

The Institute of Chartered Accountants of India

(Set up by an act of parliament)

Chengalpattu District Branch of SIRC of ICAI

(Formerly Known as Kanchipuram District Branch)



E- Newsletter
May 2023

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Chengalpattu District Branch of SIRC of ICAI Managing Committee Team 2023-24

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ARTICLES INVITED FROM MEMBERS

Note: Articles are invited from members for publishing in newsletter. The articles shall be either on the specific subject or a general article. Members can mail their article with Name, Membership Number, Mobile Number, Residential Address, Office Address & Photo to our Mail mentioned below

Email id: chengalpattu@icai.org

Note: The views expressed in the articles published are their own views and Chengalpattu District Branch does not endorse or take responsibility for the views expressed in the articles.



From the Chairman's Desk

Esteemed Professional Colleague,

Greetings!

It is always pleasure to reach the members fraternity through this newsletter.



With the support of our members, we were able to continuously organise programs for the members & students during April 2023.

Peer Reviewer Training Program was conducted at ACCORD CHROME under aegis of Peer Review Board of ICAI and was well received among the members. We would like to thank Chairman, Vice Chairperson & Secretary of the Peer Review Board of ICAI for their guidance, support and cooperation.

Career Counselling Help desk were organised at Branch Premises on all Saturdays & Sundays of April 2023 and the same will be continued this month also. I take this opportunity to thank the members who volunteered in a big way as counsellors.

One Day Career Counselling Helpdesk was held at Chengalpattu on 23rd April 2023 & Kanchipuram on 25th April 2023. We appreciate the counsellors for their time and enormous effort. We also convey our special thanks to local members & School Management of the respective places.

Branch had conducted mock tests for two batches successfully with the guidance & support of BOS of ICAI for the benefit of the students.

We are taking steps to start the Foundation & Inter Classes from the month of June 2023. Classes schedule will be announced shortly.

Our branch has Annual membership facility for the members. The Members who are yet to avail the benefit of ARC, requested to join at the earliest

**With best regards,
CA.Sivagurunathan. T
Chairman
01-05-2023**



Overview of Special Economic Zones

India ahead of China 2021

HS Code	Description	Value US\$ Bn		
		CHINA (Trademap)	INDIA (Trademap)	INDIAN SEZs (NSDL)
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	41.19	56.40	18.16
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	29.33	38.16	7.46
17	Sugars and sugar confectionery	1.93	4.31	0.28



CA. Bargavi Natesan

China ahead of India 2021

China - India Comparison US\$ Bn				
HS Code	Description	CHINA (Trademap)	INDIA (Trademap)	INDIAN SEZs (NSDL)
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ... a	898.96	18.84	1.53
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	547.59	24.17	1.43
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	139.48	2.79	0.08
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	120.02	18.90	0.39
39	Plastics and articles thereof	131.07	8.56	1.07
95	Toys, games and sports requisites; parts and accessories thereof	101.85	0.52	0.03
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	97.49	3.91	0.34
73	Articles of iron or steel	95.51	8.36	0.20
61	Articles of apparel and clothing accessories, knitted or crocheted	86.46	7.87	0.19
29	Organic chemicals	82.58	21.18	3.17
62	Articles of apparel and clothing accessories, not knitted or crocheted	70.10	7.33	0.15
72	Iron and steel	66.98	21.20	0.59
64	Footwear, gaiters and the like; parts of such articles	51.67	2.34	0.54
	Total 13 Chapters	2,489.77	145.96	
	Total 87 Chapters	872.04	248.85	
Total	All Products	3,361.81	394.81	

SEZ – Brief Introduction

- The SEZ Act 2005, received the assent of the President of India on 23rd June 2005
- The Rules got notified and thereafter came into force w.e.f 10-2-06
- It has 8 chapters and 3 Schedules
- Concept of Co Developer created
- Export definition to include taking goods or providing services out of India, supplying goods or services from DTA to a unit or Developer, supply of goods and services from one unit to another unit or Developer in SEZ.

OBJECTIVES

- Generation of additional economic activity
- Promotion of exports
- Promotion of investments
- Creation of employment
- Development of world class infrastructure facilities

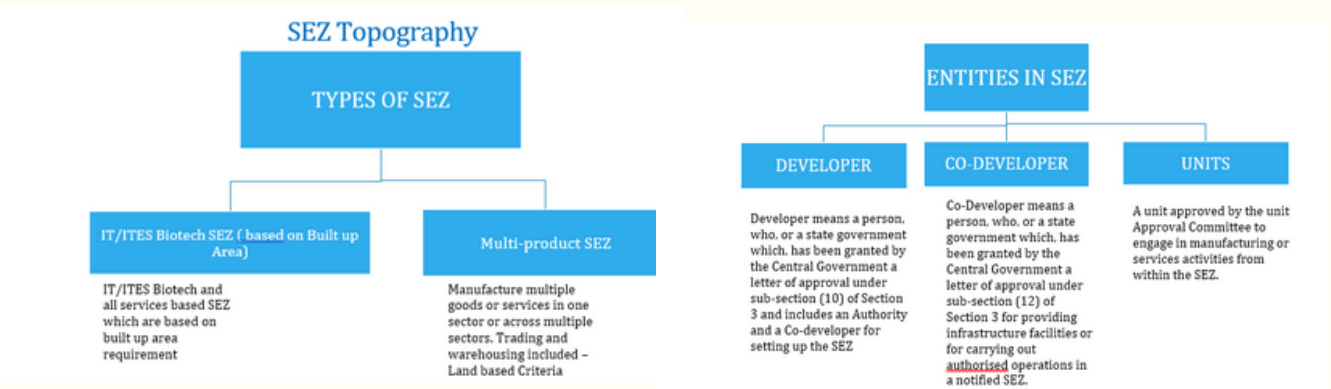


SALIENT FEATURES

- Governed by Act of Parliament and rules framed thereunder
- Deemed outside customs territory
- Can be set up by Private Sector /Government / jointly
- Multi-product/ Sector specific (IT/ITES)
- Sale of land not allowed
- Single Window clearance

