most importantly, bank boards, and especially the audit committees, must have clear responsibilities.
- ❖ Banks or RBI may also set up a special fraud monitoring agency with officials specially trained to detect incipient frauds. Banks can also choose to appoint one member of the board to oversee fraud risk management. In other words, banks need to focus more on frauds in order to maximize the chances of detecting them at an early stage (Singh, C. et. al. 2016).
- ❖ The role and responsibility of auditors, guarantors and advocates who figure in bank frauds should be dealt with an iron hand. In fact, the regulator should revisit the role of auditors both in the case of borrowers and lenders. They will need to design stringent systems where auditors are not able to get away with fraudulent financial statements. However, to make this happen, it will also be necessary that investigations are conducted in a given time frame (Livemint, 2018).

- ❖ The apex bank should strengthen the secondary defense against fraud in the form of regulatory oversight and control. The PNB fraud case shows that regulator failed to recognize some valuable inputs. RBI is required to build capabilities both in terms of designing rules and making sure that they are effectively implemented. No doubt, the task is very delicate as over-regulation would hamper the credit flow and affect the economic growth.

- ❖ The Government should think of freeing the banking operation from political interference. Though it is a very general statement but we all know that regular banking activities whether in granting loans to ineligible borrowers or in circumventing systems and procedures to avoid detection have been done on the illegitimate instructions from the political masters. We have to eliminate this from the system in order to make it foolproof.

- ❖ Speedy and time bound legal proceedings against the financial offenders are a deterrent against the possible fraud. The Government should look into the extradition of the fraudsters as quick as possible so as to book them as per law and if possible investigate into the matter of political involvement.

- ❖ Last but not the least, the enforcement of strong ethical behaviour both on the part of the institutional lenders and big corporate houses in the process of financing economic activities is the urgent need of the hour.

Concluding Observations

PNB fraud case like any other fraud brings to the forefront the lacuna in the system. According to the publicly available information, there has been failure at different levels – internal controls system, corporate governance and weak regulatory supervision coupled with corruption and unethical behaviour on the part of so called reputed businessmen. The fraud should not be treated as an isolated case rather its lessons should be used to minimize the risk of such frauds in the future. The systemic lapses should be repaired and an integrated technology oriented control and supervision (both internal and external) should be devised and implemented to make the system foolproof against the possible fraud.

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Footnotes

¹ A LoU is simply a request made to another bank in the SWIFT network to loan money to a client. The bank that issues the LoU essentially guarantees the bank that receives the LoU that it stands by the creditworthiness of the borrower. That implies the bank that issued the

LoU stands liable to compensate the bank that made the loan to the borrower in case of a default of the borrower. LoU is a non-fund based credit provided by bank as the responsibility of paying back arises only when the party makes default. So, LoU is a contingent exposure to a bank.

² CORE Banking stands for Centralized Online Real-time Environment. It refers to a platform where IT and communication technology are merged to perform the core operations of banking from a centralized location known as Central Data Centre (CDC).

³ SWIFT stands for Society for Worldwide Interbank Financial Telecommunication (SWIFT). It is a messaging network that connects banks and other financial institutions across the world. Among other things, a bank that is part of SWIFT can use the system to convey credit instruments called letters of undertaking (LoUs) to other banks located overseas.

⁴ Nostro Account is the account that a domestic bank maintains with banks abroad, where the other banks will send money meant for domestic bank's customers. The money that other banks provide essentially meant to the domestic bank and not to its customer(s). They rely on the guarantees that domestic bank issued through Letter of Credit (LC) and LoU in favour of a customer. 

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CHAPTER NOTICE


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NOTIFICATION

In pursuance of Regulation 146 of the Cost and Works Accountants Regulations, 1959, the Council of the Institute at its 313th Meeting held on 21st July, 2018 by virtue of power conferred therein has decided to change the name of "The Institute of Cost Accountants of India, Bangalore Chapter" to "The Institute of Cost Accountants of India, Bengaluru Chapter".

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The author has three decades of experience as Accountant and has been designing, implementing and supporting the Finance and Controlling solutions in domestic and international level in SAP ERP. The author has expert skill in designing and implementing the most appropriate Controlling/Management Accounting solution in SAP. The present article has been prepared out of experience in dealing with the different industries and two dozen of national and international conglomerates. This article pertains to one wonderful functionality, Material Ledger, which gives the customer actual costing and other helpful features. Now, it is getting more lovable in the next generation release of S/4 HANA. This has been elaborately discussed with pictorial diagrams for easy understanding. The reading of this article will help the CFOs, Management Accountants and Cost Accountants to understand better about the Material Ledger in the new release of SAP.

THUMPS UP TO MATERIAL LEDGER IN SAP'S NEXT GENERATION S4/ HANA ENTERPRISE MANAGEMENT

The Actual costing functionality, which is popularly called as Material Ledger(ML) in ERP SAP, had been brought around 17 years ago. This has basically addressed two main Key Management Accounting objectives of global conglomerates. First one, the basic requirement of detailed inventory data and its valuation in multiple currencies. Next, the enterprise can able to compute the actual cost of the materials and can able to revalue the closing inventory and the consumption of sold products swiftly to get the realistic profit and loss. This functionality was very useful for the companies in countries like Russia, Turkey, most of the Latin American countries where it is mandatory to carry the actual cost of inventory in their books.

Additionally, this computed actual cost is passed on to another exotic submodule of Controlling/Management Accounting, Profitability Analysis. There we can revalue already posted invoices of the month with this Actual Cost so that we get the accurate actual profitability at various multi-dimensional market segment level. The leaders of finance of the Organization, the CFO's and Management Accountant's job has been made easy in this strategic and critical aspect of inventory valuation and actual costing in a manufacturing organization.

This kind of functionality is not available in any other ERP and even if it is found, it may not match the swiftness with which we are getting the real actual cost of the products in three different currencies and that too, with Cost Component split in ERP SAP. Initially, the customers used to fear that it might lead to lot of complications because of user's mistakes. Some implementations had been scrapped when they could not able to stop the data inconsistency due to user's indiscipline and system performance issues.

