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THE NEXT FRONTIER OF ACCOUNTING

TECHNOLOGY, TRUST AND TRANSPARENCY



ICAI - SET UP BY AN ACT OF PARLIAMENT



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India's Digital Financial Ecosystem - From Inclusion to Empowerment

The headline proclaims, '*India's UPI is leading the world in real-time payments.*' Behind this triumph lies the deeper story of trust, innovation, and implementation, the pillars that have fortified the financial ecosystem for billions of Indians. The nation has transformed from a cash-driven economy to a mobile-first financial system within a decade. By embracing technology through which money seamlessly flows, India has not only redefined digital finance but also carved a proud milestone that signals a transformative leap into the future of global financial systems.

Building on this momentum, the nation is embracing diversity in its truest sense by embedding Digital Public Infrastructure (DPI) seamlessly from the grassroots to the highest levels of commerce and governance. Anchored in its core pillars, digital identity, fast payment systems, and secure data exchange layers, India is effectively modifying itself into a connected ecosystem where technology binds every stakeholder. Whether it is identity verification, financial transactions, or the direct delivery of government benefits, technology now serves as the common thread. Furthermore, the effective rollout of faceless income tax assessments, seamless e-filing of returns, and the rationalisation of GST compliance through digital platforms have markedly enhanced transparency, operational efficiency, and the overall ease of doing business.

The numbers further underscore this potential, with India's fintech sector projected to reach \$250 billion by 2030, driven by digital lending, embedded finance, and data-driven innovation. As the nation progresses from enabling digital payments to architecting a comprehensive digital financial ecosystem, initiatives such as the digital rupee (₹), including offline capabilities introduced by the RBI, signal a future defined by resilience, inclusivity, and forward-looking execution.

Hurdles serve as stepping stones to growth, and the way they are addressed reflects true strength and spirit. As India advances on its journey of building a digital ecosystem, it continues to navigate challenges with resilience while keeping future imperatives in clear focus. The rapid surge in digital adoption has amplified exposure to cybersecurity threats, including fraud, data breaches, and data privacy concerns, thereby necessitating safeguards and heightened regulatory vigilance. India recognises the imperative of expanding digital adoption and is, therefore, undertaking concerted efforts to extend its reach to the remotest corners, ensuring that it becomes truly pervasive and inclusive.

A digitally empowered ecosystem is not the outcome of isolated efforts, but the result of a cohesive convergence

of multiple professions, seamlessly integrating technology, finance, and regulatory frameworks. Technology undoubtedly acts as the catalyst, yet its true potential is realised only through responsible adoption and effective implementation. This transition necessitates professionals who can balance innovation with ethics, ensuring that progress remains both sustainable and trustworthy.

In this evolving landscape, Chartered Accountants emerge as key enablers, bridging the gap between technological advancement and financial governance. With their expertise in assurance, risk management, and compliance, they play a vital role in strengthening cybersecurity frameworks, enhancing transparency, and reinforcing stakeholder trust. Guiding enterprises, particularly MSMEs, in adopting digital systems and navigating emerging regulatory frameworks, the profession significantly contributes to building a resilient, inclusive, and future-ready digital economy.

The Institute stands proactively with the nation and its members. It embraces this digital momentum by introducing forward-looking initiatives, including development of Information System Audit Standards, specialised courses on data protection and data privacy, fraud detection, data analytics, AI and emerging technologies. The launch of CA GPT as an innovative learning platform reflects its commitment to equipping professionals with future-ready skills. Further, the dynamic evolution and adoption of the Unique Document Identification Number (UDIN) system stands as a landmark reform, reinforcing authenticity and credibility in financial reporting. Together, these initiatives exemplify a cohesive progression towards a transparent, technology-driven, and resilient financial ecosystem.

India is standing united today; it is the power of collective effort, aligned in a common direction, that yields transformative outcomes. India's rising stature in the global digital financial landscape is a testament to this shared vision, positioning the nation as a trailblazer whose innovations are increasingly being emulated worldwide. As countries look toward India's models of DPI and inclusive finance, the journey toward becoming a "Vishwaguru" gains tangible momentum. In the words of Mahatma Gandhi, "*The future depends on what we do in the present.*" With sustained collaboration, governance, and a forward-looking approach, India stands not only to lead but to redefine the contours of the global financial ecosystem.

-Editorial Board ICAI

Partner in Nation Building

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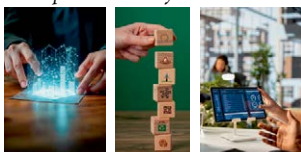


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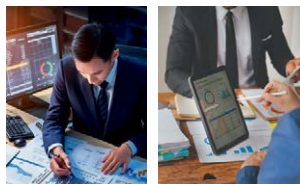


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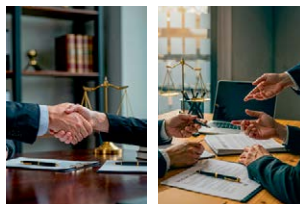
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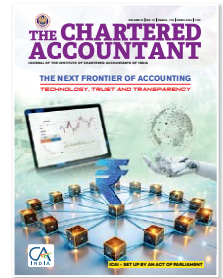
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From the President



CA. Prasanna Kumar D
President, ICAI

‘Train yourself in a manner that change does not intimidate you, but instead inspires you to remain relevant in this era of transformation.’

Dear Professional Colleagues,

The global landscape is marked by multitude of ‘black swan’ disruptions- ranging from geopolitical developments & resultant supply chain challenges to climate change and rapid technological advancements. These forces are continuously shaping economies, institutions, and the very fabric of society.

In the said emerging backdrop, it fills my heart with immense pride to witness our great nation demonstrating remarkable resilience to external risks, driven by strong domestic fundamentals, a stable and progressive policy framework, and a clear vision. India continues to advance at an exceptional pace towards becoming an inclusive and sustainable developed economy.

As we navigate this transformative era, the essence of Darwin’s theory of survival resonates strongly. Every disruption brings with it an opportunity to innovate,

adapt, and create value for the greater public good- much like the evolution witnessed across the various phases of the industrial revolutions. While there is a growing narrative that technology may replace human effort, it is important to recognize and understand that technology can substitute the ordinary, but it can never replace the extraordinary.

A true professional, especially a Chartered Accountant, is committed to excellence, guided by integrity, and willing to embrace and lead change, rising as a trailblazer in challenging times, powered by strong ethical values and a foundation of professional skepticism inculcated through the rigorous Chartered Accountancy curriculum.

Friends for the profession, the message is loud and clear: adaptability and responsiveness to change will be essential qualities to thrive and excel. Evolution is no longer a choice - it is our collective path to progress.

I would also like to proudly acknowledge that our profession has made an indelible contribution to India’s growth story by strengthening financial resilience, ensuring the integrity of financial information, and promoting trust and credibility in financial markets - thereby creating a conducive environment for investment and economic development.

Technological Developments so far

India has made remarkable strides in the realm of digital innovation, supported by progressive regulatory and technological initiatives. The Digital Personal Data Protection Act, 2023, read with DPDP Rules 2025, is set to establish a robust framework to safeguard personal data, ensure privacy, and promote responsible data processing. Similarly, the Digital Lending Directions, 2025, are reinforcing transparency and strengthening borrower protection. Further, the Government is actively advancing AI governance to create an ecosystem that is both ethically grounded and technologically progressive.

Innovations such as UPI have significantly expanded the reach and versatility of digital payments. It is, therefore, no coincidence that India ranks among the world’s largest adopters of digital payments, including among

those at the bottom of the pyramid. The widespread adoption is anchored in the trust, accessibility, and ease that such platforms have brought to the population. Collectively, these data protection laws and streamlined regulatory platforms underscore India's emergence as a global leader in technology-driven finance.

The next phase of financial evolution will be defined by the convergence of AI, digital public infrastructure, and enhanced regulatory frameworks that will ensure the ethical and responsible use of technology. AI is rapidly evolving from a support tool into a true "financial co-pilot," capable of delivering real-time advisory, automating compliance, and offering highly personalised financial solutions. However, in a diverse country like India, where financial literacy goals and language preferences vary widely, such advancements must be complemented with professional expertise to ensure relevance and reliability.

As we envision the future of finance shaped by technology, it becomes equally important to reflect on the crucial dimension of *Responsible AI governance*. The rapid digitization brings not just opportunities but also new responsibilities and the need for regulatory oversight. As India embraces technological adoption at an extraordinary pace, there is a parallel imperative to strengthen frameworks around digital lending, data protection, and virtual assets.

As we continue to embrace and integrate technology into our professional and personal lives, it is our collective responsibility to adhere to regulatory frameworks and uphold the highest standards of ethical conduct. In today's world, data has become the new currency, and if each one of us exercises vigilance, even in the smallest actions, while leveraging technology, it will pave the way for a safer and more efficient digital ecosystem.

ICAI at the forefront of technology advocacy and implementation

As you are aware, the Institute has entered into an MoU with the MeitY to collaborate on capacity building, research, and the development of frameworks in emerging areas. This strategic initiative aims to strengthen the profession's preparedness for the evolving digital era.

The profession must stand at the forefront of designing and implementing assurance frameworks for AI-driven

systems, auditing blockchain-enabled transactions, and validating the integrity of automated and agentic decentralized financial processes. As guardians of financial credibility, it is imperative that we ensure technological advancements remain firmly anchored in ethical principles and robust regulatory compliance.

As an Institution, ICAI continues to work closely with the government and key stakeholders to strengthen the ecosystem for AI adoption across professions and industries, while ensuring its responsible and ethical use in the public interest.

Standard Setting Initiatives in Emerging Areas

The Institute has undertaken significant initiatives by developing robust standards, including the Forensic Accounting and Investigation Standards (FAIS) and the Information Systems Audit Standards (ISAS). These efforts are aimed at strengthening the profession's ability to confidently navigate the complexities of an increasingly digitized financial ecosystem.

The introduction of CA-GPT represents a pioneering initiative in leveraging technology, enabling professionals to access extensive financial data and perform complex analysis with remarkable ease. This initiative has already witnessed widespread adoption across the fraternity. Complementing this, structured AI training programmes and specialized certificate courses are equipping members with future-ready technological competencies.

Let's now ponder on the recent initiatives by the Institute:

Advancing Accounting Standards

The Institute, through its Accounting Standards Board (ASB), continues to play a pivotal role in strengthening India's financial reporting framework and aligning it with global developments.

- Recently, based on the recommendations of ICAI and the National Financial Reporting Authority (NFRA), the Ministry of Corporate Affairs (MCA) has notified amendments to Accounting Standard (AS) 22 relating to the Pillar Two Model Rules on March 10, 2026, effective from FY 2025-26.
- In line with the ICAI's continued efforts to keep pace with global developments in financial reporting, another important set of amendments to Ind AS,

proposed to be effective from 1st April 2026, is expected to be notified shortly. These include amendments to financial instruments related standards with regard to Classification and Measurement aspects, and Accounting related to Contracts Referencing Nature-dependent Electricity.

- Further, as part of the Ind AS implementation initiatives, and to address and regularly update stakeholders on various issues arising in India in the implementation of Ind AS, Educational Materials on Ind AS 36, *Impairment of Assets* and Ind AS 24, *Related Party Disclosures* have been issued by ICAI to promote consistent application and enhance understanding of these standards.
- Also, towards knowledge dissemination initiatives, the ICAI has developed e-learning modules on Ind AS and AS for members. These modules are aimed at enhancing the understanding of accounting standards and supporting members in the effective implementation of the evolving financial reporting framework.

Strengthening Digital Assurance: Launch of DPCAC

The Institute has marked a significant milestone in capacity building with the launch of the Certificate Course on Data Protection Compliance & Audit Certification (DPCAC) at its Centre of Excellence in Hyderabad. The programme witnessed an overwhelming response from 16 states, reflecting the growing importance of data protection and digital assurance in professional practice.

Conceptualised in line with the Digital Personal Data Protection Act, 2023, the certification aims to equip members with future-ready competencies in data governance, compliance frameworks, consent management, and audit methodologies. It also highlights the critical role of robust data governance in today's evolving regulatory environment.

Managing Committee Members Meet -2026

Over the years, ICAI, with its strong institutional structure, has built a legacy of excellence for its members and students across 186 branches in India. The true drivers of this progress are our dedicated volunteer leaders across the Council, Regional Councils, and Branches who are diligently translating the Institute's vision and strategic roadmap into action on the ground.

To carry forward the legacy ahead, the RBA Directorate has successfully conducted the Regional Level Managing

Committee Members Meet 2026 across all 5 regions, with the objective of providing structured orientation to the elected Managing Committee Members of Branches and Regional Council Members. These meets emerged as a strong platform for deliberation, strategic planning, and developing a forward-looking roadmap to take the Institute to newer heights.

It also played a crucial role in strengthening internal governance by familiarizing the managing committee members with the Institute's regulations, policies, and best practices, thereby reinforcing the objective of balanced regulation with development. The inputs received during these meets will be valuable in further strengthening our policies and support systems. These meets reflected a strong spirit of collaboration and a shared commitment to positioning ICAI and the profession as key partners in realising the vision of Viksit Bharat. The response to these regional meets has been highly encouraging. A total of 1095 Managing Committee Members out of 1206, along with 62 Regional Council Members out of 64, participated in these programmes.

ICAI's Global Engagement

I recently had the privilege of participating in the IFAC Board Meeting held on February 26–27, 2026, in New York. The meeting focused on significant global developments, including strengthening the accounting standard-setting ecosystem, enhancing governance, and leadership transitions in key international bodies overseeing financial reporting. During these discussions, ICAI's progressive initiatives were presented, particularly the adoption of the 13th edition of the revised Code of Ethics aligned with IESBA's Code of Ethics, and its forward-looking approach towards responsible integration of Artificial Intelligence across education, regulation, research, and member services.

Meeting with the Financial Reporting Council (FRC), United Kingdom

In alignment with the UK-India Free Trade Agreement (FTA) commitments to encourage professional bodies to initiate negotiations in the accounting and auditing sectors, the ICAI met the delegation led by Mr. Nathan Walker, Department of Business Trade, Govt. of UK and Mr. Dhruve Shah, Director, Professional Bodies Supervision from FRC, an independent regulator in the United Kingdom and Ireland responsible for promoting transparency and integrity in business.

During the meeting, the FRC delegation provided a comprehensive understanding of India's audit regulatory ecosystem and ICAI's multifaceted role in standard-setting, quality review, and enforcement. Further, the discussions were held on professional mobility, knowledge sharing, and collaboration.

Past Presidents' Meet

With a forward-looking vision to continuously strengthen and evolve the profession, the Past Presidents' Meet 2026 was held on 5-6th March 2026, bringing together 29 distinguished former Presidents of ICAI who have played a defining role in shaping the Institute's journey over the decades. The collective wisdom, rich experience, and institutional memory of our past leaders remain an invaluable asset for the Institute, offering thoughtful guidance as we navigate emerging opportunities and challenges.

The deliberations during the Meet covered a wide range of important matters related to students, members, professional development, brand building, and other strategic priorities. The valuable perspectives and suggestions shared during the meet were further deliberated in the Council Strategic meet towards shaping the vision for the profession. Building on these insights, a progressive roadmap will be developed to position the profession as a key enabler in India's growth story.

Statutory Central Auditors' Meet

The Statutory Central Auditors' (SCA) Meet held on 24th March 2026 in Mumbai was graced by Shri Rohit Jain, Executive Director, Reserve Bank of India, who commended the proactive role played by auditors and appreciated the initiatives taken by ICAI towards strengthening audit quality, capacity building, and enhancing the overall effectiveness of the audit ecosystem. The meet, attended by 130 participants, served as an important platform for deliberations on key issues impacting bank audits in a rapidly evolving financial and regulatory landscape.

The discussions focused on the expanding role and responsibilities of Statutory Central Auditors' (SCA) in ensuring high audit quality, strengthening financial reporting, and addressing emerging risks in a technology-driven environment. Emphasis was laid

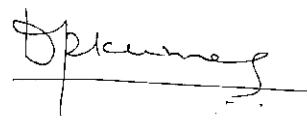
on regulatory expectations, particularly those of the Reserve Bank of India, risk-based auditing approaches, and the need for enhanced professional skepticism.

Conclusion

Technology is, undoubtedly, a defining catalyst in India's journey towards becoming a developed and resilient nation. However, it is the harmonious integration of technology with ethics that will truly strengthen the foundations of our society. As this transformation accelerates, the responsibility placed upon us as Chartered Accountants becomes even more significant. We are not merely participants in this change; we are its enablers, custodians, and conscience-keepers.

As we look to the future, it is imperative for our members and students to embrace lifelong learning, adaptability, and innovation. The evolving role of the Chartered Accountant will demand not only technical proficiency but also a deep commitment to integrity and trust. As aptly said, *"The best way to predict the future is to create it."* Let us, therefore, strive to shape a future where technology and ethics coexist to drive sustainable progress.

I assure you that the Institute stands firmly with each one of you at every step of your professional journey, advancing growth, resilience, and excellence. I invite your valuable suggestions and inputs as we collectively strive to be enablers of reform and transformation in our shared mission of upholding public interest with a Nation First approach.



CA. Prasanna Kumar D

President, ICAI

New Delhi, 27th March, 2026

1. ICAI Past Presidents' Meet 2026



CA. Prasanna Kumar D, President, ICAI & CA. Mangesh P. Kinare, Vice-President, ICAI joined Past Presidents, Central Council Members & Secretary, ICAI at ICAI Past Presidents' Meet 2026 organised at Kochi on March 5 & 6, 2026, reflecting on ICAI's rich legacy & exchanging valuable insights to further strengthen the profession.

2. Panel Discussion- MSME Sambal- Corporate Mitras Para-professionals



CA. Prasanna Kumar D, President, ICAI along with dignitaries from IICA, NSIC, ICSI, ICAI and PHD Chamber of Commerce and Industry during the Panel discussion held on March 3, 2026, on the topic "MSME Sambal- Corporate Mitras Para-professionals."

3. Interactive Meet with Statutory Central Auditors



CA. Prasanna Kumar D, President, ICAI greeting Shri Rohit Jain, Executive Director, Reserve Bank of India in the presence of CA. Mangesh P. Kinare, Vice-President, ICAI, CA. Abhay Chhajed & CA. Piyush Chhajed, Central Council Members during Interactive Meet with Statutory Central Auditors organised at Mumbai on March 24, 2026.

4. Members Meet, Hyderabad



CA. Prasanna Kumar D, President, ICAI & CA. Mangesh P. Kinare, Vice-President, ICAI joined CA. M. Devaraja Reddy, Immediate Past President, ICAI, Central Council Members - CA. Rajendra Kumar P, CA. Purushottamlal Khandelwal, CA. Sridhar Muppala & Regional Council Members at Members Meet organised at Hyderabad on March 22, 2026, and shared their perspectives on strengthening the CA profession & its role in Nation-Building.

5. FRC Delegation Meet



CA. Prasanna Kumar D, President, ICAI met delegation from Financial Reporting Council, UK led by Mr. Dhruve Shah, Director, Professional Bodies Supervision on March 25, 2026 at ICAI head office, New Delhi, in the presence of CA. (Dr.) Jai Kumar Batra, Secretary, ICAI and senior officers.

6. Management Committee Members Meet

The Institute of Chartered Accountants of India organized the Managing Committee Members Meet for Office Bearers and Management Committee Members of its 5 Regional Councils and 186 branches spread across the country. This is for the first time that the Meet was organized separately for all 5 Regions with an aim to engage participants in comprehensive discussions on ICAI's vision, strategic priorities, and operational frameworks.

Western Region (March 13-14, 2026)



CA. Prasanna Kumar D, President, ICAI & CA. Mangesh P. Kinare, Vice-President, ICAI along with Central Council Members & WIRC Regional Council Members graced the Managing Committee Members' Meet – Western Region at Powai, engaging with branch leaders & shaping a stronger, future-ready ICAI.

Northern Region (March 11-12, 2026)



CA. Prasanna Kumar D, President, ICAI, & CA. Mangesh P. Kinare, Vice-President, ICAI along with Central Council Members & NIRC Regional Council Members at the Managing Committee Members' Meet – Northern Region held at Chandigarh, engaging with branch leadership and strengthening ICAI's member-centric vision.

Central Region (March 16-17, 2026)


CA. Prasanna Kumar D, President, ICAI, & CA. Mangesh P. Kinare, Vice-President, ICAI along with Central Council Members & CIRC Regional Council Members at the Managing Committee Members' Meet – Central Region held at Ghaziabad, aimed to collaborate effectively in driving the growth and development of the profession.

Southern Region (March 23, 2026)


CA. Prasanna Kumar D, President, ICAI, & CA. Mangesh P. Kinare, Vice-President, ICAI along with Central Council Members & SIRC Regional Council Members at the Managing Committee Members' Meet – Southern Region held at Hyderabad, reinvigorating the Members towards high level of professional integrity, ethics in the profession and acting as a bridge between all the stakeholders in the CA fraternity, clients and the Government.


Eastern Region (March 21-22, 2026)


CA. Prasanna Kumar D, President, ICAI, & CA. Mangesh P. Kinare, Vice-President, ICAI along with Central Council Members & EIRC Regional Council Members at the Managing Committee Members' Meet – Eastern Region held at West Bengal, encouraged participants to work with determination, discipline and dedication for the development of Profession and the Nation.



CA. Richa Thapa

Member of the Institute

Application Systems in Business: Risks, Controls, and the Auditor's Evolving Role

How Chartered Accountants can Navigate Risks in New and Modified Transaction Processing Systems

Digital transformation has redefined modern business, with application systems such as ERP, CRM, RPA, and AI platforms moving from support functions to the backbone of operations, transactions, and reporting. While these systems enhance efficiency and scalability, they also introduce risks in cybersecurity, compliance, financial reporting, and change management.

Chartered Accountants (CAs) play a critical role in addressing these risks by analysing vulnerabilities, designing robust controls, and validating their effectiveness. Drawing on frameworks like IIA's GTAGs, COBIT, COSO ERM, and ICAI initiatives, this article outlines practical methodologies and highlights emerging trends such as continuous auditing, AI monitoring, and blockchain assurance, positioning CAs as strategic advisors in technology-driven environments.

Introduction

Over the past decade, organizations across the globe have accelerated their adoption of technology-driven models. Whether in manufacturing, financial services, retail, healthcare, or logistics, the reliance on application systems has grown exponentially. What was once a matter of operational convenience has now become a business imperative.

Today, critical activities, ranging from payroll processing and inventory management to customer engagement and financial reporting, are automated through integrated application systems. These platforms are not only performing transaction processing but also providing advanced decision support through data analytics, predictive modelling, and real-time dashboards.

The COVID-19 pandemic further catalyzed this transition. Remote working, online transactions, and digital collaboration tools became essential, and organizations had to adopt or upgrade application systems quickly to ensure continuity. While the benefits were clear, these rapid

implementations also introduced unanticipated risks.

For Chartered Accountants, this represents both an opportunity and a responsibility. As professionals trusted with ensuring transparency, compliance, and accountability, CAs must not only understand financial controls but also assess and assure the underlying application systems. The ICAI's Digital Accounting and Assurance Board (DAAB) has emphasized that technology-enabled assurance is now central to the CA's role.

This article provides an in-depth discussion on the risks, frameworks, and controls associated with new and modified application systems, with a focus on practical approaches for CAs and allied professionals.

The Rise of Application Systems in Modern Business

The shift from manual processes to technology-enabled operations is not new. However, the scale, complexity, and pace of change in application

systems have reached unprecedented levels.

1. Enterprise Integration through ERP and CRM

Systems such as SAP, Oracle NetSuite, and Salesforce unify core functions such as finance, procurement, HR, and customer management into integrated platforms. This reduces duplication, accelerates decision-making, and provides holistic visibility.

Example: A manufacturing enterprise integrates its supply chain into its ERP, ensuring real-time inventory updates. While this reduces stock-outs, a minor misconfiguration could halt production across multiple plants.

2. Emergence of Robotic Process Automation (RPA)

- Bots automate repetitive, rule-based tasks such as invoice matching or compliance reporting.
- While efficient, improper configuration can result in large-scale processing errors.

3. Artificial Intelligence and Machine Learning

- Predictive analytics and anomaly detection applications are increasingly embedded in finance, fraud detection, and forecasting.
- However, algorithms may carry inherent bias or lack transparency, posing audit challenges.

4. Cloud Computing and Software-as-a-Service (SaaS)

- Cloud applications lower costs and improve scalability.
- Yet, they raise unique issues around data security, vendor dependency, and regulatory compliance across jurisdictions.

5. Mobile Applications and Application Programming Interfaces (APIs) as Enablers of Digital Transformation

- Digital transformation is reimagining business models, processes, and customer engagement through technology, with mobile applications as a key interface for customers and employees.
- APIs are secure channels that allow these apps to communicate with core systems like ERP, CRM, payment gateways, and cloud platforms in real time, enabling seamless transactions and data updates.
- Mobile applications bring services directly to customers and employees, but their effectiveness relies on APIs. For example, a banking app uses APIs to fetch balances, process transactions, and update customer records instantly.
- This integration requires auditors to assess API security, reliability, and integrity, as weaknesses could compromise both mobile and enterprise systems.

How Data Exchange Works in API-to-API Communication

API-to-API communication enables automated, structured, and secure data exchange between independent applications. Systems authenticate using tokens, API keys, or OAuth, exchange data in formats like JSON or XML, and may use middleware for compatibility. While APIs improve efficiency, weak authentication, undocumented endpoints, or lack of monitoring pose risks, making control evaluation critical to maintain data confidentiality, integrity, and availability.

6. Blockchain Applications

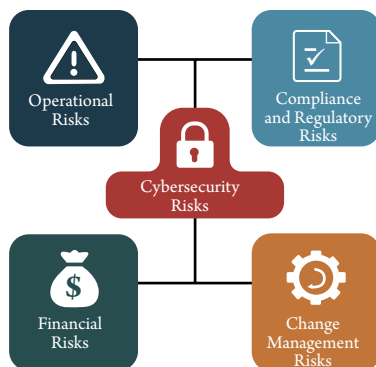
- Distributed ledgers are transforming trade finance, supply chain traceability, and audit trails.
- Adoption is promising but immature, creating uncertainty around controls and governance.

Case in Point

In the banking sector, transaction processing applications handle millions of daily records. Any misconfiguration could lead to erroneous interest calculations, impacting both financial results and customer trust. In e-commerce, a malfunctioning payment gateway could disrupt thousands of transactions per second, causing not only revenue loss but also reputational fallout.

These examples demonstrate that while application systems drive efficiency, they simultaneously elevate the stakes of risk management.

Risk Landscape of Application Systems



“Digital transformation is reimagining business models, processes, and customer engagement through technology, with mobile applications as a key interface for customers and employees.”

Risks in New or Modified Transaction Processing Systems

The IIA's GTAG 3: Managing and Auditing IT Vulnerabilities emphasizes that changes in IT environments invariably introduce vulnerabilities. The following risk categories are particularly relevant to application systems:

1. Operational Risks

- System downtime in critical industries (e.g., stock exchanges, hospitals) can cause financial and social disruption.
- Data integrity errors during migrations or upgrades can compromise the reliability of financial reporting.
- Inadequate documentation of processes increases reliance on a handful of employees, heightening key-person risk.

2. Cybersecurity Risks

- External attacks such as ransomware, denial-of-service, and phishing are increasingly targeted at applications.
- Insider threats, including privilege abuse, can bypass automated controls.
- Third-party integrations (APIs, cloud vendors) expand the attack surface.

3. Compliance and Regulatory Risks

- Global regulations (GDPR, India's Digital Personal Data Protection Act) impose strict data handling standards.
- Automated systems must ensure audit trails and evidence for regulators.
- Inability to demonstrate compliance can result in fines, penalties, and reputational harm.

4. Financial Reporting Risks

- Automated journal entries, revenue recognition, and reconciliations carry risks if logic is not properly validated.
- Errors can bypass manual review, affecting quarterly and annual financial statements.

5. Change Management Risks

- Frequent patches, upgrades, and modifications introduce risks of untested changes, disrupting operations.
- Weak governance in change management may allow unauthorized modifications, creating fraud potential.

Risk Analysis Frameworks for Professionals

CAs and internal auditors must anchor their risk assessments in structured methodologies. The following frameworks provide robust guidance:

1. IIA GTAG Series

- GTAG 1: Information Technology Controls - foundation for assessing general and application controls.

- GTAG 3: Managing and Auditing IT Vulnerabilities - specific to application changes and new systems.

- GTAG 11: Developing the IT Audit Plan - integrating IT risks into enterprise-wide assurance.

2. COBIT (Control Objectives for Information and Related Technologies) Framework

- Provides governance and management objectives, ensuring alignment between IT processes and business goals.

- Helps auditors assess maturity of IT processes.

3. COSO ERM (Enterprise Risk Management)

- Encourages risk-based thinking and integration of IT risks into enterprise-level decision making.
- Aligns risk appetite and business objectives.

4. NIST Cybersecurity Framework

- Useful for addressing cybersecurity dimensions of application risks (Identify, Protect, Detect, Respond, Recover).
- Particularly useful for assessing cybersecurity risks in application systems.

Practical Methodology for CAs

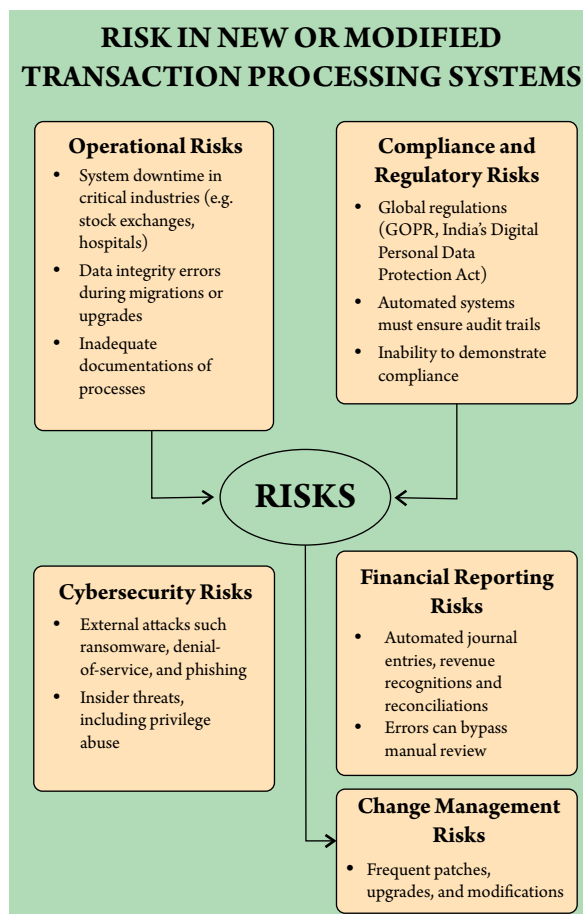
- 1. Risk Identification:** Gather inputs from IT teams, process owners, and regulatory requirements.
- 2. Risk Assessment:** Evaluate likelihood and impact (financial, reputational, operational).
- 3. Risk Prioritization:** Focus on high-risk areas such as transaction accuracy, system security, and data confidentiality.
- 4. Control Mapping:** Link each risk to existing or proposed controls.
- 5. Ongoing Monitoring:** Establish continuous feedback loops.

Practical Application for CAs

1. Conduct structured risk workshops with IT and business teams.
2. Document risks and map to organizational objectives.
3. Use scoring matrices to prioritize based on impact and likelihood.
4. Recommend and monitor mitigating controls.

Designing and Implementing Application Controls

Effective risk management in today's technology-driven business



environment hinges on designing controls that are not only theoretically sound but also embedded seamlessly into day-to-day operations. Application controls act as the first line of defense against data inaccuracies, fraud, and operational inefficiencies. When properly implemented, they create confidence in the reliability of financial and operational reporting, while supporting compliance with statutory and regulatory requirements.

Broadly, application controls can be classified into five key categories:

1. Preventive Controls

Preventive controls are proactive measures designed to stop errors or irregularities before they occur. Their goal is to ensure that only valid, authorized, and accurate transactions enter the system.

- **Input Validation:** By restricting date formats, numerical ranges, or mandatory fields, systems ensure completeness and accuracy. For example, in a payroll module, the system can restrict the entry of negative salary amounts or duplicate employee IDs.
- **Role-Based Access Controls (RBAC):** These ensure that responsibilities are segregated to prevent conflicts of interest. For example, the same user should not be allowed to both create and authorize vendor payments. RBAC is critical in reducing the risk of fraud.
- **Encryption and Password Policies:** Encryption secures sensitive data, while password policies (complexity, periodic change, multi-factor authentication) protect against unauthorized access.

Illustrative Example: In a banking application, input validation prevents account opening forms from being submitted without mandatory KYC details, while RBAC ensures that account creation and loan approvals are handled by separate personnel.

2. Detective Controls

Detective controls operate after the transaction has been processed, aiming to identify anomalies, errors, or unauthorized activities.

- **Exception Reports:** Automated reports flagging unusual or high-risk transactions, such as payments exceeding authorization limits.
- **Audit Trails and Log Monitoring:** A secure, tamper-proof record of all user actions (logins, changes, approvals) that auditors can review.
- **Reconciliation Reports:** These highlight mismatches between system balances and source documents, such as comparing bank statements with ledger balances.

Illustrative Example: In an e-commerce platform, exception reports can highlight orders shipped without payment confirmation. Audit logs provide investigators with a clear trace of who overrode the control and when.

3. Corrective Controls

Corrective controls are mechanisms that restore systems to a stable state after an error or incident has occurred.

- **Backup and Disaster Recovery Plans:** Regular data backups and recovery protocols minimize downtime after system failures or cyberattacks.
- **Incident Response Procedures:** Clearly defined playbooks to detect, contain, and remediate breaches.
- **Rollback Mechanisms:** System features allowing reversal of failed data migrations or erroneous entries.

Illustrative Example: During an ERP migration, rollback mechanisms allowed a manufacturing company to revert to the old database when errors were discovered in batch inventory

uploads, preventing operational disruption.

4. IT General Controls (ITGCs)

ITGCs are the foundational layer that supports the reliability of all application controls. Without effective ITGCs, even strong application-specific controls may be compromised.

- **Change Management:** Ensuring that updates to applications (patches, upgrades) are tested and authorized before deployment.
- **Logical Access Controls:** Restricting user access based on least-privilege principles, with periodic reviews to identify dormant or unauthorized accounts.
- **System Development Life Cycle (SDLC):** Embedding security and control considerations during system design, coding, testing, and deployment.

Illustrative Example: Inadequate change management once caused an Indian FMCG company's ERP system to miscalculate inventory valuation after an update. Post-incident, stricter ITGCs were implemented, requiring multi-stage approvals before changes went live.

5. Application-Specific Controls

- Input controls (accuracy and completeness of data entry).
- Processing controls (system calculations, batch totals).
- Output controls (distribution of reports to authorized users only).

Collaboration between CAs and IT Teams

Designing and implementing controls is not solely a technology exercise. It requires collaboration between Chartered Accountants and IT professionals:

- CAs bring knowledge of business risks, statutory compliance, and financial integrity.
- IT teams provide expertise in system logic, architecture, and technical feasibility.

To be effective, controls must be:

1. **Documented** in process maps and control matrices.
2. **Implemented** through ERP configuration, scripts, or workflow rules.
3. **Tested** periodically for operating effectiveness.
4. **Monitored** continuously with exception alerts and management dashboards.

Testing and Validating Controls

Designing controls is only the first step in ensuring governance over application systems. For CAs and auditors, the true measure of reliability lies in testing whether these controls are not only implemented but also operating effectively over time. Validation gives management and stakeholders confidence that financial data, business processes, and compliance requirements are safeguarded.

Why Testing Matters

- Even the most well-designed controls may fail in execution if not tested regularly.
- Business conditions, system upgrades, or changes in user roles can render existing controls ineffective.
- Regulators and audit standards (e.g., ISA 315, ICAI's Standards on Auditing) require auditors to evaluate design and test operational effectiveness before relying on controls.