The salient features/provisions of SEZ Rules

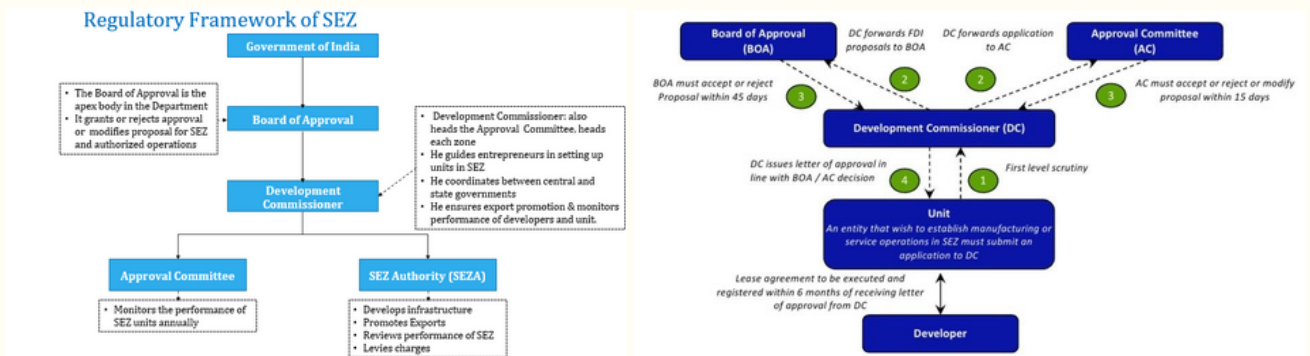
- Rule 5 - Minimum land area
- All SEZ other than IT/ITES, Biotech, Health – contiguous 50 Hectares
- North Eastern states – Assam, Meghalaya etc – 25 Hectares
- IT/ITES, Biotech, Health – No Minimum Land area, but Built up Area
- Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created;
- Simplified procedures for development, operation and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up a unit in a Special Economic Zones;
- Simplified compliance procedures and documentation with an emphasis on self certification



SEZ UNITS

- Single Window Clearance
- Can undertake Manufacturing / Service activities
- Services include Computer software services including ITES (Back Office Operations, Call Centres, BPO units, KPO units etc.)
- No minimum export commitment
- To be Net Foreign Exchange Earner over a period of 5 years
- Minimum lease of 5 years required

Establishment Procedure for a Unit*





- Unit is a person or entity undertaking export activities and is approved for Manufacturing, Processing, Trading & Warehousing, Services

SEZ UNITS – Net Foreign Exchange (NFE)

- Cumulative for 5 years (and block of every 5 years thereafter)
- Prescribed formula : Positive Net Foreign Exchange = A – B > 0

A

- Free on Board (FOB) value of exports
- Exports to Nepal & Bhutan against freely convertible currency
- Value of eligible DTA supplies (e.g. against foreign currency payments, ITA- 1 items, notified zero duty items, supplies to eligible projects)

B

- CIF value of all imported inputs Raw materials, intermediaries, capital goods, etc.
- All payments made in foreign exchange Export commission, royalty, fees, dividends, interest on ECBs, etc.
- Procurements from another SEZ unit, EOU, bonded warehouses, etc.
- CIF value of goods and services (prorata for capital goods) which are – Imported duty free/ Obtained on lease / Received free of cost / on loan or transfer basis

FISCAL INCENTIVES

Types of Indirect Tax	Central/State Authority	Levied upon	Prevailing peak rate
Customs Duty (Combined of BCD+ IGST+ Cess)	Central Government	Import of goods from outside India	18%- 45% (Depending on HSN Code)
Goods & Service Tax	Central + State Government	Supply of goods or services within India/ Outside India	0%- 28% (Depending on HSN Code)
Stamp Duty Exemption	State Government	On Lease Deed registration/Sale/Purchase of any property	4% -11% depending on Type of Property & Location
Electricity Duty Exemption	State Government	On monthly Electricity Bill amount	5% depending on Type of Connection

Kindly note that Income Tax benefit has come to an end by 31st Mar 2020. SEZ units who have obtained LOA before 31st Mar 2020 and yet to commence operations can commence operations till 30th Sep 2021 (on account of Covid-19)

GST (GOODS & SERVICES TAX)

As per Chapter VII, Section 16 (1) of the IGST Act,

- **“Zero rated supply” means any of the following supplies of goods or services or both, namely:**
- **(a) Export of goods or services or both; or**
- **(b) Supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.**

SEZ – AMENDMENTS

- **Broad Banding of Sector - Rule 2(1) clause (x)** – The rule has broadened the scope of products and services, so that various related products and services can be brought under the same umbrella. This is a welcome move, considering the economic scenario, wherein businesses want to widen their scope of operations.



- **Minimum Land requirements- Rule 5, sub rule 2** - The rule means new comers can come in with lesser holdings and existing SEZ can consider de-bonding for better economic benefit and flexibility in enhancing usage.
- **Expansion of SEZ – Rule 11** – Earlier, SEZ expansion was possible only on barren land thereby restricting geographical growth unless such barren physical spaces were available. Now, lands with pre-existing structures can be included for SEZ expansion and notification as such. Only that duty concessions will not be available for pre-existing structures.
- **Exit of SEZ Units – Rule 74 A Inserted** - This rule brings the much needed clarity relating to exit and defines clearly the exit norms.

SEZ –AMENDMENTS

- The characterization of SEZs have been made uniform, wherein sector specific, multi sector etc. have been negated and to this effect the definition has been deleted
- All existing notified Special Economic Zone shall be deemed to be a multi-sector Special Economic Zone
- The Land area requirements for SEZ other than IT/ITES, Biotech or Health (other than hospital) service downsized to 50 Hectares
- In an IT/ITES SEZ – Approval for services such as financial services, consultancy services, design services, architect services, commercial training or coaching services can be considered – these services can be broad banded along with IT/ITES services
- Work From Home for IT/ITES SEZs have been enabled.