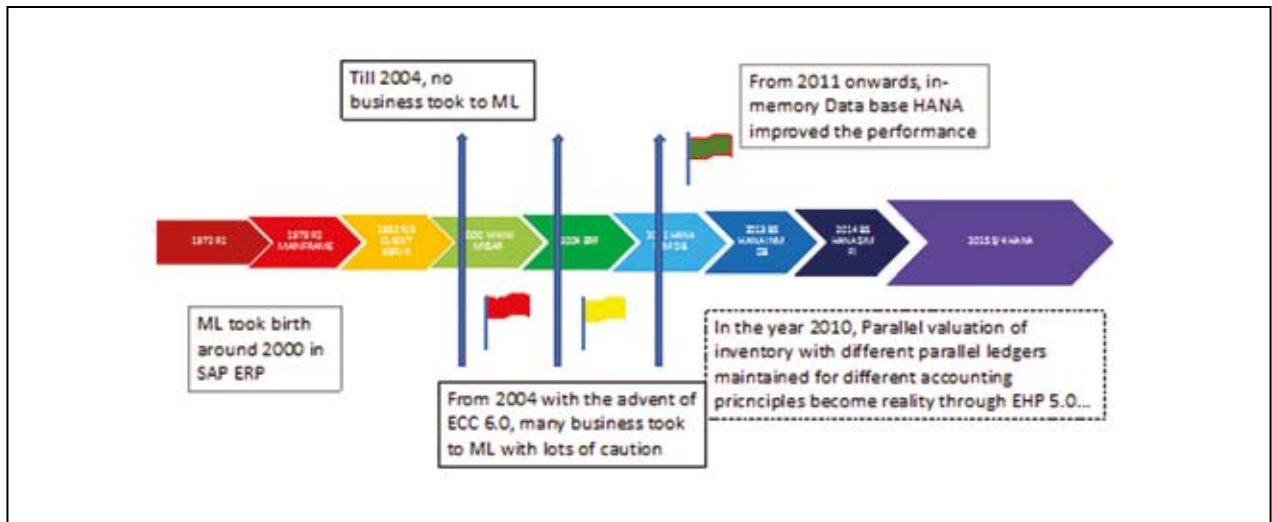
Whenever the word ML is mentioned to the Client for meeting the actual costing requirement, it used to send shiver among the SAP consulting team including the PMO of the project team. Later on, SAP has also extended special treatment to the customers who would like to go for Material Ledger with lots of tools and out-of-turn remote support. Then thousands of customers, particularly, pharma industry implemented this ML. Now, another major problem was with the performance of the system since the purchase variances of externally procured materials and production variances of resources usage are getting rolled up. It further aggravates when the bill of materials is very complicated with lots of components and have

multiple multi-level hierarchies.

So far, the existing SAP Business suite had been further upgraded by way of a series of releases of Enhanced Packages (EHP) instead of going for a new version. But with a biggest update after a long period of two decades, SAP has released entirely new next generation SAP Business Suite 4 SAP HANA Enterprise Management (S/4 HANA) in

the year 2015 vide Fig.1. This has brought along with it, a paradigm shift in the platform, to the most revolutionary and advanced in-memory data base HANA which is SAP's proprietary data base in place of third party's Oracle, Sybase, etc., Additionally, SAP has also taken up simplification of the table structure and data model, responsive user experience design and unifying the functionalities to the digital core, etc.

Fig.1 Evolution of Material Ledger vis-à-vis SAP ERP



Here, in this article, we shall see in detail how CFO, Management Accountant or any other top financial leaders of the Organization, can best leverage this magnificent and amazing tool of Actual Costing, if it is already implemented or to go for this strategic tool when there is an upgradation or migration from the existing SAP Business Suite to S/4 HANA Enterprise Management (S/4 HANA). In S/4 HANA, the Material Ledger will be activated by default and becomes mandatory so that business gets detailed data on material movements for each material by way of a sub-ledger concept and its valuation in multiple currencies. And whereas its main component Actual Costing, has been made optional but, now it is high time to give thumbs up and welcome it with the advent of all powerful S/4 HANA Business Suite.

Basic rationale behind Actual Costing

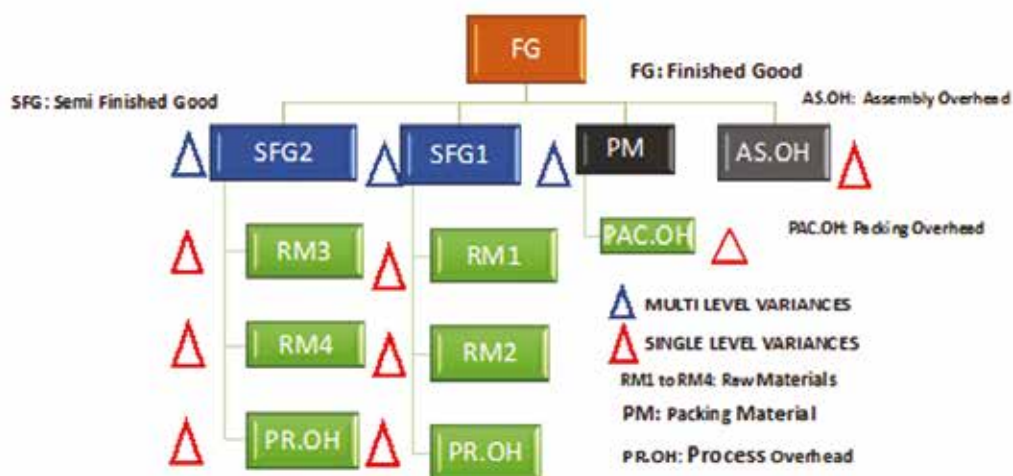
Traditionally inventory valuation is being valued either at Standard Cost or Moving Average Price. Normally and as per the SAP recommended best practice, it is right to value the in-house manufactured products at standard cost and the externally procured items in Moving Average Price which is moving weighted average of the purchase prices.