Testing can be performed through multiple approaches, depending on risk severity, system complexity, and audit objectives:

1. Walkthroughs and Observation

A walkthrough involves tracing a transaction from initiation to

completion to confirm that controls exist and function as intended.

How it works: Auditors select a sample transaction, follow its journey through the system, and observe how inputs, authorizations, processing, and outputs are managed.

Benefits: Provides contextual understanding of process design, identifies control gaps early, and validates alignment between documented processes and actual practice.

Practical Example: In an ERP environment, auditors may pick a purchase order and track it from creation through vendor approval, goods receipt, and payment disbursement, ensuring that segregation of duties is maintained.

2. Re-performance

Re-performance is the independent execution of control procedures by the auditor to verify whether the control is operating effectively.

How it works: Auditors recalculate or reproduce a control's output using the same data set to check for consistency.

Benefits: Provides strong assurance because it tests actual control performance rather than relying solely on management representations.

Practical Example: An auditor recalculates system-generated depreciation for a class of assets to validate that the ERP's logic matches accounting policy and statutory requirements.

3. Data Analytics

With the growing volume of digital transactions, traditional sampling is no longer sufficient. Data analytics tools such as IDEA, ACL, Power BI, and Python scripts are now widely used for control testing.

How it works: Entire populations of transactions are analyzed using queries, algorithms, and visualization dashboards.

Benefits: Increases coverage, improves anomaly detection, and reduces the risk of undetected errors or fraud.

Practical Example: In payroll audits, data analytics can quickly flag duplicate bank account numbers, ghost employees, or abnormal overtime payments. This level of assurance cannot be achieved through small sample checks.

4. Continuous Auditing

Continuous auditing represents the future of control validation. Instead of testing periodically, automated scripts monitor transactions in near real-time.

How it works: Embedded tools within ERP or external monitoring systems run predefined rules and alert auditors or management when exceptions occur.

Benefits: Provides ongoing assurance, reduces the time lag between risk occurrence and detection, and supports proactive intervention.

Practical Example: A retail organization implemented scripts that scanned supplier master data daily. The system flagged duplicate bank accounts linked to multiple vendors, uncovering potential fraud before payments were made. Such insights would likely remain hidden under traditional periodic audit cycles.

5. Control Effectiveness Reviews

Beyond testing individual controls, auditors increasingly assess the overall effectiveness of the control environment.

Approach: Evaluate whether controls address key risks holistically, whether redundancies exist, and whether management actively monitors remediation of exceptions.

Example: An IT general controls (ITGC) review might assess whether user access reviews are consistently performed across all critical applications, not just sampled for one module.

6. Integration of Manual and Automated Testing

In many systems, both manual and automated controls coexist. Auditors must assess the interaction between the two:

- Automated controls are tested for system configuration and logic accuracy.
- Manual oversight is tested to ensure users review exception reports and take corrective action.
- **Example:** In a treasury system, automated limits may prevent over-exposure in foreign exchange contracts, but management review of exception reports ensures breaches are properly investigated.

Best Practices for Professionals

1. **Risk-Based Approach:** Prioritize testing of controls that mitigate high-impact risks.
2. **Use of CAATs (Computer-Assisted Audit Techniques):** Leverage scripts, queries, and software to test at scale.
3. **Documentation:** Maintain clear working papers of procedures performed, exceptions noted, and evidence collected.
4. **Follow-Up:** Testing should be complemented with recommendations and validation of corrective actions.
5. **Integration with Internal Audit:** Coordinate with internal auditors to avoid duplication and improve coverage.

In summary, testing and validating controls is not a one-time activity but a continuous cycle of assurance. From walkthroughs and re-performance to advanced analytics and continuous monitoring, Chartered Accountants must employ a mix of traditional and modern approaches. By doing so, they can provide stronger assurance to management, regulators, and stakeholders while adapting to the fast-evolving digital risk landscape.

Emerging Trends & Future Directions

The audit and assurance profession is not static. Several trends are reshaping the control environment:

1. **AI and Machine Learning in Auditing**
 - Automated anomaly detection reduces manual sampling.
 - Predictive analytics highlight emerging risks before they materialize.
2. **Blockchain for Transparency**
 - Immutable ledgers reduce reconciliation needs.
 - Smart contracts enforce controls automatically.
3. **Continuous Monitoring as a Norm**
 - Moving from periodic testing to real-time dashboards.
 - Integration with enterprise risk management systems.
4. **Skill Transformation for CAs**
 - Proficiency in IT risk management, cybersecurity, and data analytics is no longer optional.
 - ICAI's Digital Accounting and Assurance Board (DAAB) initiatives provide structured pathways for capability building.

Conclusion

The increased involvement of application systems in business is not merely a technological shift but a transformation in how organizations operate, compete, and manage risks. While these systems promise efficiency, accuracy, and scalability, they simultaneously magnify the consequences of failure.

For Chartered Accountants, this represents both a challenge and an opportunity. By adopting frameworks from IIA, ISACA, NIST, and ICAI, CAs can step beyond compliance to become strategic partners in ensuring resilient, risk-aware businesses. Designing and testing controls in evolving application landscapes is no longer a specialized IT function, it is a core assurance responsibility.



In essence, the profession must embrace a dual role: enabling innovation while safeguarding integrity. As custodians of trust in financial and business systems, Chartered Accountants stand at the intersection of technology and assurance, shaping the future of reliable business in the digital age.

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Introduction

Traditionally, accounting and auditing functions were more reliant on manual methods and human expertise. However, with the advent of technology and Artificial Intelligence (AI), these tasks have witnessed a paradigm shift. Acknowledging the significance of the AI revolution, accountants and other professionals have shifted their attention towards enhancing accounting and auditing practices through digital technologies which resulted in greater effectiveness, timely audit of financial statements, improvement in accounting & audit department performance, reduction in audit task burden, improvement in productivity of accountants and

Accounting Theories in the Digital Era: Progress and Paradigm Shifts

Digital accounting has revolutionised the accounting profession by integrating emerging technologies such as artificial intelligence, cloud computing and blockchain technology. This transformation has enhanced the accuracy, speed, communication and transparency of financial reporting. The article analyses how emerging technologies support and modify major accounting theories—stakeholders, legitimacy, signalling, and user satisfaction theories—by improving communication, transparency, reporting quality and decision-making, while also raising concerns about privacy, security and bias.

auditors, risk evaluation and fraud identification and improvement in audit report quality. However, the adoption of digital technologies in the accounting and auditing profession also has various complexities and challenges.

Al Wael et al.'s (2023) study explained resource limitations, organisational resistance, insufficient understanding of digital technologies and ethical & regulatory concerns as barriers to the adoption of digital technologies. In addition, security issues in cloud environment, compatibility with existing standards, trust issues & data privacy are other challenges highlighted in previous research. These risks can reduce stakeholder confidence, disrupt organisations and violate regulatory directives.

In light of economic, regulatory and technological developments, accounting theories have also witnessed a paradigm shift. The relationship between modern technology and accounting theories is significant. Emerging tools like AI, blockchain, and big data help in developing new accounting theories. These new emerging accounting theories better address today's complex environment and mark

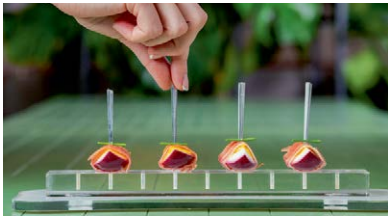
the beginning of a new era of digital accounting.

The Digital Accounting and Assurance Board (DAAB) is an important part of the Institute of Chartered Accountants of India's (ICAI) mission to integrate emerging technologies into accounting and auditing practices. DAAB provides technical guidance and conducts webinars to help professionals in directing digital assurance and auditing complexities. These initiatives aim to improve audit efficiency by guiding professionals about the use of digital audit evidence and related information.

Building on this context of technological transformation, emerging accounting theories, and associated challenges, the following objectives are formulated to guide the exploration of digital accounting and auditing practices.

Objectives

1. To understand the evolution and concept of digital accounting.
2. To explore the development of accounting principles and practices in the digital era.
3. To explain the role of technology in the development of modern accounting theories



4. To propose new accounting theories suitable for the digital era.
5. To examine challenges faced by accountants in adopting emerging technologies.

Evolution and Concept of Digital Accounting

To remain competitive in today's digitalised world, accountants must adopt digital accounting. Deshmukh (2006) described digital accounting as "a computer system and/or software already designed and programmed that can be customized to keep a record of transactions to generate financial statements for further analysis". Lehner et al. (2019) regarded it as a "common language among accounting professionals". Ahmed et al. (2019) define it as "the utilisation of digital technologies and information systems for recording, analysing and reporting financial transactions within organisations".

i. Conceptual Model of Digitalisation in Accounting (DIA)

Zhang et al. (2022) proposed a conceptual model of DIA as shown in Figure 2. The model includes four components, i.e.

a) Firm Characteristics:

Firms face pressures such as cost control, demand for higher transparency, work efficiency and competitive advantage. To remain efficient and competitive, firms are increasingly compelled to adopt digital technologies.

b) Executive Characteristics:

Leaders and managers' aspiration level, strategic intent play a significant role in digital transformation. If they see the value in digitalisation, the firm is more likely to successfully transform.

c) Organisational Capabilities:

It consists of two types:

- **Ordinary Capabilities:** These help firms control costs and maintain technical business efficiency.

- **Dynamic Capabilities:** These involve adapting quickly to changes, building new routines and innovating based on accumulated knowledge and learning.

Both firm and executive characteristics shape the capabilities an organisation develops and how they are implemented in digital accounting.

d) Digitalisation in Business Processes:

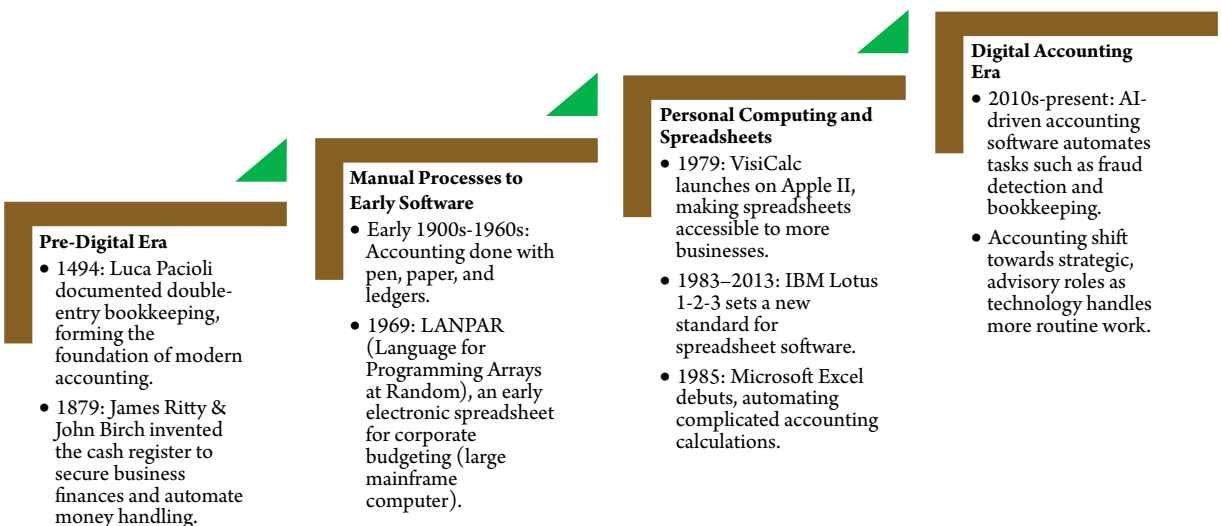
Successful transformation depends on two kinds of digital knowledge:

- **Architectural Knowledge:** Understanding how technology systems fit together as a whole.
- **Component Knowledge:** Being able to use and manage individual technologies (like specific software tools).

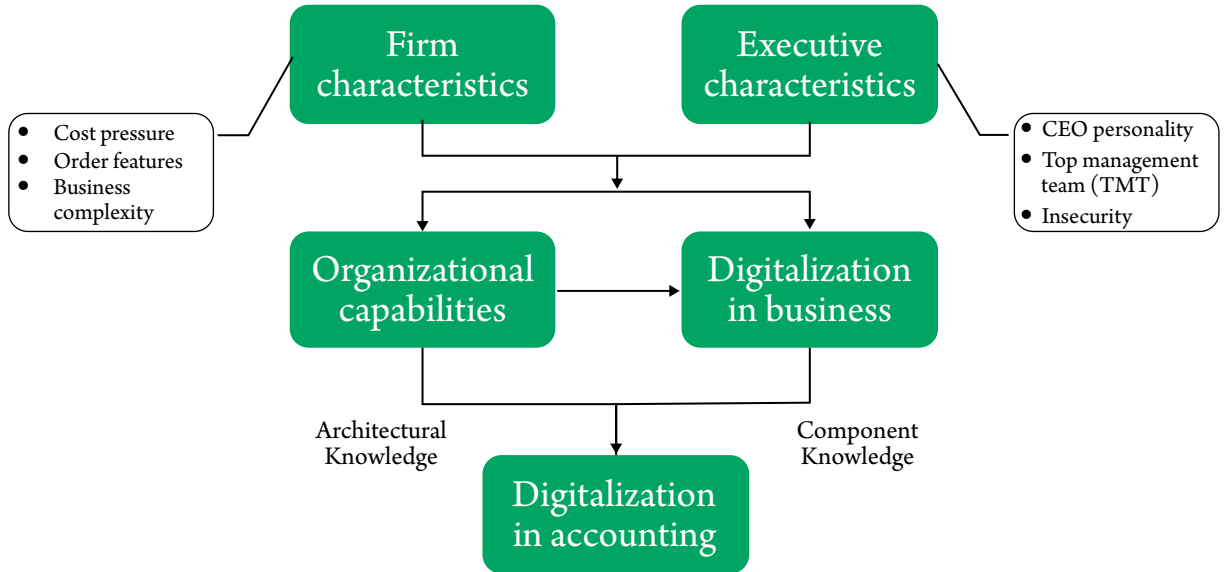
ii. The Digital Competency Maturity Model (DCMM) Version 2.0

The ICAI has released a detailed model to encourage the adoption of emerging technologies, such

Figure 1: Evolution of Digital Accounting from Manual Record Keeping to Automated Accounting



Source: Authors' Work

Figure 2: Conceptual Model of Digitalisation in Accounting (DIA)

Source: Zhang et al. (2022)

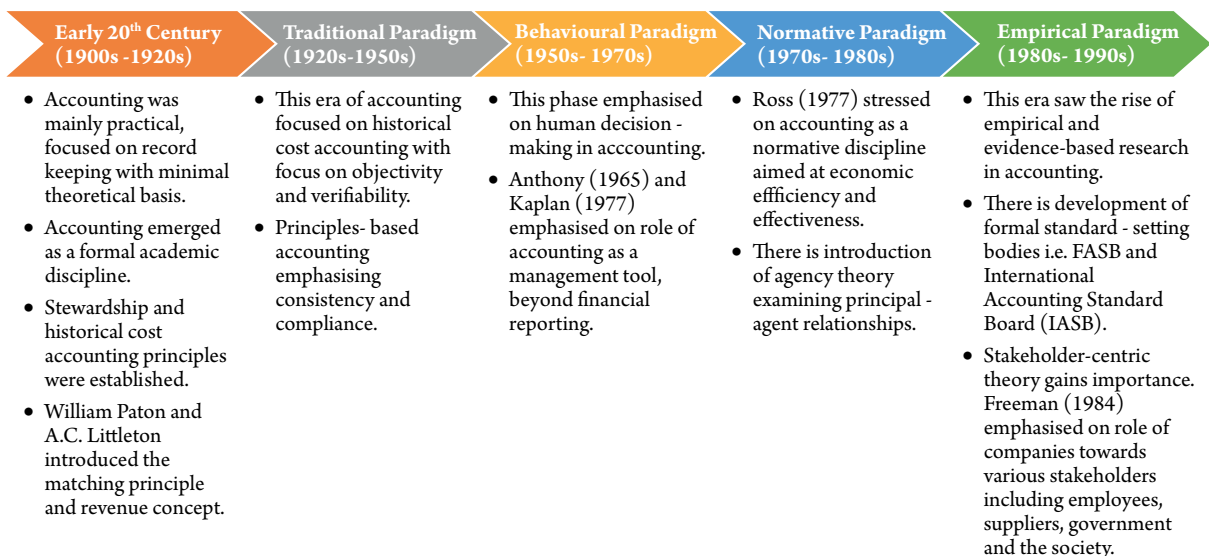
as AI and blockchain, among accounting firms and professionals with implementation guidance.

This model assesses digital competency based on several aspects, including automation of

internal processes (like attendance, documentation, communication and data security), availability of qualified accountants, level of automation in audit, tax, accounting and management consulting services, as well as the integration

of emerging technologies. In the model, a structured questionnaire is provided that firms can use to identify strengths and gaps, enabling them to plan and implement steps for digital adaptation.

Evolution of Accounting Theories

Figure 3: Evolution of Accounting Theories

Source: Authors' Work

“The use of AI and IoT technologies in accounting raises privacy-related challenges like unauthorised access, confidentiality breaches and complex consent agreements. Usage of digital platforms and software by accountants also enables employers to track and monitor their activities.”

Role of Emerging Technologies in the Development of Accounting Theories (1990s-Present)

In today's era, accounting is seen as a social and political construct with a focus on social justice, transparency and sustainability. Barth (2006) emphasised on Fair Value Accounting (FVA) with a focus on market value instead of historical cost. This phase saw the increased role of accounting information systems and technology.

Accounting has changed significantly by integrating traditional theories with modern information systems (IS) and technology. An Accounting Information System (AIS) helps organisations gather, store, manage, process and report financial data. In the words of Romney and Steinbart (2020), an AIS includes six main parts: “people, procedures, data, software, IT infrastructure and internal controls”. Technology like AIS automates routine tasks, improves accuracy and allows for advanced data analysis. Digital accounting uses software and digital tools to handle tasks that used to be manual, such as bookkeeping.

Accounting Information Systems (AIS) have significantly influenced accounting theory by increasing the accuracy, efficiency and timeliness of financial data processing. AIS supports real-time data analysis, encouraging shifts from traditional historical cost to fair value accounting and non-financial

factors like ESG data and stakeholder-centric reporting. While automation improves reporting efficiency, developing economies face adoption challenges due to infrastructure and skill gaps.

Discussion on Proposed Accounting Theories in the Digital Era

■ Digital Signalling Theory

Traditional signalling theory was developed by Spence (1973), which explained how organisations use financial data or reports to send significant information to shareholders and other stakeholders, ultimately reducing information asymmetry between parties. In today's digital age, technologies like cloud computing and big data have made these signals faster, allowing companies to communicate their information more effectively, and this has led to the development of new accounting theory, i.e., digital signalling theory. However, the abundance of signals can sometimes create confusion and the risk of misleading information increases. Despite these complexities, digital technology also improves transparency and accountability by enabling better verification of information, making digital signalling theory relevant in the modern technological era.

■ Digital Stakeholders Engagement Theory

Freeman (1984) explained stakeholder theory and emphasised the role of companies towards various stakeholders, including employees, suppliers, government and society. However, with technological advancements, stakeholders can express their demands speedily through digital platforms, increasing corporate openness, transparency, sustainability and governance. Emerging technologies like big data and AI enable companies to better understand and respond to diverse stakeholder needs and

greater stakeholder involvement in companies' operations.

■ Digital User Satisfaction Theory

DeLone and McLean (2003) Information System Success Model, proposed a user satisfaction theory with focus on user needs such as usability, functionality and relevance. Technologies like AI, blockchain and cloud computing lead to enhancement of users' satisfaction by improving automation, cost reduction and real-time reporting, ultimately increasing efficiency.

■ Digital Legitimacy Theory

Suchman (1995) explained the legitimacy theory that showed how organisations follow society's rules and norms through financial reporting and social responsibility. In the digital era, technology like online platforms has changed this interaction, making communication faster and more transparent. Digital tools allow stakeholders to hold companies accountable in real time, increasing the importance of reputation and ethical behaviour. With the growth of digital reports and social networks, the organisations' responsibilities towards the environment and society have also become possible through immediate interactions and disclosure of information.

■ Momentum Theory of Digitalisation in Accounting (DIA)

Zhang et al. (2022) proposed “The momentum theory of Digitalisation in Accounting (DIA)”. This theory compares digital transformation to water flowing from high hills (representing firm and executive characteristics) through sluice gates (organisational capabilities) into the ocean (DIA), as shown in Figure 4.

Organisations' willingness to distribute resources and their

organisational capabilities determine how successfully they adapt to digitalisation. Digitalisation starts with business processes that support operations and generate cash flow. The outputs or “exits” of this flow are the digital accounting achievements, consolidating data and activities in the finance function.

Challenges faced by Accountants in the Adoption of Emerging Technologies

Traditional accounting ethics are centred on principles such as objectivity, confidentiality, professional competence and due care, but require expansion. The digitisation of accounting transforms core professional responsibilities, introducing new challenges, dilemmas and concerns. Automation used in accounting, transaction processing and forecasting presents dilemmas regarding accountants’ autonomy, transparency, confidentiality, cybersecurity threats, privacy and others. The following are the challenges faced

by accountants in the adoption of emerging technologies.

1. Accountants’ Autonomy:

The use of technology in accounting significantly influences the decisions made by accountants, often limiting their autonomy. Excessive reliance on digital accounting tools reduces their critical thinking and decision-making abilities, which can lead to biased or misleading outcomes. Decisions generated by technologies, such as AI, may restricts the role of accountants, raising concerns regarding accountability and transparency of complex situations.

2. Privacy:

The use of AI and IoT technologies in accounting raises privacy-related challenges like unauthorised access, confidentiality breaches and complex consent agreements. Usage of digital platforms and software by accountants also enables employers to track and monitor their activities.

3. Dehumanisation:

According to Eulerich et al. (2023), “dehumanisation occurs when human professionals are sidelined or replaced by automation or AI systems”. Too much reliance on technology limits interactions among professionals. Decisions made by technology can introduce bias and unfairness, potentially undermining equality in the workplace. Replacement of humans with technology risks losing accountants’ judgement, empathy and accountants’ skills & knowledge. This results in feelings of isolation, dissatisfaction in job and disconnection among professionals.

4. Technological Complexities:

Technological complexity can be defined as “a way in which an individual or organisation can be held back from accomplishing a particular goal when using a technology or system”. Dwivedi et al. (2021) study explains the ‘black box problem’, which refers to “the issue that auditors cannot explain, interpret, or document the decision-making process of some AI tools”. Yang et al.’s (2024) findings reveal three main issues with the adoption of emerging technologies, i.e., ‘black box problem, biases and computability issues’. The growing complexity of accounting and auditing software has made its features increasingly difficult to comprehend, which has, in turn, limited its adoption.

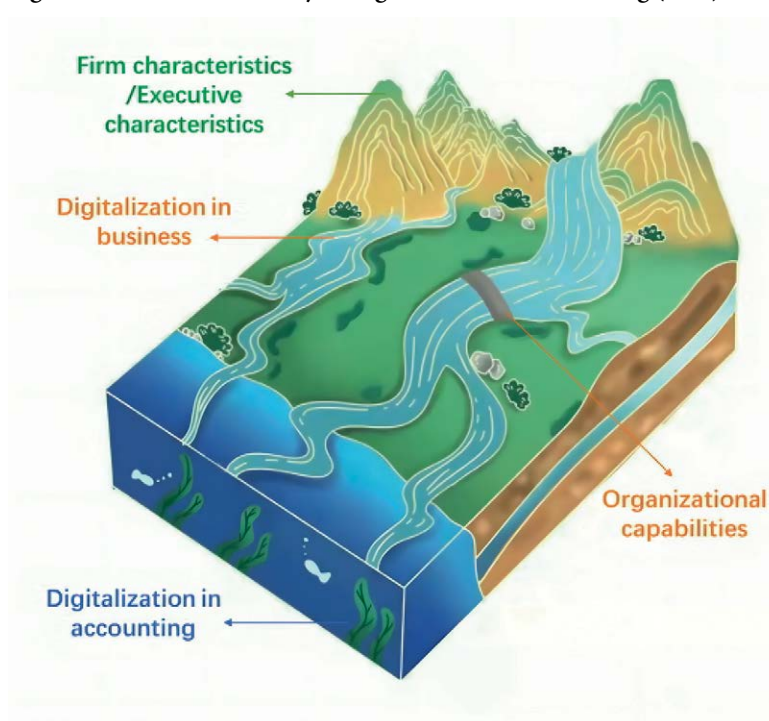
5. Need for Continuous Learning:

In order to keep up with the emerging technologies’ needs, regular training and skill upgradation are required. Lack of willingness or inability to learn new technology may put accountants at a disadvantage, as companies may replace accountants or auditors with data scientists.

6. Cyber Security Threats:

Digital accounting systems are inherently vulnerable to cybersecurity threats that threaten data integrity and availability.

Figure 4: Momentum Theory of Digitalisation in Accounting (DIA)



Source: Zhang et al. (2022)

Common risks include:

- **Breach of data:** Unauthorised access to confidential financial information can result in theft, exposure of confidential client and organisational personal information, causing reputational harm.
- **Ransomware:** Malicious and corrupted software encrypts organisational data, demanding ransom payments, disrupting financial reporting and tax compliance.
- **Phishing:** Attackers manipulate employees to disclose confidential financial information, or they deploy malware in their system.
- **Spoofing:** Attackers create falsely authorised users to get access to data, causing financial harm.

Conclusion

In view of rapid technological advancements, accounting theories have gone through a significant transformation to integrate with the digital world. Digital technologies like AI, blockchain, and cloud computing have transformed accounting theories such as signalling theory, legitimacy theory, stakeholder theory and user satisfaction theory. For example, digital technologies lead to enhancement of stakeholders' and users' satisfaction by reducing cost, real-time reporting and immediate communication, ultimately increasing efficiency, transparency, accountability and openness.

Despite these advantages, digital technologies raise concerns about privacy, autonomy, technological complexities, cybersecurity threats and bias. According to a May 2024 survey-based report by the AI Committee at ICAI, AI adoption is still in its early stages in India and has tremendous growth potential. Diverse adoption levels make it difficult to use AI for auditing, despite considerable investigation into the technology. These discrepancies are partly due to technological disparities between

firms. Firms are cautious about AI investment due to limited success cases and budget constraints, indicating untapped potential. This calls for advanced theories integrating ethics and governance tailored for digital technological complexities.

This article offers valuable inputs for policymakers and stakeholders in designing policies to leverage adoption of emerging technologies in accounting & auditing practices. In India, the Committee for Members in Practice (CMP) under the ICAI has tie-ups with various software and technology providers to offer discounted and facilitated access to audit/accounting-related tools for practising Chartered Accountants. These tools are accessible to members through CMP's programs and partnerships and are meant to support automation, compliance, and efficiency in accounting and audit practice. ICAI has also launched AI certificate courses (AICA Level 1 and 2) to equip members with practical AI tools for their practices. AICA Level 2, an advanced certification for Level 1 completers, covers fundamentals of AI, advanced prompting techniques and practical applications in finance, auditing, compliance, and analytics, providing practical mastery of AI, automation and intelligent analytics for delivering greater client value. Delivered in a 5-day hybrid format with 30 CPE hours, it empowers professionals to apply AI in auditing, compliance and advisory roles, overcoming adoption barriers through hands-on training and ethical, future-ready practices.

Therefore, more workshops, seminars, webinars and awareness programmes should be organised by ICAI to promote acceptance and adoption of emerging technologies and theories in accounting and audit practices.

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Cybersecurity Audit Framework: Essential Toolkit for Modern Auditors

Indian businesses face escalating cyber threats, and regulators demand robust cybersecurity audits. This article serves as a practical toolkit for auditors, especially Chartered Accountants, to navigate complex frameworks. It explains the Reserve Bank of India's (RBI) detailed cyber resilience requirements, including annexures covering baseline controls, security operations centre (SOC) guidelines, and incident-reporting templates. It also unpacks the Securities and Exchange Board of

India's (SEBI) Cybersecurity and Cyber Resilience Framework (CSCRF), introduced in August 2024 and now mandatory for all SEBI-regulated entities. Guidance is offered on global standards (ISO 27001, NIST 800-53, SOC 2) and the article structures audits around core domains such as governance, risk management, identity and access management, asset management, compliance, and business continuity. Each domain includes example controls, enabling auditors to deliver actionable insights and strengthen cyber defences¹.

Introduction: Cybersecurity as a Governance Imperative

Cyber-attacks on Indian organisations have highlighted the need for strong cyber governance. In 2018, a co-operative bank in Pune lost ₹94 crore (≈US\$13 million) after malware was used to compromise its payment system. Another incident saw 4.5 million airline passengers' data exposed after the carrier's IT vendor was hacked. These breaches prompted regulators to strengthen oversight. The RBI expanded its cyber framework to include detailed annexures specifying baseline controls, SOC requirements, and incident reporting templates. SEBI introduced the CSCRF to ensure cyber resilience across all financial-market entities. Chartered Accountants and internal auditors must therefore broaden

their role from traditional financial oversight to advising on cyber risk, compliance, and resilience².

RBI's Cybersecurity Framework: Annexures and Key Controls

The RBI's cyber security circular (2016) outlines baseline controls for banks and payment operators, expanded through annexures that apply across regulated entities. Compliance requires a board-approved cybersecurity policy and a risk management programme covering prevention, detection, and response.

Annex 1: Baseline Cybersecurity and Resilience Requirements

Annex 1 lists minimum controls that banks must implement. Key areas include:

- **Governance and risk management:** Inventory of IT assets, classification of critical information, and periodic risk assessments.
- **Protection and prevention:** Secure configuration of hardware and software, network segmentation, encryption of sensitive data, strong authentication, and multi-factor access controls.
- **Monitoring and detection:** Centralised logging, continuous security monitoring, and threat intelligence to identify anomalies.
- **Incident response and recovery:** Procedures for incident reporting within two to six hours, root-cause analysis, corrective actions, and lessons learned.

¹ RBI Cyber Security Framework in Banks (June 2, 2016) – Official RBI circular outlining the need for a board-approved cyber security policy, risk assessments, security operations centres and structured incident reporting. Available at <https://www.rbi.org.in/commonman/Upload/English/Notification/PDFs/NT41802062016.pdf#:~:text=Need%20for%20a%20Board%20approved,risk%2C%20duly%20approved%20by%20their>

² NIST Cybersecurity Framework 2.0 – Small Business Quick-Start Guide (Feb 2024) – Describes the six CSF functions and provides sample asset inventories and risk assessment questions. Available at <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.1300.pdf#:~:text=vulnerabilities%2C%20requirements%2C%20etc,MSSP>

- **Vendor management:** Due diligence of third parties and the right to audit service providers handling customer data.

These controls apply to banks, but similar principles extend to non-bank payment operators via the RBI's 2023 Master Direction on cyber resilience, which emphasises risk assessments, encryption, and digital-payment security³.

Annex 2: Setting up a Cyber Security Operations Centre (C-SOC)

Annex 2 requires banks to establish a Cyber Security Operations Centre (C-SOC) with capabilities for real-time monitoring, behaviour analytics, and incident response. The C-SOC must integrate logs from networks, servers, and applications, analyse them for anomalies and coordinate responses across the organisation. Banks may operate the SOC in-house or outsource to qualified third parties, but they remain responsible for governance and oversight. Regular drills and evaluations ensure readiness and continuous improvement⁴.

Annex 3: Cyber Incident Reporting Template

Annex 3 standardises how banks report cyber incidents to the RBI. The template requires details such as the nature of the attack, systems

affected, detection time, actions taken, root cause analysis, and measures to prevent recurrence. Banks must report incidents within six hours of discovery, aligning with CERT-In's reporting timelines, and follow up with updates as investigations progress⁵.

Third-Party Risk Management

In addition to the above, Annex 3 also includes guidelines on third-party risk management. Banks must identify critical vendors, conduct annual security assessments and include confidentiality, data-protection, and right-to-audit clauses in contracts. Outsourcing cannot absolve banks of responsibility; they must monitor vendor compliance, ensure data localisation, and maintain controls over outsourced SOC and cloud services⁶.

SEBI's Cybersecurity and Cyber Resilience Framework (CSCRF)

SEBI released the CSCRF in August 2024 to establish uniform cyber governance across capital markets. It applies to market infrastructure institutions (stock exchanges, clearing corporations), qualified regulated entities (mutual funds, asset managers), and mid-size firms, as well as credit rating agencies, venture funds, and other regulated entities⁷.

Core Elements of CSCRF

- **Cybersecurity governance:** Entities must adopt a board-approved cybersecurity policy, define roles and responsibilities, and implement a cyber risk management framework.
- **Risk assessment and critical system identification:** Organisations must classify IT assets, identify critical systems (trading platforms, payment gateways), and conduct periodic risk assessments.
- **Cyber Capability Index (CCI):** SEBI uses a numerical score to benchmark the cybersecurity readiness of entities. Market infrastructure institutions undergo third-party assessments twice a year, while qualified entities perform annual self-assessments⁸.
- **Security Operations Centre:** All entities must establish 24×7 SOC or use shared market SOC created by exchanges. SOC efficacy must be reported periodically.
- **Vulnerability Assessment and Penetration Testing (VAPT):** Regular VAPT must cover all critical systems and be performed after major updates.

³ Conventus Law – Navigating SEBI's CSCRF – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>

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⁵ Simplifying RBI's Cybersecurity Mandates (InstaSafe) – White paper summarising baseline controls, SOC guidance and incident reporting requirements for banks. Available at <https://instasafe.com/docs/Brochure%20-%20RBI%20Guidelines%20for%20Cyber%20Security%20Framework.pdf#:~:text=Along%20with%20Cyber%20Security%20Framework,ty%20guidelines%20recommended%20by%20RBI>

⁶ RBI Cyber Security Framework in Banks (June 2 2016) – Official RBI circular outlining the need for a board-approved cyber security policy, risk assessments, security operations centres and structured incident reporting. Available at <https://www.rbi.org.in/commonman/Upload/English/Notification/PDFs/NT41802062016.pdf#:~:text=Need%20for%20a%20Board%20approved,risk%2C%20duly%20approved%20by%20their>

⁷ RBI Master Direction: Cyber Resilience & Digital Payment Security Controls (Jan 2023) – Master Direction detailing compliance timelines and resiliency measures for payment system operators. Available at <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2024/10/securing-non-bank-psos-rbis-guidelines-on-cyber-resilience-and-digital-payment-security-controls.pdf.coredownload.inline.pdf#:~:text=RBI%20Master%20Direction%20on%20Cyber,for%20the%20digital%20payment%20ecosystem>

⁸ NIST Cybersecurity Framework 2.0 – Small Business Quick-Start Guide (Feb 2024) – Describes the six CSF functions and provides sample asset inventories and risk assessment questions. Available at <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.1300.pdf#:~:text=vulnerabilities%2C%20requirements%2C%20etc,MSSP>

- **Incident response and management:** Entities must maintain a documented incident response plan and cyber crisis management plan. Incidents must be reported promptly through SEBI's portal.
- **Data protection and access control:** Mandatory encryption (full-disk and file-level) and strict access controls with multi-factor authentication.
- **Backup and disaster recovery:** Entities must maintain disaster recovery plans, perform regular backups, and test restoration.
- **Red teaming and continuous improvement:** SEBI mandates periodic red-team exercises and ongoing updates to policies and staff training.
- **Compliance reporting and auditing:** Entities must submit structured reports to SEBI and undergo regular cybersecurity audits, with adoption deadlines set for January 1, 2025, or April 1, 2025, depending on previous obligations.

Why CSCRf Matters

The CSCRf emphasises both cybersecurity and resilience, requiring entities to anticipate, withstand, contain, recover from, and evolve after cyber incidents. By aligning controls to these goals, SEBI aims to ensure market stability and investor confidence. Auditors should evaluate organisations' adherence to the framework, ensuring that policies, SOC operations, data localisation, and vendor management meet SEBI's standards⁹.