SEZ –General conditions

- SEZ Unit cannot sub lease, whereas a Developer or Co Developer (being Infrastructure service provider) can sublease
- A company can be a Co Developer & also SEZ Unit, but has to follow separate set of compliances
- The Co Developer can do the construction, avail all benefits and then lease out space to SEZ Units or to any other third-party companies for setting up an SEZ unit.
- Transfer of land or sale of land is not possible in Special Economic Zone

SEZ ACT 2005 – Need for overhauling....

- Developer & units co exist
- Monitoring Authority – UAC & BOA
- Customs posted inside the Zone
- Issues
 1. Varying Fiscal Incentives
 2. WTO Ruling
 3. Vacant Land & Built up area

Introduction of Development of Enterprises & Services Hubs (DESH) Bill, 2022

- The government is attempting to overhaul the Special Economic Zone (SEZ) policy by expanding the ambit of these exclusive zones to make them WTO- compliant and perform roles that go beyond export-orientation.
- Freedom of Access & creating Flexibility – to access Global & Domestic Markets
- Focus of Import Substitution
- Balanced scheme – EOU & MOOWR model (Manufacture and Other Operations in Warehouse Regulations, 2019)



Comparison of SEZ Act with DESH Bill

SEZ Act, 2005

- Special Economic Zones are geographically bound areas with a primary focus on promotion of Exports. The level of exports is quantified based on the Net Foreign Exchange (NFE) criteria.
- The Units within the SEZ are always expected to operate in the global markets.
- The domestic market is ignored due to excessive focus on NFE.

DESH Bill, 2022

- The Development Hubs try to shift the focus to an elevated parameter of growth. Hence the focus now shifts from Net Foreign Exchange to Net Positive Growth (NPG).
- Creates flexible regime by establishing an equity between the global and domestic operations.

Comparison of SEZ Act with DESH Bill

SEZ Act, 2005

- ✓ Primary Focus
- ✓ Promotion of Exports

DESH Bill, 2022

- ✓ Additional Economic Activity
- ✓ Employment Generation
- ✓ Integration with global supply and value chains
- ✓ Manufacturing and export competitiveness
- ✓ Development of Infrastructure
- ✓ Promotion of Investment and R&D
- ✓ Net Positive Growth to evaluate performance

Comparison of SEZ Act with DESH Bill

SEZ Act, 2005

- ✓ Originally classified as sector specific, Multi sector
- ✓ Later on moved to Multi sector very recently
- ✓ Different Criteria adopted

DESH Bill, 2022

- Two Classifications
 - ✓ ENTERPRISE HUBS
 - ✓ SERVICE HUBS
- Enterprise Hubs to have land-based area requirements, and to permit both manufacturing and services activities.
- Services Hubs to have built-up area-based requirements, and to permit only services activities



Single window

- Introduction of single window system as a part of the Act
- Single window system – an online portal to be introduced and will interact with State boards & UT boards
- Delegation of powers enabled
- Concept of provisional approvals enabled
- Single window meant to be one stop shop

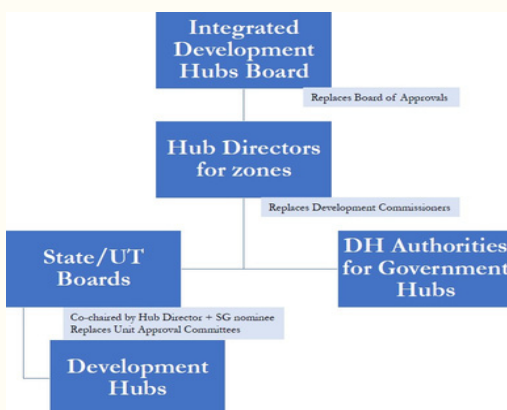
DTA clearances

- Any DTA clearances shall be chargeable to Customs Duties including Anti dumping, countervailing & safeguard duties under customs Tariff Act in the following manner
- Capital goods – on the depreciated value of goods
- Other goods or services – on the value of inputs used in the manufacture or provision of goods or services
- Payment of IGST
- Equilisation levy at such rate as notified
- Rate is applicable on the date of removal, if the same is not ascertainable, the date of payment of duty

Sub contracting

- Can undertake subcontracting on behalf of DTA Units
- Or can give part of production process on a subcontracting basis to DTA Units
- The conditions will be prescribed later by way of rules
- The rules are applicable for Developer & Unit
- The basis of subcontracting can be on the previous Year Turnover of the Developer or the Unit

DESH HIERARCHY



KEY TAKE AWAYS

- State government participation
- Contiguity relaxation
- Dynamics of services and manufacturing well understood and treatment given separately
- Integration with domestic markets
- Integration with existing industrial clusters possible
- Features of other schemes incorporated
- Online single window – paperless processes
- Time bound process and risk based verification
- Entry & exit made easy



Closure of Books - GST Perspective

WHY CLOSURE PROCEDURES

- Higher Reliability on accounts
- True and Fair View
- Considerable time for rectifying Non Compliance
- Lower Penal costs
- Corrective actions in procedures
- Chances of litigation will be minimized



CA. Sriram R

CLOSURE PROCEDURES - GST PERSPECTIVE

- General Compliance Aspects
- Profit and Loss Account
- Balance Sheet

GENERAL COMPLIANCE ASPECTS

- Aggregate Turnover of the Entity from FY 2017-18 until FY 2022-23
- Check E-Invoice applicability and its implementation, if assertive.
- Check whether numerical disclosure of HSN were in line with the statute.
- Whether all the Branches disclosed as 'Additional Place of Business'
- Whether the addition / deletion of authorized signatories dealt with properly

GENERAL COMPLIANCE ASPECTS

- Correctness of the HSN displayed in the Tax Invoice.
- Correctness of the Exemption claimed.
- Validity of Letter of Undertaking for effecting Zero Rated Supplies w/o Payment.
- Verification of Certification for authorized operations by Customs Officer for SEZ Supplies