In order to arrive at the actual cost through ML, all the materials will be having standard price and the variances which arise during the month are cumulated and averaged so as to find the period's actual unit price (PUP). At the end of the month, the inventory will be valued at this periodic unit cost and then it is reversed back to the standard price in the following month on the first day. There are two types of price determination that occur with the material ledger as given below.

- (1) Single-level price determination: This takes the purchase price variances that occur for an individual material and roll them back into its ending inventory.
- (2) Multilevel price determination: This takes the single level variances that occur for a lower-level product (e.g. raw material) along with the actual production consumption variances of resources and roll them into a higher-level product (e.g. finished product).

Through the functionality of "Revaluation of consumption", the ML achieve actual cost for the ending inventory and cost of sales. This is well illustrated in the Fig 2.

Fig.2. Rolling up of variances of Materials and resource overhead



Detailed Inventory Reporting

Most of the companies have activated ML only for detailed information of inventory movements without activating the actual costing. Here, the company gets the sub-ledger concept for the Materials by which we can see the detailed goods movements at each material level, as we see in Vendor, Customer and Asset accounting. Moreover, the goods movements have been compartmentalized in to Opening Balance, Receipts, Consumption and Ending Balance for each material. Then we can see all transactions in a single screen and, if required, we can drill down to the original transaction from that screen. Then we have got report wherein we can see all materials with transactions details. Only because of this much sought after concept of sub-ledger, ML has been made mandatory in S4/HANA and the actual costing is made optional.

Transfer Price

When a transfer price or arm length price, is used to value inventory, it carries a profit or mark-up in addition to the base manufacturing cost. The parallel valuation solution offered by the Material Ledger helps to meet the business requirement around transfer prices. By using this functionality, multinational companies can comply with various local GAAP rules and the Income Tax rules set for the transfer pricing. This solution enable the global conglomerates to face transfer pricing audits with ease and help to avoid huge fines. This solution uses three valuation views to capture the transfer pricing postings. This solution can be well integrated with the final consolidation system seamlessly.

Multiple and Alternative Valuation

As per the latest news, the International Accounting Standards Board(IASB) is hopeful that India would, in the next five or six years, achieve full convergence with International Financial Reporting Standards(IFRS). This timeline is optimistic since there are only seven carve-outs, deviations between Indian Accounting Standards(IAS) and IFRS. Till then, the Indian subsidiaries of global companies have to maintain books in local GAAP as well in IFRS.

Alternative Valuation Run(AVR) which is an additional ML Cockpit to run Actual costing to take care of the following.

We can run this AVR to cumulate the variances for the whole year as well to get the actual cost for the year itself with or without posting.

We can run simulation run for a certain period together for management decision making purpose without posting.

What else with ML IN S/4 HANA:

We have some more incredible functionalities with the ML which can be listed here to know that it is very good to have.

Valuation of Inventory at NRV or FIFO Method:

This incredible functionality enable the publicly listed MNC to create multiple parallel valuation of the inventory in the balance sheet in compliance with one or more accounting standards such as USGAAP or IFRS. IFRS requires that goods receipts either be valued using a lower of cost or market

value(NRV) or be valued using a FIFO method. With the activated ML, both the methods are possible otherwise, the business has to undergo laborious process with the help of an external database to store valuation relevant data and to set up inventory valuation rules outside the SAP system to carry out inventory valuation but it will be error prone. With the advent of New GL Accounting in SAP, we could able to have multiple ledgers for Accounting principles. There will be one leading ledger to take care of the local GAAP and other multiple non-leading ledgers to capture the data to take care of IFRS, Taxation Accounting principles.

Valuation of Inventory as per different Accounting Principles:

SAP has brought a path breaking business function in its Enhancement Package 5.0 in the year 2010, whereby International businesses can able to evaluate the inventories in accordance with multiple accounting principles, for instance, as per IFRS accounting principle and Local Accounting principles. Through this business function which is called as FIN_CO_COGM, we can evaluate the costs of good manufactured utilising multiple accounting principles in parallel and thereby, we can eliminate the cumbersome manual process of evaluating the cost of inventories separately for different accounting principles.

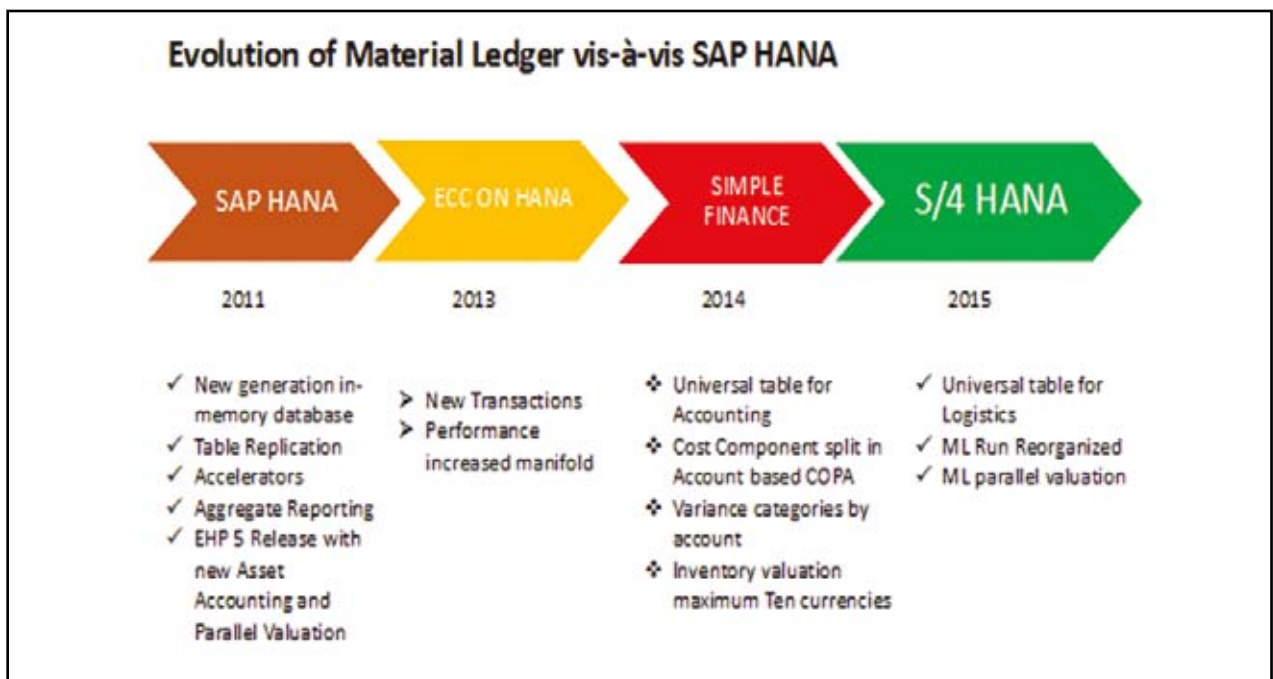
This business function has brought a major change in the Asset Accounting whereby we can capture the depreciation which is computed as per different accounting principles in