Global Standards and Best Practices

Indian regulations should be benchmarked against global standards to ensure robust security:

- **ISO/IEC 27001:** Provides a structured information security management system, emphasising risk assessment, control implementation, and continual improvement.
- **NIST SP 800-53 and NIST Cybersecurity Framework:** Offer detailed control catalogues and a framework of functions (Identify, Protect, Detect, Respond, and Recover) that parallel the SEBI CSCRf goals.
- **SOC 2 (Trust Services Criteria):** Evaluates security, availability, processing integrity, confidentiality, and privacy; useful for service providers and technology firms.

By mapping Indian requirements to these global frameworks, auditors can identify gaps, adopt international best practices, and prepare organisations operating across borders.

Core Cybersecurity Audit Domains & Responsibilities

To deliver a comprehensive cybersecurity audit, auditors should structure their review around the following domains. Each domain includes example controls to guide assessment.

1. Governance & Policy

- **Responsibilities:** Verify the presence of a board-approved cybersecurity policy; evaluate management's oversight and

assignment of security roles. Ensure policies align with RBI Annex 1 and SEBI CSCRf.

- **Example controls:** Formal information security charter; senior management training; periodic policy reviews; evidence of board minutes approving security strategy.

2. Risk Assessment & Management

- **Responsibilities:** Check whether the organisation maintains an inventory of assets, assesses risks regularly, and records mitigation actions. Ensure risk appetite aligns with business objectives¹⁰.
- **Example controls:** Enterprise risk register with cyber entries; documented methodology for evaluating threats and vulnerabilities; integration of cyber risks into overall risk management; evidence of scenario-based testing¹¹.

3. Asset Management

- **Responsibilities:** Confirm up-to-date inventories of hardware, software, data, and third-party services; validate asset classification and protection commensurate with sensitivity.
- **Example controls:** Automated asset discovery; tagging of data and systems; configuration management database; secure asset decommissioning.

4. Identity & Access Management (IAM)

- **Responsibilities:** Assess user provisioning, authentication, and authorization. Check the

⁹ RBI Master Direction: Cyber Resilience & Digital Payment Security Controls (Jan 2023) – Master Direction detailing compliance timelines and resiliency measures for payment system operators. Available at <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2024/10/securing-non-bank-psos-rbis-guidelines-on-cyber-resilience-and-digital-payment-security-controls.pdf>.coredownload.inline.pdf#:~:text=RBI%20Master%20Direction%20on%20Cyber,for%20the%20digital%20payment%20ecosystem

¹⁰ RBI Master Direction: Cyber Resilience & Digital Payment Security Controls (Jan 2023) – Master Direction detailing compliance timelines and resiliency measures for payment system operators. Available at <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2024/10/securing-non-bank-psos-rbis-guidelines-on-cyber-resilience-and-digital-payment-security-controls.pdf>.coredownload.inline.pdf#:~:text=RBI%20Master%20Direction%20on%20Cyber,for%20the%20digital%20payment%20ecosystem

¹¹ Simplifying RBI's Cybersecurity Mandates (InstaSafe) – White paper summarising baseline controls, SOC guidance and incident reporting requirements for banks. Available at <https://instasafe.com/docs/Brochure%20-%20RBI%20Guidelines%20for%20Cyber%20Security%20Framework.pdf>.#:~:text=Along%20with%20Cyber%20Security%20Framework,ty%20guidelines%20recommended%20by%20RBI

enforcement of least privilege, multi-factor authentication and monitoring of privileged accounts.

- **Example controls:** Role-based access control matrix; periodic user access reviews; multi-factor authentication for administrators; privileged access management (PAM) solutions; timely revocation of credentials when employees depart.

5. Network & System Security

- **Responsibilities:** Evaluate network segmentation, firewalls, intrusion detection systems, and endpoint protection. Ensure secure configuration of servers and devices.
- **Example controls:** Hardened system baselines; segregation of development and production networks; continuous vulnerability scanning; patch management schedules; anti-malware agents with real-time detection.

6. Application Security

- **Responsibilities:** Review the secure development life cycle (SDLC) and third-party software management. Check for regular vulnerability scans and penetration tests, particularly after major releases.
- **Example controls:** Secure coding guidelines; automated static/dynamic code analysis; penetration testing results; controls for open-source component management; change management records.

7. Data Protection & Privacy

- **Responsibilities:** Verify data classification, encryption at rest and in transit, and adherence to data minimisation and retention policies. Assess compliance with India's Digital Personal Data Protection Act and other regulations.
- **Example controls:** Encrypted databases and communication channels; data loss prevention tools; backups stored offline; secure disposal processes; privacy impact assessments for new systems¹².

8. Monitoring & Logging

- **Responsibilities:** Ensure critical systems generate logs that are consolidated and analysed. Logs should be synchronised with accurate time sources and retained in compliance with RBI and SEBI guidelines.
- **Example controls:** Centralised security information and event management (SIEM); use of behaviour analytics to flag anomalies; regular log reviews; alignment with Annex 2 SOC requirements; documented retention schedules.

9. Incident Response & Recovery

- **Responsibilities:** Review documented incident response and cyber crisis management plans. Check whether drills are conducted, and evaluate business continuity and disaster recovery capabilities.
- **Example controls:** Incident classification matrices; defined communication protocols; evidence of tabletop exercises; off-site backups; alternate

processing sites; defined recovery time and recovery point objectives.

10. Third-Party & Supply-Chain Security

- **Responsibilities:** Examine vendor risk management processes, including due diligence, contract clauses, and monitoring of service providers. Evaluate compliance with SEBI's requirements for supply-chain security (e.g., software bill of materials).
- **Example controls:** Supplier risk assessments; third-party security questionnaires; contractual terms covering confidentiality, breach notification, and audit rights; monitoring of outsourced SOC performance.

11. Compliance & Legal

- **Responsibilities:** Ensure all applicable laws and regulations (RBI, SEBI, CERT-In, DPDP Act) are identified and that policies and controls align with them. Verify timely submissions of required reports and evidence of regulatory audits.
- **Example controls:** Compliance matrix mapping controls to legal requirements; evidence of incident reports to regulators; records of external audit findings and remediation¹³.

12. Business Continuity & Disaster Recovery (BC/DR)

- **Responsibilities:** Assess preparedness to maintain operations during disruptions. Ensure business impact

¹² Conventus Law – Navigating SEBI's CSCRF – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>

¹³ Conventus Law – Navigating SEBI's CSCRF – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>

analysis has identified critical functions and that redundancy exists.

- **Example controls:** Documented BC/DR plans; regular disaster recovery drills; geographically separate backup sites; redundancy in power and network infrastructure; communication plans for prolonged outages.

Sample Audit Report Format

A well-structured report enhances the usefulness of audit findings. Include the following sections:

Executive Summary: Summarise scope, objectives, key findings, and overall risk assessment for board review.

Scope and Objectives: Define systems reviewed and compliance frameworks referenced (RBI, SEBI CSCRf, ISO 27001, NIST 800-53).

Methodology: Describe evidence gathered (policy review, interviews, configuration checks, VAPT results). Mention the use of automation, analytics, or red-team reports where applicable.

Detailed Findings and Recommendations: Group findings by domain; state condition, cause, and impact; assign severity; propose remediation actions.

Conclusion: Summarise overall cyber posture and highlight

priority recommendations. Provide management with a roadmap for improvement.

Appendices may include vulnerability scan reports, inventories, or compliance matrices¹⁴.

Sector-Specific Perspectives

While core controls remain consistent, different sectors warrant emphasis on certain domains:

- **Banking & Finance:** Banks must comply with RBI's annexures and the Master Direction. Auditors should scrutinise transaction monitoring, multi-factor authentication, encryption of customer data, and vendor oversight. Past heists highlight the need for strong SOC monitoring and incident reporting¹⁵.
- **Capital Markets:** For stock exchanges, asset managers, and intermediaries, adherence to SEBI's CSCRf is paramount. Emphasis should be placed on SOC operations, CCI scoring, VAPT after major system releases, and data localisation.
- **Technology & Start-ups:** Rapidly scaling firms often lack mature processes and rely heavily on cloud services. Auditors should assess cloud security posture, API security, and developer practices, ensuring vulnerability management and incident response are in place¹⁶.



- **Government & Public Sector:** These entities handle sensitive citizen data and critical infrastructure. Auditors should evaluate identity management, network segmentation, incident response readiness, and compliance with CERT-In's six-hour incident reporting rule¹⁷.

Audit-Tech Enablers and Future Considerations

Modern tools can enhance audit effectiveness:

- **AI and analytics:** Machine learning can sift through vast log data to detect anomalies. Continuous monitoring solutions such as Cloud Security Posture Management (CSPM) help maintain compliance with CSCRf's SOC requirements.
- **Automation:** Scripts can collect evidence (user lists, configuration

¹⁴ Conventus Law – Navigating SEBI's CSCRf – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>

¹⁵ Simplifying RBI's Cybersecurity Mandates (InstaSafe) – White paper summarising baseline controls, SOC guidance and incident reporting requirements for banks. Available at <https://instasafe.com/docs/Brochure%20-%20RBI%20Guidelines%20for%20Cyber%20Security%20Framework.pdf#:~:text=Along%20with%20Cyber%20Security%20Framework,ty%20guidelines%20recommended%20by%20RBI>

¹⁶ RBI Master Direction: Cyber Resilience & Digital Payment Security Controls (Jan 2023) – Master Direction detailing compliance timelines and resiliency measures for payment system operators. Available at <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2024/10/securing-non-bank-psos-rbis-guidelines-on-cyber-resilience-and-digital-payment-security-controls.pdf.coredownload.inline.pdf#:~:text=RBI%20Master%20Direction%20on%20Cyber,for%20the%20digital%20payment%20ecosystem>

¹⁷ Conventus Law – Navigating SEBI's CSCRf – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>

baselines, patch status) and verify remediations. Integration with Governance, Risk, and Compliance (GRC) platforms streamlines tracking.

- **Penetration testing and red teaming:** Regular ethical hacking exercises reveal real-world vulnerabilities. Auditors should review these results and confirm remediation.

Looking ahead, threats like ransomware, supply-chain attacks, and privacy breaches will persist. Auditors must encourage resilient controls such as offline backups, vendor oversight, and data encryption. Emerging technologies (AI, quantum computing) will bring both opportunities and risks; staying informed of evolving standards and regulations is critical¹⁸.

Conclusion

Cybersecurity auditing is now integral to corporate governance. For Chartered Accountants and internal auditors, mastering this domain is essential to protect organisations and uphold investor confidence. By understanding and applying the RBI's annexures, SEBI's CSCRF, and global frameworks, auditors can structure comprehensive reviews across key domains. Incorporating example controls and leveraging modern tools ensures audits are thorough, practical, and aligned with regulatory expectations. Continuous learning and adaptation will enable auditors to help organisations anticipate, withstand, contain, and recover from cyber threats, ensuring resilience in an increasingly digital world.

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- **NIST Cybersecurity Framework 2.0** (Feb 26 2024) – Official document defining high-level cybersecurity outcomes applicable to organisations of any size. Available at <https://nvlpubs.nist.gov/nistpubs/CSWP/NIST.CSWP.29.pdf#:~:text=Abstract%20The%20NIST%20Cybersecurity%20Framework,0%2C%20its>
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¹⁸ Conventus Law – Navigating SEBI's CSCRF – Article analysing clarifications issued in June 2025 (CISO roles, asset inventories, VAPT frequency and compliance thresholds). Available at <https://conventuslaw.com/report/india-navigating-sebis-cybersecurity-and-cyber-resilience-framework-key-clarifications-for-sebi-regulated-entities/#:~:text=The%20Securities%20and%20Exchange%20Board,compliance%20by%20SEBI%20Regulated%20Entities>



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Cloud Strategies for Different Business Sizes: A Decision-Making Matrix for CFOs or/and CIOs

This article explores the strategic considerations for cloud adoption in large corporations with regulated protocols versus small-to-medium enterprises (SMEs) with agile protocols. It contrasts the differing needs of these organizations, where large corporations prioritize compliance, security, and integration with legacy

systems, while SMEs focus on scalability, cost-efficiency, and rapid innovation. The article also highlights the collaborative role of the Chief Financial Officer (CFO) and Chief Information Officer (CIO) in the decision-making process, each bringing a distinct perspective i.e., technology and financial feasibility, respectively. Additionally, the article presents a cloud adoption decision matrix that guides organizations in selecting the right cloud strategy based on factors such as regulatory compliance, cost, scalability, and speed of innovation. This matrix helps align both technical and financial goals to ensure a successful cloud adoption strategy that meets the unique needs of both large enterprises and SMEs.

Introduction

Adopting a cloud strategy is not just about technology; it's about future-proofing the business. It provides the foundation for operational efficiency, business agility, innovation, and growth. In a world where agility, speed, and cost-effectiveness are paramount, cloud adoption is a strategic imperative for any organization looking to stay competitive and successful in the modern business world. When choosing a cloud solution for large corporations versus small-to-medium enterprises (SMEs), the decision-making process is shaped by several factors including business size, regulatory requirements, flexibility needs, scalability, security, and cost constraints. Both organizations can benefit from cloud adoption, but their approaches and strategies will differ due to distinct business models, governance protocols, and technological demands.

Key Differences in Needs

1. Large Corporations with Regulated Protocols:

- These organizations are typically heavily regulated due to industry standards (e.g., healthcare, finance, and government), making compliance and security the primary focus.
- Cloud adoption for such companies must be secure, with strong data governance and privacy mechanisms in place.
- They usually deal with large-scale systems that need to be highly available, performance driven, and integrated with complex legacy systems.
- Examples of regulations: GDPR, HIPAA, PCI-DSS, SOC 2.

2. SMEs with Agile Protocols:

- SMEs are typically more flexible, with fewer legacy systems, allowing them to embrace more agile and rapid development, and deployment practices.
- These organizations often prioritize cost-efficiency, scalability, and fast innovation over rigid compliance.
- Their cloud adoption needs to be responsive to changing market demands, and they often focus on lightweight cloud solutions that provide speed, simplicity, and scalability.

Cloud Adoption Use Cases For Large Corporations with Regulated Protocols

1. Financial Services (Banking, Insurance):

“The cloud environment supports sensitive customer data with encryption, secure access controls, and audit logging. It also allows for scalability to handle high transaction volumes while being able to quickly scale down resources during off-peak periods.”

- **Cloud Use Case:** A large financial institution adopts a private cloud solution (or hybrid cloud) to meet compliance with regulations like PCI-DSS and SOX while maintaining high levels of data security and privacy. The cloud environment supports sensitive customer data with encryption, secure access controls, and audit logging. It also allows for scalability to handle high transaction volumes while being able to quickly scale down resources during off-peak periods.
- **Decision Drivers:** Regulatory compliance, security, control over infrastructure, hybrid cloud capabilities (e.g., running workloads in the cloud while keeping sensitive data on-premise).

2. Healthcare Providers:

- **Cloud Use Case:** A healthcare provider chooses AWS GovCloud or Azure Government for HIPAA-compliant hosting of electronic health records (EHRs). These platforms offer features like encryption, secure communication, and disaster recovery solutions that align with health data regulations.
- **Decision Drivers:** Compliance with HIPAA, secure data

transmission, redundancy, disaster recovery, and regional data storage.

3. Global Retailers:

- **Cloud Use Case:** A multinational retailer decides to move its enterprise resource planning (ERP) system to a multi-cloud environment to enhance performance across different regions. This also ensures compliance with local data protection laws (e.g., GDPR) while centralizing inventory management and business intelligence.
- **Decision Drivers:** Regulatory requirements (e.g., GDPR), multi-region availability, integration with legacy systems, high availability.

For SMEs with Agile Protocols

1. Software Development Startups:

- **Cloud Use Case:** A fast-growing SaaS startup adopts AWS Lambda and Google Cloud Functions to build a server-less architecture that scales automatically based on demand. The startup needs a flexible environment to quickly iterate on new features and maintain low operational overhead.
- **Decision Drivers:** Flexibility, speed of deployment, cost-efficiency, scalability, developer-friendly tools.

2. E-Commerce Companies:

- **Cloud Use Case:** A medium-sized e-commerce platform chooses Shopify Plus hosted on AWS for its flexible and managed solution that can easily handle spikes in demand during holidays or promotional periods. The company also integrates a CI/CD pipeline using GitHub Actions, ensuring quick feature rollouts and frequent updates.

- **Decision Drivers:** Agility, cost, ease of management, scalability, demand spikes, fast go-to-market.

3. Media and Entertainment Firms:

- **Cloud Use Case:** An SME in media production uses Adobe Creative Cloud in conjunction with Microsoft Azure for seamless storage and collaboration across globally distributed teams. This enables fast collaboration on video production and digital content creation while keeping costs down.
- **Decision Drivers:** Collaboration tools, cost, quick scaling, rapid development cycles, data accessibility.

Decision Analysis: When to Choose What?

Factors to Consider

1. Regulatory Compliance:

- **Large Corporations:** If your business operates in highly regulated industries (e.g., finance, healthcare), you'll need to choose cloud providers that offer specialized compliance features (e.g., HIPAA, PCI-DSS). Often, private or hybrid clouds are more suitable, as they give more control over data and security.
- **SMEs:** Regulatory concerns are less pronounced for SMEs, so they can take advantage of public cloud solutions with built-in compliance tools. For example, AWS and Google Cloud provide compliance certifications, and SMEs can leverage these without much overhead.

2. Security:

- **Large Corporations:** Security is a key driver. They may need to retain control over encryption keys, employ strict data access controls, and ensure continuous

monitoring of security protocols.

- **SMEs:** While security is still important, SMEs might leverage cloud-native security features (e.g., encryption at rest and in transit) and rely on the cloud provider to handle much of the security management.

3. Flexibility and Agility:

- **Large Corporations:** While large organizations might appreciate cloud flexibility, they also have a strong reliance on legacy systems that require stability and integration. Hybrid and multi-cloud strategies are often the choice here to provide flexibility without compromising on control.
- **SMEs:** Flexibility and speed are critical. SMEs will often opt for more PaaS (Platform as a Service) or SaaS (Software as a Service) models to minimize overhead and leverage cloud-native tools for fast innovation.

4. Scalability:

- **Large Corporations:** Need to scale horizontally (across regions and infrastructure) and vertically (within certain complex systems). Hybrid clouds allow the balance of on-premise scaling with public cloud expansion.
- **SMEs:** Cloud adoption should prioritize cost-effective scalability. Server-less options can scale automatically based on demand.

5. Cost:

- **Large Corporations:** The cost structure is often secondary to compliance, performance, and security requirements. Larger corporations may have bigger budgets to spend on complex infrastructure but will likely still focus on optimizing cost through reserved instances and other cost-saving strategies.

“A medium-sized e-commerce platform chooses Shopify Plus hosted on AWS for its flexible and managed solution that can easily handle spikes in demand during holidays or promotional periods.”

- **SMEs:** Cost control is crucial. SMEs typically choose public cloud models with pay-as-you-go pricing to avoid large upfront investments and benefit from more flexible spending models.

Risk Assessment in Cloud Adoption: SaaS, IaaS and PaaS

Cloud adoption involves choosing between different service models, namely Software as a Service (SaaS), Infrastructure as a Service (IaaS), and Platform as a Service (PaaS), each presenting unique risks and benefits. For CFOs and CIOs, understanding these risks is essential in making strategic decisions that balance operational efficiency, security, and cost-effectiveness.

1. SaaS (Software as a Service) Risks & Considerations

- **Data Security & Compliance:** SaaS providers control infrastructure and applications, limiting direct oversight. Highly regulated industries (e.g., finance, healthcare) must ensure compliance with GDPR, HIPAA, or SOC 2.
- **Vendor Lock-in:** CIOs must assess contract terms and exit strategies to prevent dependency on a single provider.
- **Cost Management:** CFOs need to evaluate subscription-based pricing models and potential shadow IT costs where departments purchase SaaS tools outside IT governance.

- **Use Case:** A financial services firm adopting SaaS-based CRM must validate encryption, access control, and regulatory compliance while managing licensing costs.

2. IaaS (Infrastructure as a Service) Risks & Considerations

- **Operational Risks:** Full infrastructure control requires skilled IT teams for security patching, scalability, and performance tuning.
- **Cost vs. Performance Trade-offs:** CFOs must evaluate pricing models (pay-as-you-go vs. reserved instances) to avoid budget overruns.
- **Regulatory Burdens:** Large corporations handling sensitive data may need multi-cloud or hybrid solutions to comply with regional laws (e.g., GDPR, CCPA).
- **Use Case:** A retail enterprise leveraging AWS EC2 for scalable e-commerce must manage cost fluctuations while ensuring uptime during peak sales seasons.

3. PaaS (Platform as a Service) Risks & Considerations

- **Limited Customization & Vendor Dependencies:** While PaaS accelerates development,



“Larger corporations may have bigger budgets to spend on complex infrastructure but will likely still focus on optimizing cost through reserved instances and other cost-saving strategies.”

dependency on proprietary platforms can limit flexibility.

- **Data Residency & Compliance:** CIOs must verify data sovereignty issues, particularly in cross-border operations.
- **Use Case:** A startup developing AI applications on Google Cloud's PaaS benefits from rapid deployment but must evaluate long-term scalability and exit strategies.

Controls, Policies, and Compliance in Cloud Strategies

Ensuring robust governance, security, and compliance in cloud strategies is critical to risk mitigation and regulatory adherence. By implementing these risk assessments and governance structures, CFOs and CIOs can align cloud adoption with both technical

resilience and financial prudence, ensuring secure, scalable, and cost-effective cloud strategies.

1. Governance & Control Frameworks

- **Cloud Governance Models (e.g., COBIT, NIST):** Define accountability, policies, and risk thresholds.
- **Shared Responsibility Model:** Recognizing that cloud providers manage infrastructure security, while organizations remain responsible for data security and access management.
- **CFO Focus:** Cost control via FinOps (cloud financial management) frameworks to optimize cloud spending.
- **CIO Focus:** Cloud-native security policies such as Zero Trust Architecture for access control.

2. Compliance & Regulatory Considerations

- **Industry-Specific Standards:**
 - **Healthcare** → HIPAA Compliance
 - **Finance** → PCI-DSS for payment security
 - **Global Enterprises** → GDPR for data protection

- **Multi-Cloud & Hybrid Cloud Compliance:** Large enterprises often require on-premise and public cloud integration to meet data residency laws.

- **Use Case:** A pharmaceutical company using AWS for R&D must ensure FDA 21 CFR Part 11 compliance with electronic records while maintaining cost efficiency.

3. Cloud Security & Access Management

- **Identity & Access Management (IAM):** Restrict access using least privileged principles.
- **Encryption & Data Protection:** Encrypt data at rest and in transit to prevent breaches.
- **Incident Response Plans:** Develop cloud-specific disaster recovery aligned with ISO 27001 standards.

Who Decides Cloud Adoption: The CIO, CFO, or Both?

Cloud adoption is a significant strategic decision that impacts an organization's operations, finances, security, and long-term scalability. In most large organizations, the decision typically involves both the Chief Information

Decision Matrix for Cloud Adoption

Criteria	Large Corporations with Regulated Protocols	SMEs with Agile Protocols
Regulatory Compliance	Private Cloud / Hybrid Cloud / Compliance-certified providers	Public Cloud with built-in compliance
Security	Strict control over security (private cloud, encryption keys)	Cloud-native security tools and compliance
Flexibility	Hybrid / Multi-cloud for integration with legacy systems	Full Cloud-native environments for agility
Cost	Higher budget, focus on cost optimization (Reserved Instances)	Cost-efficient (pay-as-you-go, serverless)
Scalability	Horizontal & vertical scaling (Hybrid, Multi-cloud)	Serverless, auto-scaling solutions (AWS Lambda, Google Cloud)
Speed of Innovation	Slower, due to regulatory and legacy system constraints	Fast development cycles, CI/CD pipelines
Business Size	Large enterprise with complex systems	Small to medium-sized, dynamic growth

“Cloud adoption is a significant strategic decision that impacts an organization's operations, finances, security, and long-term scalability. In most large organizations, the decision typically involves both the Chief Information Officer (CIO) and the Chief Financial Officer (CFO), often working in collaboration.”

Officer (CIO) and the Chief Financial Officer (CFO), often working in collaboration. While each role brings a different perspective to the table, their joint involvement ensures that both technical and financial considerations are balanced. Here's a breakdown of their decision-making factors and how they collaborate:

CIO's Technology Perspective

When considering cloud adoption, the CIO focuses on:

- **Technology Fit:** The CIO evaluates whether the cloud solutions align with the organization's existing infrastructure and whether they will support future IT needs. This includes considering public, private, or hybrid cloud models, platform-as-a-service (PaaS), software-as-a-service (SaaS), and infrastructure-as-a-service (IaaS) options.
- **Security & Compliance:** Ensuring that the cloud provider offers robust security features and meets regulatory compliance requirements (e.g., GDPR, HIPAA, PCI-DSS). The CIO will also assess the security architecture, including encryption, access controls, and monitoring.
- **Scalability & Flexibility:** The CIO is concerned with whether the cloud can handle current

workloads and scale with future business growth, as well as whether the cloud service can support agile development and continuous integration/continuous delivery (CI/CD).

- **Innovation:** How will cloud technologies enable the company to innovate faster? The CIO will prioritize cloud environments that allow for rapid deployment, DevOps capabilities, and agility in responding to market changes.
- **Integration with Legacy Systems:** If the organization has existing IT investments, the CIO will need to consider how these systems will integrate with the cloud platform, possibly using hybrid or multi-cloud approaches.

CFO's Financial Perspective

Key areas of focus for the CFO include:

- **Cost Efficiency & ROI:** The CFO will want to understand the cost implications of moving to the cloud, including both short-term and long-term financial impacts. He will assess the total cost of ownership (TCO) and evaluate the expected return on investment (ROI). The CFO will also compare the costs of maintaining on-premise infrastructure versus the cloud's pay-as-you-go or subscription-based models.
- **Budget Impact:** Cloud adoption may involve significant upfront costs, but the CFO will assess how costs will be distributed over time. CFOs will also look at whether moving to the cloud can help streamline operations, reduce infrastructure overhead, and potentially free up capital for other strategic initiatives.
- **Financial Risk Management:** The CFO will be concerned with managing financial risk, including costs that may arise from unexpected cloud usage, potential outages, or hidden fees (e.g., data transfer costs or premium features).

Scalability and Flexibility:

The CFO will evaluate whether the cloud model allows for easy scaling of resources, which can be financially beneficial. With cloud adoption, companies can avoid over-investing in infrastructure and only pay for what they use.

- **Vendor Contract Terms:** The CFO will negotiate contracts with cloud providers, focusing on the terms, pricing models, and the flexibility of those contracts. They need to ensure that the contract terms align with the company's financial forecasting and risk management strategies.

Collaborative Decision-Making: CIO and CFO in Consortium

While both roles have distinct areas of focus, collaboration between the CIO and CFO is crucial for a successful cloud adoption strategy. Together, they need to:

- **Align on Goals:** Both the CIO and CFO should agree on the strategic vision for cloud adoption. While the CIO may emphasize technological transformation and scalability, the CFO will ensure that these goals are achieved within a financially viable framework.
- **Balance Cost and Technology:** The CIO and CFO must find a middle ground between adopting the latest technology and staying within the organization's budget. This involves evaluating not only the cloud's technology stack but also the costs of migration, ongoing operational costs, and long-term financial sustainability.
- **Define Success Metrics:** Both roles must collaborate on establishing metrics to measure the success of the cloud adoption, such as ROI, operational efficiency improvements, and cost savings from infrastructure reduction.
- **Mitigate Risks:** Jointly, they will assess and mitigate risks, including data security, compliance issues, vendor lock-in and potential

“Cloud adoption may involve significant upfront costs, but the CFO will assess how costs will be distributed over time.”

disruptions to business operations during the migration process.

Compact Strategy Guide for Cloud Adoption Decision-Making

Step 1: Initial Alignment

- **CIO:** Understand current IT infrastructure and future technical needs (scalability, innovation, security).
- **CFO:** Assess the financial outlook, considering cost structures, ROI, and budget impact.
- **Collaboration:** Establish a shared vision for what cloud adoption should achieve (business agility, cost efficiency, security, etc.).

Step 2: Vendor Selection

- **CIO:** Review cloud providers based on their technology stack, compliance features, and integration capabilities.
- **CFO:** Evaluate the pricing models (pay-as-you-go, reserved instances) and TCO of each vendor.
- **Collaboration:** Compare the financial models and technical capabilities of each vendor to determine the best fit.

Step 3: Cost-Benefit Analysis

- **CIO:** Present the technical benefits of the cloud solution (performance, security, flexibility).
- **CFO:** Focus on financial analysis (cost savings, ROI, operational efficiency).
- **Collaboration:** Calculate the TCO, compare against current infrastructure costs, and agree on budget allocations.

Step 4: Risk Assessment and Mitigation

- **CIO:** Identify technical risks (data migration, security vulnerabilities and integration challenges).
- **CFO:** Evaluate financial risks (hidden costs, vendor lock-in, and unexpected overage charges).
- **Collaboration:** Develop risk mitigation strategies and establish clear vendor contracts.

Step 5: Execution and Monitoring

- **CIO:** Oversee cloud migration and implementation, ensuring all technical requirements are met.
- **CFO:** Track budget and financial metrics, ensuring costs align with projections and ROI targets are met.
- **Collaboration:** Monitor cloud performance and financial impact over time, adjusting strategy as needed.

Conclusion

For Large Corporations, cloud adoption must address regulatory, security, and integration concerns, often requiring private or hybrid cloud solutions that ensure compliance with strict industry protocols while supporting large-scale operations. For SMEs, cloud solutions should emphasize agility, speed, and cost-efficiency. Public cloud offerings with server-less architectures or platform-as-a-service solutions will allow for rapid deployment and scalability.

Ultimately, the decision hinges on balancing regulatory needs and security (for large corporations) against agility and cost efficiency (for SMEs). The key is to align cloud strategy with organizational size, industry demands, and the specific operational goals that need to be met.

The CIO and CFO play complementary roles in cloud adoption decisions. The CIO brings the technical expertise needed to evaluate cloud platforms, ensure security, and align technology with business goals, while the CFO

focuses on financial implications, ensuring that cloud adoption is cost-effective and delivers value. When done right, this partnership enables the organization to achieve both its innovation and cost-efficiency goals while minimizing risks.

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The Power of Automation – Smart Applications, Smarter Firms

Chartered Accountancy (CA) firms in India have long delivered reliable and trusted services through disciplined processes and time-tested methods. Rooted in professional ethics, strong client relationships, and regulatory expertise, these traditional practices have built the foundation of the profession's credibility and success. However, in today's rapidly evolving regulatory and business environment, where speed, accuracy, transparency, and client responsiveness are increasingly important, CA practices must gradually embrace digital transformation. Traditional manual workflows often create inefficiencies in communication, document management, and compliance tracking.

Digital solutions such as client portal web applications and smart task and call management systems can significantly improve operational efficiency. A client portal enables secure document exchange, real-time compliance tracking, and structured communication with clients, while task and call management tools streamline internal workflows and strengthen accountability among team members. This article highlights how web portals, software automation, and smart workflow systems can boost productivity, ensure compliance accuracy, and help chartered accountants build more efficient, scalable, and future-ready professional practices.

Client Portal Web App: Strengthening Client Collaboration and Practice Efficiency

In the dynamic world of professional accounting, Chartered Accountants (CAs) are expected to juggle client coordination, regulatory compliance, data accuracy, and constantly evolving tax laws, all under tight deadlines. Managing scattered communication, large volumes of data, stringent compliance timelines, and maintaining service transparency has become increasingly complex. In this demanding environment, manual systems are no longer sufficient. CA practices are facing mounting pressure to modernize their operations and meet rising client expectations. Traditional workflows heavily reliant on emails, physical files, and fragmented tools are proving inadequate in today's fast-paced, digital-first landscape.

The solution for this is a Client Portal Web Application, which is a secure,

cloud-based platform designed to centralize communication, simplify document exchange, automate repetitive tasks, and minimize human errors. It not only optimizes internal efficiency but also delivers a more seamless and professional client experience.

Most importantly, such portals can be custom-developed to align with a chartered accountancy firm's unique workflow, service offerings, management style, and scale, making them a powerful asset for transforming how CAs operate, collaborate, and deliver value to their clients.

Understanding the Client Portal Web App

A Client Portal Web App is a cloud-based solution that enables secure, structured interaction between practicing chartered accountants and their clients. Rather than relying on messages, endless email threads, or physical paperwork, the portal serves as a centralized platform where:

- **Clients** can upload and access documents, check compliance statuses, and communicate with the CAs.
- **Team members** can manage workflows, monitor deadlines, and reduce routine administrative work.
- **Partners or senior professionals** can oversee overall firm activity, document flow, and service delivery.

Customizable Secure Login, Role-Based Access & Audit Trails

In a financial environment, safeguarding data and managing access are critical. A custom-developed client portal can be tailored to include:

- **Secure Login with Two-Factor Authentication (2FA):** Custom security protocols can be integrated to ensure that only authorized users gain access.

▪ **Role-Based Access Control:** Access levels can be precisely configured for clients, partners, and internal team members, based on their specific roles and responsibilities.

▪ **Comprehensive Activity Logs & Audit Trails:** Every user interaction, such as logins, file uploads, and status changes, can be tracked in detail, enabling transparency and ensuring audit compliance.

Smart Document Structuring for Seamless Access (Custom-Tailored)

Efficient document organization is essential for any chartered accountancy practice. Through custom portal development, we can design a smart, hierarchical document structure, organized first by service type (e.g., GST, Income Tax, TDS) and then by financial year, ensuring quick and logical access to relevant files.

This intuitive structure can be seamlessly tailored during portal development to align with the firm's operational model, including its practice type, scale, service portfolio, client base, internal workflow, and document management approach.

Key Benefits and Core Functionalities of a Client Portal Web App That Streamlines CA Practice

1. Real-Time Project Status Updates: Minimizing Client Follow-Ups

One of the most frequent operational challenges faced by chartered accountancy



“A Client Portal Web App is a cloud-based solution that enables secure, structured interaction between practicing chartered accountants and their clients.”

practices is the constant inflow of client queries such as “Has my Income Tax Return been filed?”, “What’s the status of my GSTR-1 and GSTR-3B?”, and “Is my TDS return submitted?”. These repeated follow-ups are not only time-consuming but also disrupt internal workflows, particularly during high-pressure compliance periods.

A client portal addresses this pain point by offering real-time visibility into project status. Each task or service can be assigned a color-coded status (e.g., Pending, In Review, Completed). Clients can independently track the status of their filings and services through their portal dashboard. This transparency reduces the need for manual updates and communication. It improves client satisfaction, conserves time for the team, and ensures a more streamlined service experience.

2. Seamless Document Collection and Cloud-Based Storage

Document collection is traditionally messy, scattered across messages, emails, or even physical submissions, leading to confusion, duplication, or missing files. The Client Portal Web App provides a centralized, secure upload system that streamlines the entire process.

Clients can upload KYC documents like PAN, Aadhaar, incorporation certificates, and bank details directly to their profiles. Year-wise and service-wise folders allow document submissions like bank statements, invoices, loan papers, TDS challans, and GST return



data. The portal supports multiple formats—PDF, Excel, Word, and images.

This eliminates email trails and follow-up for document resubmissions, saves support staff time by automating document collection and verification, reduces errors from misplaced or incomplete documents, and stores files securely on cloud servers, ensuring 24/7 access, data backup, and version control. Most importantly, it eliminates the need for local system storage, freeing up device space and reducing dependency on physical infrastructure.

3. Compliance Overview & Automated Due Date Reminders

Missing due dates can result in penalties and strained client relationships. A custom portal helps automate compliance tracking. It displays a comprehensive dashboard of upcoming and overdue filings, sends automated reminders for key services such as ITR, GSTR-1/3B, TDS returns, and ROC filings, and issues alerts via email, SMS, or in-app notifications to both clients and support teams. This enhances compliance accuracy and reduces the manual follow-up burden.