PROFIT & LOSS ACCOUNT

- Each Line Item to be reviewed from the GST Perspective.
- Income to be viewed in the perspective of chargeability to tax.
- Expenses to be viewed in the perspective of RCM Liability and ITC Eligibility.
- In case of Multiple Registrations, P&L A/c to be prepared Registration-wise.
- Supplies without Consideration to be reconciled (Related Parties & Cross Charge)
- Adjustments on account of AS / Ind AS

P&L A/c - REVENUE

- Supplies - Non-GST
- Supplies - GST Chargeable
- Supplies - Nil Rated
- Supplies - Zero Rated
- Supplies - Exempt

P&L A/c - REVENUE

- Supplies - Self-Balancing [Inter-transfers]
- Credit Notes - Debit Notes
- Expenses Reimbursement
- Amendments
- Adjustment owing to nonalignment of GST Provisions with AS / Ind AS
- Recoveries from Employees



P&L A/c- EXPENSES

- Staff Welfare
- Staff Accommodation
- Refreshment Expenses
- Expenses, subject to RCM [Advocate Fees – Dir. Sitting Fees]
- Expenses, subject to Blocked Credits
- Expenses with Eligible Credit
- Depreciation

P&L A/c – RECONCILIATIONS

- Turnover to be reconciled with GSTR - 1
- Turnover to be reconciled with GSTR – 3B
- Turnover to be reconciled with E-Invoices, if applicable
- Turnover to be reconciled with E-Way Bills, in applicable cases
- Turnover within the same entity with different registrations
- Turnover to be reconciled HSN-wise Rate-wise
- Turnover to be reconciled with differences specified in GSTR-9 / 9C of Previous FY

P&L A/c – RECONCILIATIONS

- Expenses with RCM with GSTR-3B
- Imports with Bill of Entry and GSTR-3B
- Expenses with Eligible ITC Credits with GSTR-2B & GSTR-3B.
- Blocked Credits and Reversals with GSTR-3B.
- Credit Notes / Debit Notes issued by Suppliers with GSTR-2B & GSTR-3B

BALANCE SHEET – ASSETS

- Assets with Eligible ITC
- Assets with Blocked Credits [Immovable Properties – Motor Vehicles]
- Assets with Job workers
- Disposal / Sale of Assets
- Sundry Debtors [Foreign Clients - TCS - TDS]
- Other Current Assets - Balance with Revenue Authorities [Cr. Ledger – Cash Ledger – Refund]

BALANCE SHEET – INVENTORIES

- Goods in Transit
- Goods lost in Transit
- Goods with Job workers
- Goods sent for Sale on approval Basis

BALANCE SHEET – LIABILITIES

- Sundry Creditors – Payments
- Foreign Services Vendors - RCM
- Duties & Taxes – GST Payable
- BALANCE SHEET – RECONCILIATIONS

BALANCE OF ITC IN BOOKS WITH ELECTRONIC CREDIT LEDGER

- Balance of Excess GST paid with Electronic Cash Ledger
- GST Payable with GST Liability for March 2023
- Refund Claimed with Portal Records
- TCS / TDS Receivable claims with entries in Electronic Cash Ledger
- GST Liabilities with GSTR-1 & GSTR-3B



Audit Trail under the Companies Act, 2013

1. Introduction

The Ministry of Corporate Affairs ("MCA"), in its endeavor to fortify the integrity of financial reporting had amended the Companies (Accounts) Rules, 2014 ("Accounts Rules") requiring companies to ensure that the accounting software used to maintain books of accounts has the following features and attributes:

- recording audit trails for each & every transaction;
- logging the edits made to the book of accounts along with the date when such an edit was made; and
- ensuring that the audit trail cannot be disabled.

For this purpose, the following proviso had been inserted in Rule 3(1) of the Accounts Rules vide the Companies (Accounts) Amendment Rules, 2021, w.e.f. 1-4-2021:

"Provided that for the financial year commencing on or after the 1 [1st day of April, 2023], every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled."

Further, the Companies (Audit and Auditors) Rules, 2014 ("Audit Rules") had also been correspondingly modified and clause (g) was inserted to Rule 11 of the aforesaid rules. The auditors herein are now required to report, as part of the auditor's report, as to whether, the accounting software used by the company being audited has the feature of recording audit trail (edit logs), the audit trail feature was operational throughout the financial year and had not been tampered with and such audit trails have been retained for the period as statutorily prescribed. Rule 11(g) as inserted by the Companies (Audit and Auditors) Amendment Rules, 2021, w.e.f. 1-4-2021, is reproduced below:

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



CA. Kamal Garg

Responsibility of	Relevant Provision	Applicability Date and Remarks
Management of the Company	Proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014	Applicability Date: 1st day of April 2023 Remarks: This requirement was inserted by the Companies (Accounts) Amendment Rules 2021 vide notification G.S.R. 205(E) dated 24th March 2021 w.e.f.1st April 2021. Then this was substituted for 1st day of April 2022 by the Companies (Account) Second Amendment Rules 2021 vide notification G.S.R. 247(E) dated 1st April 2021 and again substituted for "1st day of April 2023" by the Companies (Account) Second Amendment Rules, 2022 vide notification G.S.R. 235(E) dated 31st March 2022. It may be noted that this new requirement for companies has been prescribed under the proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 requiring companies, which use accounting software for maintaining their books of account, to



Responsibility of	Relevant Provision	Applicability Date and Remarks
		use only such accounting software which has audit trail feature. This requirement for companies was initially made applicable for financial year commencing on or after April 1, 2021. However, its applicability has been deferred two times and this requirement is finally applicable from April 1, 2023.
Statutory Auditor of the Company	Rule 11(g) of Companies (Audit and Auditors) Rules, 2014	Applicability Date: 1st day of April 2022 Remarks: This requirement was initially made applicable for the financial year commencing on or after the 1st day of April 2021 vide notification G.S.R. 206(E) dated March 24, 2021. However, the applicability was deferred to financial year commencing on or after April 1, 2022, vide MCA notification G.S.R. 248(E) dated April 1, 2021.