different version of the Cost Centre Accounting. The Plan/ Actual Version '0' shall be the leading version and the new versions shall be managed as delta of the actual version. We can analyse the different depreciation in the standard reports of Cost Centre Accounting by switching between the valuation views for legal valuation and the additional versions are calculated in parallel at the month end.

As usual, the planned overhead prices will be applied whenever the production is confirmed as per the cycle time or the resource utilization quantities involved. At the month end, actual overhead prices are computed in the system in different versions of the Cost Centre Accounting and the same will be applied to get the inventory cost under different accounting principles. These Actual overhead prices shall be applied through a periodic costing run of actual costing in the leading ledger and an alternation valuation run for the alternative valuations in different ledgers of different accounting principles.

Improvements in S/4 HANA:

In S/4 HANA, the material ledger is mandatory by default but Actual costing is optional. Material Ledger can be used for parallel valuation, parallel currencies and Transfer pricing without the need for Actual Costing. There are several improvements in the ML component in particular and overall data architecture of the S/4 HANA as detailed below.





ML Cockpit runs faster:

First and foremost, the Actual Costing Run will be faster with the accelerators. The SAP has brought in accelerator to this functionality as well to another sub-module Profitability Analysis of the Controlling.

Moreover, the actual costing run is reorganized into 4 steps instead of the earlier 7 steps. The four steps of single level Price Determination, multilevel Price Determination, Revaluation of consumption, and WIP Revaluation have been combined into one step. Further, the calculation logic of differences as “Not Distributed”, has been immensely improved. Another major improvement in the cockpit is the release of new price based on the recent standard cost or the ML price to the Material Master since it is made very easy.

Major Overhaul of Database Architecture:

In S/4 HANA, there is a complete radical overhaul of the database architecture altogether. In the case of Accounting, there is one comprehensive table which encompasses all the fields of the accounting document and the characteristics of Profitability Analysis as ACDOCA instead of multiple tables in the earlier Business Suite. In the same way, for logistics, there will be only one table MATDOC which will encompass the details of header, line items of the material document along with other attributes of the materials which

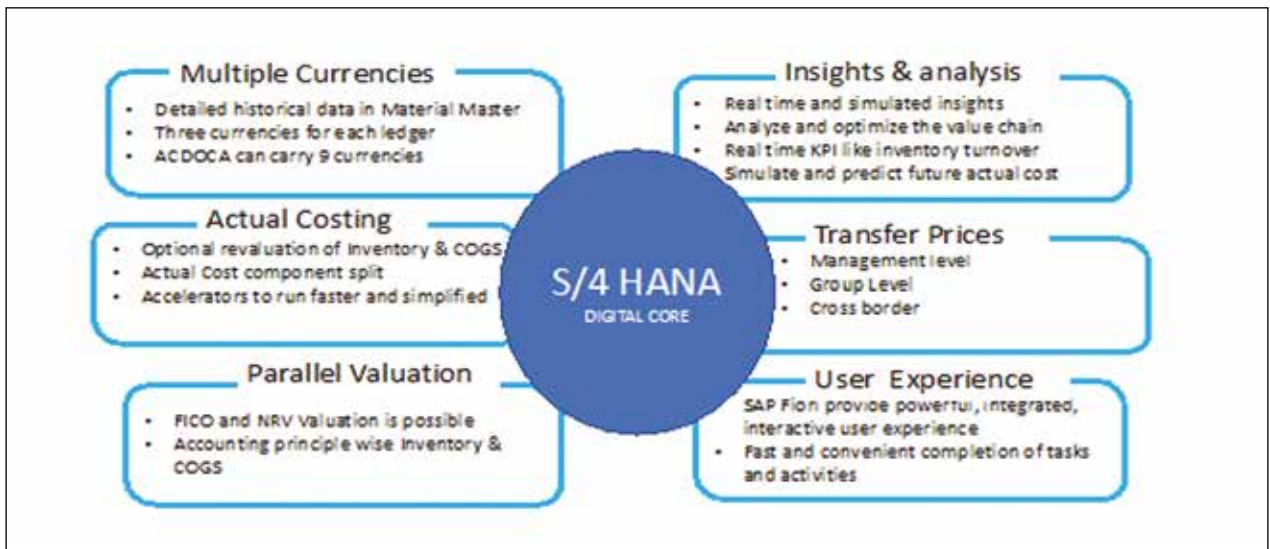
were earlier captured in two dozen separate tables. Now, the actual quantity is calculated faster on the fly.

Reporting the Inventory in nine currencies:

Now, in S/4 HANA it is possible to capture the inventory cost in nine currencies hitherto only two additional currencies by activating ML.