4. Service Overview, Billing & Payment Follow-Up

Managing billing and service tracking can be inefficient. Clients often forget services taken or pending payments. The client

portal simplifies this by displaying a bifurcation of all services availed during the year, providing access to invoice details and downloadable bills, and sending automated payment reminders.

Importantly, firms can restrict access to key documents (e.g., ITR, GSTR, reports) if payment is pending, encouraging timely clearance and reducing revenue leakage.

5. On-Demand Document Access for Clients

Clients often request repeat access to documents like ITR acknowledgments, Form 26AS, financials, and GST returns. This adds operational load. The portal streamlines this by allowing the team to upload once, enabling perpetual access for clients, reducing repetitive workload for operations staff, and empowering clients with access to records anytime, from any device.

6. Integrated Chat Panel for Structured Communication

To bridge communication gaps, the integrated chat feature offers real-time messaging between clients and designated team members, smart chatbots for handling FAQs and standard queries, notifications



“A well-designed custom application introduces meaningful automation across recurring tasks, reduces manual intervention, and ensures consistent, timely execution.”

for new messages or updates, and permanent, non-editable chat logs for audit and dispute resolution. This system fosters transparency, responsiveness, and a clear engagement history.

7. Push Notifications, Rule Updates & Document Upload Alerts

The portal acts as a smart communication bridge between the firm and clients, ensuring critical updates aren't missed. Key capabilities include sending push notifications for rule changes, compliance updates, budget highlights, and due dates; alerting clients and team members when documents are uploaded or submissions are pending; tracking document submissions via the admin panel to identify incomplete profiles or missing uploads; and maintaining an organized log of all communications and alerts for future reference.

These features improve responsiveness and position the firm as a proactive, tech-enabled advisor.

8. Admin Dashboards for Document & Workflow Monitoring

The backend of the portal can be equipped with robust admin tools that empower chartered accounting practices to track document upload status across all clients, apply filters to view which clients have submitted data vs. pending, monitor return filing status—filed vs. pending, for specific services, and generate reports for internal performance tracking and workflow planning.



These dashboards offer complete visibility into client responsiveness and help prioritize work efficiently.

9. Personnel Assignment & Controlled Client Access

In a growing chartered accounting practice, managing responsibilities and delegating client work efficiently across the in-house team becomes increasingly important. A well-designed client portal is not just for clients; it also serves as a robust back-office management tool. One of its most impactful backend features is the ability to assign specific clients to individual team members.

Key Capabilities:

- **Client-to-Team Mapping:** Management can assign clients to designated resources based on workload, expertise, or region.
- **Unique Client Codes or File Numbers:** Each client can be tagged with a unique code or file number, ensuring traceability, organized storage, and structured reporting.
- **Granular Access Rights:** Operations staff receive access only to clients they're responsible for, protecting data confidentiality and enhancing focus.

This results in improved work allocation, clearly defined tasks for each document management executive, and reduced confusion or overlap. Partners and managers can track progress per team member based on assigned clients. Sensitive

data is visible only to authorized professionals, supporting internal governance. With role-based task logs and access trails, the practice can easily review who handled what and when, essential for audits and quality assurance. This feature helps maintain control over internal workflows, especially when handling hundreds of clients across multiple verticals. It promotes workforce efficiency and strengthens governance and scalability through intelligent portal use.

Smart Task & Call Management Web App: A Game-Changer for Modern Chartered Accounting Practices

A practicing Chartered Accountant committed to improving operational efficiency in professional practice environments believes that a Smart Task & Call Management Web App can be custom-developed to address the evolving workflow and client service needs of modern chartered accounting firms. Such a platform is designed to streamline the internal workflow of team members through structured task assignment and tracking and to enhance client satisfaction by efficiently managing calls and converting them into actionable service requests.



Why Traditional Task & Call Handling Needs a Smarter Framework

In many chartered accounting practices, task allocation and client interactions are often managed through informal channels such as verbal instructions, emails, or messaging apps. While these may work in smaller setups, they become difficult to manage as work volume and client communication increase.

This is where a custom-developed Smart Task & Call Management Web App proves invaluable. Its core purpose is twofold:

1. Streamline internal workflows by assigning and tracking tasks among team members in a structured, transparent way.
2. To manage client calls efficiently by logging every incoming service request, ensuring no query is missed or overlooked.

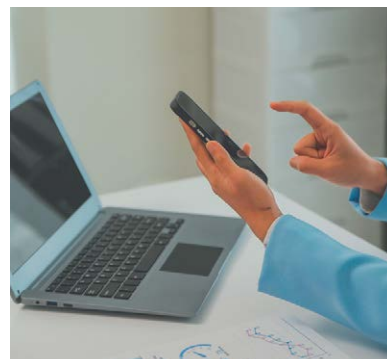
When a call is received, the app allows the user to instantly convert that conversation into an actionable task. This centralized system ensures transparency, accountability, and audit-readiness.

1. Role-Based Dashboards with Controlled Access

The system enables the admin to create multiple user accounts and define access levels based on roles and responsibilities. For instance, team leads may be granted broader visibility, such as the ability to view the status and history of tasks assigned across the team, while individual team members can only access tasks specifically assigned to them. Sensitive controls like task deletion can be reserved exclusively for the admin.

2. Real-Time Task Allocation & Status Updates

Team leads can allocate tasks to specific team members directly through the admin dashboard by entering essential details such as



the client's mobile number, the type of service required (e.g., GST registration, ITR filing), and any specific remarks or instructions. Once assigned, the team member will find the task in their "To-Do List." Upon initiating the work, they can update the status to "Ongoing," and upon completion, it may be marked as "Successfully Closed" or "Unsuccessful," along with supporting remarks. This removes the need for repeated follow-ups. Task assigners can simply view their dashboard or task history to monitor progress in real time.

3. Detailed Task History and Timestamped Logs

Every action, whether a status change or a remark, is recorded with a timestamp. This provides a complete audit trail, supports performance reviews, and reinforces team accountability.

4. Reassignment, Rescheduling, and Flexibility

Tasks can be reassigned to different team members or rescheduled as needed, either by the admin or authorized users. Team members can also self-assign tasks, ensuring no responsibility is left unmanaged. This flexibility helps balance workloads and meet shifting priorities without compromising deadlines.

5. Enhancing Communication with Built-in Smart Call Management

Client phone calls can be efficiently handled within the web app.

A designated call handler can log the call into the platform in real-time, assigning it directly to the appropriate personnel. This ensures that all service requests are addressed promptly, and nothing is missed, even during high-volume periods.

For example, a client may call to request a GST amendment. The call handler instantly logs it into the app and assigns it to the GST team. The task appears in the assignee's dashboard and gets addressed without any verbal follow-up. This integrated approach saves time, improves responsiveness, and boosts client satisfaction.

6. Customizable Filters & Analytics

The admin dashboard can be custom-developed with intelligent filters to view tasks by status, such as To-Do, Ongoing, Successfully Closed, or Unsuccessful. These filters offer role-based task visibility, real-time tracking, and workflow transparency at the admin level.

Integrating such features into a custom-built application allows quick identification of pending or overdue tasks, efficient monitoring of active assignments, and generation of

analytics on performance trends and bottlenecks. This equips decision-makers with configurable tools to optimize resources, track accountability, and improve operational effectiveness, aligned with the firm's internal processes.

Business Impact of Using a Smart Task & Call Management App

The impact of implementing such a system is multifold. It leads to the elimination of scattered messages and verbal updates and introduces streamlined time management and task tracking. Clear responsibilities enhance team coordination, improving client service through timely delivery. The system also ensures audit readiness via complete records and activity logs and enables secure access controls with Two-Factor Authentication (2FA).

Final Reflection: The Case for Custom-Developed Solutions

The day-to-day operations of a chartered accountancy practice witness how smart technology can redefine routine workflows and elevate client service delivery. While many firms opt for off-the-shelf software, custom applications tailored to specific needs can become long-term digital assets.

A well-designed custom application introduces meaningful automation across recurring tasks, reduces manual intervention, and ensures consistent, timely execution. Built-in process standardization enhances accuracy, improves workflow efficiency, and ultimately raises the overall quality of service delivery.

Beyond operational benefits, such solutions strengthen data security through access controls, encryption, and secure storage, aligned with regulatory and confidentiality standards. More importantly, they foster a transparent, responsive client experience, enhancing satisfaction and long-term retention.



While developing a custom application may require initial time and resource investment, its long-term value is substantial. Over time, it becomes a critical digital asset, offering tighter control, reducing administrative overhead, and enabling scalable growth. In today's digital business environment, such a solution supports the shift from traditional workflows to a tech-enabled, future-ready practice model.

Today, we stand at the edge of a progressive shift, one that calls for exploring digital solutions aligned with our practice models. This is the time for us, as professionals, to take a step forward, to conceptualize custom tools built around our unique workflows. Alongside this, a wide array of AI tools, cloud platforms, and web apps offer scalable support for smarter, more agile practice management. The future belongs to those ready to innovate, adapt, and lead their practices into the digital era.



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The Fraud Triangle Reimagined: Why People Cross Ethical Lines

The Fraud Triangle comprising *pressure*, *opportunity*, and *rationalization* has influenced our understanding of workplace fraud. In the contemporary digital and mixed work contexts, each facet of the triangle is undergoing a transformation. This article reconceptualizes the framework from a behavioural perspective. The accounting scams in public domains exemplify how Chartered Accountants and forensic experts may identify early indicators of fraud and develop more robust preventative techniques based on human insights.

Introduction

Why do people indulge in unethical practices? The Fraud Triangle comprising of pressure, opportunity, and rationalization has helped us answer that. It remains one of the most useful tools for understanding why people commit fraud at work.

This article revisits the Fraud Triangle through a behavioural lens, exploring new pressures like the Fear of Missing Out (FOMO) and burnout, modern opportunities, and shift in moral lines. Using the scam of a banking institution as a case study and supported by legal and professional standards, it provides actionable insights for Chartered Accountants and fraud examiners to strengthen fraud prevention in a digital world.

The Fraud Triangle

"Thus, conscience does make cowards of us all."

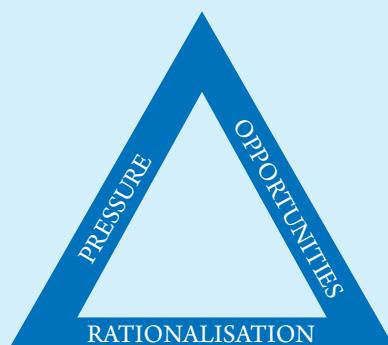
- Hamlet, Act 3, Scene 1

When Shakespeare wrote those words, he captured something timeless - the quiet, invisible battle between what we feel and what we know is right. That same battle plays out today in offices and boardrooms, not on a stage, but in the quiet moments when someone decides to cross a line.

White-collar crime is not just about numbers; it's about people under

pressure who convince themselves that no one will notice and still think of themselves as "good people."

First developed by criminologist Donald Cressey, the triangle says that three things must be present for fraud to happen: *pressure*, *opportunity*, and *rationalization*. For decades, the Fraud Triangle has helped us understand why people commit fraud. But in today's world, the shape of each corner has shifted.



Pressure doesn't just come from unpaid bills; it comes from toxic performance culture, social comparison, and silent mental health struggles.

Opportunities have multiplied with remote work, digital systems, and weakened oversight.

And rationalization? It's easier than ever. *"Everyone's doing it."* *"It's just a shortcut."* *"I'll fix it later."*

If we want to catch fraud earlier — or better yet, prevent it — we need to

look at the human side of fraud with fresh eyes.

Pillar I: Modern Pressures Beyond Financial Stress

When we think about why people commit fraud, it's easy to picture someone desperate, drowning in debt, trying to pay off medical bills, or dealing with addiction. And sometimes, that's true. But more often today, the pressure that drives unethical decisions looks very different and far more subtle.

The Fear of Missing Out (FOMO): A New Kind of Pressure

Scroll through social media platforms for five minutes, and you'll see it: former classmates posting about their promotions, friends celebrating luxury holidays, influencers showing off designer purchases. In a world saturated with curated images of success, even high-performing professionals can start to feel left behind.

For some, that voice becomes hard to ignore, and when the opportunity arises to fudge an expense report, inflate a sales figure, or divert funds, it's rationalized as a way to "catch up" or "level the playing field."

The Digital Economy: Rewriting Expectations and Pressures

The rise of the digital economy has transformed how we work, spend, and

measure success. It has also quietly reshaped what many employees believe they “should” achieve, and how fast.

In today’s world, we see stories of instant success everywhere:

- The crypto-currency investor who retires at 35.
- The influencer who earns more in a month than many do in a year.

Even traditional professionals such as CAs, lawyers, bankers are exposed to this narrative daily.

This flood of hyper-success stories creates a subtle but powerful pressure:

“If everyone else is moving fast and winning big, why am I still grinding away slowly?”

In such an environment, some begin to cut corners. They might inflate numbers, misrepresent business growth, or dip into funds. Not because they are inherently dishonest but because the digital economy has subtly shifted the goalposts for what “normal” success looks like, and the gap between expectation and reality becomes intolerable.

But external comparisons are only part of the story. Sometimes, the pressure comes from within i.e., from exhaustion and disillusionment built up over time.

Burnout: When Exhaustion Clouds Judgment

Post-pandemic, burnout is a silent epidemic. Remote work blurred the line between office and home. Many employees and even senior leaders now operate in a state of constant fatigue and emotional exhaustion. An employee might think: *“I’ve given this company everything. A little extra for myself won’t hurt.”* In that moment of weakness, an ethical boundary can quietly dissolve.

Job Insecurity and the Precarious Workforce

Today’s workforce is far less stable than in decades past. Many professionals now work

on contracts or in gig roles. Even permanent employees face constant restructuring and waves of layoffs.

This chronic insecurity breeds fear and with fear comes a survival mindset.

“If I don’t take this chance now, I may not have another.” That thought can push someone to exploit a loophole or engage in misconduct they’d otherwise reject.

In some environments, the organization itself becomes the source of pressure, driving employees toward choices they would otherwise resist.

Toxic Corporate Cultures: Pressure Cookers for Fraud

In some companies, the pressure to perform is relentless. Sales targets are unattainable. Underperformance is punished publicly. Bonuses depend entirely on short-term results. In such environments, fraud becomes almost a coping mechanism. Employees justify cutting corners to meet impossible expectations.

“If I don’t hit this target, I’m out. Everyone fudges the numbers -it’s just how things work here.”

Why It Matters:

If we only watch for obvious financial stress, we’ll miss many of the most powerful fraud drivers today. FOMO, burnout, job insecurity, and toxic culture are shaping modern fraud risk in ways that traditional controls can’t easily detect.

As CAs, we need to develop a sharper lens for these pressures, because behind every fraud case is a human story. And often, that story begins with someone who felt trapped, exhausted, or left behind.

Pillar II: Opportunities in a Digital, Hybrid World

If today’s workplace is filled with new pressures, it is equally full of new opportunities — subtle, everyday chances to take what isn’t rightfully ours. The opportunities don’t look

like locked safes or unguarded tills. They are passwords, expense apps, cloud folders, and remote logins which appear in the quiet moments when no one is watching, and the temptation whispers, *“You could. No one would know.”*

The Remote Work Effect: Out of Sight, Out of Mind

When employees worked in bustling offices, small ethical nudges, such as a glance from a colleague, or a manager dropping by, helped keep misconduct in check. Now, millions work from home, alone, often for months on end. In this solitude, it becomes easier to think of the company as a distant, faceless entity and not a team of people you could hurt.

Day-to-day supervision is weaker; performance is measured on outcomes, not behaviour.

The voice that once said, *“Someone will notice,”* starts to fade. In this environment, some employees begin to take small liberties — an inflated expense, a misreported hour, a fabricated approval. And small liberties can quickly snowball.

Digital systems make work faster, smarter and sometimes more vulnerable. The very tools we now rely on i.e., our digital systems, can offer new ways to exploit the flow of information and money.

Digital Systems: New Tools, New Temptations

Digital systems make work faster, smarter and sometimes more vulnerable.

A procurement officer realizes they can slip a fake vendor into an overloaded approval queue. These aren’t hardened criminals; they are ordinary people tempted by complexity and the illusion of invisibility that digital processes can create.

The Shadow World of Digital Payments

India’s UPI system and mobile wallets have transformed commerce. But speed and convenience come at a cost.

A finance manager sends money through multiple wallets to obscure its origin.

A fraudster sets up dummy UPI IDs to siphon small amounts from dozens of accounts.

An employee rationalizes a quick unauthorized transfer with the thought: “I’ll return it before anyone notices.”

In a world where money moves instantly, so does temptation. In a world where home and work increasingly overlap, the lines between personal and professional ethics often blur as well.

Blurred Boundaries, Blurred Ethics

In hybrid work life, professional and personal boundaries often dissolve. An employee downloads client data to a personal cloud folder “just to work faster”. Another uses a corporate card for a personal expense, planning to fix it later. Someone else shares logins out of convenience, eroding critical security controls.

None of these acts may start with criminal intent, but each chips away at ethical clarity. The line between right and wrong becomes blurred, just like the line between home and office.

Such evolving risks make it imperative for organizations to revisit their internal controls and ethical frameworks as reinforced by Section 177(9) of the Companies Act, 2013, which mandates the establishment of an effective vigil mechanism, and the ICAI Code of Ethics, which emphasizes professional integrity and responsibility in a changing business environment.

Why It Matters:

Opportunities for fraud today no longer look like unlocked safes or missing signatures. Today’s fraud live in small gaps such as digital apps, cloud systems and rationalizations that feel safe in the “moment”.

As CAs, we must learn to see these gaps, not just in systems, but in the human moments where fraud begins.

“White-collar crime is not just about numbers; it’s about people under pressure who convince themselves that no one will notice and still think of themselves as “good people.””

Pillar III: Rationalization in the Age of Moral Flexibility

No one wakes up one morning and decides to become a fraudster. What happens is quieter, and more human. It happens in small, private moments when someone looks at a choice and begins to tell themselves a story about why it’s okay to make the wrong one.

This is rationalization — the third side of the Fraud Triangle. In today’s fast-moving world, with shifting values and blurred boundaries, rationalization is often the most dangerous force of all, and the stories we tell ourselves are surprisingly consistent across industries, hierarchies, and even cultures.

“Everyone’s Doing It” — The Power of Groupthink

In many workplaces, people learn and absorb what is tolerated. When employees see peers cutting corners, inflating expenses, or manipulating numbers and no one calls it out, they start to believe this is “how things work.”

“If no one else seems to care, why should I be the only one following the rules?”

Rationalization spreads quickly in cultures where success seems to reward unethical behaviour.

“I’m Not Paid What I’m Worth” — Balancing the Scales

One of the most common justifications is a feeling of being wronged. An employee who feels underpaid or overlooked begins to think of fraud as a form of compensation:

“They don’t value my work — so why not take what I deserve?”

“I work nights and weekends, and they don’t pay me fairly — this is just evening things out.”

This is not about greed. It’s about resentment — and when resentment meets opportunity, the risk of fraud spikes.

“Why Should I Be Loyal When They Aren’t?”

Loyalty is a fragile thing. When employees see their organization acting unethically by breaking promises, dodging taxes, mistreating staff, their own moral compass can start to shift: *“If they cheat, why should I stay honest? This company would throw me under the bus, so I’ll look out for myself.”* When trust is broken, loyalty dissolves and self-interest takes over.

“Just This Once” — The Most Dangerous Story

The most seductive rationalization of all is the one-time exception:

“I’ll pay it back next month.”

“It’s only a small amount.”

“I’ll only do this once — just to get through a rough patch.”

But of course, “just this once” often turns into twice, then a pattern. Most white-collar criminals don’t start with big crimes; they start with small acts they believe they can control. The danger is that once a person crosses the ethical line, crossing it again becomes easier each time.

Why It Matters:

Fraud is not born out of opportunity alone. It grows in the stories people tell themselves; stories that justify, excuse, and slowly erode the boundaries of right and wrong.

In today’s world, those stories are everywhere: in social media comparisons, in corporate cultures that reward results at any cost, and in the quiet frustrations of everyday work. If we want to fight fraud, we must pay attention to those stories. Our role is to support cultures where this is wrong is louder than “no one will notice.”



The Role of Chartered Accountants

Fraud doesn't announce itself with alarms and sirens. It arrives quietly, through everyday decisions made under pressure, in systems that no longer fit the way we work, and in cultures where speaking up feels harder than staying silent. As CAs, our job is not just to react to fraud once it happens but to help create organizations where it struggles to take root.

Fraud risk is not just a checklist. It is a behavioural challenge requiring human insight beyond the numbers.

It means understanding the human stories behind the numbers and building systems and cultures that protect both the organization and the people within it.

Table 1 shows where we can begin.

Conclusion

Fraud is evolving, so must we. If we want to stay ahead of modern white-collar crime, we must reimagine our tools, not just our technology, but our understanding of people.

Fraud risk isn't just a check list. It is a living, human system, shaped by pressure, opportunity, and the stories we tell ourselves to justify crossing the line. In the end, the strongest controls are human, built on values, not just rules.

"The fault, dear Brutus, is not in our stars, but in ourselves."

- William Shakespeare, Julius Caesar (Act 1, Scene 2)

References

- <https://www.acfe.com/fraud-resources/fraud-101-what-is-fraud>
- Companies Act, 2013 — Sections 177(9), 134(S), 143(12)
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ICAI Code of Ethics, 2020
- SA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- ICAI Guidance Note on Reporting under Section 143(12) of the Companies Act, 2013
- COSO Internal Control - Integrated Framework
- ISO 37001 Anti-bribery Management Systems

Table 1.

	Focus Area	Practical Actions	Relevant Standards and Laws
1	Expanding the definition of Red Flags	Not every fraud risk shows up in a balance sheet. Often, the first signs appear in human behaviour. • Pay attention to behavioural changes like sudden withdrawal or defensiveness from previously open employees. • Observe shifts in tone during meetings. • Incorporate non-financial indicators into internal audit checklists.	SA 240 (Revised) - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
2	Adapting Fraud Risk Assessments for Hybrid Work	• Continuously monitor access rights and digital controls. • Enforce segregation of duties across remote teams. • Adjust transaction monitoring system to real time digital flows (eg. UPI, mobile payments etc.).	COSO Framework ICAI Code of Ethics (2020)
3	Addressing Rationalisation through Culture	• Promote leaders who model ethical choices. • Facilitate open dialogue regarding burnout and ethical dilemmas.	Section 177 (9) of the Companies Act, 2013, SEBI (LODR)
4	Reconnecting Ethics with Everyday Decisions	Recommend: • The management and HR to foster psychological safety while maintain accountability for employees. • The organisations integrate simple ethical checkpoints into everyday processes, thereby making ethical decisions easier and automatic.	ISO 37001 ICAI Guidance Note on Reporting under Section 143(12) of the Companies Act.

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Ease of Doing Business: Doing Away with Sections 138-148 of the Negotiable Instruments Act, 1881

The Payment and Settlement System across the world during the 19th and 20th centuries was mainly by way of Cheques, Bills of Exchange, and Promissory Notes. Therefore, in India, the Negotiable Instruments Act, 1881, was enacted to regulate them; however, frequent cheque 'Dishonour' persisted, and in the absence

of any convenient alternative for transferring large sums for goods or services, cheques remained the preferred mode of payment. In view of the prohibition under the Income Tax Act, 1961, from paying in cash above a specified amount, the payment through cheques has also been a legal necessity in our country. However, the unscrupulous people or traders, with mala fide intentions, either used to dishonour the cheques issued by them by not keeping sufficient amount in their bank accounts or by stopping payment of the cheques or by altogether closing the accounts. There was no specific remedy under the Negotiable Instruments Act, 1881, for the victims except to file a complaint with the Police alleging cheating or to file a civil suit for recovery of the amount, which was time-consuming and expensive.

In view thereof, to bring certainty to the mercantile transactions and to instil confidence in the system of cheque payments, the Parliament of India had amended the Negotiable Instruments Act, 1881, by way of Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 (66 of 1988) and inserted Chapter No. XVII and Sections 138-142, under which the act of dishonour of cheques had been made an offence punishable with imprisonment for a period of one year or with a fine which could extend to twice the amount of the cheque. The said amendment came into force from 1.4.1989. Since transactions through cheques were a common phenomenon, there was also a high incidence of dishonour of cheques. In view of the fact that the dishonour of a cheque has been criminalised, a large number of

criminal complaints came to be filed before the Courts, which completely overwhelmed the criminal justice system. The complaints remained pending for years due to the elaborate procedure involved in criminal trials. This has affected and choked the criminal justice system, and hence the disposal of other criminal cases. To expedite disposal of these complaints, the Act was once again amended in the year 2002 to bring in certain radical changes like making the offence triable summarily, fixing a time limit for completion of the trial, taking evidence by way of affidavits, etc. The offence has also been made compoundable while enhancing the punishment from one year imprisonment to two years imprisonment.

In the case of *Gimpex Private Limited vs. Manoj Goel* [MANU/

SC/0829/2021] (Criminal Appeal No.1068/2021), the Hon'ble Supreme Court observed as under:

"The object of bringing Section 138 into the statute was to inculcate faith in the efficacy of banking operations and credibility in transacting business on negotiable instruments. It was to enhance the acceptability of cheques in settlement of liabilities by making the drawer liable for penalties in case of bouncing of cheques due to insufficient arrangements made by the drawer, with adequate safeguards to prevent harassment of honest drawers."

It is quite evident that the legislative intent was to provide a strong criminal remedy in order to deter the high incidence of dishonour of cheques. What must be remembered is that the dishonour of a cheque can be best described as a regulatory offence that

has been created to serve the public interest in ensuring the reliability of these instruments.

The provision to punish the offender has encouraged the institution of a large number of cases that are relatable to the offence contemplated by Section 138 of the Act. So much so, that at present a disproportionately large number of cases involving the dishonour of cheques is choking our criminal justice system, especially at the level of Magistrates' Courts. As per the 213th Report of the Law Commission of India, more than 38 lakh cheque bouncing cases were pending before various courts in the country as of October 2008. This is putting an unprecedented strain on our judicial system."

In a reply to the Parliament, the Government of India informed that there were 43.05 lakhs cheque bouncing cases pending before various courts as on 18.12.2024.

Acknowledging the deep-rooted problem, the Hon'ble Supreme Court took up the matter on its own in *Suo Moto WP (Crl) No. 2/2020*. In this case, the Supreme Court considered the delay in the disposal of cases under the Negotiable Instruments Act, which is creating a severe logjam in courts at all levels, especially the Trial Courts and the High Courts. The Hon'ble Supreme Court vide order dated 10.03.2021, *inter alia*, directed to constitute a 10-member Committee with the objective of submitting a report specifying the

steps that must be taken in order to facilitate an early disposal of cases under the Negotiable Instruments Act. The Committee submitted its Report to the Court, wherein it, *inter alia*, suggested the creation of Special Negotiable Instruments Courts. The *Amicus Curiae* in the matter suggested a pilot study, in 5 judicial districts in the 5 states with the highest pendency (namely, Maharashtra, Rajasthan, Gujarat, Delhi, and Uttar Pradesh) so that the viability of the scheme can be examined based on the results of the pilot study. Thereafter, vide its order dated 19.05.2022, the Hon'ble Supreme Court has directed that the pilot study shall be conducted in the manner indicated in the said order for a duration of 1 year from 01.09.2022 to 31.08.2023 in 25 Special Courts with one Special Court in each of the 5 judicial districts which have been identified as having the highest pendency of NI Act cases by each of the five High Courts mentioned above. The pilot study was suggested to test the scheme of employing retired judicial officers and retired Court staff to operationalise these Special Courts in the five states with the highest pendency of cases, namely, Maharashtra, Rajasthan, Gujarat, Delhi, and Uttar Pradesh. The Supreme Court had also issued guidelines as to the setup of the said special courts, appointment of Presiding Officers, and Staff. Since the said period of one year for which the Special Courts were constituted expired on 31-08-2023, the hearings in the said special courts were stalled. Further, the Delhi High Court, through its notification dated 01-09-2023, directed to transfer back of all the matters to their parent Court in the absence of any direction/clarification from the Supreme Court. The decision of the Supreme Court on the constitution or continuation of special Negotiable Instruments Courts is awaited. This is the scenario of the disposal of complaints filed for the dishonour of cheques before the Criminal Courts.

On the other hand, with the advent of technology, new payment systems

have come up, and their usage has spread rapidly. Now, persons can operate their accounts electronically, and a counterpart payment system through Electronic Clearing Service (ECS) has been introduced. Now, funds can be transferred through ECS, and as such, issuing or accepting cheques can be avoided. Similarly, Internet Banking facilitates a person to transfer huge amounts of money to the supplier of goods or services almost instantaneously. A person can transfer money through NEFT/RTGS, which is cost-effective and time-effective. Money can also be transferred through UPIs like Google Pay and PhonePe which is more efficient and faster and even a common man or a layman in our country has become well conversant in using these UPI systems for the transfer of money. UPI payments completed 15,547 crore transactions, amounting to Rs. 23.49 lakh crore, between January and November 2024. Earlier, there was no other alternative to a person who supplied goods or services other than to accept the cheques, as it cannot be expected of a person to carry a huge amount of physical cash. Further, payments above a specified limit were not being allowed as a business expenditure under the Income Tax Act, 1961, which further necessitated payment through cheques.

In the case of *P. Mohan Raj Vs. Shah Brothers Ispat Pvt. Ltd.*, Hon'ble Supreme Court described the proceedings of Section 138 as "Civil Sheep in a Criminal Wolf's clothing" while observing that the nature of the offence under Section 138 of the NI Act is quasi-criminal since it arises out of a civil wrong. Therefore, as the Supreme Court stated, dishonour of a cheque is originally a civil wrong, whereas by statute it has been made an offence.

As per the National Judicial Grid, presently there are 3.45 crore criminal cases pending at various stages in various courts, including the Supreme Court. Presently, since alternate payment systems have come up, there





is no need to accept payment through cheques, and if anyone accepts cheques will be doing so at their own risk and peril. There is no need to continue to encourage payment through cheques. Further, the Income Tax Act, 1961, has also been suitably amended to include payments made through electronic systems. The provisions of Section 138-147 have been made applicable to payments through ECS under Section 25 of the Payment and Settlements Systems Act, 2007, and are liable for punishment for dishonour of the mandate given for ECS payments. Other payment systems like Internet Banking, UPI etc., provide for instant payments, and RBI has issued guidelines regulating these payments. These payment systems are now well entrenched in our economy and have become an indispensable part of the payment systems. The credibility in these systems has now been well established, and there is no need to rely upon archaic payment systems like Cheques.

Victims of heinous crimes, especially women, are unable to get quick justice owing to the huge pendency of cases in criminal courts. Therefore, the criminal courts are required to devote their resources and time to rendering justice in serious cases rather than complaints like dishonour of cheques.

The Ministry of Finance, on 8th June 2020, issued a statement of reasons for 'Decriminalization of Minor Offences for Improving Business Sentiment and Unclogging Court Processes', including the offences

under Section 138 of the Negotiable Instruments Act, 1881. The statement underlines the fact that the risk of imprisonment for actions or omissions that aren't necessarily fraudulent or the outcome of mala fide intent is a big hurdle in attracting foreign investments. It further stated that the uncertainty in legal processes and the time taken for resolution in the courts hurts the ease of doing business. Criminal penalties, including imprisonment for minor offences, act as deterrents, and this is perceived by the Government as one of the major reasons impacting business sentiment and hindering investments, both from domestic and foreign investors. The notification aims to help revive the economic growth and improve the justice system. The central government had invited the comments of State Governments/ UT Administrations, Civil Society/ Non-Government Organizations, Academicians, Public and Private Sector Organizations, Multilateral Institutions, and members of the public to submit their suggestions to the Department of Finance Services, Ministry of Finance, by 23rd June 2020.

Some stakeholders had opposed the government's move or proposal to decriminalize the offence of dishonour of cheques. They have suggested that monetary limits can be fixed for cheque bounce cases to attract criminal prosecutions. The Government is yet to take any decision thereon.

Further, the volume of the transactions through cheques has been declining over recent years thanks to the growing popularity of electronic payment methods like online banking, mobile banking, digital wallets etc. Once widely prevalent method of payment through cheques have experienced a decline in usage in many countries due to the emergence of digital payment methods and other instruments such as Debit and Credit Cards. Several countries have either completely phased out or significantly reduced the usage of cheques. The monetary

authority of Singapore announced that all corporate cheques will be done away with by the end of 2025. This was announced following the reduction in cheque transaction volumes by almost 70% from 61 million in 2016 to less than 19 million in 2022. Similarly, transactions in cheques in Australia once accounted for 85% of the number of non-cash payments and witnessed a 90% decrease in cheque usage over the past decade and hence, Australia has decided to phase out cheques by 2030.

The developed countries like the UK, USA, France, Australia, Singapore, etc. have not criminalised the act of dishonour of cheques and still treat it as a civil wrong and damages are payable therefor. In fact, through UPI payment systems, our country is far advanced in payment systems than the above-referred developed countries.

Hence, it is time to decriminalise dishonour of cheques so that pendency of criminal cases in various courts across the country is drastically reduced, and hence the provisions related to dishonour of cheques in the Negotiable Instruments Act, 1881 should be repealed by the Parliament. This urgent reform is required to be made to reform the judiciary and to reduce the unnecessary burden of carrying the weight of cheque dishonour cases.

Presently, there is no threshold as to the amount to initiate criminal action for dishonour of cheques. At least, to start with, the Government should bring forth an amendment to fix a threshold of Rs. One crore and above to apply the provisions of Section 138 of the Negotiable Instruments Act, 1881. This move can drastically reduce the number of complaints being filed before the criminal courts for dishonour of cheques.

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Audit Documentation: A Cornerstone of Audit Quality

Audit documentation, commonly referred to as working papers, is integral to maintaining the quality and reliability of the auditing process. As emphasized by Standard on Auditing (SA) 230 “Audit Documentation”, it not only ensures compliance with professional standards but also demonstrates the thoroughness and rationale behind audit conclusions. Effective documentation supports audit quality, facilitates future audits, and aids supervision and regulatory reviews. However, challenges such as balancing detail, adapting to technological changes, and maintaining consistency across teams persist. This article explores the

significance of audit documentation, outlines best practices, and discusses emerging trends such as digital integration, highlighting its critical role in fostering transparency and trust in financial reporting. It is not merely a requirement for compliance with standards but a critical component of the audit process that ensures quality, consistency, and transparency. The documentation reflects the work performed by the auditor, the decisions made during the audit, and the evidence collected to support the conclusions reached. As outlined in SA 230, the meticulous preparation and maintenance of audit documentation is vital for achieving professional excellence and regulatory compliance.

Understanding Audit Documentation

Audit documentation is the written record that provides evidence of the auditor’s work. It includes records of the planning and execution of the audit, the evidence gathered, and the conclusions reached. These records may be in physical form, electronic form, or a combination of both.

The objectives of audit documentation, as outlined in SA 230, are multifaceted:

- 1. Evidence of Audit Quality:** It substantiates that the audit was performed in accordance with applicable standards on Auditing.
- 2. Support for Audit Conclusions:** It provides the rationale for the auditor’s opinions, ensuring that these conclusions are well-founded.
- 3. Facilitating Future Audits:** It serves as a valuable resource for planning and conducting future audits, particularly for recurring engagements.

- 4. Basis for Supervision and Review:** Audit documentation facilitates the supervision of audit work and provides a framework for reviews by peers, regulatory authorities, or quality control reviewers.

Key Components of Audit Documentation

Comprehensive audit documentation encompasses various elements. These include:

- **Audit Plan:** Outlining the nature, timing, and extent of audit procedures.
- **Audit Programs:** Detailed steps designed to address specific risks.
- **Evidence Collected:** Records of the evidence gathered, including confirmation letters, inspection records, and analytical procedures.
- **Significant Judgments:** Documentation of key professional judgments and decision-making processes.