1. On which entities audit trail requirements is applicable

The reporting requirements have been prescribed for audit of financial statements prepared under the Act. Accordingly, auditors of all class of companies including section 8 companies would be required to report on these matters. As per the Companies (Registration of Foreign Companies) Rules, 2014, the provisions of “Chapter X of the Act: Audit and Auditors” and Rules made there under apply, mutatis mutandis, to a foreign company as defined in the Act. Accordingly, the above reporting requirements would be applicable to the auditors of foreign companies as well. In simple words, as per the Companies Act 2013, these requirements shall be applicable to the following companies, including the companies that are managed by State and Central Government, NGOs who are receiving funds from various stakeholders:

- All Public and Private Limited Companies
- One Person Companies (OPCs)
- Companies owned by Government of India
- State Government Companies
- Not-for-Profit Companies/Organization [Section 8 companies]
- Nidhi Companies

The following entities hence don't fall under the purview of the audit trail rule:

- Individuals
- Proprietorship concerns
- Partnership firms
- Limited Liability Partnership
- HUFs/ AOPs/ BOI
- Cooperative Societies
- Societies registered under Societies Act, 1860
- Trusts

2. Manual book keeping and audit trail

The requirements of audit trail are applicable to the extent a company maintains its records in the electronic form by using an accounting software. Thus, where the books of account are entirely maintained manually – the assessment and reporting responsibility under Rule 11(g) will not be applicable and accordingly, same would need to be reported as statement of fact by the auditor against this clause.



3. Standards on Auditing w.r.t. audit-trail consideration

Various Standards on Auditing (SAs) may have to be contemplated by the auditors while reporting for the usage of audit-trail compliant software by the companies. Such as:

Relevant SAs		Audit Trail connection
SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	Rule 11(g) casts responsibility on the auditor in terms of reporting on audit trail by making a specific assertion in the audit report under the section 'Report on Other Legal and Regulatory Requirements'.
SA 210	Agreeing the Terms of Audit Engagements	While formularising letter of engagement, the reporting about audit trail and access to various underlying electronic records thereto should be clearly specified
SA 220	Quality Control for an Audit of Financial Statements	Evaluating the integrity of the principal owners, key management and those charged with governance of the entity. This will assist in deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client
SA 230	Audit Documentation	Recording the identifying characteristics of the audit trail compliant software
SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level such as auditor may choose to use computer-assisted audit techniques to gather more evidence about data contained in significant accounts or electronic transaction files.
SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	Statutory requirements for record retention vis-à-vis audit trail
SA 260	Communication with Those Charged with Governance	The auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of the auditor's findings with the appropriate level of management. This discussion provides an opportunity for the auditor to alert management on a timely basis to the existence of deficiencies of which management may not have been previously aware. Certain identified significant deficiencies in internal control may call into question the integrity or competence of management. For example, there may be evidence of fraud or intentional non compliance with laws and regulations by management, or management may exhibit an inability to oversee the preparation of adequate



Relevant SAs		Audit Trail connection
		statements that may raise doubt about management's competence. Accordingly, it may not be appropriate to communicate such deficiencies directly to management.
Revised SA 299	Joint Audit of Financial Statements	Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor
SA 300	Planning an Audit of Financial Statements	Ascertain the nature, timing and extent of resources necessary to perform the engagement.
SA 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	Evaluating the risks arising say due to inadequate access controls over automated records and review of computer systems event logs
SA 320	Materiality in Planning and Performing an Audit	Materiality and audit risk are considered throughout the audit. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. The risk of tampering audit trail or non operation of software throughout the year may impact assessment of materiality
SA 330	The Auditor's Responses to Assessed Risks	Dealing with the risks arising say due to inadequate access controls over automated records and review of computer systems event logs
SA 402	Audit Considerations Relating to an Entity Using a Service Organisation	Many entities outsource aspects of their business to organisations that provide services ranging from performing a specific task under the direction of an entity to replacing an entity's entire business units or functions. This Standard on Auditing (SA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations
SA 450	Evaluation of Misstatements Identified During the Audit	Misstatements may result from an inaccuracy in gathering or processing data from which the financial statements are prepared.
SA 500	Audit Evidence	Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.
SA 505	External Confirmations	Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium could be helpful in corroborating audit trail



Relevant SAs		Audit Trail connection
SA 510	Initial Audit Engagements – Opening Balances	This Standard on Auditing (SA) deals with the auditor’s responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
SA 520	Analytical Procedures	Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. This could be helpful in corroborating audit trail.
SA 530	Audit Sampling	The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	The measurement objective of accounting estimates can vary depending on the applicable financial reporting framework and the financial item being reported. The degree of estimation uncertainty affects, in turn, the risks of material misstatement of accounting estimates, including their susceptibility to unintentional or intentional management bias.
SA 550	Related Parties	The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity’s failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. The accounting records may be modified to conceal RPTs and such modification is nothing but tampering of audit trail
SA 560	Subsequent Events	Respond appropriately to facts that become known to the auditor after the date of the auditor’s report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor’s report.
SA 570	Going Concern	When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity’s ability to continue as a going concern. The accounting records may be modified to substantiate the management’s assessment about going concern and such modification is nothing but tampering of audit trail
SA 580	Written Representations	Take written representations as to the management’s assertions. It is the management, who is primarily responsible for ensuring selection of the appropriate accounting software for ensuring compliance with applicable laws and regulations (including those related to retention of audit logs).