Cross border Transfer Price:

With the advent of business function LOG_MM_SIT in the EHP 5.0, it is now feasible to undertake cross company code actual costing which was anticipated by very many companies for a long time. This allows to transfer the actual cost to the buying plant. This has brought in cost transparency and a correct valuation within the inter-company transfer price group policy, since the mark up cost is visible in the material price analysis. The inter-company sales process remains unchanged with the activation of the said business function, but at the same time, it allows transfer of the cost and cost component split information between companies. Intra-company profit mark-up is tracked and it is shown under the Material Price Analysis (CKM3N) under a column called ‘Delta Company Code’. Another major improvement in the Stock-in-transit process, is the more visibility in the system till the goods reaches the final destination.



Superior Reporting through Virtual Info Provider for analysis

Material ledger accelerators powered by SAP HANA along with the new aggregate reporting tables with prefix FCML enable superior and efficient drill down reporting. In order to fill the said FCML reporting tables, the SAP has given Report FACL_FILL which has to be run. After this task, one can use,

- ML drilldown reporting through transaction KKML0
- ML virtual info providers which aid in converting the ML structures into Business warehouse structures for easy querying and reporting
- ML Network graphics to show the quantity structure across several levels for one or multiple materials in a graphical display

ML in Latest Release 1709 of S/4 HANA

SAP has released the first edition of S/4 HANA in March, 2015 with the release number as 1503 and then it was 1610, which was released in the month of October 2016. Now, the latest release is 1709.

In the earlier releases of S/4 HANA, the SAP could not able to deliver all the features of the ML for want of improvising the various segments of the software of the functionality, in line with the drastic changes in the data architecture as elaborated above. However, in the latest release 1709 of S/4 HANA, in the month of September, 2017, SAP could able to comprehensively bring forth all its features. Hope, in the days ahead, this drastic and revolutionary change

in data architecture, world class in-memory data base, and superior user experience, will further enhance this wonderful functionality.

Enhanced User Experience

SAP Fiori is the new graphical user interface for S/4 HANA and is one of the most revolutionary features of the platform. It provides such a powerful, integrated and interactive, user experience that the value of the platform is very much enhanced. SAP Fiori facilitates the completion of frequently used functions, workflow approvals, running reports, filing timesheets, creating and changing purchase orders and sales orders, period end closing activities including the actual cost run through Material Ledger Cockpit, so fast and conveniently. To achieve this vast functionality, it relies on a collection of more than 300 pre-packaged 'instant value' apps.

Thus, we can conclude that this wonderful functionality of ML, has become strategically very important and provides opportunity for Organizations to reap the full benefits of Actual Costing when there is high volume of supply chains of distribution, warehousing and where foreign currency transactions and inter-company transactions are huge. The SAP customers and consultancy will have to set aside their hitherto mixed emotions and give thumbs up for its activation and to exploit the full potential of this ML in almost all businesses. **MA**

ashok@cma-aks.com

Eastern India Regional Council

The Institute of Cost Accountants of India -
Bhubaneswar Chapter



To make the students to grab the opportunity and to compete with students of other professionals, the chapter arranged on July 29, 2018, 2nd Soft and Communication Skill Development Programme for its Foundation, Intermediate and Final Students for the session April, 2018 to September, 2018. CMA Ajay Kumar Samal, Students Convenor of the Chapter coordinated the programme. A Practitioners meet was organized by the Chapter at its conference hall on July 30, 2018 to discuss on the topic "Cost Accounting and Cost Auditing Standards" to update Practicing Members. CMA Niranjana Mishra, Council Member and one of the Practicing

Hariharananda Kriyayog Dhyana Kendra, Kolkata took the session specifically on "Yoga & Meditation". Chapter organized 4th Soft and Communication Skill Development Programme for its Foundation, Intermediate and Final Students for the session April, 2018 to September, 2018 on August 11, 2018 and Dr. Anita Mishra, Soft Skill Trainer guided the students in an interaction. The Chapter organized 4th soft and communication skill development programme on August 11, 2018. The Chapter organized subject based examination oriented written Quiz (MCQ) at its premises on August 12, 2018. The Chapter organized a seminar on "IND-AS" on 12th August, 2018 at its conference



hall. CMA CA. Ramesh Chandra Mishra, Chief General Manager (Fin) & CFO, OPTCL inaugurated and graced the seminar as "Chief Guest". CMA Niranjana Mishra, Council Member and Chairman, Regional Councils and Chapters Coordination Committee & Taxation Committee of the Institute graced the seminar as "Special Guest". CMA Braja Kishore Dash, General Manager (Fin), NALCO Ltd. delivered in detail on Indian Accounting Standards (Ind AS-01: Disclosure of Accounting Policies, Ind AS 02 : Valuation of Inventories and Ind AS 16: Property Plant and Equipments) and clarified the queries of participants . The Chapter



Cost Accountants at Bhubaneswar delivered in detail about various "Cost Auditing Standards". On August 5, 2018 the chapter organized 3rd Soft and Communication Skill Development Programme and Ms. Suchismita Acharya, one of the reputed soft skill trainers at Bhubaneswar was guided by interacting with each of the participants. As a part of of the CSR Activity, the chapter organized one scientific awareness session on "Yoga, Mind Management and Meditation" in association with Hariharananda Kriyayog Dhyana Kendra (HKDK), Kolkata on August 9, 2018 at its Conference Hall. Kriyayog Master Yogacharya Dr. Chanchal Roy, an Expert on Mind Management and Meditation of



observed the 72nd Independence Day at its premises at CMA Bhawan. CMA Srinibas Mohapatra, Past Chairman of the Chapter and Chief General Manager (Fin), Odisha Power Transmission Corporation Ltd. (OPTCL), Bhubaneswar unfurled the National Flag as "Chief Guest" and advised

students about their role and responsibilities to build a vibrant India. A debate competition was organized among the students of the chapter held on August 15, 2018 to mark the 72nd Independence Day and golden jubilee year of the chapter.

Southern India Regional Council

The Institute of Cost Accountants of India -Tiruchirapalli Chapter



The inaugural function of oral coaching session for Dec-2018 Examination was held on 16th July 2018 at its premises. Shri K. Nagarajan, General Manager, BHEL, Trichy was the Chief Guest of the function.