- **Findings and Conclusions:** Summaries of audit observations and the auditor’s final conclusions.

SA 230 and Its Requirements

SA 230 serves as the guiding standard for audit documentation, prescribing the principles and requirements for auditors. It emphasizes that the documentation should be:

- 1. Sufficient and Appropriate:** The records must be detailed enough to allow an experienced auditor, with no prior knowledge of the engagement, to understand the work performed, significant judgments made, and the conclusions reached.
- 2. Timely and Organized:** Documentation should be prepared promptly, ensuring accuracy and reliability. Proper organization is critical for easy retrieval and review.
- 3. Complete and Transparent:** It must provide a clear trail of the audit

process, showcasing the auditor's adherence to Standards on Auditing.

4. **Secure and Retained:** Audit documentation must be stored securely to prevent unauthorized access and retained for a minimum period of seven years from the date of the auditor's report, as prescribed by SA 230.

Challenges in Audit Documentation

While audit documentation is fundamental to the audit process, it is not without challenges. Common issues faced by auditors include:

1. Balancing Detail and Brevity

Auditors often struggle to strike a balance between over-documentation and under-documentation. Overly detailed records can obscure critical findings, while insufficient documentation risks non-compliance with Standards on Auditing.

2. Adapting to Technological Changes

With the advent of digital auditing tools and software, auditors must adapt their documentation practices to include digital evidence, such as logs, system screenshots, and electronic communications.

3. Evolving Regulatory Landscape

Frequent updates to Standards on Auditing, issued by ICAI and other regulatory bodies, require auditors to continuously adapt their documentation practices.

4. Resource Constraints

Smaller audit firms or individual practitioners may face challenges in dedicating sufficient resources to comprehensive documentation due to time and cost constraints.

5. Ensuring Consistency Across Audit Teams

For larger audit engagements, maintaining consistency in documentation across teams can be challenging, particularly in the absence of standardized templates or clear guidelines.

“ICAI provides a wealth of resources, including Audit Working Paper Templates, to assist auditors in maintaining consistent and effective documentation. These templates help streamline the process and ensure adherence to the requirements of Standards on Auditing.”

Practical Guidance for Effective Audit Documentation

To overcome these challenges and enhance the quality of audit documentation, auditors can adopt several best practices:

1. Use of Standardized Templates

ICAI provides a wealth of resources, including *Audit Working Paper Templates*, to assist auditors in maintaining consistent and effective documentation. These templates help streamline the process and ensure adherence to the requirements of Standards on Auditing.

2. Emphasize Materiality

Focus on documenting material aspects of the audit, including significant risks, key judgments, and findings. Avoid unnecessary details that do not add value to the audit.

3. Leverage Technology

Digital tools, such as audit software and cloud-based documentation platforms, can enhance the efficiency and security of audit documentation. These tools also facilitate real-time updates, collaboration among audit teams, and easier retrieval of records.

4. Regular Training and Updates

Continuous professional education is essential for auditors to stay abreast of changes in Standards on Auditing and best practices. ICAI regularly conducts training

programs and issues guidance notes and implementation guides to support auditors in this regard.

5. Robust Review Mechanisms

Instituting rigorous review processes within audit teams ensures the accuracy, completeness, and consistency of documentation. Peer reviews and quality control checks are particularly effective in this regard.

Role of Documentation in Quality Assurance

Audit documentation is central to quality assurance. The Quality Review Board (QRB) of ICAI frequently highlights the importance of robust audit documentation in ensuring audit quality. During quality reviews, documentation serves as the primary evidence of compliance with Standards on Auditing and professional guidelines.

Common areas of non-compliance identified during quality reviews include:

- Incomplete or insufficiently detailed documentation of audit procedures and findings.
- Failure to document significant judgments and rationale for conclusions.
- Lack of documentation of supervision and review processes.

To address these issues, ICAI has issued comprehensive guidance, including the *Implementation Guide to SA 230, Audit Documentation (Revised 2022 Edition)*. This guide provides practical insights into meeting the documentation requirements of SA 230 and addressing common challenges faced by auditors.

Emerging Trends in Audit Documentation

The landscape of audit documentation is evolving, driven by advancements in technology and changes in regulatory expectations. Key trends include:

1. Increased Use of Digital Evidence

As businesses increasingly adopt digital systems, auditors must adapt their documentation practices to include electronic evidence, such as transaction logs and email correspondences.

2. Integration of Data Analytics

Data analytics is becoming an integral part of the audit process. Documentation now includes not only the analysis performed but also the rationale for using specific data sets and the conclusions drawn.

3. Focus on Cybersecurity

With the rise in cyber threats, documentation of cybersecurity risks and controls is gaining prominence in audits, particularly for technology-driven businesses.

Documentation and Audit Sampling

Sampling is an essential part of the audit process, and it must be well-documented to support the auditor's conclusions. The rationale behind sample selection, the procedures used, and the results obtained must be recorded clearly to ensure transparency and reviewability.

Example: When testing the accuracy of a client's accounts receivable, an auditor may select a sample of transactions to verify. The documentation should include the method used to select the sample, the sample size, and the results of the testing.

Key Documentation Practices

- Providing clear evidence of the sampling method used (e.g., random, systematic).
- Recording the auditor's judgment on whether the sample was representative of the population.
- Documenting any adjustments or exceptions found in the sample and their impact on the audit opinion.

Documentation in the Context of Fraud Detection

Audit documentation plays an essential role in fraud detection by ensuring that the audit is performed with an appropriate level of professional scepticism and that red flags are properly documented. Auditors must clearly document any identified inconsistencies or suspicious transactions and the

procedures conducted to investigate them.

Example: During an audit of a company's procurement process, an auditor notices discrepancies in purchase order approvals and payment authorization. The auditor must document the nature of these inconsistencies, the evidence collected, and the steps taken to determine whether fraud was involved.

Key Documentation Practices

- Recording the auditor's consideration of fraud risks during planning.
- Documenting specific audit procedures conducted to address fraud risks.
- Including findings and conclusions from any fraud-related investigations in the audit file.

The Role of Artificial Intelligence (AI) in Documentation

The use of AI in audit documentation is an emerging trend that is beginning to transform the profession. AI tools can help auditors identify anomalies, streamline evidence gathering, and maintain comprehensive documentation more efficiently.

Benefits of AI in Documentation

- Increased accuracy and speed in data processing.
- Reduced manual work, allowing auditors to dedicate more time to analysis and review.
- Enhanced ability to detect potential audit risks through advanced data analysis.

The Role of ICAI and Regulatory Bodies

ICAI plays a crucial role in promoting and supporting best practices for audit documentation. Through publications like the Implementation Guide to SA 230 (Revised 2022 Edition) and various training programs, ICAI helps auditors stay updated and compliant with

current Standards on Auditing. Additionally, ICAI's guidance notes, implementation guides and templates aid in streamlining documentation processes, making it easier for auditors to meet quality expectations.

Regulatory bodies also emphasize the importance of documentation. For instance, the Quality Review Board (QRB) frequently conducts quality reviews to identify areas of improvement and promote adherence to Standards on Auditing. These reviews often reveal common shortcomings, such as incomplete documentation or inadequate detail in significant judgments. Addressing these issues is vital for audit quality assurance and regulatory compliance.

Conclusion

Audit documentation is not merely a procedural requirement; it is a strategic tool that underpins the quality and credibility of the audit process. By embracing best practices, leveraging technology, and staying updated on regulatory changes, auditors can enhance the effectiveness of their documentation.

ICAI's initiatives, including its comprehensive guidance notes, implementation guides, and training programs, provide invaluable support to auditors in achieving this objective. As the auditing profession continues to evolve, robust documentation will remain a cornerstone of audit quality, ensuring transparency, accountability, and trust in the financial reporting ecosystem.

Reference

- *Standard on Auditing SA-230, Implementation Guide to SA 230 (Revised 2022 Edition), Audit Documentation, Audit Working Paper Templates by ICAI*

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Building Future-Ready CA Firms: LLP vs Partnership Under ICAI's Strategic Practice Frameworks

Chartered Accountant (CA) firms in India are navigating a major inflection point. Traditional partnership structures are increasingly strained under the weight of expanding regulatory demands, geographical presence needs, and client expectations for multidisciplinary expertise. The emergence of Limited Liability Partnerships (LLPs), particularly those enabled through ICAI's 2022–2024 regulatory frameworks, offers an alternative that balances professional independence, scalability, and legal resilience.

This article provides a holistic, structured, and ICAI-compliant comparison of LLPs and traditional partnerships with special emphasis on legal frameworks, audit controls, partner roles, merger protocols, governance models, succession planning, and technological integration. Through strategic use of the MDP Guidelines (2022), Networking Guidelines (2021), Aggregation Model (2024), and Merger/Demerger Frameworks (2024), the analysis lays out a clear decision matrix.

Whether you're a sole proprietor, mid-sized regional firm, or a returning professional from industry, LLPs now provide ICAI-approved, ethically governed structures aligned with modern firm aspirations. With benefits ranging from liability shielding and client trust to institutional brand building and global compatibility, the LLP model is no longer an option; it's the roadmap to a future-ready CA practice.

Introduction

India's professional landscape is undergoing transformation. The shift is not merely legal or operational but strategic and inevitable. As the global economy integrates, clients increasingly demand firms that can offer bundled services: audit, advisory, risk, tax, digital, legal, and ESG. Traditional partnerships, with their individualistic decision-making and informal governance, struggle to respond to these demands.

With the introduction of the Limited Liability Partnership (LLP) Act, 2008, and further bolstered by ICAI's proactive reforms including:

- Multidisciplinary Partnership (MDP) Guidelines, 2022
- Networking Framework, 2021
- LLP Aggregation Model, 2024

- Merger and Demerger Protocols, 2024

Chartered Accountants now have a legal, scalable, and strategic blueprint to build firms that are future-proof.

The LLP structure bridges the gap between flexibility and institutionalism. It offers:

- Limited liability
- Perpetual succession
- Customizable governance
- Legal identity
- Professional brand continuity
- Multidisciplinary partnerships under regulation

This makes it ideal for:

- Sole proprietors seeking scalability and succession

- Mid-sized firms looking to standardize governance
- New CAs wanting structured career pathways
- Industry-returning professionals needing re-entry via MDPs

In this article, we dissect the comparative strengths, compliance requirements, governance frameworks, and real-life implementation models for LLPs and partnerships. Each recommendation is grounded in ICAI's latest regulatory landscape.

ICAI's MDP Framework – 2022

The Multidisciplinary Partnership (MDP) framework introduced in 2022 revolutionized how CAs can collaborate with professionals from other domains.

Permissible Partners under Regulation 53B

- Company Secretaries (CS)
- Cost and Management Accountants (CMA)
- Advocates
- Engineers
- Architect
- Actuaries

Core Conditions

- **Majority CA Control:** CAs must remain in majority in both headcount and profit share.
- **Audit Independence:** Only CAs can sign attest functions. Non-CAs are barred from accessing audit revenues.
- **Naming Rights:** One MDP firm name per CA is permitted.
- **Structural Flexibility:** MDPs may function as LLPs or traditional partnerships.
- **Revenue Segregation:** Non-CAs may share in non-audit services only.

This framework serves three strategic purposes:

1. Enables multidisciplinary service delivery under one brand.
2. Supports returning professionals with expertise in law, valuation, governance, etc.
3. Provides the structural base for ESG, forensic, IT audit, and legal advisory integration.

Governance, Deadlock Management & Partner Rights

Governance in LLPs vs Partnerships

In traditional partnerships:

- Governance is generally informal.
- Power is distributed equally (headcount-based) unless modified by the deed.
- There is a high risk of firm dissolution during retirement or death of a partner.

In contrast, LLPs provide robust governance features:

- Retirement and expulsion clauses can be pre-coded into the LLP Agreement.
- Expulsion for misconduct or inactivity can be enforced without dissolving the firm.
- Decision-making can be allocated based on capital, role, seniority, or strategic contributions.

This governance clarity not only protects the firm but also aligns long-term strategic interests of the partners.

Deadlock Management in LLPs

LLPs allow pre-agreed arrangements for conflict resolution, such as:

“In an LLP structure, the legal and operational distinction between Designated Partners, Limited Partners, and functional team members enables the firm to strategically assign responsibilities, such as compliance, domain leadership, or business development, without conferring equal ownership, liability, or voting rights.”

- Casting vote by a designated Chairperson or Managing Partner.
- Arbitration clauses referring disputes to third parties or boards.
- Russian Roulette or Shotgun Clauses: These are exit mechanisms where one partner offers to buy out the other at a set price; if declined, they must sell at the same price.
- Escalation to a Central Board or Ombudsman (for Aggregated LLPs): A governance step where unresolved partner disputes are referred to a neutral central body for binding resolution.

Traditional partnerships usually lack such pre-defined arrangements, leaving disputes open-ended or forcing dissolution.

Traditional Partnership vs LLP: Legal & Structural Comparison

Criteria	Partnership Firm	LLP (MDP or CA-only)
Legal Status	Not a separate legal entity	Separate legal entity (Section 3, LLP Act)
Liability	Unlimited (joint & several)	Limited to contribution (Section 27–28)
Succession	May dissolve on partner exit	Perpetual succession (Section 24)
Governance	Deed-based (varies by state)	LLP Agreement (customizable, filed with MCA)
Voting	Default: one partner = one vote	Capital-based or custom model
Profit Sharing	As per Deed	As per Agreement; includes fixed + variable models
Admission/Exit	Requires amendment deed	Requires MCA filing (Form 4) + Agreement update
Legal Recognition	Weak in tenders, PSU, and MNC contracts	Recognized under MCA; preferred for large contracts
Transparency	Low (not public)	High (public via MCA portal)

Role-Based Comparison: Designated vs Limited Partners vs Traditional Partners

Parameter	Designated Partner (LLP)	Limited Partner (LLP)	Partner (Traditional Firm)
Legal Responsibility	Statutorily responsible for filings, compliance	Not legally liable beyond capital	Jointly and severally liable
Management Participation	Yes (as defined in agreement)	Yes – Active participation required; silent partners not allowed by ICAI	Default = Yes
Signing Authority (Audit)	Yes (if CA)	Yes (if CA)	Yes (if CA)
DIN/DPIN Required	Yes	No	No
Entry/Exit Protocol	Via Form 4 + LLP Agreement	As per LLP Agreement	By Deed Amendment
Voting Power	Customizable	Customizable	Headcount (default), or as agreed in the deed
Audit Statutory Role	Accountable under LLP Act and ICAI norms	Accountable under LLP Act and ICAI norms	Accountable under ICAI Code
Liability Exposure	Unlimited for non-compliance	Limited to contribution	Unlimited personal liability
Retirement/Resignation	Governed by LLP Agreement + MCA Form 4	As per LLP Agreement	May require dissolution unless protected by deed

“LLPs inherently carry greater legal credibility and transparency, making them ideal for firms aiming for national or global expansion.”

This clear segmentation in LLPs allows the firm to assign functional roles without diluting control, which is impossible in traditional partnerships.

In an LLP structure, the legal and operational distinction between Designated Partners, Limited Partners, and functional team members enables the firm to strategically assign responsibilities, such as compliance, domain leadership, or business development, without conferring equal ownership, liability, or voting rights. This means partners can lead specific verticals (like Audit, GST, Forensics, ESG, etc.) based on expertise, while the control of the firm, both legally

and financially, remains with a core group. Such role clarity and control retention is structurally impossible in a traditional partnership, where all partners typically share equal liability and authority unless explicitly altered through complex deed clauses.

ICAI-Compliant Profit Models

Profit-sharing models are central to maintain both equity and motivation in a professional firm. ICAI's ethical and regulatory stance is clear on this:



Key Compliance Principle

“Only CAs can share audit revenues. Non-CAs in MDPs may participate only in non-audit work.” – ICAI Code of Ethics, 2020 and SA 220

By structuring hybrid models (e.g., Fixed + Incentive for domain heads), LLPs attract high-performance professionals while retaining audit compliance integrity.

Model	Partnership Firm	LLP	ICAI's View
Equal Sharing	Yes	Yes	Permitted
Capital-based Sharing	Yes	Yes	Encouraged
Performance-Linked Incentives	Yes	Yes	Allowed (for non-audit functions)
Audit/Non-Audit Revenue Split	Yes	Yes	Mandatory under ICAI Code & SA 220
Fixed + Variable Pay	Difficult to structure	Yes	Permitted if clearly defined

Regulatory Filings, Transparency & Public Credibility

Traditional partnership firms are regulated under State-Level Registrars, leading to:

- Lack of standardized forms
- No online visibility
- No central monitoring

LLPs are regulated by MCA (Ministry of Corporate Affairs), with filings accessible at www.mca.gov.in

Aspect	Partnership Firm	LLP
Public View of Documents	Not available	Yes (via MCA portal)
Required Filings	Minimal	Annual Return (Form 11), Financials (Form 8), Partner Changes (Form 4)
Technology Integration	Manual or physical filings	Fully online via MCA-21
Registrar Approval Timeline	Varies; largely informal	Legally mandated timelines
Reputation for Tenders	Weak institutional identity	Strong legal identity (preferred by PSUs, MNCs)

Thus, LLPs inherently carry greater legal credibility and transparency, making them ideal for firms aiming for national or global expansion.

Merger and Demerger Framework for CA Firms

With growing firm sizes and multi-location practices, mergers and demergers are no longer exceptional but they are part of institutional strategy. The ICAI Merger and Demerger Guidelines (2024) offer a statutory path for formal consolidation.

ICAI Merger Guidelines

- File Form MDA-1 to ICAI detailing:
 - Merging entities
 - Governance structure post-merger
 - Confirmation of CA majority
- Complete merger process within 6 months.
- Execute MCA filings:
 - Form 3 – Amend LLP Agreement
 - Form 14 – Final confirmation to ROC

Key ICAI Conditions:

- Audit assignments must remain with CA partners.
- Client communication and conflict policies must be declared.
- New merged firm must apply for updated FRN.

ICAI Demerger Guidelines

- File Form MDA-2 with ICAI.
- Predefine:
 - Brand and name usage rights
 - Client retention splits
 - Staff migration protocols

This framework allows for structured realignment of partner groups or



geographies without loss of reputation or regulatory backlash.

Practical Example:

Two mid-sized LLPs may merge to secure PSU tenders and then demerge once mandates are secured, retaining market presence under a common brand, using the Aggregation framework.

ICAI Networking Guidelines – 2021

ICAI allows firms to collaborate without merging through networking.

Three Approved Networking Models

Model	Features	ICAI Restrictions
Referral	Pure client hand-off; no delivery coordination	Must not pool fees
Formal Network	Joint delivery, shared SOPs	No audit fee pooling
AOP Network	Common name + revenue pooling (non-audit only)	Requires ICAI registration & compliance

Why Use Networking?

- For pre-merger trial runs
- To collaborate across cities
- To distribute niche domain expertise (e.g., ESG, Forensics, GST)

Audit Integrity Clause

Each network member is independent for audit purposes, with separate responsibility and rotation rules.

LLP Aggregation Model – 2024

The LLP Aggregation Model introduced by ICAI in 2024 is a hybrid between a merger and a network.

Structure

- A central brand is adopted
- Multiple LLPs across cities or regions
- Shared policies, branding, HR, quality control
- Legal identities remain separate

Why Aggregation Works

- Avoids complexities of full merger
- Maintains autonomy in delivery
- Enables national branding
- Attracts large mandates via shared profile

Compliance Requirements

- Declare aggregation structure to ICAI
- Confirm:
 - CA majority in each LLP
 - No pooling of audit revenue
 - SOP for partner admissions, conflict resolution

Shared in Aggregation	Not Shared in Aggregation
Tech Stack	Audit Fees
Branding	Statutory Work
Policies	Partner-level Equity
Non-audit Revenue (if agreed)	

Result: Each LLP retains operational control but aligns strategically—ideal for firms with strong city/regional roots.

Entry Pathways into LLPs Based on Professional Stage

ICAI now supports multiple entry pathways into LLP structures, depending on the professional’s experience, size, and vision.

A. Sole Proprietors

Experience	Pathway	Role
0–5 Years	Join as salaried/junior partner	Learner, Team Contributor
5–10 Years	Merge into an LLP	Domain Contributor
10–30 Years	Lead verticals or geography	Senior/Mentor Partner
30+ Years	Advisory/Board role	Governance & Succession

B. Industry CAs Returning to Practice

Experience	Entry Route	Focus Area
5–10 Years	Functional lead in MDP LLP	Direct Tax, Finance
10–20 Years	Domain/Vertical Head	Governance, Regulatory
20+ Years	Board-level mentor	Strategy & Succession

C. Newly Qualified CAs

Route	Structure	Benefit
Employment	LLP or traditional firm	Mentorship + Domain Exposure
Start Own Firm	LLP structure	Branding + Liability Protection
Junior Partner	LLP or CA-only firm	Equity + Long-term Growth Path

Global Best Practices & Indian Alignment

Globally, professional services firms, especially the Big Firms, are structured as LLPs for three main reasons:

1. Limited liability for managing partners
2. Institutional continuity
3. Compliance with global transparency norms

ICAI’s reforms from 2022 to 2024 mirror global best practices by:

- Allowing multi-disciplinary models
- Enabling cross-border alliances

- Requiring audit integrity and partner governance

Indian CA firms adopting the LLP structure find it easier to:

- Bid for international tenders
- Attract foreign investment (via automatic FDI route in LLPs)
- Enter strategic tie-ups with overseas legal or audit entities

Example: A GST-focused LLP in India partnered with a Dubai-based tax consultancy under an MDP LLP model by adding non attest partners in LLP. The LLP framework enabled brand sharing, while revenue remained compliant with Indian audit rules.

Case Snapshot & Implementation Strategy

Case Snapshot: XYZ & Co. – Transition to Aggregated LLP

Firm Background:

- XYZ & Co. was a 3-partner traditional firm based in Delhi, handling mid-sized audit and taxation mandates.
- By 2022, partners realized limitations in scale, retention, and risk coverage.

Transformation Journey:

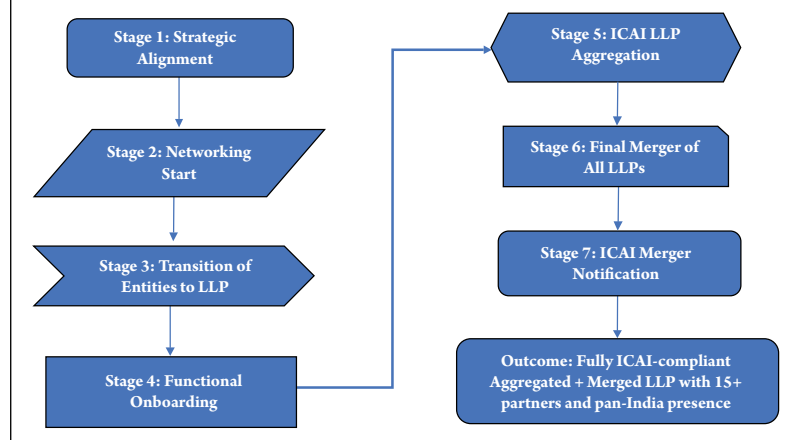
1. Converted to XYZ LLP via Form 17 and executed a comprehensive LLP Agreement.
2. Onboarded partners from Mumbai and Hyderabad as Designated Partners to expand presence.
3. Declared an LLP Structure to ICAI with SOPs, branding, and HR policy.
4. Adopted a unified tech stack (Zoho Practice + Keka + Google Workspace).
5. Secured a PSU audit mandate based on multi-city presence and institutional branding.
6. Rolled out succession plans, onboarding younger CAs as junior partners with vesting models.

Result: Within 18 months, XYZ LLP grew to 9 partners across 3 cities, maintained ICAI compliance, and operated with stronger client confidence, increased revenue, and governance visibility.



Strategic Roadmap: Merging 2 Partnership Firms, 3 LLPs and 20 Sole Proprietors into One LLP

Figure 1: Strategic Roadmap for Merging Multiple CA Entities into a Unified LLP



The framework is presented as a conceptual process flow to depict sequential regulatory progression.

Stage 1: Strategic Alignment

This stage focuses on achieving alignment among participating firms on vision, long-term objectives, governance philosophy, and regulatory preparedness. Firms assess mutual compatibility, partner intent, quality benchmarks, and readiness for structured collaboration under ICAI guidelines.

Stage 2: Networking Start

At this stage, firms formally enter into a networking arrangement, enabling coordinated service delivery, knowledge sharing, and brand alignment, while continuing to operate as independent legal entities. The networking framework serves as a low-risk foundation for trust-building and operational familiarity.

Stage 3: Transition of Entities to LLP

Based on strategic intent, scale potential, and regulatory suitability, identified entities within the network transition into Limited Liability Partnership (LLP) structures. This includes the conversion of 20 sole proprietorships and 2 partnership firms through prescribed statutory processes, including FiLLiP and Form

17 (for partnership firms), execution of LLP Agreements, and obtaining DIN, PAN, and GST registrations under the newly formed LLPs. The transitioned entities also adopt a unified technology stack to support scalable operations, professional management, and alignment with the LLP aggregation framework envisaged under ICAI guidelines.

Stage 4: Functional Onboarding

At this stage, the focus shifts to structured functional onboarding and operational integration across the networked LLPs. Partner roles are clearly defined, with senior professionals inducted as equity or mentor partners, domain specialists designated as vertical heads for areas such as GST, Audit, and Risk, and junior partners aligned under a fixed-plus-incentive compensation model. Incoming partners are subject to defined lock-in arrangements to ensure continuity and commitment. Partner valuation is undertaken using objective parameters, including revenue performance over the preceding three years, client base strength, staff under management, and market goodwill, thereby enabling an equitable and transparent onboarding framework.

Stage 5: ICAI LLP Aggregation

At this stage, the participating LLPs are formally aggregated in accordance with the framework prescribed by the Institute of Chartered Accountants of India. The aggregation declaration is filed with ICAI, and a unified professional identity is adopted across the group through common branding elements, including logo, official email domains, standard operating procedures, and human resource policies. In line with the ICAI Code of Ethics, audit and non-audit revenue streams are clearly segregated, thereby ensuring regulatory compliance, governance clarity, and institutional robustness within the aggregated structure.

Stage 6: Final Merger of All LLPs

At this stage, the aggregation process culminates in the merger of all participating LLPs into a single, unified LLP structure. A comprehensive Scheme of Amalgamation is drafted, and the prescribed statutory filings are undertaken, including Form 6 (Proposal of Amalgamation), Form 14 (Confirmation of Merger), and Form 3 (Amended LLP Agreement). An independent valuer is appointed to support equitable equity structuring and partner interest determination. The merged structure enables scale, operational efficiency, and a consistent professional identity, while maintaining full compliance with ICAI regulations and applicable professional standards.

Stage 7: ICAI Merger Notification

Following completion of the merger, the requisite merger notification is filed with ICAI through Form MDA-1, and a new Firm Registration Number (FRN) is obtained for the merged LLP. Concurrently, a formal board-level governance framework is instituted, including the adoption of a rotating Managing Partner model, to ensure leadership continuity, partner participation, and sustained compliance with ICAI’s professional and governance standards.

Outcome:

The strategic roadmap culminates in the establishment of a fully ICAI-compliant aggregated and merged LLP with a pan-India presence and a partner base exceeding fifteen professionals. The resulting entity operates under a robust governance framework and is positioned to deliver multidisciplinary professional services at scale, while adhering to the highest standards of quality, ethical conduct, and regulatory compliance prescribed by ICAI.

From COP to Compliance: What Each CA Practice Category Can and Cannot Do

Scope of Practice for COP Holders: Full-Time vs Part-Time vs Employment

Category	Certificate of Practice (COP)	Employment Allowed	Attest Functions	Eligible for CA Firm Partnership
Full-Time Practice	Yes	No (except permitted under Reg. 190A)	Yes	Yes
Part-Time Practice	Yes	Yes (limited, with permission)	No	No
Employment with COP	Yes	Yes	No	No

Permissible Roles for Full-Time Practicing Chartered Accountants

Scenario	Permitted for Full-Time COP?	Notes
Sole proprietor in one CA firm and partner in another	Yes	Must inform ICAI, manage both ethically
Partner in multiple CA firms	Yes	Allowed if in full-time practice
Employment + partner in CA firm	Not allowed	Contravenes full-time practice

Technology Stack for Modern CA LLPs

A scalable, secure, and cloud-based technology ecosystem is essential for modern LLP-based firms.

Recommended Cloud Tools (by Function)

Category	Recommended Tools	Function
Communication	Google Workspace / Microsoft 365	Email, Calendar, Drive, Docs
Networking Internal Messaging	Artha EMS Slack / Teams	Collaboration, Independent Firm Practice, Network Practice Team Channels, Task Collaboration

Category	Recommended Tools	Function
Practice Management (PMS)	Zoho Practice / CAO A / Octago / Pappilo / Artha EMS	Workflow, Task Management, Deadlines
Audit Tools	Tally ERP + Audit360 / CCH iFirm	Documentation, Controls, Checklists
Document Management	Dropbox Business / SharePoint	Secure File Sharing, Version Control
eSigning	DocuSign / Zoho Sign / Adobe Sign	Sign LLP Agreements, Engagement Letters
Billing & CRM	Zoho Books / QuickBooks / Razorpay	Invoicing, Collections, Payment Reminders
HR & Payroll	Keka / Zoho People / GreytHR	Payroll, Leave, Onboarding
Valuation & Analytics	Excel Online + Power BI / Zoho Analytics	Partner Equity, Dashboards, Insights

Tech Governance Tips

- Use 2FA for access to all critical platforms
- Centralize audit templates via PMS
- Automate client reminders via CRM
- Run biannual IT audits and backups
- Train all team members in tech protocols

Conclusion

The modern CA firm must be:

- Professionally governed
- Legally compliant
- Client-first and multidisciplinary
- Technologically integrated
- Ethically transparent under ICAI Code

The Limited Liability Partnership (LLP) model offers this transformative path. It combines flexibility with structure, risk mitigation with growth, and

regulatory compliance with national and global competitiveness.

From entry-level professionals to established firms, LLPs and ICAI's aggregation/networking frameworks enable:

- Succession planning for sole proprietors
- Brand elevation for city-based firms
- Return opportunities for industry veterans
- Team-based governance for sustainability

Ultimately, the LLP framework is not just a legal structure; it's a strategy for legacy building. It provides the base for achieving scale without compromising integrity and ensures continuity without legal vulnerability.

ICAI has provided the enabling guidelines. The future-ready firms must now act.



“The LLP framework is not just a legal structure; it's a strategy for legacy building. It provides the base for achieving scale without compromising integrity and ensures continuity without legal vulnerability.”

Structure shapes strategy. Among available structures, the LLP framework offers a scalable and compliant platform for future-ready CA firms.

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Interest Under GST

Did you know that the Central Excise Act, 1944, and the Customs Act, 1962, initially did not have any provision for the levy of interest? Levy of interest was first introduced in the Service tax in the year 1994, followed by an amendment in the Central Excise Act and Customs Act through the Finance Act, 1995. Even after 30+ years of its introduction in indirect tax laws, the interest-related provisions are still the subject matter of litigation in the majority of indirect tax laws. GST is also not an exception. The interest-related provisions have been in the Central Goods and Services Tax Act, 2017, since its inception, and even after 8 years, there exist some grey areas. This piece of articulation is focused on three issues related to the levy of interest under GST that are the centre point of litigation in present times.

Issue-I: Proviso to Section 50(1) & Anomalies Therein

Interest on delayed payment of tax is levied through section 50 of the Central Goods and Service Tax Act, 2017, read with rule 88B of the CGST Rules, 2017. The first issue pertains to the proviso to section 50(1). The relevant portion of section 50 is produced as follows: -

"Section 50. Interest on delayed payment of tax, -

(1) Every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding eighteen per cent., as may be notified by the Government on the recommendations of the Council:

Provided that the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date in accordance with the provisions of section 39, except where such return is furnished after commencement of any proceedings under section 73 or section 74 or section 74A in respect of the said period, shall be levied on that portion

of the tax that is paid by debiting the electronic cash ledger."

A bare reading of this proviso brings out the fact that interest shall be levied on the cash component of the total tax liability. However, this benefit shall be allowed only on the tax payable in respect of "supplies made during a tax period and declared in the return for the said period furnished after the due date". In other words, this proviso seems to extend the adjustment of ITC in respect of the supplies made during the tax period and declared in the returns for the said tax period. However, if the supplies made during the tax period are declared belatedly, in a subsequent return, the benefit of this proviso is not available. This may be understood with the help of the following example: -

ABC Ltd. issued 100 invoices during the month of August 2025. Out of these invoices, 90 invoices were shown in the GSTR-3B for the month of August 2025, filed on 20.10.2025. 10 invoices issued in the month of August 2025 were shown in the GSTR-3B for the month of September 2025, filed on 20.10.2025. As per the language of the proviso to section 50, the benefit of adjustment of ITC while computing the interest shall be allowed only in case of 90 invoices pertaining to the

month of August 2025 and declared in the GSTR-3B for the same month. However, interest shall be computed on "gross tax liability" without extending the benefit of the proviso to section 50 in respect of 10 invoices pertaining to the month of August 2025 & declared in GSTR-3B for the month of September 2025.

It is worthwhile to mention here that the above-referred proviso was added purposely in section 50 to curtail the malpractices. If this proviso were not so worded, there would have been a taxpayer who would have avoided the inclusion of a few tax invoices in GSTR-3B, as there was no balance in the Electronic Credit Ledger, and he was not willing to make payment in cash. However, the language of this proviso, even though thoughtfully drafted, does not address the following issues: -

- Suppose, in the above-referred example, there is sufficient balance in the Electronic Credit Ledger during the month of August 2025 to meet the entire tax liability from ITC; however, the 10 invoices were mistakenly left to be included in the GSTR-3B. As per the language contained in the proviso to section 50, the benefit of adjustment of ITC is not allowed, and interest is

payable on the gross tax liability ignoring the fact that there was a sufficient balance in the Electronic Credit Ledger to cover the entire tax amount pertaining to those 10 invoices on the due date of GSTR-3B for the month of August 2025.

- Suppose there was an invoice on which the date was mistakenly shown as 10.08.2024 instead of 10.08.2025. This is a pure clerical mistake that may be verified from the other data available on the records. However, the Revenue Department still demands the interest on the entire tax amount by mentioning that this case is not covered by the proviso to section 50. Interesting, right?

There are a lot more similar issues that are popping up nationwide, where the interest is demanded without extending the benefit of balance in the Electronic Credit Ledger by following the principle of literal interpretation in this case. A suitable clarification is needed on this issue.

Issue-II: Recovery of Interest Due But Not Paid

A. Legal provisions: -

Section 79 of the Central Goods and Services Tax Act, 2017 provides for the recovery of pending dues under the GST law by various means, including the debit from Electronic Cash Ledger, freezing of bank accounts, recovery from attachment of movable and immovable property belonging to the defaulter, etc. However, this provision cannot be invoked unless the proper procedure prescribed under law is followed. This procedure includes issuance of a show cause notice under section 73, 74, or 74A, allowing the opportunity to file the reply, granting of a personal hearing, which is followed by an order. Once a demand is confirmed by passing an order, thereafter, recovery proceedings under section 79 of the Central Goods and Services Tax Act, 2017, can be initiated. However, there are

certain exceptions to this. One such exception is contained in section 75(12) of the Central Goods and Services Tax Act, 2017. This section reads as follows: -

“(12) Notwithstanding anything contained in section 73 or section 74 or section 74A, where any amount of self-assessed tax in accordance with a return furnished under section 39 remains unpaid, either wholly or partly, or any amount of interest payable on such tax remains unpaid, the same shall be recovered under the provisions of section 79.”

Explanation: For the purposes of this sub-section, the expression “self-assessed tax” shall include the tax payable in respect of details of outward supplies furnished under section 37, but not included in the return furnished under section 39.”