Relevant SAs		Audit Trail connection
SA 580	Written Representations	Take written representations as to the management's assertions. It is the management, who is primarily responsible for ensuring selection of the appropriate accounting software for ensuring compliance with applicable laws and regulations (including those related to retention of audit logs).
SA 600	Using the Work of Another Auditor	Relevant for the main auditor while reporting on the consolidated financial statements after considering the audit report of subsidiaries, JVs and associates.
SA 610	Using the Work of Internal Auditors	Relevant for the main auditor while evaluating the internal auditor's findings w.r.t. audit trail
SA 620	Using the Work of an Auditor's Expert	Relevant for the main auditor while evaluating say the system auditor's findings w.r.t. audit trail

4. Meaning of expression 'all transactions recorded in the software'

The [Implementation Guide]2 on Reporting under Rule 11(g) issued by Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India, stipulates that:

a) The expression 'all transactions recorded in the software' would refer to all transactions that result in change to the books of account. For example, creation of a user in the accounting software may be construed as a transaction in the software. However, creating a user account in the accounting software would not change the records of books of account as defined in Section 2(13) of the Act whereas adding a new journal entry or changing an existing journal entry will be construed as a change made in books of account.

b) Giving due cognizance to the definition of "books of account" as envisaged under Section 2(13) of the Act and Rule 3 of the Account Rules which provides for the management responsibilities for maintenance of books of account and other relevant books and papers maintained in electronic mode, the auditor would be expected to check whether the audit trail is enabled for such transactions which result in a change to the books of account

5. Open Issues

Though the Implementation Guide (supra) has clarified many issues but the aforesaid guidance has still not provided comprehensive guidance on the following matters, namely:

- a) Difference in financial years for accounting (FY 2023-24) and auditing (FY 2022-23) – a conundrum
- b) Audit trail for books of accounts or accounting software
- c) Whether need to assess appropriateness of audit trail may arise retrospectively
- d) Accounting Software – one for books of accounts and another for financial statements
- e) Consolidated financial statements
- f) Using the accounting software which is supported by service providers
- g) Internal controls and audit approach for assessing the appropriateness of audit trail vis à-vis Section 143(3)(i) of the Companies Act, 2013
- h) Retention of audit trail
- i) Audit trail operated throughout the year for all transactions recorded in the software
- j) Management's Responsibility and Directors' Report
- k) Risk assessment in IT environment

The extent and the forthcoming audit period is going to have glaring challenges both for the auditor as well the auditee. The 'audit trail' is going to be tested over the 'time trail'. P.S.: For a detailed discussion on 'Audit Trail' as stipulated under the Companies Act, 2013, (including the open issues as above) the readers may refer the commentary written by the author of this article



Quiz on “ Audit Trail under the Companies Act, 2013 ”

Questions:

- 1.What is the applicable date for Audit Trail ?
- 2.How many times the applicability got deferred earlier ?
- 3.On which entities audit trail requirements is applicable ?
- 4.Is audit trail applicable in any form of accounting ?
- 5.What is the relevant provision confirming the responsibility of Management of the Company to comply with audit trail ?
- 6.What is the relevant provision confirming the responsibility of Statutory Auditor of the Company to report on audit trail ?
- 7.What is the responsibility of Management of the Company w.r.t audit trail ?
- 8.What is the responsibility of Auditor of the Company w.r.t audit trail ?
- 9.Is there any reporting requirement by the auditor for the entirely manually maintained books of accounts ?
- 10.Which Standards on Auditing w.r.t. audit-trail consideration is to be considered ?



CA. Priya A

Answers:

- 1.01st April 2023
- 2.2 times
- 3.The reporting requirements have been prescribed for audit of financial statements prepared under the provisions of Companies Act 2013.
- 4.Audit trail are applicable to the extent a company maintains its records in the electronic form by using an accounting software.
- 5.Amendment to proviso of the Companies (Accounts) Rules, 2014, by inserting Rule 3(1) of the Companies (Accounts) Amendment Rules, 2021 confirming the responsibility of Management of the Company to comply with audit trail.
- 6.Amendment to Companies (Audit and Auditors) Rules, 2014, by inserting Rule 11(g) of Companies (Audit and Auditors) Rules, 2014, confirming the responsibility of the auditor of the Company to report on audit trail.
- 7.Management of the company has to ensure that the company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.
- 8.It is the responsibility of Auditor of the Company to report whether the company, in respect of financial years commencing on or after the 1st April, 2022, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.
- 9.Where the books of account are entirely maintained manually, the assessment and reporting responsibility under Rule 11(g) will not be applicable and same would need to be reported as statement of fact by the auditor against this clause.
- 10.SA 200, SA 210, SA 220, SA 230, SA 240, SA 250, SA 260, SA 265, Revised SA 299, SA 300, SA 315, SA 320, SA 330, SA 402, SA 450, SA 500, SA 505, SA 510, SA 520, SA 530, SA 540, SA 550, SA 560, SA 570, SA 580, SA 600, SA 610, SA 620.



Arbitration, Conciliation & Mediation – Opportunities for Cas



ADR

- Settling disputes outside courtroom
- Reduce the burden of the courts
- Speedy Resolution / Justice



SPEAKER
Mr. G. ASHOKAPATHY
Advocate
Madras High Court

TOPIC
Independence and Impartiality
in Arbitration

Growing pendency of cases

- As per the information available on National Judicial Data Grid (NJDG) as on February 1, 2023.
- 59,87,477 cases pending in the High Courts
- Over 69,000 cases are pending in the Supreme Court

Advantage of ADR

- Voluntary process
- No rigid and strict procedure
- Saves time & money
- Simple and flexible procedure
- Free from technicalities of courts
- Chances of restoring relationship back

Arbitration

• Arbitration is a process of ADR in which a neutral third party (called the arbitrator) renders a decision after a hearing at which both parties have an opportunity to be heard. It is the means by which parties to a dispute get the same settled through the intervention of a third person, but without having recourse to court of law.

Types of Arbitration

CNICA

1. Domestic Arbitration
2. International Arbitration
3. Ad hoc Arbitration
4. Statutory Arbitration
5. Institutional Arbitration – Eg: CNICA

- Council for National and International Commercial Arbitration, shortly known as CNICA, under the aegis of the Trust for Alternative Disputes Resolution was formed in the year 2004, under the Indian Trusts Act, 1882
- CNICA has entered MoU with various international and national organisation for arbitration co-operation. CNICA has been listed as an arbitration institution by the Ministry of Law and Justice – Department of Legal Affairs, Union of India and UNCITRAL , United Nations.
- CNICA has a web portal www.cnica-odr.com for resolving disputes through online (ODR) and having CNICA Rules for ODR, 2020 separately. CNICA has its panel of arbitrators consisting Hon'ble Judges of the Supreme Court of India and High Courts (retired), eminent Lawyers, Engineers, Chartered Accountants, etc.