The Institute of Cost Accountants of India- Bangalore Chapter



The Chapter organized professional development meets at its premises on April, May, June and July 2018. Practitioners' Meets were organized on May and June 2018. World Environment day programmes were organized by the Chapter. CMA Sanjay Gupta, immediate past president interacted with Bangalore Chapter Members on occasion of World Environment day. International Yoga Day was

celebrated on June 21, 2018 at its premises. Training on Communication and Soft Skills (CSS) for Intermediate Oral Students were organized on April 21 and 22, 2018. Industry Oriented Training Programme for Final students (IOT) were organized from April 29, 2018 till May 3, 2018 at its premises. National conferences were organized by the chapter on April 2018 at different colleges in Bangalore.



Two days seminar in association with ICAI, ICSI & BEL were organized by the chapter on June 22 and 23, 2018.





The Chapter organized professional development meets on August 2018 and organized Practitioners' Meet on 'Discussion on Cost Audit amendment Rules and Cost Auditing standards at Bangalore Chapter premises' on August 9, 2018 and CMA Pranabandhu Dwibedy was the eminent speaker of the Meet. The Chapter was invited by GAIL (India) Ltd, Bengaluru as part of their CEP Study Circle program. CMA R Rajagopalan, DGM (F&A) -GAIL coordinated for successfully conducting the program. CMA Ramaskanda, Cost Accountant in practice was the Resource Person and he deliberated on the topic "Activity Based Cost Management". The Chapter inaugurated 104th Batch Oral Coaching Classes at Bangalore. The Chapter celebrated

independence day at its premises. The Chapter organized a National Conference on “Dynamics of Indian Business - Transition, Transformation and Way forward in the era of Reforms” in association with UGC Centre at GPS Institute of Agricultural Management. CMA Amit Anand Apte, President, CMA Suresh R Gunjalli, Chairman SIRC, CMA N Raveendranath Kaushik, Chairman of the chapter, Dr. R.S. Deshpande, Former Director ISEC, CMA P. Raju Iyer, Council Member and Chairman PD & CPD, Dr. R. Shashikumar, UGC -

Centre for the Study of Social Exclusion and Inclusive Policy, Bangalore University and Sri S Vishwanath Bhatt, Economist were the eminent dignitaries present in the programme. A members’ interactive session was held with CMA Amit Anand Apte, President of the Institute at its premises. A GST First Batch Certificate Distribution Ceremony was held on August 18, 2018 and Sri K S Basavaraj, JC (Admin) Div. VI - State Taxes was the eminent speaker of the ceremony.

The Institute of Cost Accountants of India- Coimbatore Chapter



On 25th July 2018, the chapter conducted a PD programme on ‘GST made easy by ERP’. Dr.R. Chitra, CEO & Founder-Delving Research & Development Pvt., Ltd., Coimbatore explained ERP for GST. During July 2018 Career counselling Programmes were conducted in various



colleges in Coimbatore. The Chapter conducted a session of CSS program for intermediate oral students from 7th July, 2018. The Chapter arranged live telecast of Platinum Jubilee Celebration of the Institute held at New Delhi on 14th July, 2018.

The Institute of Cost Accountants of India-Visakhapatnam Chapter



The Chapter inaugurated the new session on August 6, 2018 and celebrated Independence day.



The Institute of Cost Accountants of India -Trivandrum Chapter



The Chapter inaugurated the opening session of the 83rd Batch of CMA students in the conference hall on 23rd July, 2018 celebrating Platinum Jubilee of the Institute. Shri John Mathai, IAS (Rtd. Chief Secretary, Govt of Kerala) was the chief guest to inaugurate the function. The Chief Guest inaugurated the event highlighting the importance of qualified CMAs and their presence in any industrial, manufacturing and service sectors for improving their

performance, productivity and profitability. CMA Raman Pushpakumar, Chairman of the chapter mentioned that any industrial organization including manufacturing units or service sector groups can sustain only when a CMA go deep into the transactions, analyze, interpret and disclose the corporate economy in a holistic frame work crazing the cost aspect and which is most important in today's economic structure.

Western India Regional Council

The Institute of Cost Accountants of India- Baroda Chapter



The Chapter conducted a career counselling seminar on 11th August 2018 for students at SCPL Academy. CMA S. J. Joshi, Chairman, CMA Mihir Vyas , Vice Chairman, CMA Kartik Vasavada , Treasurer, CMA Hardik Diwanji , CFO of Xylom India were the speakers of the seminar. The Chapter conducted the flag hoisting ceremony and an evening talk on Open House Discussion on the Draft Companies (Cost Records and Audit) Amendment Rules 2018 were organized. The Chapter organized press conference for the students who have cleared their CMA examination of June 2018.

The Institute of Cost Accountants of India- Pimpri Chinchwad Akurdi Chapter

The Chapter celebrated 'GST Day' on 1st July 2018 at CMA Bhawan and on the same day the chapter conducted half day seminar on "Discussion on One Year of GST Implementation and Audit". CMA Ashok Nawal, council member spoke on the topic and focused on various aspects

on GST implemented by the government. The Chapter conducted inaugural function of Oral Coaching classes on 14th July 2018 at CMA Bhawan. Chief Guest CMA Ashish Deshmukh, past chairman of chapter and Director – City Rise Gas Agency, CMA Mahendra Bhombe, Chairman and



CMA Pradeep Deshpande, Secretary of the Chapter were among eminent dignitaries present in the programme. CMA Ashish Deshmukh guided students about future after becoming CMA Professional. The Chapter conducted seminar on 'CMAs Role in New India 2022' on 26th July 2018 at CMA Bhawan and on the same day the chapter



felicitated CMA LD Pawar who has been elected as the chairman of WIRC. CMA Brij Mohan Sharma addressed the gathering and guided the audience. CMA Harshad Deshpande highlighted on the role of CMAs in various sectors like government, non-government, public & private industries.