An analysis of the above sub-section clarifies that where any amount of self-assessed tax remains unpaid or any amount of interest payable on such tax remains unpaid, no show cause notice is required to be served, and recovery can be directly made by invoking provisions of section 79. Further, sub-rule 5 of rule 142 of the Central Goods and Services Tax Rules, 2017 provides that a summary order is required to be issued in case of an order issued under section 75. This sub-rule reads as follows:

“(5) A summary of the order issued under section 52 or section 62 or section 63 or section 64 or section 73 or section 74 or section 74A or section 75 or section 76 or section 122 or section 123 or section 124 or section 125 or section 127 or section 129 or section 130 shall be uploaded electronically in FORM GST DRC-07, specifying therein the amount of tax, interest and penalty, as the case may be, payable by the person concerned.”

Combined reading of section 75(12) and rule 142(5) brings out the fact that in case interest on self-assessed tax remains unpaid,



the show cause notice in FORM GST DRC-01 is not required to be issued under section 73, 74, or 74A, and directly an order may be issued in FORM GST DRC-07.

If we check the language of sections 73, 74, and 74A under which show cause notice can be issued, it clarifies that the show cause notice can be issued by the proper officer only if “any tax is not paid or short paid or erroneously refunded or input tax credit has been wrongly availed or utilised.” Where the demand is only of interest with tax already paid in GSTR-3B, the pre-requisites laid down in these three sections are not met, and accordingly, a show cause notice cannot be issued in either of these sections. This also substantiates the language of section 75(12) of the Central Goods and Services Tax Act, 2017, which prescribes for direct recovery without issuance of a show cause notice. The validity of these provisions has been upheld by the Hon’ble Gujarat High Court in the case of *Rajkamal Builder Infrastructure (P.) Ltd. v. Union of India* [R/ Special Civil Application No. 21534 of 2019] as decided on March 31, 2021. In this case, the Hon’ble High Court has held that the show cause notice in FORM GST DRC-01 cannot be issued in case of self-assessed tax and interest referred to in section 75(12) of the Central Goods and Services Tax Act, 2017.

Revenue Department's take: -

It is pertinent to mention here that the Revenue Department normally issues a show cause notice for the recovery of interest even if no demand for tax is pending. Section 75(12) is never invoked by it. Perhaps it is done to impose a penalty which is not possible if the amount of interest due is directly recovered under section 79. A taxpayer had already paid the tax amount while filing the GSTR-3B pertaining to the financial year 2018-19. Only the interest of a nominal amount of around ₹ 3,000/- was due. As per provisions of section 75(12) of the Central Goods and Services Tax Act, 2017, the said amount of interest could have been recovered directly under section 79, and the matter would have closed.

However, a show cause notice was issued under section 73 of the Central Goods and Services Tax Act, 2017, despite the fact that no show cause notice can be issued under section 73, as there is no demand for tax in the case. However, a show cause notice was still issued, and it proposed the demand of interest of ₹ 3,000/- along with a penalty of ₹ 10,000/- under section 73. The matter was adjudicated by issuing an order under section 73, in which the demand of interest and penalty was confirmed.

Meanwhile, an amnesty scheme was introduced by the Government by adding section 128A to the CGST Act, 2017. This scheme extends the waiver of interest or penalty, or both, if the tax amount is paid.

As the order was under section 73, an application for waiver of interest and penalty was moved in FORM SPL-02. Interestingly, the application was proposed to be rejected by issuing a notice on the grounds that the case does not pertain to section 73; it is covered by section 75(12), which is not included in the amnesty scheme. This was backed by the Circular No. 238/32/2024-GST dated 15th October, 2024. The Paragraph 4 of the Circular is read as mentioned in the table below.

Here, the Board Circular clearly specifies that where the demand of tax pertains to section 75(12), the direct recovery is to be made under section 79. In other words, there is no need to issue any show cause notice. But what if the order under section 73 is already issued and a penalty is also imposed in the order, which is not lawful, as when a show cause notice is not issuable under section 73, the question of imposing a penalty under this section does not arise. The Circular should have clarified such cases and should have provided for waiver of penalty upon payment of interest. However, this is not done.

Coming back to the case, here is what has happened with the taxpayer in the case discussed in forgoing paragraphs. The demand for interest and penalty was confirmed under section 73, which is an undisputed fact. With a confirmed demand of interest and penalty under section 73, the taxpayer opted for the amnesty scheme; however, the proper officer



switched his approach, stating that the case is not covered under section 73, but rather it is covered by section 75(12), so the benefit of the amnesty scheme is not available to him. However, the order was issued under section 73, which is clearly reflected on FORM DRC-01 as well as FORM DRC-07, and there is no mention of section 75(12) in these documents. Now this is the situation –

- The taxpayer, having paid interest of ₹ 3000/-, wants to claim relief from penalty under amnesty scheme. Penalty is not imposable at all as provisions of section 73 are not applicable in this case.
- The Revenue Department is bent upon recovering the penalty as well because there is one confirmed demand under section 73, and the benefit of the amnesty scheme is not admissible because of clarification given in a Board Circular.
- As the amount involved in the issue is very small, it does not appear feasible to taxpayer to opt for an appeal.

4	<i>Whether the benefit provided under Section 128A will be applicable in cases, where the tax due has already been paid and the notice or demand orders under Section 73 only pertains to interest and/or penalty involved?</i>	<i>Where the tax due has already been paid and the notice or demand orders under Section 73 only pertains to interest and/or penalty involved, the same shall be considered for availing the benefit of section 128A. However, the benefit of waiver of interest and penalty shall not be applicable in the cases where the interest has been demanded on account of delayed filing of returns, or delayed reporting of any supply in the return, as such interest is related to demand of interest on self-assessed liability and does not pertain to any demand of tax dues and is directly recoverable under sub-section (12) of section 75.[emphasis supplied]</i>
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(Paragraph 4 of the Circular No. 238/32/2024- of GST)

Issue III: Interest on Tax Payable Under the Reverse Charge Mechanism

Time limit for issuing an invoice under the reverse charge mechanism:

Section 31(3)(f) of the Central Goods and Service Tax Act, 2017 provides that where the supplies taxable under the reverse charge mechanism are received from an unregistered person, the tax invoice on such goods and services is required to be issued by such recipient who is liable to pay tax on the same. The time limit for issuance of such an invoice is prescribed in Rule 47A of the Central Goods and Service Tax Rules, 2017. This rule reads as follows: -

“Rule 47A. Time limit for issuing tax invoice in cases where recipient is required to issue invoice.

Notwithstanding anything contained in rule 47, where an invoice referred to in rule 46 is required to be issued under clause (f) of sub-section (3) of section 31 by a registered person, who is liable to pay tax under sub-section (3) or sub-section (4) of section 9, he shall issue the said invoice within a period of thirty days from the date of receipt of the said supply of goods or services, or both, as the case may be.”

Thus, this rule prescribes that where an invoice is required to be issued by the recipient under section 31(3)(f) of the Central Goods and Service Tax Act, 2017, it is mandatory for him to issue the said invoice within a period of thirty days from the date of receipt of the said supply of goods or services or both.

Time of supply of services taxable under the reverse charge mechanism:

The time of supply of services under the reverse charge mechanism is determined as per section 13(3) of the Central Goods and Services Tax Act, 2017. This section reads as follows: -

“(3) In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply

shall be the earlier of the following dates, namely:-

(a) the date of payment as entered in the books of account of the recipient or the date on which the payment is debited in his bank account, whichever is earlier; or

(b) the date immediately following sixty days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier, in cases where invoice is required to be issued by the supplier; or:

(c) the date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient:

Provided that where it is not possible to determine the time of supply under clause (a) or clause (b) or clause (c), the time of supply shall be the date of entry in the books of account of the recipient of supply:

Provided further that in case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.”

An analysis of the above-referred provision clarifies that in case of services liable to tax under the reverse charge mechanism, the liability to pay tax is determined based on the fact whether the supplier is registered or not. If the supplier is registered, the time of supply is determined as the earlier of the date of making payment (date of making entry or date of debit in bank account, whichever is earlier); or 61st day from the date of issue of invoice by the supplier.

However, where the supplier is not registered, the liability to issue an invoice rests upon the recipient under section 31(3)(f) of the Central Goods and Service Tax Act, 2017. In such a case, the time of supply of services is determined as the earlier of two dates - date of making payment (date of making entry or date of debit in bank account, whichever is earlier); or date of issue of invoice by the recipient.



Where the invoice under section 31(3)(f) is not issued within the time stipulated in rule 47A, whether the interest will be payable?

To understand the anomaly in the above-discussed sections, let us assume a situation. X Ltd. received security services in relation to an event organised by it on 07.07.2025. These services are taxable under reverse charge, and the supplier is not registered. As per section 31(3)(f) read with rule 47A, the invoice is required to be issued by X Ltd. on or before 06.08.2025. However, the invoice is issued by X Ltd. on 15.09.2025, and payment is made to the supplier on 04.10.2025.

X Ltd. is of the view that, as per section 13(3) of the Central Goods and Service Tax Act, 2017, the time of supply of these services will be 15.09.2025 (being earlier of date of issue of invoice, i.e., 15.09.2025, or date of making payment, i.e., 04.10.2025). Thus, the due date of tax payment will be 20.10.2025.

However, the Revenue Department is of the view that the due date of issuance of the invoice under Rule 47A is 06.08.2025, and X Ltd. has knowingly delayed the issuance of the invoice to delay the payment of tax. As per the Department, the time of supply falls in the month of August, tax was due to be paid on 20.09.2025. Since the tax has been paid on 20.10.2025, interest is required to be paid on it.

If we go by the bare language of section 13(3) of the Central Goods and Services Tax Act, 2017, the situation seems to tilt in favour of the assessee. The language of clause (c) of sub-



section 3 of section 13 is clear and unambiguous. It used the word “date of issue of invoice” which is different than “due date of issue of invoice”. The lawmakers have clearly distinguished these two terms while framing the provisions related to the time of supply. This may be ensured from the language of sections 12(2) and 13(2) of the Central Goods and Services Tax Act, 2017, which clearly differentiates between the two terms. As the language of section 13(3) clearly uses the words “date of issue of invoice”, one cannot read it as “due date of issue of invoice”. In this regard, it is worthwhile to mention the Apex Court judgment given in the case of *Trutuf Safety Glass Industries v. Commissioner of Sales Tax, U.P.* [C.A. Nos. 3467 of 2007] as decided on August 6, 2007. In this case, the Hon’ble Supreme Court held that “it is well settled principle in law that the court cannot read anything into a statutory provision which is plain and unambiguous. A statute is an edict of the Legislature. The language employed in a statute is the determinative factor of legislative intent.” In view of this judgment, one can say that no interest is payable by X Ltd. in the above-referred illustration.

Now, let us look at another side of the coin. Rule 47A, which prescribes the time limit for issuing the invoice under section 31(3)(f), was added to the CGST Rules 2017 with effect from 01.11.2024 by virtue of the Finance (No. 2) Act 2024. Prior to this date, there was no time limit for issuing an invoice under section 31(3)(f). Also, prior to the amendment made by the Finance (No. 2) Act, 2024, the determination of time of supply under

section 13(3) was also not dependent on the issuance of an invoice by the recipient, as clause (c) was not there in section 13(3). Thus, the time of supply of services under reverse charge was dependent only on two dates – the date of making payment and the 61st day from the date of issue of the invoice by the supplier. Date of issue of the invoice by the recipient had no role to play in determining the time of supply.

Due to these missing provisions, there was also ambiguity as to what the deadline was to claim input tax credit on such invoices in terms of section 16(4) of the Central Goods and Services Tax Act, 2017. To clarify these issues, Circular No. 211/5/2024-GST dated 26th June, 2024 was issued by CBIC. Para 2.6 of this Circular reads as follows: -

“2.6 A combined reading of the above provisions leads to a conclusion that as ITC can be availed by the recipient only on the basis of invoice or debit note or other duty paying document, and as in case of RCM supplies received by the recipient from unregistered supplier, invoice has to be issued by the recipient himself, the relevant financial year, to which invoice pertains, for the purpose of time limit for availment of ITC under section 16(4) of Central Goods and Service Tax Act in such cases shall be the financial year of issuance of such invoice only. In cases, where the recipient issues the said invoice after the time of supply of the said supply and pays tax accordingly, he will be required to pay interest on such delayed payment of tax.” Emphasis supplied.

So, this Circular clarifies that where the tax invoice is issued after the time of supply, the interest is required to be paid on the delayed payment of tax. However, whether the clarification issued by this Circular is still binding? Let us examine through the following pointers: -

- The Circular was issued when there was no explicit provision prescribing the due date of issuing invoices under section 31(3)(f). Further, at that time, the language of section 13(3) also did not consider the date of issue of the invoice by the recipient. Whether

this Circular can still be said to be applicable when the statute has specifically amended section 13(3) and has also added rule 47A.

- The language of section 13(3) after amendment is clear and unambiguous, and this Circular is contradictory to the provision contained in this section. Hon’ble Supreme Court in the case of *Commissioner of Central Excise, Bolpur v. Ratan Melting & Wire Industries* [Civil appeal nos. 4022 OF 1999, 3197 & 4789 of 2000, 1469 of 2002, and 3589 to 3592 of 2005] as decided on October 14, 2008, has held that a Circular contradictory to statutory provisions has no existence in law.

Thus, whether the interest is payable on tax paid under reverse charge in cases where there is a delay in the issue of the invoice by the recipient is subject to litigation. The Revenue Department is relying on the above-referred Circular and is demanding interest in case there is a delay in the issue of the invoice under Rule 47A. In my humble view, as the language of section 13(3) is clear, interest is not payable in such cases. However, the penalty may be imposed for non-compliance with Rule 47A of the Central Goods and Services Tax Rules, 2017.

Before Parting

The provisions related to the levy of interest under GST still have several gaps and inconsistencies. The GST Council should come up with necessary amendments to end the litigation in interest-related provisions. Clarity in legal provisions is not just about law; it’s about trust. Clear rules mean fewer disputes, smoother compliance, and more confidence for taxpayers. When the system is predictable, businesses can focus on growth instead of litigation.

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GST 2.0 and the Union Budget 2026-27: A Paradigm Shift

Introduced in 2017, GST replaced many indirect taxes and brought the country's markets together, but its multi-slab structure made things complicated for both consumers and businesses. Through the simplification of rates into mainly two slabs, the reduction of compliance burdens, and the improvement of transparency, as Prime Minister Narendra Modi announced, *"The Government will bring Next Generation GST reforms, which will bring down tax burden on the common man. It will be a Diwali gift for you."* (Press Information Bureau, 2025), the 2025 GST 2.0 reforms represent a significant shift toward clarity and efficiency, and this reform brings India closer to international best practices, especially Canada's more straightforward dual model, while maintaining the dual GST framework to maintain federal balance. Beyond revenue, the effects are evident: middle-class families benefit from lower, more understandable bills, small retailers easily handle compliance online and farmers encounter fewer obstacles in inter-State commerce. The reform exhibits increased formalisation, better compliance and inclusive growth. GST 2.0 is further strengthened by the Union Budget 2026-27 in the form of tax administration rationalisation, digital compliance

architecture and cut-down on litigation, making GST a central pillar of next-generation fiscal governance in India. The system is reaffirmed as a pillar of New India's economic future with GST 2.0, which changes its complicated structure into a framework that is people-centric, business-friendly, and growth-oriented.

Introduction

Consider GST before 2025 as navigating a city with numerous winding roads, toll booths, and detours, each one adding more time and expense, while GST 2.0 as an expressway that leads you directly to your destination and has more readable signage. The 2025 reforms accomplished just that; they cleared the path, made it easier to navigate and improved the experience for both consumers and businesses.

(Modi, 2025) "GST 2.0 is a path-breaking legislation for New India," and declared it as a Diwali gift for the common people of India. In his speech, he also convinced common people that this would make tax compliance easier, reduce costs for businesses, and allow goods to move freely across States. The data of 2024–25 may take his notation one step ahead, with gross GST collections hitting a record ₹22.08 lakh crore, marking a year-on-year growth of 9.4%. This rise reflects the growing formalisation of the economy and improved tax compliance

(Press Information Bureau, 2025). The Union Budget 2026-27 makes this vision a reality through the complementation of GST 2.0 with clarity in tax laws and reduction in compliance cost. Strategies like combined evaluation and penalty action, increased digital foundation and rationalised indirect tax regulation reinforce GST to facilitate convenience of doing commercials and transparency of prices. By improving transparency and efficiency, GST laid the foundation for a stronger and more integrated economy.

Figure 1: Key Takeaways in 2024-25

Key Takeaways
■ Gross GST Collection Hit ₹ 22.08 lakh crore in 2024-25, up 9.4% from last year.
■ 85% respondents in Deloitte survey had a positive GST experience.
■ Number of active GST Taxpayers rose to over 1.51 crore .

Source: Press Information Bureau, 2025



“Until the National Appellate Authority (NAA) is constituted, the Government can authorise an existing authority or tribunal to hear appeals under Section 101B. This change takes effect from 1 April 2026 and ensures there is no gap in the appellate process.”

The GST, enforced from July 1, 2017, is one of India’s most significant tax reforms since independence. It consolidates a common national market by combining 13 cess and 17 Central and State taxes into a single unified and cohesively structured system (Government of India, 2017). Following eight years of steady evolution, the Next-Gen GST amendments were adopted at the 56th GST Council Meeting in 2025 with the goal of reducing the burden on middle-class individuals, households, farmers, and MSMEs.

**Transitional Provision
GST Rates Change and ITC
Provisions, Transitional
Provisions**

**A. Determination of Applicable Tax
rate (Billing Rule)**

When a change in the rate of GST occurs (such as, on 22 September), the question arises as to which rate shall apply, old or new?

The solution would be the time-lining of three key events: *supply*, *invoice*, and *payment*.

Cases	Pre-22/09/2025 events	Post-22/09/2025 events	Rates applicable
Case 1	Supply	Invoice and Payment	New rate
Case 2	Supply and Invoice	Payment	Old rate
Case 3	Supply and Payment	Invoice	Old rate
Case 4	Invoice	Supply and Payment	New rate
Case 5	Invoice and Payment	Supply	Old rate
Case 6	Acceptance of Payment	Supply and Invoice	New rate

Interpretation:

In case where the invoice is issued and the payment is received following the revision in the rate, it is the new rate which applies.

When both the events occur before the change, the previous rate subsists.

Where the events are split across the rate revision, this rate is based on the last event (invoice/payment/supply).

Transitional rules, therefore, guarantee fairness and clarity in the process of transition between the old and the new tax rate.

**B. Input Tax Credit (ITC)
Transitional Treatment**

In the event of the nature of the supply to be revised following the revised rate, the eligibility and treatment of ITC is regulated under **Section 18** of the CGST Act.

Interpretation:

Transitional ITC is used to protect the tax chain, and the credit benefits will be held or reclaimed in accordance with the taxability of supplies.

C. Essence of Transitional Provisions

As GST 2.0 seeks to consolidate multiple tax rates into two to three rates, it is very essential to have a transitional provision to ensure that the transition from GST 1.0 to GST 2.0 is very smooth and hassle-free.

Transitional compliance measures for the 2025 GST 2.0 include:

1. Continue claiming input tax credit (ITC) on supplies that shift from a higher GST rate to a lower rate as long as they remain taxable.
2. Reverse ITC on supplies that become exempt from GST post

Case	Nature of Change	ITC Treatment
Case 1	Goods are not exempt to taxation	Keep on availing ITC normally
Case 2	Goods become exempted	ITC should be reversed according to Section 18(4)
Case 3	Goods have been zero-rated	ITC is not withdrawn; taxpayer can claim refund
Case 4	If the goods are transferred between zero-rated - exempted	There is no ITC and no refund is allowed

the rate change, in proportion to the value of exempt supplies as per GST rules.

- Businesses should regularly check their inventory and the GST input credits they have claimed, especially if new tax exemptions for certain sectors are announced.

- Maintain complete documentation for rate transitions, eligible ITC and reconciliation.

D. The focus on Union Budget 2026-27 to eliminate multiplicity of proceedings and system-driven compliance is consistent with GST 2.0 transitional rule by reducing interpretational controversy in the process of rates migration.

GST: From Global to Local

GST was first introduced in France in 1954, and as of right now, over 160 nations have adopted it in various ways (OECD, 2020). There are two main categories of GST systems in the world. Countries like Singapore and Australia have a single GST system, whereas Canada and India follow dual systems i.e., involving both the federal and State Governments (Keen, 2013). Since e-way bills, e-invoicing, and online returns increase transparency,

“Considering it in conjunction with the Union Budget 2026-27, GST 2.0 does not just appear as an indirect tax reform but a pillar of the next-generation fiscal system in India. Jointly, they are an indicator of a change towards revenue extraction into revenue facilitation based on simplicity, technology, and trust of the taxpayer.”

India's GST stands out as one of the world's most digital and complex tax systems (The Economic Times, 2023).

The digital backbone continues to be enhanced by the Budget 2026-27 with AI-enabled risk analysis, integrated digital windows, and minimal human intervention supporting the role of GST as one of the most technology-focused consumption tax systems in the world.

2017: In 2017, the 'one nation, one tax' (GST) was implemented, replacing thirteen cesses and seventeen Central and State taxes.

2018-2024: E-way bills, e-invoicing, compliance modifications, and slab revisions are examples of incremental reforms that took place between 2018 and 2024.

2025: GST 2.0 was introduced (easier bills, more robust compliance, and simplified slabs).

2026: Union Budget 2026-27 & GST 2.0

Amendment of Sections 15 & 34 of the CGST Act: Businesses will no longer need a pre-existing agreement to claim GST benefits on post-sale discounts. As long as a credit note is issued under Section 34 and the recipient reverses the related ITC, the discount can be excluded from the taxable value.

Amendment of Section 54(6) of the CGST Act: Taxpayers claiming refunds due to an inverted duty structure will now be eligible for provisional refunds, improving cash flow while the final refund is processed.

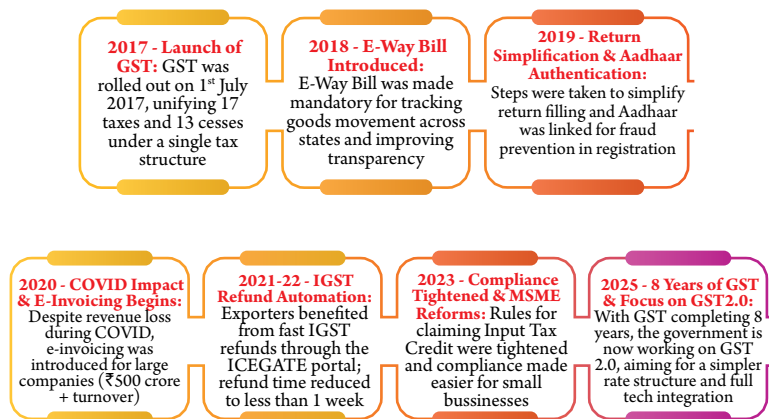
Amendment of Section 54(14) of the CGST Act: The minimum threshold for sanctioning refund claims is being removed for exports made with the payment of GST, allowing refunds to be processed regardless of the amount.

Amendment of Section 13 of the IGST Act: The special rule for intermediary services is being removed. So, the place of supply will be determined using the general rule (location of the recipient), which may reduce disputes and improve export clarity.

Insertion of Section 101A(1A): Until the National Appellate Authority (NAA) is constituted, the Government can authorise an existing authority or tribunal to hear appeals under Section 101B. This change takes effect from 1 April 2026 and ensures there is no gap in the appellate process.

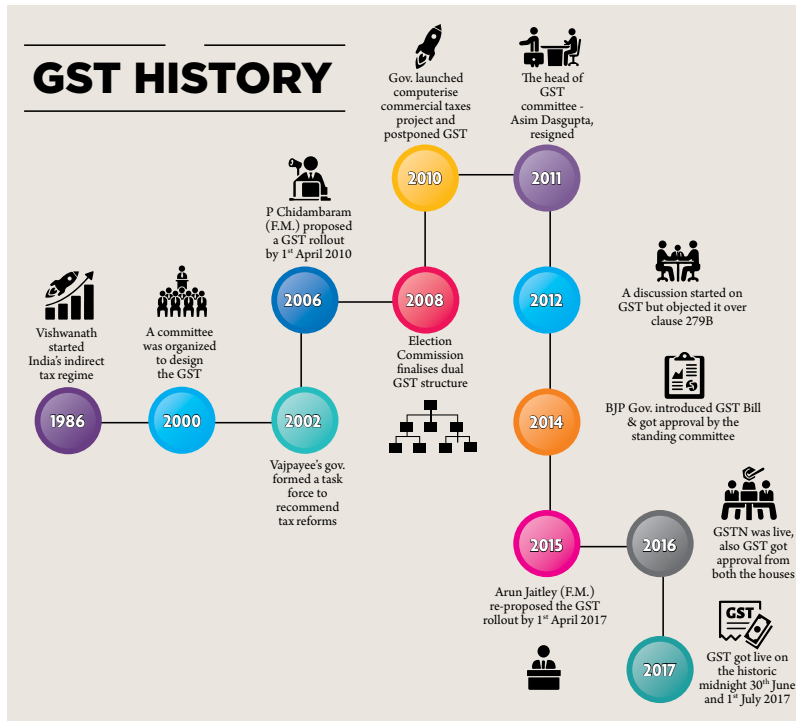
Figure 2: GST Timelines: 2017-2025

GST TIMELINE: 2017–2025



Source: Insights IAS, 2025

Figure 3: GST History



Source: Gajendra Singh Godara, 2025

GST Journey: From Canada and India

The GST reforms that take effect after 2025 make the system clearer, more equitable, and simpler, which directly benefits the general public by lowering the cost of goods and services and minimising confusion on bills.

Dual GST System: Meaning and Perspective

According to the Dual GST model, taxes are levied simultaneously by the Central Government and the State

Government. The buyer must pay two parts of GST if the sale occurs within the same State: CGST (to the Centre) and SGST (to the State).

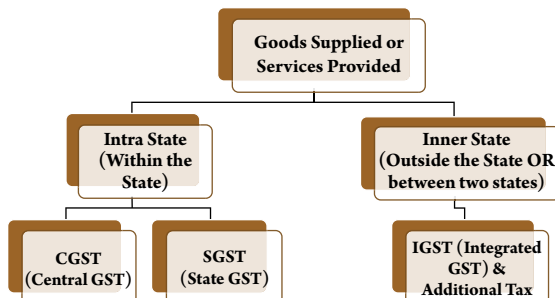
In the event of a sale between two states, an integrated GST (IGST) is assessed instead of separate CGST and SGST. After collecting the IGST, the Centre distributes the State's share to the State in which the products or

services are ultimately utilized. To put it briefly, IGST is applied to transactions between States and CGST + SGST is applied to transactions within a State. In Canada, the GST is a consumption-based sales tax that is applied to the exchange of goods and services between individuals, businesses, and organizations. The basic tenet states that the customer is in charge of paying taxes, while the vendor collects them and submits them to the Government. For instance, after 6% GST is applied, a book purchased for \$10 will cost \$10.60.

Dual GST System in India, Before the Amendment of 2025

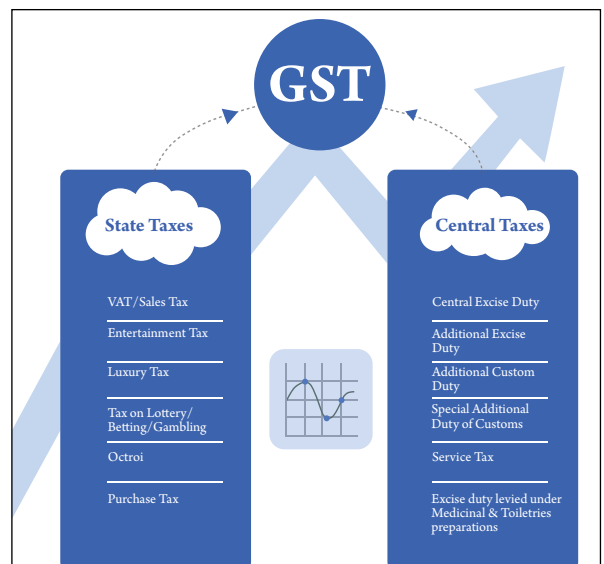
Before 2025, India's dual GST had multiple slabs and cess, causing confusion and compliance burdens, yet ensured Centre-State revenue sharing through CGST, SGST and IGST. Managing GST was challenging, particularly for small businesses and traders, due to classification disputes, compliance obstacles, and high administrative expenses. But with IGST applied to inter-State transactions and CGST and SGST applied to intra-State supplies, the dual GST model guaranteed that the Centre and States received a portion of the

Figure 4: Bifurcation of GST



Source: Insights IAS, 2022

Figure 5: Sales Taxes and Central Taxes



Source: Ministry of Information and Broadcasting

Source: Press Information Bureau, 2025



revenue. Although this framework was burdened by operational complexity, it reflected India's federal nature.

Post Amendment 2025

GST 2.0 simplified tax slabs to 5% and 18%, introduced a 40% levy on luxury goods, strengthened compliance through stricter invoicing, ISD registration, faster refunds, and retained the dual GST structure to improve transparency and ease of compliance.

The Price Clarity of GST 2.0 from the Price Puzzle of GST 1.0

GST 2.0 simplifies tax slabs to 5%, 18%, and 40%, improving transparency and reducing compliance costs. Beyond revenue, it positively impacts daily life by easing billing, lowering costs, and making taxation fairer for families, businesses, and farmers.

Professional Effect: Compliance Implementation to Strategic Advisory

GST 2.0 shifts from manual to system-driven and intelligent tax administration, which increases the professional environment of CAs and consultants. Smoother invoice acceptance and validation have become a more efficient method in the introduction of the Invoice Management System (IMS) that minimizes ITC disputes and contributes to the real-time invoice data transfer between suppliers and recipients.

Besides, Form ITC-03 streamlines the reversal of credit by taxpayers who switch to the Composition Scheme or those who have no other choice than to demand and recover. These actions have opened new professional frontiers in digital compliance architecture, transition auditing, credit optimization, and dispute mitigation and re-introduce tax practitioners as strategic business finance and governance advisors.

The Union Budget 2026-27 facilitates this shift professionally by incorporating assessment and penalty processes, and cutting down pre-deposit needs, and enhancing automated rule-based approvals. The changes decrease adversarial tax practice, and re-brand professionals

as compliance architects, risk advisors and governance partners.

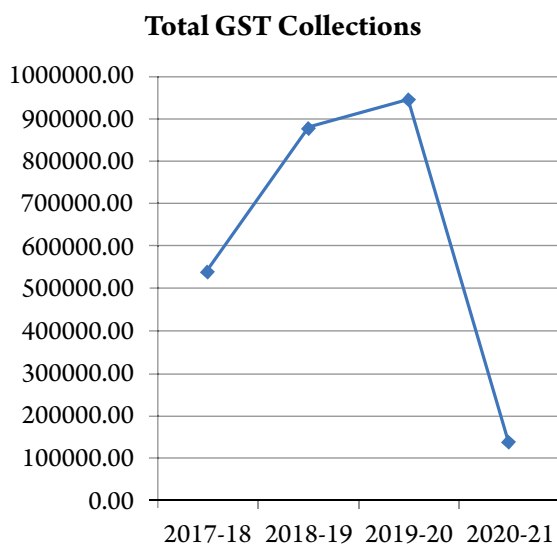
Post Amendment Effect on Common People, 2025

The 2025 amendment has made GST much easier to understand by reducing many slabs to a simpler rate structure, and it helps common people as well. It has increased tax administration efficiency, reduced disputes, and simplified compliance. While the simplified structure lowers friction and encourages uniformity throughout the country, the dual GST framework maintains India's federal character by guaranteeing that the Centre and States have separate revenue sources.

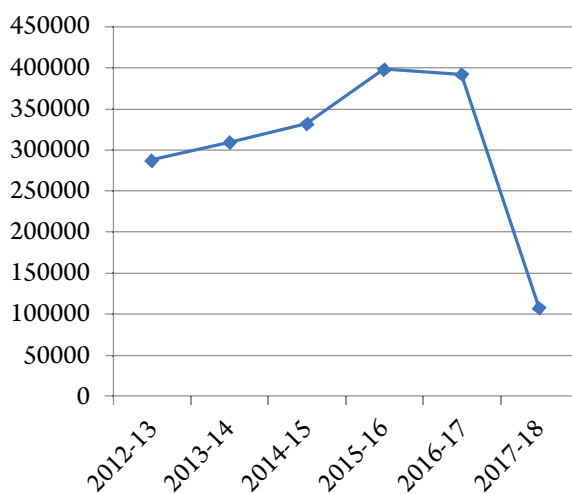
MSME Simplification in the Structure of Ease of Doing Business

GST reforms in 2025 have been beneficial, especially to MSMEs, in the effort of achieving the ease-of-doing-business goals in India. The composition limit has been raised to ₹ 1.5 crore and ₹ 50 lakh to suppliers of goods & services respectively (PIB, 2025). Further, QRMP scheme coupled with rapid refunds have also significantly lowered compliance expenses and enhanced liquidity among small taxpayers. These will help MSMEs to focus on productivity as opposed to procedure complexity.

Figure 6: Total GST Collection



VAT+ Collections



Source: Arun Kumar Deshmukh, Ashutosh Mohan & Ishi Mohan, 2022

Budget 2026-27 supports GST 2.0 MSME relief with a ₹ 10,000 crore SME Growth Fund, simplified custom procedures and enhanced refunds, which offers a nearby indirect tax-credit-liquidity ecosystem to the small entrepreneurs.

A Farmer's Perspective

Before 2025, a rice farmer in Chhattisgarh had to deal with numerous tax layers and innumerable checkpoints when shipping his produce to Maharashtra. His earnings were reduced by transportation expenses, and his crop's prices dropped as a result of delays.

Following the implementation of GST 2.0, trucks transporting his produce

now travel across borders more quickly due to fewer slabs and more seamless inter-State commerce. While consumers get better deals on fresher food, he makes more money from the same crop due to lower costs.

The Relief of Small Traders

Before 2025, a local retailer had to contend with perplexing GST slabs requiring an accountant to file returns, which increased costs for small businesses. Following GST 2.0, he now files return digitally in minutes, with only two major slabs (5% and 18%). He can concentrate on managing his store rather than fumbling with tax codes, and compliance is simpler and requires less paperwork.

“Businesses will no longer need a pre-existing agreement to claim GST benefits on post-sale discounts. As long as a credit note is issued under Section 34 and the recipient reverses the related ITC, the discount can be excluded from the taxable value.”

The Budget of the Middle-Class Family

Before 2025, it was frequently difficult for middle-class families to determine how much tax they were actually paying because their grocery bills were padded with several tax rates i.e., 12% here, 18% there. After the implementation of GST 2.0, necessities like paneer, bicycles, and toothpaste are now subject to the 5% slab. Monthly household expenses are lower, and bills are easier to read. The family's budget has changed, and they can actually see it.

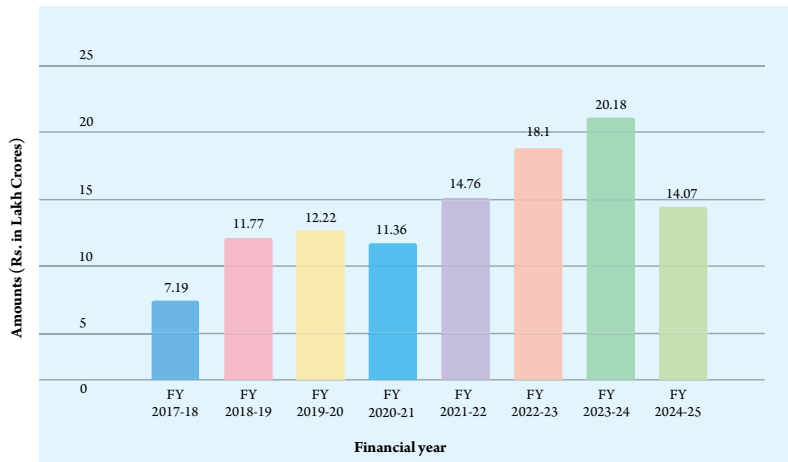
This is in line with the objective of the Union Budget 2026-27 to have a smaller tax burden on the common man with more transparency and compliance.