Sec 12 – Mandatory disclosure

- Prior relationship / interest / relation to subject matter dispute
- Grounds for challenge
- Doubts on impartiality / independence
- Ability of the Arbitrator to complete the proceedings / devote sufficient time
- Qualifications

Sec 13 – Challenge Procedure (within 15 days)

Sec 17 – Interim measures by Tribunal

- During the proceedings / After award made but before enforcement

Sec 19 – Determination of Rules and Procedure

- Proceedings shall not be bound by CPC, 1908 or IEA, 1872

Sec 21 – Commencement of Arbitration proceedings

- Request received by the Respondent

Sec 23 – Statement of Claim and Defense

- Claimant – Claim Statement along with relief sought
- Respondent – Statement of defense

Sec 24 – Hearing and Written Proceedings

- Advance notice of hearing to parties
- Submissions made by one party - communicated to other party
- Expert report/ evidence – shall be communicated to the parties

Sec 26 – Expert appointed by the Tribunal

- Tribunal can appoint one / more expert
- Expert can participate in hearing - If the parties request or Tribunal consider it necessary
- Can be presented as Expert witness
- Parties have an opportunity to questions the Expert / Cross examine the witness

Sec 27 – Court assistance in taking Evidence

- Either Tribunal / Party with approval of Tribunal

Sec 30 – Settlement

- Tribunal can use Mediation, Conciliation or any other procedure - for settlement during Arbitration proceedings
- Dispute settled – Proceedings stands terminated

Sec 32 – Termination of proceedings

- Tribunal orders for termination if
- Claimant withdraw his claim
- Parties agree to terminate
- Continuation of proceedings is impossible / unnecessary

Sec 34 – Application for setting aside Arbitral Award

- Incapacity
- Arbitration agreement is not valid
- Proper notice of appointment of Arbitrator / Arbitral Proceedings
- Dispute not falling within the terms of submission to Arbitration
- Proceedings not in accordance with agreement
- Subject matter not capable of settlement in Arbitration
- Conflict with public policy



Sec 35 – Finality of Arbitral Award

- Arbitral award is final & binding

Sec 36 - Enforcement

- Enforced as that of a degree of the civil court
- Application filed to set aside arbitral award under Sec 34 will not make the award unenforceable unless the court order for stay.

Conciliation

- Conciliation is less formal than arbitration but more evaluative than mediation
- Cooperative approach and not a compulsive approach
- Sec 62 to 81 of Arbitration and Conciliation Act.

Sec 62 – Commencement of conciliation proceedings.

- Party shall send a written invitation
- When the other party accepts in writing
- Sec 63 – Number of conciliators
- One conciliator unless parties agree that there shall be two or three.
- Act jointly

Appointment & Qualifications

- Conciliator – Independent third party who bring a mutually acceptable settlement.
- Sec 64 – Appointment of conciliator
- Parties can chose their conciliators
- Usually one but when agreed can be two or three
- The parties may enlist the assistance of a suitable institution.
- No specific required qualification needed
- CAs to can also be conciliators
- Adds to the array of services he provides.
- With knowledge on mediation, negotiating skills and related techniques - CA can act as a successful conciliator

Sec 65 – Submission of statements to conciliator

- Written statement, documents & evidences are submitted

Sec 66 – Conciliator not bound by — CPC, 1908 or the IEA, 1872.

Sec 67 – Role of conciliator

- Assist parties in impartial & independent manner
- Guided by the principles of objectivity, fairness & justice
- Proposal for settlement

Sec 70 – Disclosure of Information

- Factual Information given from one party is disclosed to the other
- Confidentiality is maintained

Sec 71 – Cooperation of parties with conciliators



Sec 72 – Suggestion by parties for settlement of dispute

- Either own or after the invitation of the Conciliator

Sec 73 – Settlement Agreement

- Conciliator's observations are submitted to the parties
- Parties has the discretion to reformulate the possible settlement
- If agreed, settlement agreement is signed - Final & Binding

Sec 74 – Status and effect of settlement agreement

- As that of Arbitral Award given by Tribunal as under Sec 30

Sec 75 – Confidentiality

- Process is kept confidential
- Disclosure is necessary for implementation & enforcement

Sec 76 – Termination

- Settlement Agreement signed by the parties
- Written declaration given by conciliator or parties or party to other party

Sec 77 – Resort to Arbitration/ Judicial Proceedings

- Shall not be initiated
- Incase of necessity can be initiated

Sec 78 – Costs

- Cost means 'reasonable cost'
- Borne equally by parties
- Cost for expert advise with the consent of parties
- Upon termination Conciliator fixes cost & give notice in writing

Sec 79 – Deposit

- Each party deposit equal amount
- Supplementary deposit when needed
- Cost demanded to be paid in 30days if not – Proceedings suspended/terminated
- Upon termination – unexpended balance are returned

Kinds of Conciliation

Voluntary Conciliation –

- Parties can voluntarily participate in the process of conciliation for resolving their dispute.

Compulsory Conciliation –

- If parties do not want to take the opportunity of voluntary conciliation then they can go for compulsory conciliation.
- Commonly used in labour cases.

Mediation

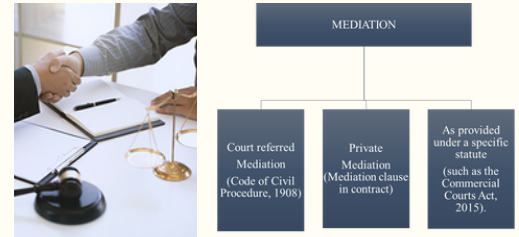
- Mediation is a voluntary process
- Parties try to settle disputes with the assistance of an independent third person (the mediator)
- Win- win situation
- The mediator has no the power to make a decision.
- Solutions are not imposed
- Parties are at will
- Suggest creative solutions to find common ground of solution.
- Mediator creates a conducive environment.