The Institute of Cost Accountants of India- Ahmedabad Chapter



The Chapter organized function on July 12, 2018 at its office to felicitate meritorious students of Dec 2017 examination. A CEP on Ind AS 16- Property, Plant & Equipment and Ind AS 36- Impairment of Assets was organized on 14th July 2018 at its premises. A CEP on "Compliance under FEMA" was organized on 21st July'2018 at its premises. On July 28, 2018 a CEP on "Practical aspects of RERA" was organized by the chapter at its premises.





भारत का राजपत्र The Gazette of India

असाधारण

EXTRAORDINARY

भाग III—खण्ड 4

PART III—Section 4

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दि इंस्टीट्यूट ऑफ कॉस्ट एकाउंटेंट्स ऑफ इंडिया

अधिसूचना

कोलकाता, 23 जुलाई, 2018

सं. 21—सीडब्ल्यूए/2018.—यथासंशोधित लागत एवं कार्य लेखा अधिनियम, 1959 की धारा 21 की उपधारा (1) के अनुसरण में एतद्वारा यह अधिसूचित किया जाता है कि संस्थान की परिषद् ने दिनांक 21 जुलाई, 2018 को आयोजित अपनी 313वीं बैठक में श्री सुनील चंद्र गुप्ता को अनुशासन निदेशालय द्वारा प्राप्त किसी सूचना या शिकायत के संबंध में जांच करने के लिए निदेशक (अनुशासन) निर्दिष्ट किया है।

एल० गुरुमूर्ति, सचिव (कार्यवाहक)

[विज्ञापन-III/4/असा./172/18]

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

NOTIFICATION

Kolkata, the 23rd July, 2018

No. 21-CWA/2018.— In pursuance of sub-section (1) of Section 21 of the Cost and Works Accountants Act, 1959 as amended, it is hereby notified that the Council of the Institute at its 313th meeting held on 21st July, 2018 has designated Shri Sunil Chander Gupta as Director (Discipline) for making investigations in respect of any information or complaint received by the Disciplinary Directorate.

L. GURUMURTHY, Secy. (Acting)

[ADVT.-III/4/Ext./172/18]

4546 GI/2018

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RAKESH SUKUL Digitally signed by RAKESH SUKUL
Date: 2018.08.09 18:01:42 +05'30'

FROM THE RESEARCH DESK

Role of CMAs in Professional Skepticism

● Assist in managerial decision-making:

Professional scepticism includes being alert for contradictory audit evidence, information that brings doubt as to the reliability of documents, and management's responses to inquiries and errors or fraud that indicate the need for additional substantive procedures. Thus CMAs can apply professional scepticism method to assist management in decision-making.

● Detection of fraud:

Fraud has a corrosive effect on the trust necessary for companies to do business. Management is responsible for running the company and preventing and detecting fraud. Preventing and detecting fraud is difficult because fraud is intentionally hidden and may involve collusion by multiple participants. Even though audits are properly performed in accordance with relevant Standards, they may not detect material fraud. However, auditors are responsible for obtaining reasonable assurance that the financial statements are not materially misstated as a result of fraud. Here CMAs can use Professional scepticism for detection of fraud. Where the risk of fraud is high, an auditor might modify planned audit procedures to gather more reliable evidence in support of financial statement assertions.

● Cost-effective and quality audit:

Due to past high-profile audit failures, reported audit deficiencies in regulator inspection reports, and the growing number and size of complex estimates in the financial statements, there is a growing need for reliability and trust in financial reports and a corresponding increased demand for enhanced audit quality. Professional scepticism lies at the heart of a quality audit. Enhancing the level of professional scepticism applied in practice is one important means of improving audit cost and quality. CMA professionals are competent enough to identify, communicate, and exercise a level of professional scepticism appropriate for the risks involved, frame cost-effective strategies accordingly to improve audit quality.

● Risk Assessment and risk reduction:

With an attitude of professional scepticism and due professional care, the CMAs have to assess and reduce inherent risk, control risk, audit and fraud risk and materiality. Professional scepticism needs to be applied throughout the entire audit, even at the stage of accepting the engagement. It helps in identifying and assessing risks of material misstatement; designing the nature, timing and extent of further audit procedures which are responsive to the assessed levels of risk; evaluating audit evidence – such as recognizing the need to increase the quantity of audit evidence or obtain evidence which is more relevant and reliable for areas which have a higher assessed risk; designing and performing substantive analytical procedures; addressing situations when management refuse to allow the auditor to send a confirmation request; and forming an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

● Evaluation of Evidence :

Applying professional scepticism when reviewing audit evidence is a critical aspect. Audit evidence has to be both sufficient and appropriate as well as covering the relevant audit assertions. CMAs can demonstrate professional scepticism by questioning and considering both the sufficiency and appropriateness of the audit evidence gathered in light of the circumstances. In case of doubts concerning the reliability of information or where evidence points to potential fraud risk, he needs to investigate further and determine what additional procedures are necessary to resolve the issue.

● Forensic accounting and Auditing:

Detecting *hidden assets and unreported income* requires an understanding of the individual's history and current situation pertaining to their personal life and financial affairs like business, investments and employment. The nature of the business dictates the kind of expenses generally incurred. Based on the individual's "*Income and Expense Declaration*", CMAs can develop suitable strategies to detect the magnitude of fraud by carrying forensic accounting and auditing. Instilling professional scepticism in forensic accounting and auditing can result to a better outcome.