Conclusion

India, from its detailed multi-slab structured GST system in 2017 to its streamlined GST 2.0 of 2025, signifies a clear shift toward efficiency, fairness and transparency. 2025 reforms have greatly lessened the difficulties that the previous system presented, helps in achieving a balance between inclusivity and simplicity by maintaining the dual GST framework to maintain India's federal character through streamlining slabs, and bolstering compliance procedures. The overall transition to the GST 2.0 shows how the Indian tax regime is changing into a transparent, technology-driven, and

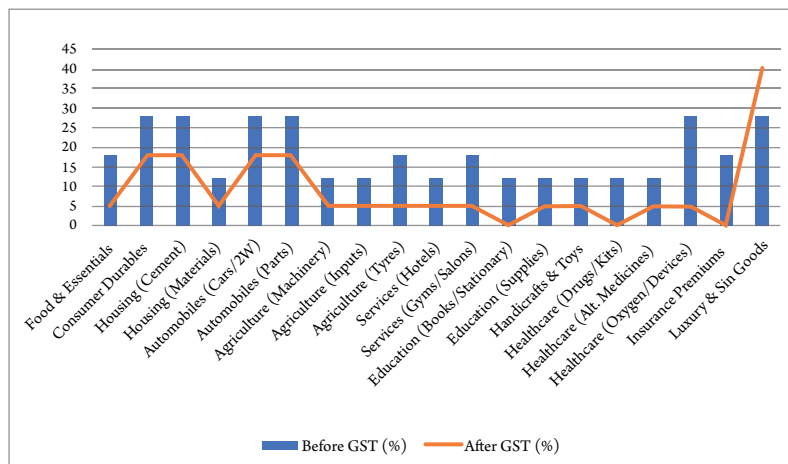
Figure 7: FY-wise GST Collection since Inception

(Rs. in Lakh Crores)



Source: Annapoorna, 2024

Figure 8: Comparative GST Rates: Before and After Reform



Source: Author's Compilation

inclusive regime. The transitional credit system protects fiscal equity, whereas digital reforms like IMS and Section 74A make it easier to comply. As per MSMEs, improved thresholds and simplified refunds will create ease in operations. For professionals, the amendments transform the practice from being less compliance-driven to more aligned with strategic financial stewardship, thereby strengthening the presence and purpose of GST as an anchor of India's formal economic growth story.

India's revised GST structure closely resembles global best practices like Canada and other developed economies. The general public will benefit from simpler bills, less misunderstanding, and the potential for lower prices giving consumers more purchasing power capacity and spending capacity, which will turn GST into more than just a tax reform. It will also serve as the cornerstone of a more unified and growth-oriented economy which will be more beneficial for the common citizens especially poor, middle class, youths and neo middle-class people. Considering it in conjunction with the Union Budget 2026-27, GST 2.0 does not just appear as an indirect tax reform but a pillar of the next-generation fiscal system in India. Jointly, they are an indicator of a change towards revenue extraction into revenue facilitation based on simplicity, technology, and trust of the taxpayer. This convergence boosts the federalism of India and encourages inclusive development and build GST as a fundamental pillar to the Indian economic system.



“India, from its detailed multi-slab structured GST system in 2017 to its streamlined GST 2.0 of 2025, signifies a clear shift toward efficiency, fairness and transparency. 2025 reforms have greatly lessened the difficulties that the previous system presented, helps in achieving a balance between inclusivity and simplicity by maintaining the dual GST framework to maintain India's federal character through streamlining slabs, and bolstering compliance procedures.”

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CA. Harsha Ramnani
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Annual Disclosure & Annual Impact Report for Social Enterprises on the Social Stock Exchange (SSE)

The Social Stock Exchange (SSE) framework in India, introduced by SEBI in 2022, is evolving rapidly to enhance transparency and impact in social finance. The original guidance (Circular 2024) outlined new reporting forms and disclosure standards for Not-for-Profit Organizations (NPOs) listed or registered on SSE, aiming to standardize annual disclosures and impact

reporting. Key developments since then, including SEBI circulars and board decisions up to July 2025, have updated this framework. These updates present compliance challenges, operational implications, and strategic opportunities for stakeholders. This analysis follows the structure of the original document section-by-section, critically examining each part in light of the latest SEBI directives. The focus is on what these changes mean for NPOs (as social enterprises on SSE), investors/donors, and auditors/assessors responsible for oversight.

Overview of the 2024 Circular and its Evolution

In 2024, SEBI (via a May 27, 2024, circular) and NSE (via a July 31, 2024, circular) introduced streamlined reporting requirements for SSE-listed social enterprises. The focus was on mandatory disclosures, standard formats, and integrating impact measurement into annual reporting. The Social Stock Exchange Advisory Committee (SSEAC) revised disclosure forms and promoted a Logic Model/Theory of Change framework for impact reporting. An immediate relief was an extension of FY 2023–24 reporting deadlines to October 31, 2024, and further extended to Jan 31, 2025, acknowledging the learning curve for first-time compliance.

By mid-2025, SEBI recognized the need to further broaden access and refine the regulatory framework. In its Board meeting on June 18, 2025, SEBI

approved amendments to make SSE more inclusive and effective for NPOs, while also ensuring active participation. These include changes to eligibility criteria, fundraising obligations, and investor participation rules.

■ **Broader Definition of “NPO” for SSE:** SEBI has widened the umbrella of entities that qualify as NPOs under SSE. Now, public charitable trusts registered under the Indian Registration Act, 1908, charitable societies under any state laws, and Section 25 companies (from the old Companies Act 1956, precursor to Section 8) are explicitly recognized. This removes ambiguity – for example, an organization registered as a society under a specific state act, or a legacy Section 25 company, no longer has to seek SEBI’s special nod under “any other as specified” category; they are de jure eligible.

■ **Revised Disclosure Structure:** Annual filings are now split into “financial” and “non-financial” components with distinct timelines. The original circular’s one-size-fits-all timeline was extended as a stopgap, but SEBI’s 2025 reform institutionalizes a staggered schedule. NPOs must manage two reporting deadlines, ensuring governance and general information is reported earlier (without waiting for audited financials) while financial statements and impact metrics follow later. This phasing alleviates pressure on NPOs and their auditors but requires careful planning and internal controls to meet each due date.

■ **Alignment of Social Objectives with Schedule VII (CSR) and Beyond:** SSE’s list of eligible social activities has been aligned to Schedule VII of the Companies Act (2013) – which is the list of causes

Note: SSE refers to the Social Stock Exchange segment, and ZCZP denotes Zero Coupon Zero Principal instruments – the primary instrument through which NPOs raise donations via SSE.

for Corporate Social Responsibility. Aligning with CSR Schedule VII not only broadens but also harmonizes language. Companies and donors now see consistency between what counts as a social cause for CSR and for SSE, possibly encouraging more CSR funds to flow through SSE instruments. Further, the eligibility rules have been relaxed for NPOs by applying the requirement of carrying out a minimum percentage of eligible activities only to for-profit social enterprises, whereas earlier this requirement applied to both NPOs and for-profit social enterprises.

- **Mandatory Fundraising within Two Years:** If an NPO registers on SSE, it must raise funds (through any SSE instrument) within 2 years, or its registration will lapse. The original framework didn't have a time-bound fundraising requirement, allowing NPOs to register and perhaps wait indefinitely for the right opportunity. The new rule is clearly aimed at preventing stagnation of the platform. For NPOs, this is a strategic push: before deciding to register, they should have at least a pipeline of projects or fundraising campaigns in mind that can be executed in the next 24 months.
- **Lowered Minimum Investment (ZCZP Threshold):** SEBI's March 19, 2025, circular brought a headline change: reducing the minimum application size for ZCZP instruments from INR 10,000 to INR 1,000. This came after public consultation and SSEAC's recommendation to boost retail participation. The original SSE guidelines set INR 10,000 as the floor, likely to

ensure a certain seriousness of investors; however, this was seen as a barrier for small donors. Now, at INR 1,000, the door is open for a vast pool of retail donors to contribute via SSE. It aligns SSE more with the idea of "social stock" accessible to the common man, not just HNIs.

In summary, the broad 2024 objectives of enhancing transparency and governance remain, but 2025 updates fine-tune the SSE framework to be more inclusive and action oriented.

New Forms for Annual Disclosures and Impact Reporting

The original circular introduced three key forms to structure annual reporting by social enterprises on SSE. These remain the backbone of SSE disclosures, but their implementation and utility have evolved with 2025's changes. Below is a critical look at each form, its requirements, and any updated obligations or opportunities.

Form 1A – Annual Self-Disclosure (General & Governance)

Purpose & Content: Form 1A captures an NPO's non-financial disclosures, focusing on general information and governance practices that are not dependent on audited financial data. It typically includes organizational details, mission, registration info, board composition and governance structure, key policies (e.g. ethics, anti-corruption), operational highlights, stakeholder engagement efforts, and identification of major risks/challenges. The intent is to provide a transparent overview of the NPO's structure and operations, setting context for its social mission. Form 1A also introduced proportional requirements based on the NPO's size – for instance, certain fields were mandatory only for larger NPOs (annual spending > INR 1 crore) while smaller NPOs had a lighter set of required disclosures.

Compliance and Operational Implications: In practice, Form 1A has

“NPOs must manage two reporting deadlines, ensuring governance and general information is reported earlier (without waiting for audited financials) while financial statements and impact metrics follow later. This phasing alleviates pressure on NPOs and their auditors but requires careful planning and internal controls to meet each due date.”

become the early-year disclosure, due relatively soon after the fiscal year ends. The original guideline mandated Form 1A submission within 60 days of FY end meaning by late May for most NPOs (when the FY ends March 31). The 2025 reforms explicitly institutionalize the split between non-financial and financial reporting, effectively reinforcing that Form 1A (non-financial) should be filed first. This staggered timeline is a mixed blessing for NPOs: on one hand, it gives more time to prepare audited financial statements for Form 1B; on the other hand, it means NPOs must collect and verify a broad range of qualitative data (governance, policies, stakeholder inputs) quickly after year-end.

Auditor's Note: Although Form 1A doesn't require audited financial data, auditors (especially those in assurance roles for NPOs) should ensure consistency between these disclosures and what they know of the organization. For instance, if Form 1A claims robust anti-corruption measures or internal controls, an auditor or evaluator might later verify if such policies actually exist and are followed. Additionally, auditors should verify that any quantitative statements in Form 1A (like the number of beneficiaries reached, if given as context) are backed by program records.

Form 1B – Annual Comprehensive Disclosure & Social Impact Report

Purpose & Content: Form 1B is an expanded annual report combining



both financial disclosures and a social impact overview. It builds upon the governance info from Form 1A and adds the numbers: key financial statements/ratios (linked to audited accounts) and details of how finances were utilized for social programs. Crucially, Form 1B also requires an Annual Impact Report (AIR) covering the NPO's significant social projects not funded via SSE-listed instruments. For each of SEBI's defined thematic areas (originally 16 categories of social causes), the NPO was expected to prepare a separate section (Form 1B.2) if applicable – a granular requirement to map impact area-wise performance.

Form 1B, unlike 1A, ties directly to audited figures. It requires cross-referencing financial data (including possibly funds received, spent on programs, administrative overhead ratios, etc.) with the NPO's financial statements and even filings to authorities like Income Tax, FCRA, Charity Commissioners, etc., as applicable.

Timeline and 2025 Changes: Originally, NPOs were to submit Form 1B by October 31 each year (for the previous FY) – a date extended to Oct 31, 2024, for FY23-24 as noted earlier. SEBI's June 2025 updates have likely codified this timeline, making late October the standard due date for financial+impact disclosures, while allowing the earlier non-financial part (Form 1A) to be filed separately earlier.

Voluntary Impact Reporting: A noteworthy 2025 enhancement is that NPOs are now permitted to voluntarily submit an Annual Impact Report even

“A transparent logic model helps donors evaluate the viability of an NPO's approach. It answers the “how” and “why” the venture will create impact, not just “what” it will do.”

if they have not yet raised funds via the SSE. Originally, one might have assumed that if an NPO only registered on SSE but never did a ZCZP issuance, they wouldn't need to report impact (aside from basic disclosures). The new guidance flips this – any registered NPO can file an impact report on its projects voluntarily, presumably as part of Form 1B. This is a strategic opportunity for NPOs: it allows those who haven't attracted SSE funding yet to showcase their impact and build credibility with potential investors. Essentially, SEBI is encouraging NPOs to “put their best foot forward” to attract funds.

From the donor perspective, Form 1B is where “the rubber meets the road.” It links money to mission. Financial transparency – how much funds came in, how they were spent on programs vs overhead – is crucial for donor confidence. Investors will examine ratios (like program expense ratio, administrative cost percentage) and growth of donations year-over-year.

Auditor's Role: For financial auditors, Form 1B's financial part should ideally tie directly to audited financial statements (which the auditor has opined on). If Form 1B requires, say, a breakdown of fundraising revenue and expenditures by project, auditors should cross-verify those figures to the books. Any material inconsistencies could be viewed as a misstatement in regulatory disclosure. Notably, SEBI's June 2025 introduction of Social Impact Assessment Organizations (SIAOs) (discussed below) opens the door for professional firms (including those led by CAs, CS, CWAs) to enter the impact assurance space. Audit firms might consider building capacity in social impact evaluation so they can assist or



partner with SIAOs, thereby expanding their service to cover both financial and impact audits of SSE-listed NPOs.

Form 2.1 – Annual Impact Report for SSE-Funded Projects

Purpose & Content: Form 2.1 is a project-specific annual impact report required for each project/program that an NPO funds via a listed SSE security. In simpler terms, whenever an NPO raises money on the SSE – e.g., by issuing a ZCZP instrument for a particular project – that project must have a dedicated impact report every year until the instrument is redeemed or completed.

Form 2.1's structure is detailed and was designed in alignment with robust monitoring and evaluation (M&E) practices. The original framework outlined multiple sections:

- **Section A:** General project information and baseline, including timeline for any third-party evaluation. It references the project's Solution Implementation Plan (SIP) and key performance indicators (KPIs) established at the time of fundraising.
- **Section B:** Annual progress report by the NPO itself, noting achievements and developments in the past year relative to the SIP's targets. This is the NPO's self-assessment of how the project is proceeding.
- **Section C:** External assessment comments – here's where an independent Social Impact Assessor reviews the NPO's Section B and provides an impartial evaluation.



- **Section D:** Confirmation by the Social Enterprise (NPO), likely sign-offs and declarative statements ensuring truthfulness.
- **Section E:** Supplementary info and annexes (supporting documents, data tables, testimonials, etc.).

The content emphasizes Impact Metrics and a Theory of Change (ToC) analysis. NPOs must report quantitative results (e.g., people served, outcomes achieved) and qualitative insights. They are expected to articulate their *logic model* – connecting inputs, activities, outputs, outcomes, and impact ToC elements. There's also emphasis on capturing beneficiary feedback and sustainability/ scalability plans for the project, as well as aligning outcomes with Sustainable Development Goals (SDGs) for the broader context.

2025 Updates – SIAO Model: The core structure of Form 2.1 remains, but a major update in 2025 is the formal introduction of Social Impact Assessment Organizations (SIAOs) and refined criteria for these external evaluators. Previously, the term “social impact assessment firm” was used loosely; now SEBI has shifted to a profession-agnostic term “SIAO” to open the field to a variety of entities, not just traditional consulting firms. A SIAO must: (a) be empanelled with certain SROs, and (b) have at least two full-time social impact assessors with a minimum of three years’ relevant experience. If the organization itself is newly set up (less than three years’ track record), those experienced assessors must personally sign off on the reports.

This formalization is crucial. It means that NPOs now have clearer guidance on who is qualified to assess their impact.

For the SIAOs and their professional bodies, this development is both an opportunity and a responsibility. Bodies like ICAI will maintain a panel of eligible SIAOs, likely ensuring that those on the panel adhere to certain standards or codes of conduct. An assessor who ventures into social impact assessment must upskill in development sector

“On July 3, 2025, SEBI floated a draft circular proposing a dedicated SSE-EBP platform for NPO fundraising. This essentially means using an electronic bidding platform – similar to what is used for bond issuances – to conduct transparent online fundraising auctions for NPO instruments.”

metrics, community surveys, etc., beyond traditional financial audit skills. The requirement of two full-time experts with 3+ years of experience suggests that a multidisciplinary approach is valued.

One compliance challenge is the data intensity of impact reporting. NPOs need systems to collect outcome data regularly – this could mean baseline and endline surveys, beneficiary tracking systems, or partnerships with research organizations. Unlike financial data, which flows through an accounting system, impact data can be messy and delayed. Moreover, the requirement to highlight unintended negative outcomes is something NPOs must not ignore; being candid about challenges or adverse effects (if any) actually enhances credibility.

Guiding Framework on Logic Model and Theory of Change

The SSE framework strongly advocates incorporating a Logic Model/Theory of Change (ToC) approach in social enterprises’ planning and reporting. The NSE’s 2024 circular underscored that projects listed on SSE must articulate how their inputs and activities lead to outputs, outcomes, and ultimately impact, including stating assumptions and external factors that could influence success. Annexure II of SEBI’s Sept 19, 2022, circular provided guidance questions – for example, asking explicitly “What will be the outcomes of the program? Include positive and potential

unintended negative outcomes.” The rationale is that a well-defined ToC enhances accountability: it forces clarity on the causal chain and identification of metrics at each stage. The original text also references the Unified Framework for Social Impact Assessment Standards (UFSIAS), which contains a section on utilizing ToC for M&E frameworks. SSE projects are expected to prepare a project-specific M&E framework grounded in ToC, aligning with UFSIAS best practices.

Relevance in 2025: These ToC/logic model requirements remain highly relevant and have been reinforced by the new rules rather than altered. For instance, the introduction of SIAOs (discussed above) dovetails with this – a SIAO, when assessing an impact report, will look for a coherent logic model. The 2025 SEBI updates did not explicitly change the ToC framework, but they did emphasize outcomes alignment with recognized frameworks like Schedule VII (CSR) and SDGs. This means NPOs should ensure their ToC connects to broader development goals. Doing so not only strengthens the narrative but also helps donors see the common thread between their CSR compliance and SSE investments.

Donor and Impact Assessor Perspective: A transparent logic model helps donors evaluate the viability of an NPO’s approach. It answers the “how” and “why” the venture will create impact, not just “what” it will do. Donors experienced in the development sector often demand this level of analysis; SSE making it mandatory ensures even newcomers in social investing get this information. From an SIA/SIAO perspective, the logic model provides a roadmap for verification: if the ToC says X output leads to Y outcome, the assessor will check evidence of X and whether Y is happening. It adds structure to an otherwise nebulous area of “impact auditing.” It’s also worth noting that by mandating identification of negative outcomes and assumptions, SEBI is pushing for honesty about risks. Impact Assessor should be alert to whether NPOs have actually monitored these unintended effects. While one hopes negative impacts are minimal, acknowledging them and having

mitigation strategies is part of robust reporting.

In conclusion, the logic model/ToC guidance in the original notification is not outdated – on the contrary, it has become more entrenched in SSE's compliance culture. NPOs, investors, and impact assessors all should treat it not as a paperwork formality but as the conceptual foundation of social impact reporting.

Compliance Timelines and Reporting Deadlines

Stock Exchange Compliance and Penalties: While not explicitly stated in the question, it's implied that SSE, being an exchange segment, would have compliance monitoring. If an NPO misses a deadline or files incomplete information, the exchange could issue notices or even suspend trading of its instruments (if any listed) until compliance is rectified. Impact Assessors should remind their NPO clients that these are regulatory deadlines – not just internal targets. Unlike a typical NGO annual report delay, which might have little consequence, an SSE disclosure delay is a compliance breach. Till now haven't seen any specific penalties published, but one can expect at minimum reputational damage and warnings.

For Impact Assessor: This timeline has a direct impact on assignment planning. The fact that NPOs have until Oct 31 for financials might tempt some to push engagement late; however, note that *Form 1A still draws on some financial context* (e.g., determining if spending is >INR 1Cr for certain disclosures). So, by May, NPOs at least need provisional figures to know which “slab” they fall in and any major highlights. Impact Assessors could consider doing an interim check in April-May to give confidence for Form 1A submissions, then finalize the audit by, say, August/September.

Introduction of SSE-EBP (Electronic Book Provider) Platform:

On July 3, 2025, SEBI floated a draft circular proposing a dedicated SSE-EBP platform for NPO fundraising. This

essentially means using an electronic bidding platform – similar to what is used for bond issuances – to conduct transparent online fundraising auctions for NPO instruments.

Key features (as proposed):

- NPOs raising INR 50 lakh or more in a single issue (or cumulatively through a shelf prospectus) must use the SSE-EBP. Smaller issues can presumably continue through simpler mechanisms, but large fundraisers need to go through this platform to ensure standardization.
- The platform will host the Draft Fund-Raising Document (DFRD) and term sheets, giving investors real-time access to all necessary info. Bidding windows will be standardized (e.g., 9 am–5 pm on trading days), and both institutional and retail investors can participate. However, foreign investors (FPIs, foreign funds) are not allowed on SSE-EBP, aligning with FCRA restrictions on foreign donations.
- Issuers (NPOs) must do some pre-filing: upload the DFRD and term sheet a couple of days in advance (5 days in advance for first-time users), similar to how companies file offer documents before an IPO opens.
- If an NPO withdraws an issue after opening bids without a valid reason, they face a 7-day ban from the platform as a penalty. Valid reasons for withdrawal include under-subscription (<75%) or investor default in payment. This discourages frivolous or poorly planned offerings.

The EBP proposal makes large NPO fundraises (≥ INR 50 lakh) a formal, transparent, exchange-mediated process, replacing private placements with open market bidding. NPOs must prepare a detailed fundraising document, comply with strict timelines, and develop market-facing skills to attract investors. This approach broadens participation from retail, NIIs, and QIBs, ensures full disclosure, and promotes fair allocation, while foreign contributions remain outside the platform via FCRA routes.

Conclusion

The regulatory framework for Social Stock Exchange reporting, as of 2025, significantly raises the bar for transparency and accountability in the social sector. NPOs are expected to be more proactive and professional. In essence, the SSE regulatory evolution is moving the social sector toward the rigor of capital markets – without losing the mission-driven focus.

Further strengthening regulatory clarity, SEBI issued a Master Circular on 19 January 2026 consolidating all previous circulars, amendments and operational guidelines relating to the Social Stock Exchange under the SEBI (ICDR) Regulations, 2018, and SEBI (LODR) Regulations, 2015. The circular serves as a comprehensive reference framework for stakeholders, including NPOs, social enterprises, stock exchanges and Social Impact Assessment Organizations, while largely streamlining and consolidating the existing regulatory architecture rather than introducing major structural changes.

Resources

- *NSE Circular (July 31, 2024) summary in Annual Disclosure & Impact Report for Social Enterprises.*
- *SEBI Circular (May 27, 2024) extending reporting timelines.*
- *Details of Forms 1A, 1B, 2.1 and mandatory disclosure requirements from original guidance.*
- *SEBI Board Meeting (June 18, 2025) outcomes – expanded NPO eligibility, SIAO introduction, 2-year fundraising rule, disclosure restructuring.*
- *Press release (Mar 19, 2025) – reduction of minimum investment for SSE instruments to INR 1,000 (Notice Number)*
- *SEBI Draft Circular (Jul 3, 2025) – proposal for SSE-EBP platform (mandatory EBP for ≥₹50 lakh issues, bidding process, eligible participants)*
- *Excerpts from SEBI's Sept 2022 circular Annexures – emphasizing Theory of Change integration and outcome reporting.*

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Proposed Ind AS 118: A Reform in Financial Reporting

This article examines proposed Ind AS 118, which is expected to replace Ind AS 1 from 1 April 2027 (ICAI, 2025). The standard introduces a structured approach to the statement of profit and loss by classifying income and expenses into five categories with mandatory subtotals. It introduces and prescribes disclosure and reconciliation requirements for management-defined performance measures (MPM), strengthens aggregation and disaggregation principles, and brings consequential amendments to Ind AS 7, Ind AS 33 and

Ind AS 34. Implementation requires retrospective application, including restatement of comparatives subject to transitional relief. The article outlines these provisions and highlights the procedural and presentation changes that companies need to undertake before the effective date.

Introduction

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 Presentation and Disclosure in Financial Statements, which will replace IAS 1 from 1 January 2027 (IASB, 2024). The new standard aims to address inconsistency in financial reporting and enhance comparability across entities (IASB, 2024). Historically, companies across jurisdictions had significant flexibility in presenting financial statements, often using customised formats and reporting figures such as adjusted EBITDA or operating profit without standard definitions or reconciliations (Sabauri & Kvatahidze, 2025). A study conducted by the IASB on a sample of 100 companies revealed that more than 60 of them reported an operating profit figure, employing at least nine different calculation approaches (IASB, 2024). This diversity meant that even fundamental metrics like operating profit were presented differently, limiting users' ability to interpret and compare results.

Consistent with India's IFRS convergence approach, the Exposure Draft of Ind AS 118 is substantially

aligned with IFRS 18. Ind AS 118 introduces a new approach to financial statement presentation. The statement of profit and loss is reorganised into five categories with mandatory subtotals such as operating profit presented in a consistent manner, as discussed later in the article. The standard also requires companies to present operating expenses explicitly on the face of the statement, and management-defined performance measures (MPM) must be disclosed with supporting explanations and reconciliations. Additional provisions introduce principles for aggregation and disaggregation, discourage vague labelling such as "other" and update requirements for the cash flow statement, earnings per share, and interim reporting. According to Andreas Barckow, Chair of the International Accounting Standards Board (IASB), "IFRS 18 represents the most significant change to companies' presentation of financial performance since IFRS Accounting Standards were introduced more than 20 years ago. It will give investors better information about companies' financial performance and consistent anchor points for their analysis" (IASB, 2024). Although these



reforms are designed to improve clarity and consistency, their adoption will require companies to adjust systems, processes, and internal judgements in preparation for implementation (Chan & EY, 2024; EY, 2025; Ndarake et al., 2024).

Major Changes Under Ind AS 118

Ind AS 118 introduces several interrelated changes affecting both the presentation and disclosure of financial information. Figure 1 summarises the key presentation and disclosure-related changes introduced by Ind AS 118, which are discussed in detail in the subsequent sub-sections.

Figure 1: Impact of Ind AS 118 on Presentation and Disclosure

Presentation	• Five mandatory categories in the statement of profit or loss • Operating profit and profit before financing and tax made compulsory
Disclosure	• Mandatory disclosure of management-defined performance measures (MPMs) • Explanation, calculation method and reconciliation required for each MPM

Statement of Profit and Loss

The standard requires companies to classify all income and expenses into five categories of operating, investing, financing, income taxes and discontinued operations. Two new subtotals are mandated on the face of the statement of profit and loss which are operating profit or loss and profit or loss before financing and income taxes (IASB, 2024).

The operating category functions as a residual category after applying the classification principles for investing and financing activities. It includes income and expenses from an entity's main business activities and all items not included in other categories. For most entities, revenue, materials consumed, employee benefits, depreciation and amortisation, selling, general and administrative expenses, and other similar items are part of operating activities. Where a company's main business activity is financing or investing, for example, banks, NBFCs or investment companies, items such as interest income and interest expense that would normally be classified as financing or investing are presented in the operating category. This treatment depends on the nature of the entity's main business activities and requires judgement (KPMG, 2024).

The investing category includes income and expenses from assets that generate returns largely independent of an entity's other operations. Classification depends on the entity's main business activity and follows specific guidance for financial institutions. This category

typically includes interest income, dividend income, rental income from investment property, and results from equity-accounted associates and joint ventures, unless the entity's main business activity is investing or financing (EY, 2025).

The financing category includes income and expenses related to raising finance, for example interest on borrowings and lease liabilities and similar effects of provisions. After presenting financing income and expenses, the statement presents the subtotal "profit or loss before income tax", followed by tax expense and

results from discontinued operations (Czajor, 2024; IASB, 2024).

Ind AS 118 introduces a choice for how operating expenses may be analysed on the face of the statement of profit and loss by nature (e.g. material consumed, employee costs, depreciation) or by function (e.g. cost of sales, selling, marketing, administrative). When expenses are presented by function, additional disclosures in the notes are required to identify major components, including depreciation, amortisation, employee benefits, impairment and write-downs of inventories. The current Ind AS 1 permit only a by nature presentation but the exposure draft of Ind AS 118 allows both methods (ICAI, 2025; IASB, 2024). Table 1 presents an illustrative format of statement of profit and loss for entities whose main business activities do not involve financing or investing. This format does not apply to banks, non-banking financial companies, insurers or other entities whose core activities involve investing, insurance services or providing finance, as those entities follow the specific classification guidance.

Table 1.

Illustrative Format of the Statement of Profit and Loss		Category
Revenue	X	Operating
Other operating revenues	X	
Total revenue	X	
Operating expenses (based on nature, function, or mix of both)		
Cost of material consumed	(X)	
Purchases of products for resale	(X)	
Changes in inventories of finished goods, work-in-progress and product for sale	(X)	
Employee benefit expenses	(X)	
Depreciation and amortisation expense	(X)	
Other expenses		
Total operating expenses	(X)	Investing
Operating profit or loss	X	
Share of profit or loss from equity accounted entities	X	
Income from other investments	X	
Interest income from cash and cash equivalents	X	
Profit or loss before financing and income taxes	X	

Illustrative Format of the Statement of Profit and Loss		Category
Interest expense on borrowings and lease liabilities	(X)	Financing
Interest expense on pension liabilities and provisions	(X)	
Profit or loss before income taxes	X	Income Taxes
Income tax expense	(X)	
Profit or loss after tax from continuing operations	X	Discontinued Operations
Profit or loss from discontinued operations	X	
Profit or Loss for the period	X	

Source: Author’s analysis based on literature review

Management-Defined Performance Measures (MPMs)

Ind AS 118 introduces a comprehensive framework for the disclosure of MPMs in response to the growing use of performance indicators that extend beyond those mandated by accounting standards. An MPM is defined as a subtotal of income and expenses, not otherwise prescribed by Ind AS, that management uses in public communications, such as investor presentations or press releases, to convey its perspective on a particular aspect of the entity’s financial performance. Subtotals explicitly required by the standards, such as gross profit, operating profit, or profit before tax, are excluded from this definition (ICAI, 2025;

IASB, 2024; KPMG, 2024). Figure 2 explains what qualifies as a management-defined performance measure under Ind AS 118.

To ensure consistency and comparability, all MPMs must be disclosed together in a single note. For each measure, entities are required to describe the measure, explain the aspect of performance it highlights and the reason for its use, and provide a reconciliation to the most directly comparable Ind AS total or subtotal (EY, 2025; ICAI, 2025; IASB, 2024). For example, an entity may present “adjusted operating profit” in its investor communications by excluding items such as restructuring costs or impairment losses that management

“Ind AS 118 introduces a choice for how operating expenses may be analysed on the face of the statement of profit and loss by nature (e.g. material consumed, employee costs, depreciation) or by function (e.g. cost of sales, selling, marketing, administrative).”

considers not reflective of ongoing operations. Ind AS 118 requires the entity to reconcile this adjusted measure to the operating profit reported in the statement of profit and loss, with clear explanations of each adjustment and the reasons for excluding those items. Such MPMs fall within the scope of the statutory audit.

Ind AS 118 distinguishes between financial and non-financial performance measures. Non-financial metrics like customer satisfaction scores, store area or subscriber numbers are outside the scope of MPMs because they are not derived from income and expense information. Within financial performance measures, three categories are relevant (Figure 3). The first consists of subtotals required by the standards (for example, profit or loss and operating profit), which are excluded from the definition of MPMs. The second comprises management-defined subtotals that adjust or supplement standard figures, such as adjusted profit or loss, adjusted operating profit, adjusted EBIT and adjusted EBITDA. These measures qualify as MPMs. The third category covers financial indicators that are not income and expense subtotals, such as free cash flow, return on equity, net debt and same store sales, which do not meet the definition of an MPM (IASB, 2024; IFRS Foundation, 2020; Sabauri & Kvatashidze, 2025).

Figure 2: Identification of Management-Defined Performance Measures under Ind AS 118

What qualifies as an MPM	• Subtotal of income and expenses • Not explicitly required by Ind AS • Used by management in public communications to explain Performance
What is not an MPM	• Ratios and financial indicators • Measures not based on income and expenses • Non-financial performance metrics

Figure 3: Types of performance measures and MPMs**Not all performance measures are MPMs**

Performance measures			
Non-financial performance measures For example: - Number of subscribers - Customer satisfaction score - Store surface	Financial performance measures		
	(Sub)totals of income and expenses		Other measures that are not subtotals of income/expenses For example: - Free cash flow - Return on equity - Net debt - Same-store sales
	IFRS-specified For example: - Profit or loss - Operating profit - Operating profit before depreciation and amortisation	MPMs For example: - Adjusted profit or loss - Adjusted operating profit - Adjusted EBITDA	

Source: IFRS Foundation (2020)

The requirements for management-defined performance measures under Ind AS 118 were introduced because such measures were defined and presented differently in practice. In the absence of clear guidance, entities used varied approaches to adjust performance measures in their external communications. The examples below illustrate common reporting practices observed in practice.

An IPO prospectus showed rapid revenue growth even though the company was making substantial losses. It introduced a management-defined “contribution margin” that excluded recurring operating costs. Although presented as a measure of efficiency, this adjustment reduced clarity about key obligations and ongoing losses, making it harder to assess the company’s true financial position.

In another case, a listed company had to restate its early quarterly results due to concerns over aggressive revenue recognition and the use of a customised adjusted income measure. The restatement was followed by a sharp fall in share value, highlighting investor sensitivity to the credibility of reported figures.

More recently, analysts have criticised investor presentations that place heavy emphasis on adjusted EBITDA while giving less importance to

“An MPM is defined as a subtotal of income and expenses, not otherwise prescribed by Ind AS, that management uses in public communications, such as investor presentations or press releases, to convey its perspective on a particular aspect of the entity’s financial performance.”

operating profit. Such emphasis can divert attention from weaknesses in profitability and cash generation, even though the reported results remain unchanged.

Enhanced Aggregation and Disaggregation Principles

Ind AS 118 introduces the criteria for aggregation and disaggregation of financial information, building on but going beyond the guidance previously provided in Ind AS 1. Whereas earlier requirements relied largely on materiality and preparer judgement, the new standard explicitly distinguishes the roles of the primary financial statements and

the accompanying notes. The primary statements: the statement of profit and loss, balance sheet, statement of changes in equity, and cash flow statement are expected to provide a concise, structured summary of recognised elements, while the notes are intended to offer additional disaggregation and explanatory context to enable users to develop a fuller understanding of the reported information.

The revised framework requires that items with similar characteristics be aggregated, and items with dissimilar characteristics, when material, must be disaggregated either on the face of the statements or in the notes. The standard discourages vague labels such as “other.” Where the use of such a label is unavoidable, a more specific description (for example, “other operating expenses” or “other finance expenses”) must be applied to convey the nature of the items. Preparers must ensure that these descriptions are not misleading and that they are used consistently across periods.

In practice, these requirements require a review of existing presentation practices. For example, material one-off gains, including those arising from the disposal of a subsidiary, should not be grouped under “other income” without adequate explanation. Similarly, significant impairment losses must be shown as a separate line item rather than included within “other expenses” (EY, 2025; ICAI, 2025; IASB, 2024; KPMG, 2024).