Provisions under various law referring parties to Mediation

- Industrial Disputes Act, 1947
- Companies Act, 2013.
- Micro, Small and Medium Enterprises Development Act, 2006
- Hindu Marriage Act, 1955 and Special Marriage Act, 1954.
- Real Estate (Regulation and Development) Act, 2016
- Commercial Courts Act, 2015
- The Commercial Courts Act, 2015
- Consumer Protection Act, 2019
- If parties reach an amicable settlement mediation agreement is formed
- It is executable and not enforceable as that of an arbitral award / Conciliation agreement

Mediation in India



CA as Arbitrators

- Sec. 2 (2) (iv) of the Chartered Accountant's Act, 1949 read with Regulation 191 of the Chartered Accountant's Regulations, 1988 specifically provides that a Chartered Accountant in his professional capacity is allowed to act as an Arbitrator.

Indian Council of Arbitration, a specialized arbitral body, sponsored by Government of India recognize Chartered Accountants as arbitrators.

- **Clause III (b)** of the — Chartered Accountants having **15 years of professional experience** are eligible for empanelment as an arbitrator.
- Empanel themselves with institutional organisations
- Can be Arbitrator for International Commercial Disputes.
- Helps resolving complex commercial conflicts

CA as an Expert

- Expert in matters where he has sufficient domain knowledge Eg: relating to accounts, commercial transactions, valuation, lease transactions etc
- The expert may be required on request of a party to make available to that party for examination, all documents, goods or other property in the possession of the expert on the basis of which he prepares his report - section 26(2) & (3).
- An expert may be examined and cross-examined.

CA as a Counsel for the client

- Proceedings are primarily on factual merits
- A Chartered Accountant normally represents the cases of his clients before various authorities including the Tribunals, Company Law Benches, SEBI, RBI etc.
- He can be instrumental in resolving the complex commercial disputes
- It is positive addition to the skill
- Preparation of statement of claims or defence, pleadings etc.

Arbitration – Opportunities for CAs

- Advantageous position well versed and experienced in taxation, accounting, take - over etc.
- Commercial or contractual dispute - parties first go to their CAs and not to an Advocate.
- Engage in resolving disputes of Clients informally.
- Extensive experience of drafting commercial agreements, negotiating and represents clients in a number of ways.
- Drafting of Arbitration Agreement
- Assisting Arbitrator in drafting arbitral award
- Assisting in preparing submissions to arbitrator



- He can help in deciding which ADR process the client should choose.
- Value addition to our services
- Arbitrator take assistance from a Chartered Accountant

CA as Mediators

- Can act as an impartial third party
- Financial Expertise
- Problem solving skills
- Confidentiality
- Facilitate Communication between parties



Gallery for the Month of **April 2023**

Topic : “SEZ - Overview”

Speaker : CA. Bargavi Natesan

Date : 06th April 2023, **Thursday**



Topic : “GST matters to be considered during closure of books of Accounts”

Speaker : CA. Sriram R

Date : 13th April 2023, **Thursday**





Topic : “Analysis of provisions of sections 45(4) and 9B of the Income Tax Act, 1961”

Speaker : CA. Krishnan S

Date : 20th April 2023, **Thursday**



Topic : “Arbitration, Conciliation & Mediation Opportunities for CAs”

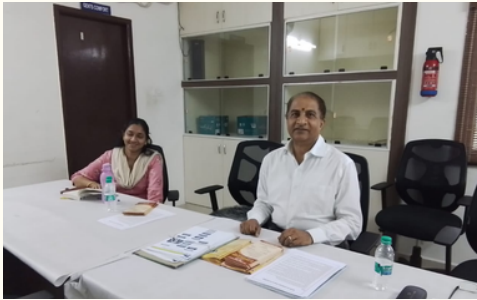
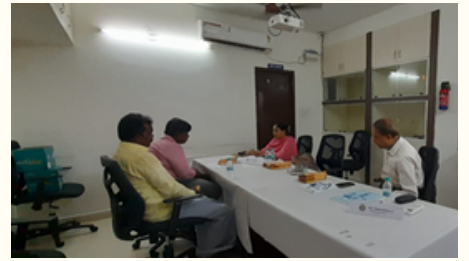
Speaker : Adv. G Ashokapathy

Date : 27th April 2023, **Thursday**





Career Counselling @ Branch Premises All Saturday & Sunday





“One day training program for Peer Reviewers” on 22-04-2023





CA Career Counselling @ Chengalpattu 23-4-2023





CA Career Counselling @ Kanchipuram 25-4-2023





Residential Refresher Programme from 28th to 30th April 2023 @ Ooty





Upcoming Programs - May 2023



CHENGALPATTU DISTRICT BRANCH OF SIRC OF ICAI

Cordially invites you to our **Physical CPE Meetings of May '2023**
@ Branch Premises

Topic - "Seminar on NGO - Social Audit & Social Auditors"

Speaker - CA. Gopalkrishnan Raju

CA. Krishnakumar R

Date - 06th May 2023, Saturday

Time - 05.00 pm - 08.00 pm

CPE
Credit-
3Hrs

Topic - Taxation of Derivative and Equity Trading under the Income Tax Act and Tax planning concerning the same "

Speaker - CA Viswanathan K

Date - 11th May 2023, Thursday

Time - 06.00pm - 08.00pm

CPE
Credit-
2Hrs

Topic - Detailed Discussion on RCM in GST"

Speaker - CA Chirag Tibrewal

Date - 18th May 2023, Thursday

Time - 06.00pm - 08.00pm

CPE
Credit-
2Hrs

Fees - Rs.118/- [Nil for **ARC Members of Chengalpattu District Branch**]

Registration Link: <https://events.cglportal-icai.org/member>

"Hearty Welcome to All"

CA. Sivagurunathan T
Chairman

CA. Shivachandra Reddy K
Secretary

CA. Yuvamoorthy V
CPE Committee Chairman

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