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER – 2018

FOUNDATION COURSE EXAMINATION

Day & Date	Foundation Course Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
Monday, 10th December, 2018	Fundamentals of Economics & Management
Tuesday, 11th December, 2018	Fundamentals of Accounting
Wednesday, 12th December, 2018	Fundamentals of Laws & Ethics
Thursday, 13th December, 2018	Fundamentals of Business Mathematics & Statistics

Examination Fees

Foundation Course Examination	Inland Centres	₹ 1200/-
	Overseas Centres	US \$ 60

- The Foundation Examination will be conducted in Offline, descriptive (Pen & Paper) mode only. Each paper will be of 100 marks and for 3 hours duration.**
- Application Forms for Foundation Examination has to be filled up through online and fees will be accepted through online mode (including Payfee Module of IDBI Bank).
- STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.
- (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking.
(b) Students can also pay their requisite fee through pay-fee module of IDBI Bank.
- Last date for receipt of Examination Application Forms is 10th October, 2018.**
- Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Duliajan (Assam), Durgapur, Ernakulam, Erode, Faridabad, Ghaziabad, Guntur, Guwahati, Haridwar, Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottakkal (Malappuram), Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Raipur, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyannagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
- A candidate who is completing all conditions for appearing the examination as per Regulation will only be allowed to appear for examination.**
- Probable date of publication of result: 21st February, 2019.**

* For any examination related query, please contact exam.helpdesk@icmai.in

L. Gurumurthy
Secretary (Acting)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

INTERMEDIATE AND FINAL EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2018

PROGRAMME FOR SYLLABUS 2016			
Day & Date	INTERMEDIATE (Time: 2.00 P.M. to 5.00 P.M.)		FINAL (Time: 2.00 P.M. to 5.00 P.M.)
	(Group – I)	(Group – II)	(Group – III)
Monday, 10th December, 2018	Financial Accounting (P-05)	Operations Management & Strategic Management (P-09)	Corporate Laws & Compliance (P-13)
Tuesday, 11th December, 2018			
Wednesday, 12th December, 2018	Laws & Ethics (P-06)		Corporate Financial Reporting (P-17)
Thursday, 13th December, 2018		Cost & Management Accounting and Financial Management (P-10)	
Friday, 14th December, 2018	Direct Taxation (P-07)		Indirect Tax Laws & Practice (P-18)
Saturday, 15th December, 2018		Indirect Taxation (P-11)	
Sunday, 16th December, 2018	Cost Accounting (P-08)		Cost & Management Audit (P-19)
Monday, 17th December, 2018		Company Accounts & Audit (P-12)	Strategic Performance Management and Business Valuation (P-20)

ATTENTION: INTERMEDIATE & FINAL EXAMINATION (DECEMBER – 2018 TERM) WILL BE HELD ON ALTERNATE DATES FOR EACH GROUP.

EXAMINATION FEES

Group (s)	Final Examination	Intermediate Examination
One Group (Inland Centres) (Overseas Centres)	₹1400/- US \$ 100	₹1200/- US \$ 90
Two Groups (Inland Centres) (Overseas Centres)	₹2800/- US \$ 100	₹2400/- US \$ 90

- Application Forms for Intermediate and Final Examination has to be filled up through online only and fees will be accepted through online mode only (including Payfee Module of IDBI Bank). No Offline form and DD payment will be accepted for domestic candidate.
- STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.
- (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking.
(b) Students can also pay their requisite fee through pay-fee module of IDBI Bank.
- Last date for receipt of Examination Application Forms is 10th October, 2018.
- The provisions of direct tax laws and indirect tax laws, as amended by the Finance Act, 2017, including notifications and circulars issued up to 31st May, 2018, are applicable for December 2018 term of examination for the Subjects Direct Taxation, Indirect Taxation (Intermediate), Direct Tax laws and International Taxation and Indirect Tax laws & Practice (Final) under Syllabus 2016. The relevant assessment year is 2018-19. For statutory updates and amendments please refer to <http://icmai.in/studentswebsite/Syl-2016.php>
- Companies (Cost Records and Audit) Rules, 2014 as amended till 20th Dec 2017 is applicable for December 2018 examination for Paper 12- Company Accounts and Audit (Intermediate) and Paper 19-Cost and Management Audit (Final) under Syllabus 2016 for December 2018 term examination. Please also refer to <http://icmai.in/upload/Students/Circulars/Relevant-Info-December-2018.pdf>
- The provisions of the Companies Act 2013 are applicable for Paper 6- Laws and Ethics (Intermediate) and Paper 13- Corporate Laws and Compliance (Final) under Syllabus 2016 to the extent notified by the Government up to 31st May, 2018 for December 2018 term of examination.
- For Applicability of IND-AS and amended AS for paper 5 – Financial Accounting and Paper 12-Company Accounts and Audit (Intermediate) and Paper 17-Corporate Financial Reporting (Final) refer to relevant circular in website for December 2018 term examination. Please refer to <http://icmai.in/studentswebsite/Syl-2016.php>
- Pension Fund Regulatory and Development Authority Act, 2013 is being included in Paper 6- Laws and Ethics (Intermediate) and Insolvency and Bankruptcy Code 2016 is being included in Paper 13- Corporate Laws and Compliance (Final) under Syllabus 2016 for December 2018 term of examination. For further clarification visit our website www.icmai.in
- Examination Centres: Adipur-Kachchh (Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Anasol, Aurangabad, Bangalore, Baroda, Berhampur (Ganjam), Bhilai, Bhillwara, Bhopal, Bewar City (Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgam, Durgapur, Ernakulam, Erode, Faridabad, Ghaziabad, Guntur, Guwahati, Haridwar, Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jamnua, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottakkal (Malappuram), Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nadiad, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Raipur, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirappalli, Tirunelveli, Tiruvandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyannagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
- A candidate who is fulfilling all conditions specified for appearing in examination will only be allowed to appear for examination.
- Probable date of publication of result: Inter & Final – 21st February, 2019.

* For any examination related query, please contact exam.helpdesk@icmai.in

L. Gurumurthy
Secretary (Acting)

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Comparison of Portal Data & Software Data of Form 1, 3B, 4



Reconciliation of GSTR - 1 & 3B Sales Amount



Reconciliation of GSTR - 2A & 3B Credit Amount



Reconciliation of GSTR - 2A & Credit Register



Reconciliation of GSTR - 4 & 4A Purchase Amount



Import Data from Excel, GST Portal & Renowned Accounting Softwares in GSTR-1 & 4



Import Data of 2A from Portal & Renowned Accounting Softwares in Credit Register



Get the Invoices from GSTR - 1 on which e-Way Bill is Applicable



Interest & Late Fees Calculation of GSTR - 1, 3B, 4

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