Other Key Changes

Ind AS 118 introduces consequential amendments to related standards, particularly Ind AS 7, Ind AS 33, and Ind AS 34. For Ind AS 7, a key change is the requirement for all entities using the indirect method to begin the statement of cash flows with operating profit. Previously, entities used different profit measures, leading to inconsistent reporting. The amendments also remove options for classifying interest and dividend cash flows. Dividends paid must always be presented as financing cash flows. Entities without a specified main business activity will classify interest paid as financing and interest and dividends received as investing. For entities whose main business is lending or investing, a single category approach will apply. Each type of cash flow, namely interest paid, interest received and dividends received, will be reported in one category, aligned with the classification of related income and expenses in the profit and loss statement. Even when those items appear in more than one category in profit or loss, the total for each type must be shown in a single category in the statement of cash flows. Many of these requirements already exist in Ind AS 7, which had earlier removed alternative classifications. The amendments therefore largely bring IAS 7 into line with Indian



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practice, while adding clarity through the defined starting point and the emphasis on the single category approach. (ICAI, 2025; IASB, 2024).

For earnings per share, amendments to Ind AS 33 allow entities, in addition to reporting basic and diluted EPS, to disclose supplementary EPS figures in the notes. These additional EPS measures may be based on subtotals such as operating profit or on MPMs that are already disclosed in the financial statements. Such figures must be presented only in the notes and without greater prominence than basic and diluted EPS shown on the face of the statement of profit and loss (ICAI, 2025; IASB, 2024).

Changes to interim reporting under Ind AS 34 ensure that interim financial statements incorporate the new subtotals and MPMs disclosures in the same way as in annual financial statements. These amendments require preparers to restate comparative cash flow information and revise reporting formats from financial years beginning on or after 1 April 2027, in line with the effective date of Ind AS 118 (ICAI, 2025).

Preparing for Ind AS 118 Implementation

The implementation of Ind AS 118 will require extensive planning as it significantly reshapes the structure of financial reporting. For the newly defined categories in the statement of profit and loss, entities will need to modify their systems to ensure that transactions are captured, classified, and reported consistently across the group. Processes must be established to produce accurate reconciliations of MPMs that can withstand audit scrutiny. Adequate training of finance teams, boards, and auditors will be essential to ensure a clear understanding of the revised requirements. Companies will also need to identify which of their publicly communicated metrics fall within the scope of MPMs, define how these measures will be calculated, and document the related internal policies (EY, 2025; KPMG, 2024; Neves, 2024).

Because the standard requires retrospective application of presentation changes, entities may be required to reclassify comparative figures into the revised statement structure, subject to materiality and practicability considerations. This process may involve data reviews and manual adjustments, making early preparation critical. Reclassification of certain income and expense items from operating to investing or financing categories will modify familiar subtotals, even though total net profit remains unchanged. These structural effects will need to be clearly communicated to investors and analysts. In addition, reporting must align with Indian regulatory frameworks, including Schedule III of the Companies Act, SEBI requirements, and sector specific guidelines, all of which are expected to be updated before the standard's effective date.

The new requirements also introduce areas of judgement, such as determining an entity's principal business activities and deciding

which public communications create MPMs. These judgements may affect key performance indicators and may require a review of loan covenants and other contractual terms. Successful implementation will therefore demand coordinated efforts across finance, IT, governance, and investor relations functions.

Conclusion

The shift to Ind AS 118 represents a major reform in the way Indian companies present their financial statements. It introduces a more structured and disciplined approach that is intended to make reported information clearer and easier to compare. Moving to this new framework will involve significant effort from preparers and auditors, but its long-term impact will be seen in how effectively companies and users of financial statements adapt to the revised presentation and use it to gain deeper insights into business performance.

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Turning Costs into Strategy: How Indian Exporters Can Respond to Rising U.S. Tariffs

The recent escalation of tariffs in the United States has unsettled global trade patterns, particularly for export-oriented economies like India. While tariff hikes were directed mainly at Chinese products, their ripple effects were felt across value chains and competing suppliers. This article discusses the nature of tariffs, their impact on Indian exporters, and how Management Accounting techniques, specifically Cost Segregation, Contribution Margin (CM), and Break-Even Point (BEP) analysis, can help firms evaluate

whether to sustain their presence in the U.S. or pivot to alternative markets. Drawing on India's preferential trade agreements, the article identifies regions such as the Middle East, Australia, and ASEAN as viable destinations where tariff relief, shorter logistics, and indirect cost savings could preserve competitiveness.

Introduction

In recent years, tariffs have re-emerged as a potent policy instrument in the global economy. The United States, long regarded as a champion of free trade, has increasingly used tariffs to protect strategic sectors. For Indian exporters, who often operate on thin margins, such measures can tilt the balance between profit and loss.

What makes the present context distinctive is that tariffs are no longer merely economic tools but also political signals. While recent tariff actions have been directed primarily at Chinese imports, Indian exporters to the U.S. face a more uncertain and arguably less predictable trade environment. It is therefore timely to revisit how Management Accounting can serve not just as a reporting function, but as a compass for strategic navigation.

Tariffs and Their Implications

Tariffs function as import duties, levies that increase the cost of goods entering a country, thereby altering price competitiveness. While its stated purpose is to protect domestic

producers, the effect is to raise the landed cost of imports, reducing their competitiveness. Recent U.S. tariffs on electric vehicles (100%), solar wafers (50%), and tungsten products (25%) demonstrate the sharpness of these increases (USTR, 2024).

For Indian firms, the immediate consequence is twofold. First, products that directly compete with Chinese exports may find an opening, provided they can enter the market at competitive landed prices. Second, for categories where Indian exports themselves are subject to duties, the additional tariff burden erodes margins unless it is offset elsewhere in the value chain.

From Accounting to Strategy: An Integrated Framework

In such conditions, intuition alone is insufficient. Companies require a structured, numerical framework. Management Accounting provides this through:

- **Cost Segregation:** Distinguishing variable costs (raw materials, freight, tariffs, commissions) from fixed costs (administration, certification, promotion).

- **Contribution Margin Analysis:** Identifying what remains after variable costs are deducted from the net selling price.
- **Break-Even Analysis:** Determining the sales volume needed to recover fixed costs.

While these tools are not new, their relevance is heightened in turbulent trade environments. For exporters, they support not only cost control but also informed market selection, helping answer the strategic question: *Whether to continue in the U.S. market or reallocate to alternative markets with lower tariffs and leaner indirect costs?*

Through the Lens of Management Accounting

Tariff changes are more than just alterations in trade policy; they are disruptions that ripple through cost structures, profit margins, and ultimately, the strategic choices of firms. For Indian exporters, the recent surge in U.S. tariffs underscores how volatile the external environment can be. In such conditions, instinct or traditional reliance on sales volumes is insufficient. What companies need is a structured lens, provided



by Management Accounting, that converts raw cost data into strategic insight. Among the most practical tools for this purpose are cost segregation, contribution margin analysis, and break-even analysis. While often viewed as routine accounting calculations, in a tariff-driven environment, these tools evolve into decision-making frameworks that help firms sharpen their focus and allocate resources wisely.

1. Cost Segregation: Clarifying the Anatomy of Costs

The starting point for strategic focus is clarity. Tariffs, by definition, alter the variable cost structure of exports. An item that earlier attracted a 5% duty may now face 20% or even 50%, changing its economics overnight. Without a clear split between fixed and variable costs, companies risk misinterpreting the true impact of such changes.

By segregating costs, exporters can ask sharper questions:

- Which portion of the cost increase is truly variable, directly linked to tariff hikes?
- How much of the overhead remains unaffected, regardless of destination market?
- Which indirect costs, like financing inventory stuck in long shipping routes, are magnified when tariffs lengthen customs clearance times?

For example, an auto components manufacturer exporting to the U.S.

may find that while raw material duties inflate per-unit costs, its fixed expenses, such as plant maintenance, R&D salaries, and insurance, remain unchanged. Recognizing this distinction enables management to assess whether producing additional units for a high-tariff market is viable, or whether production should be reallocated to tariff-free destinations such as ASEAN countries or the UAE.

Thus, cost segregation provides the foundation for strategy: it separates the negotiable from the non-negotiable, allowing leaders to frame choices around what can be controlled and what must simply be endured.

2. Contribution Margin Analysis: Beyond Revenue, Towards Value

A common trap in turbulent times is to chase revenues at any cost. Companies desperate to maintain market share in the U.S. may continue exporting, even when tariffs quietly erode margins. Contribution Margin (CM) analysis offers the antidote. By subtracting variable costs (now inflated by tariffs, freight surcharges, or port-handling fees) from the sales price, it isolates the value that each unit contributes towards covering fixed costs and generating profit.

The strategic insight lies in comparison. A U.S. consignment that once generated a ₹40,000 CM per unit may now yield only ₹25,000 after tariffs. Meanwhile, an Australian order, even if smaller in volume, might still deliver a ₹35,000 CM. At first glance, the U.S. looks attractive because of higher absolute sales, but the CM perspective reveals a different truth: the Australian market delivers more value per unit of capacity.

For exporters, this shift in focus—from revenues to contribution—redirects strategy. Instead of allocating scarce marketing budgets and managerial energy to defending high-volume but low-margin markets, firms can prioritize destinations where contribution margins remain healthy. CM analysis, in other words,

reframes the decision from “How much are we selling?” to “How much are we keeping?”—a crucial lens under tariff pressure.

3. Break-Even Analysis: Quantifying the Threshold of Viability

Even when contribution margins shrink, companies may argue that maintaining presence in the U.S. is essential for reputation, customer loyalty, or long-term contracts. Here, Break-Even Point (BEP) analysis provides realism. By dividing fixed costs by per-unit CM, it quantifies the exact number of units or shipments needed before profits emerge.

Consider an apparel exporter. With tariffs pushing up variable costs, CM per unit falls from ₹450 to ₹300. To recover fixed costs of ₹5 crore, the company now needs to sell over 16,600 units instead of 11,100 earlier. If the realistic demand in the U.S. is only 12,000 units, the strategy is unsustainable. BEP analysis makes this clear, forcing leadership to reassess market presence.

Strategically, BEP is not merely an accounting formula; it is a litmus test of viability. It shifts boardroom conversations from vague optimism (“We must hold on to the U.S. market”) to quantified scenarios (“We need 5,000 more units than the market can absorb”). Such clarity allows firms to make hard but necessary decisions—whether to scale down, renegotiate contracts, or pivot to alternative geographies.

4. From Analysis to Strategy: Creating Focus

Individually, cost segregation, CM, and BEP highlight different dimensions of tariff impact. Together, they create a decision-making triad:

- Cost segregation defines where the tariff pain lies.
- Contribution margin highlights which market still creates value.
- Break-even reveals which strategies are viable at scale.

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The strategic focus emerges when these insights are synthesized. For instance, an exporter may discover that while tariffs hurt U.S. margins, ASEAN markets offer both a higher contribution and a realistic breakeven. Instead of spreading thin across all geographies, the company can strategically double down on ASEAN while maintaining only a symbolic presence in the U.S.

This focused approach prevents the dilution of managerial attention and financial resources. It transforms Management Accounting from a reporting exercise into a compass for navigating global volatility.

Alternative Markets for Indian Exporters

India's expanding network of trade agreements continues to provide exporters with valuable options to reduce tariff barriers and diversify markets. Several deserve particular attention:

■ **Middle East and Gulf Cooperation Council (GCC)—UAE and Oman:** The Middle East has emerged as one of the most compelling alternative regions for Indian exporters, particularly following the operationalisation of the India–UAE Comprehensive Economic Partnership Agreement

(CEPA) in 2022 and the conclusion of the India–Oman CEPA in 2024. Under the India–UAE CEPA, over 90% of India's exports enjoy zero customs duty, spanning engineering goods, gems and jewellery, chemicals, pharmaceuticals, textiles, and food products. Merchandise trade between India and the UAE crossed USD 85 billion in FY2024, reflecting rapid commercial traction (Ministry of Commerce & Industry, Government of India, 2022).

The recent inclusion of Oman significantly strengthens India's strategic footprint in the Gulf. The India–Oman CEPA provides preferential or zero-duty access for a wide range of Indian exports, including engineering goods, chemicals, steel products, textiles, food items, and pharmaceuticals. Oman also plays a dual role—as a consumption market and as a logistics gateway to East Africa and other GCC countries (Ministry of External Affairs, Government of India, 2024). With ports such as Sohar and Duqm positioned on major global shipping routes, Oman offers Indian exporters shorter transit times, lower congestion risk, and reduced logistics volatility compared to trans-Atlantic routes.

Together, the UAE and Oman create a low-tariff, fast-turnover corridor where exporters benefit from quicker cash conversion cycles, lower inventory holding costs, and reduced working capital lock-in, factors that directly enhance contribution margins even when selling prices are modest.

■ **Australia:** The Australia–India Economic Cooperation and Trade Agreement (ECTA), effective from December 2022, has eliminated customs duties on more than 85% of Australian tariff lines for Indian exports, rising to nearly 90% over time. Sectors such

as textiles, leather goods, gems and jewellery, auto components, and processed foods benefit directly, making Australia a stable, medium-term alternative to tariff-volatile markets.

■ **ASEAN Economies:** The ASEAN–India Free Trade Agreement continues to provide tariff elimination or reduction across approximately three-quarters of tariff lines. Countries such as Vietnam, Indonesia, Thailand, and Malaysia offer growing demand, geographic proximity, and value-chain integration opportunities, particularly in engineering goods, chemicals, and auto-components.

■ **Japan, South Korea, and Europe (EFTA):** India's CEPAs with Japan and South Korea, and the newly signed India–EFTA Trade and Economic Partnership Agreement (2024), further expand the universe of low-tariff, high-value destinations, especially for exporters with strong quality and compliance capabilities.

■ **Singapore—Zero-Tariff Access and Re-Export Hub:** Singapore continues to be a critical node in India's export strategy under the India–Singapore Comprehensive





Economic Cooperation Agreement (CECA). Most Indian goods enter Singapore at zero customs duty, making it both a direct market and a high-efficiency re-export hub for Southeast Asia and the Asia-Pacific region. Beyond tariff advantages, Singapore offers predictable customs procedures, minimal clearance delays, and a strong legal and financial infrastructure. From a Management Accounting perspective, these factors significantly reduce indirect costs such as demurrage, compliance overheads, and receivable delays, thereby improving effective contribution margins even when unit selling prices are competitive.

- **Europe—EFTA and the Broader EU Context:** Europe has gained renewed relevance following the signing of the India–EFTA Trade and Economic Partnership Agreement (TEPA) in 2024 with Switzerland, Norway, Iceland, and Liechtenstein. Under this agreement, India has secured near-complete duty-free access for non-agricultural exports, while EFTA countries have committed to substantial long-term investments into India. For Indian exporters, particularly in engineering goods, speciality

chemicals, pharmaceuticals, precision manufacturing, and processed foods, EFTA markets now represent a high-value, low-tariff alternative within Europe.

Beyond EFTA, the European Union remains a significant destination, albeit with stricter regulatory and sustainability requirements. While tariffs in the EU are generally moderate, compliance with standards relating to quality, traceability, and sustainability can increase indirect costs. However, exporters with mature compliance systems may still realise stable contribution margins due to premium pricing, longer-term contracts, and diversified customer bases. From a strategic accounting standpoint, Europe thus represents a selective opportunity, best suited to firms that can absorb compliance costs while benefiting from tariff predictability and market depth.

- **Africa—Emerging Demand with Preferential Access:** Africa is increasingly relevant as an alternative destination, particularly for Indian exporters seeking volume growth with manageable cost structures. Preferential arrangements such as the India–Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA) provide duty advantages, while several African economies offer strong demand for pharmaceuticals, engineering goods, agricultural inputs, and consumer products. In addition, many African markets involve shorter shipping distances than the US or Europe and lower competitive intensity, which can translate into healthier contribution margins despite modest absolute pricing. From a strategic standpoint, Africa also benefits Indian exporters by diversifying geopolitical and tariff risk. While individual market volumes may be smaller, the combined regional opportunity,

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evaluated through contribution and break-even lenses, can justify targeted expansion.

Direct and Indirect Cost Considerations

What often goes unnoticed is that tariff savings alone do not determine market attractiveness. Indirect costs, transit time, port clearance, documentation complexity, and even payment terms can decisively alter profitability. For instance, shipments to Oman or the UAE typically reach destination ports within 3–5 days, compared to 30–40 days for US-bound consignments, materially reducing working capital lock-in, financing costs, and inventory risk. Faster turnaround lowers inventory holding and financing costs, thereby improving effective margins. From a



Contribution Margin and Break-Even perspective, indirect cost reductions function like “hidden revenue.” A saving of even 2–3% in financing and logistics costs can offset moderate price discounts, lowering the break-even point and improving resilience under volatile trade conditions. Hence, destination choice must be evaluated on “total cost economics”, not “tariff rates” alone. Markets with moderate prices but lean cost structures may deliver stronger and more stable profitability than premium markets burdened by tariffs, delays, and capital intensity.

Managerial Implications

The evidence reinforces a key insight: Topline margins alone do not determine the best export destination. Finance managers must broaden their lens to incorporate indirect costs, tariff preferences, and market growth trajectories. Perhaps the most significant shift is not in numbers but in roles. Under stable trade regimes, accountants often function as custodians of compliance. In a tariff-laden world, their analyses shape strategy itself. Contribution Margin and BEP serve as starting points, but true competitiveness lies in combining these with contextual intelligence, knowing which agreements reduce duties, which

ports offer faster clearance, and which markets present lower non-tariff barriers.

Conclusion

Tariffs in the U.S. remind us that international trade is as much about strategy as it is about price. For Indian exporters, management accounting tools such as cost segregation, CM, and BEP are indispensable in navigating uncertainty. They may appear technical, but in practice, they transform ambiguity into actionable focus.

The numbers suggest that while the U.S. remains a significant market, alternative destinations—especially those covered by CEPAs and FTAs—can deliver equal or greater long-term value once indirect costs are considered.

Indian exporters are no longer compelled to absorb margin erosion in high-tariff markets when alternative destinations offer tariff relief, faster logistics, and superior cash-flow dynamics. Market selection thus becomes a strategic accounting decision, guided by contribution margin, break-even feasibility, and total cost economics, rather than a function of legacy export volumes alone.

The role of the CEO, therefore, extends beyond markets. Strategic Accounting perspective serves as an advisor, guiding firms on where to compete, how to price, and when to pivot. In a world of shifting tariff regimes, this analytical capability may well prove to be the decisive edge for Indian exporters. These tools are more than calculations. They are frameworks for clarity, instruments of resilience, and, above all, bridges from accounting to strategy.

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Risk Management in Banking: Evolving Landscape and Opportunities

Banking risk management has transformed from traditional siloed approaches to sophisticated, technology-driven integration. Digital lending now uses AI and alternative data for instant decisions, while operational risks have expanded to include cyber threats and third-party dependencies. Market volatility has intensified, and model risk management has become critical as banks deploy hundreds of AI models. Climate

risk introduces unprecedented long-term scenarios. This evolution presents significant opportunities for Chartered Accountants, who possess strong analytical foundations but must develop new technical skills in data science and machine learning to contribute effectively to modern integrated risk frameworks.

Introduction

The banking industry stands at a transformative juncture where traditional risk management approaches are being fundamentally reimagined. What once constituted risk management i.e. analyzing balance sheets, taking collateral, and maintaining compliance checklists, has evolved into a sophisticated, technology-driven discipline that requires new skills, frameworks, and perspectives.

For Chartered Accountants, this evolution presents both challenges and unprecedented opportunities. Our analytical training, attention to detail, and understanding of financial fundamentals provide a strong foundation for navigating this new landscape. However, success in modern risk management requires us to expand our toolkit beyond traditional approaches.

This article examines the key transformations reshaping risk management in banking, analyzes the emerging challenges and opportunities, and provides insights for CAs looking to contribute meaningfully to this evolving field.

The Foundation Shift: From Silos to Integration

Traditional Risk Management Framework

The traditional approach to risk management was characterized by clear boundaries and distinct responsibilities. Credit risk resided with lending departments, operational risk focused on compliance and process failures, and market risk concerned itself primarily with trading activities. This siloed approach worked reasonably well in a simpler banking environment where risks were more predictable and contained.

Risk assessment relied heavily on historical data, relationship banking, and manual processes. Credit decisions were based on financial statement analysis, collateral evaluation, and personal relationships built over years. Operational risk primarily concerned itself with rogue traders, processing errors, and physical security breaches.

The Modern Reality

Today's banking environment has rendered these traditional silos obsolete. A single digital lending decision now simultaneously touches

credit algorithms, cybersecurity protocols, and operational processes. The interconnected nature of modern banking means that risks cascade across traditional boundaries in ways that were previously unimaginable.

The Basel framework evolution illustrates this transformation perfectly. From the basic capital requirements of Basel I, we have progressed to the comprehensive risk management ecosystem of Basel III, with Basel IV introducing even more sophisticated approaches to risk measurement and management.

Modern risk governance has fundamentally changed. Board risk committees now spend more time discussing cyber incidents than traditional loan defaults. Risk appetite statements include tolerance levels for artificial intelligence model drift alongside conventional credit metrics. The three lines of defense model has evolved from a compliance-focused approach to a strategic risk partnership framework.

Credit Risk in the Digital Age

The Paradigm Shift

The transformation of credit risk assessment represents one of the

most dramatic changes in banking risk management. Traditional relationship-based lending, where decisions relied on officer judgment and borrower understanding, has given way to data-driven decision making processes.

Digital lenders now make loan decisions within minutes using hundreds of data points that were previously unavailable. Mobile usage patterns, payment behavior, social media activity, and location data create an entirely different information universe for credit assessment. This shift has enabled financial inclusion and increased efficiency, but has also introduced new categories of risk.

New Challenges and Complexities

The validation challenges associated with modern credit risk models are immense. How does one audit algorithms that consider 500+ variables? How do you explain loan rejections based on smartphone usage patterns? These questions highlight the complexity of modern credit risk management.

Artificial intelligence models that predict behavior using alternative data sources present fascinating insights—battery charging frequency and loan application timing apparently correlate with repayment probability. However, these correlations raise important questions about transparency, fairness, and long-term stability.

Provisioning methodologies have become equally complex. Traditional approaches relied on historical loss rates and aging analysis. Modern digital lending deals with insufficient historical data, different borrower segments, and unconventional default patterns that challenge established provisioning frameworks.

RBI's Shift to Expected Credit Loss Framework

Recognizing these evolving complexities, the Reserve Bank of India proposed significant changes to credit risk norms in its meeting on October 7, 2025. The RBI mooted replacing

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the incurred-loss-based provisioning framework with an Expected Credit Loss (ECL) based provisioning approach to further strengthen credit risk management practices and promote greater comparability across financial institutions.

The draft 'Reserve Bank of India (Scheduled Commercial Banks & All India Financial Institutions - Asset Classification, Provisioning and Income Recognition) Directions, 2025' aims to align regulatory norms with internationally accepted regulatory and accounting standards. Key elements of this proposed framework include:

- Introduction of staging criteria for asset classification under the ECL approach, while retaining existing norms for non-performing asset (NPA) classification
- Alignment of income recognition norms based on the Effective Interest Rate (EIR) method
- Broad principles on model risk management for implementing ECL models

Additionally, the 'Draft Reserve Bank of India (Scheduled Commercial

Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2025' seeks to implement key elements of global reforms by the Basel Committee on Banking Supervision, tailored to the Indian context. Major revisions include nuanced and granular risk weight treatment for exposures to corporates, MSMEs and real estate, and inclusion of 'transactors' under the regulatory retail category (credit cards with timely repayments during the previous 12 months).

These proposed guidelines are expected to enhance credit risk management practices and promote better comparability of reported financials across institutions, while increasing the robustness, granularity, and risk sensitivity of capital charge calculations.

The Speed Challenge

Perhaps the most concerning aspect of modern credit risk management is the acceleration of decision-making processes. Fintech companies originate loans faster than risk management practices can adapt. Feedback loops that previously provided learning opportunities over months have compressed to weeks, creating potential blind spots in risk assessment.

Operational Risk: Beyond Traditional Boundaries

The Expanding Scope

Operational risk has evolved from a relatively predictable category focused on people, processes, systems, and external events to become potentially the most catastrophic risk category in modern banking. This transformation reflects the increasing complexity and interconnectedness of banking operations.

Single API failures can bring down payment systems across multiple banks. Misconfigured cloud settings can expose millions of customer records. A single incorrect email click can trigger ransomware that shuts down operations for days. These scenarios were unimaginable in traditional operational risk frameworks.



Digital Transformation Impact

Every aspect of digital transformation has introduced new operational risks. Each fintech partnership creates third-party risk exposure. Every automation introduces potential failure points. Each AI deployment brings algorithmic risks that were absent from traditional risk frameworks.

The interconnected nature of modern banking has created concentration risks that are difficult to quantify and manage. Vendor failures affect multiple banks simultaneously. Cloud provider issues can impact significant portions of the industry. The pursuit of operational efficiency has inadvertently increased systemic risk exposure.

Cybersecurity and Third-Party Risk Management

Digitalization has dramatically increased the attack surface for banks. The dependency on cloud providers, technology vendors, and partners means that weak links in any part of the ecosystem can lead to systemic risk. A cybersecurity breach at a third-party vendor can compromise multiple financial institutions simultaneously, making vendor risk management one of the most critical aspects of modern operational risk.

Third-party risk management has emerged as a distinct discipline within operational risk. Banks now maintain vendor registers with hundreds of suppliers, each requiring risk profiling, interdependency analysis, and failure scenario planning. Due diligence for

new vendors sometimes exceeds the scrutiny applied to major loan approvals.

Business continuity planning has evolved from addressing localized disruptions to managing simultaneous failures across multiple critical systems and vendors. Scenario planning exercises that once seemed like science fiction are now based on real-world events and regulatory expectations.

Market Risk and Liquidity Management

Fundamental Changes in Market Dynamics

While the fundamentals of market risk i.e. interest rate sensitivity, currency fluctuations, and price volatility remain unchanged, the speed and magnitude of market movements have transformed dramatically. Markets can swing 50 basis points in a single day based on social media posts or algorithm-driven trading.

Traditional asset-liability management models, built for stable environments, struggle with modern market volatility. The assumptions underlying these models i.e. stable deposit bases, predictable interest rate cycles, and gradual market adjustments, no longer reflect reality.

The Liquidity Revolution

Digital banking has fundamentally altered deposit behavior and liquidity management. Customers can move money between banks in seconds rather than days. Social media can trigger bank runs faster than regulators can respond. These changes have forced banks to reconsider their entire approach to liquidity management.

The COVID-19 pandemic demonstrated that funding markets can disappear overnight, and supposedly “risk-free” government securities can become sources of significant losses. Traditional assumptions about stable deposits no longer apply when customers can chase yields with simple phone taps.

Treasury functions have responded by maintaining liquidity buffers that

would have seemed excessive five years ago. While the cost is significant, being caught short during stress periods can be fatal for financial institutions.

Model Risk Management: The Invisible Challenge

The Proliferation of Models

Model risk has quietly become one of the most critical areas in risk management, yet it remains the least understood by senior management. Banks have evolved from using models for basic credit scoring to deploying them for virtually every business decision such as loan approvals, pricing, provisioning, regulatory capital calculation, fraud detection, customer segmentation, and even branch location decisions.

The complexity is staggering. Mid-sized banks now operate with over 200 models in production, each with data dependencies, performance metrics, validation requirements, and potential failure modes. The challenge of maintaining comprehensive understanding across all these models is significant.

Model Risk and Explainability Challenges

Using machine learning and AI improves prediction power, but with complex models comes increased risk of errors, bias, and non-transparent decisions. Regulatory scrutiny has intensified as regulators demand explanations for automated decisions that affect customers' financial lives. Model mis-specification or insufficient oversight can lead to substantial losses.

Traditional statistical models were interpretable i.e., decisions could be explained and validated. Modern AI models often function as black boxes, performing effectively but making explanation to regulators or audit committees nearly impossible. This explainability challenge has become a critical concern for risk managers and boards alike.

Model validation has evolved from checking mathematical accuracy to ensuring fairness, detecting bias,

monitoring performance drift, and validating training data quality. The question is no longer just “*is the model right?*” but “*is it right for the right reasons?*”

Concept Drift and Model Degradation

One of the most challenging aspects of model risk management is concept drift, when the underlying relationships that models were designed to capture change over time. Models trained on pre-COVID data performed poorly during the pandemic as economic relationships shifted and customer behaviors changed overnight.

This highlights the importance of continuous monitoring and the need for robust governance frameworks that can detect when models are no longer fit for purpose, even when they appear to be performing as designed.

Data Quality, Privacy, and Governance

Advanced analytics and AI-driven risk management depend fundamentally on high-quality data. However, this dependency introduces multiple risk dimensions that banks must actively manage.

Data quality issues can compromise the entire risk management framework. Incomplete data, inconsistent formats across systems, outdated information, and errors in data entry can all lead to flawed risk assessments and poor decisions. The old adage “garbage in, garbage out” has never been more relevant.

Privacy concerns have escalated with stringent data protection regimes like GDPR and local laws imposing severe penalties for breaches. Banks must balance the need for comprehensive data for risk assessment with customers’ rights to privacy and data protection. This balancing act becomes particularly complex when using alternative data sources for credit decisions.

Third-party and vendor data sources introduce additional risks. When banks rely on external data

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providers, they must ensure data accuracy, currency, and compliance with regulatory requirements. The dependency on these external sources creates vulnerabilities that must be carefully managed through robust data governance frameworks.

Effective data governance requires clear policies on data collection, storage, usage, and disposal. It demands investment in data quality management systems, regular audits, and training for personnel handling sensitive information. The cost of poor data governance, in terms of regulatory penalties, reputational damage, and flawed decision-making, far exceeds the investment required for robust frameworks.

Integrated Risk Management: The New Imperative

The Breakdown of Traditional Silos

Modern risks do not respect organizational boundaries. Cyber-attacks simultaneously affect operational continuity, credit portfolios, market positions, and liquidity management. These interconnected risks cannot be managed effectively in isolation.

Risk appetite frameworks have evolved from separate limits for each risk type to integrated frameworks that consider how risks amplify each other. Banks must now answer questions like: *What is your appetite for operational risk during credit stress?*



How do you manage market risk while responding to cyber incidents?

Stress Testing and Scenario Analysis

Stress testing has become the closest approximation to integrated risk assessment. Instead of testing each risk category separately, banks now run scenarios that stress multiple risk types simultaneously. These exercises force institutions to consider what happens when interest rates rise while cyber incidents increase and credit losses spike, reflecting the reality that multiple stress factors often occur together.

Organizational and Cultural Implications

The move toward integrated risk management has significant organizational implications. Risk functions increasingly resemble technology companies rather than traditional banking departments, with data scientists working alongside credit officers and cybersecurity experts integrated into every risk discussion.

Risk culture becomes critical when risks interact unpredictably. Organizations need people who think about second and third-order effects rather than just immediate responsibilities within their functional areas. This cultural shift requires bringing risk management into strategic decisions rather than treating it merely as a compliance or after-the-fact function.

Incentive alignment is crucial—performance metrics and

compensation structures must reward risk-aware behavior and penalize excessive risk-taking. When business units are incentivized solely on growth or revenue, risk considerations often take a backseat until problems emerge.

Future Directions and Emerging Challenges

Climate Risk and ESG Considerations

Climate risk is forcing the industry to model scenarios without historical precedent. Traditional risk models assume the future resembles the past, but climate change breaks this fundamental assumption. Banks must now stress test for sea level rise affecting real estate portfolios over 30-year horizons and extreme weather events that could disrupt operations and credit performance.

Broader environmental, social, and governance (ESG) risks are gaining prominence in risk management frameworks. These non-financial risks are harder to quantify and often manifest slowly, but may lead to large losses or erosion of stakeholder trust. Reputational risk from poor ESG practices can materialize suddenly and devastatingly in today's socially connected world.

Regulatory Evolution and Compliance Burden

As regulatory rules evolve, banks need capability to respond quickly. Regulatory fragmentation, with different jurisdictions imposing different rules, creates complexity and compliance burden. The potential penalties for non-compliance have increased substantially, making regulatory risk management a critical priority.

RegTech (Regulatory Technology) is evolving beyond compliance automation to predictive risk identification. Instead of detecting problems after they occur, banks are building systems that identify emerging risks before they materialize through real-time transaction monitoring, behavioral anomaly

detection, and network analysis of systemic risks.

Dynamic Risk Management

Risk governance is becoming more dynamic, with static annual risk appetite statements being replaced by adaptive frameworks that adjust to changing conditions. Risk limits now flex based on market volatility, stress conditions, and emerging threat landscapes.

This dynamism requires sophisticated monitoring systems, rapid decision-making processes, and governance structures that can respond quickly without compromising oversight effectiveness.

Cost Versus Return Trade-offs

Upgrading systems, training people, implementing robust controls, and building comprehensive risk management frameworks all require substantial investment. Banks must balance risk mitigation against profitability and competitive pressures.

The challenge lies in quantifying the return on risk management investments. While the cost of controls is immediate and measurable, the benefit such as avoiding losses that might never materialize is difficult to demonstrate. This asymmetry can lead to underinvestment in risk management until a crisis forces reactive spending.

Opportunities for Chartered Accountants

The Professional Advantage

CAs possess several advantages in the evolving risk management landscape. Our analytical training, attention to detail, and understanding of financial fundamentals provide a strong foundation for risk management roles. The ability to analyze complex financial information, understand regulatory requirements, and communicate effectively with stakeholders remains highly valuable.

The professional skepticism and ethical grounding that define CA training are particularly relevant in an environment where AI-driven decisions must

be questioned and validated. Our experience with auditing and assurance translates well to model validation and risk assessment frameworks.

Skill Development Requirements

Success in modern risk management requires expanding beyond traditional CA skillsets. Tomorrow's risk professionals need technical skills including:

- **Data Science Fundamentals:** Understanding statistical analysis, data visualization, and basic programming (Python, R, SQL)
- **Machine Learning Concepts:** Familiarity with how algorithms work, their limitations, and validation approaches
- **Cybersecurity Awareness:** Basic understanding of cyber risks, controls, and incident response
- **Systems Thinking:** Ability to understand interconnections and anticipate cascading effects
- **Behavioral Psychology:** Insights into how people make decisions under uncertainty
- **Scenario Planning:** Skills in developing and analyzing complex stress scenarios

These technical skills must be complemented by judgment that comes from experience with real risk events and exposure to diverse risk situations.

Addressing Skill Gaps

Banks face significant skill gaps in data science, cybersecurity, and scenario planning. CAs who invest in developing these capabilities position themselves to fill critical needs in the industry. Professional development programs, certifications in data analytics, and exposure to technology projects can help bridge these gaps.

The democratization of risk awareness means that risk management is no longer confined to risk departments. Business line managers are becoming sophisticated risk thinkers, creating opportunities

for CAs to contribute across various functions while maintaining their risk management focus.

Career Pathways

The expanding scope of risk management creates diverse career pathways:

- **Model Risk Management:** Validating AI/ML models, ensuring explainability, monitoring performance
- **Third-Party Risk:** Managing vendor relationships, conducting due diligence, monitoring dependencies
- **Climate and ESG Risk:** Developing frameworks for assessing long-term environmental and social risks
- **RegTech:** Building or implementing technology solutions for regulatory compliance
- **Integrated Risk Management:** Coordinating across risk types, developing stress testing scenarios
- **Risk Analytics:** Leveraging data science for risk identification and measurement

Value Creation Opportunities

CAs can create significant value by bridging the gap between traditional financial analysis and modern risk management techniques. The ability to translate complex risk concepts into business language that boards and senior management can understand remains in high demand.

Specific areas where CAs can add value include:

- **Provisioning and Capital Adequacy:** Helping implement ECL frameworks and enhanced capital charge calculations under the new RBI guidelines
- **Risk Reporting:** Designing dashboards and reports that provide actionable insights rather than just data dumps
- **Governance Frameworks:** Developing policies and

“Stress testing has become the closest approximation to integrated risk assessment. Instead of testing each risk category separately, banks now run scenarios that stress multiple risk types simultaneously. These exercises force institutions to consider what happens when interest rates rise while cyber incidents increase and credit losses spike, reflecting the reality that multiple stress factors often occur together.”

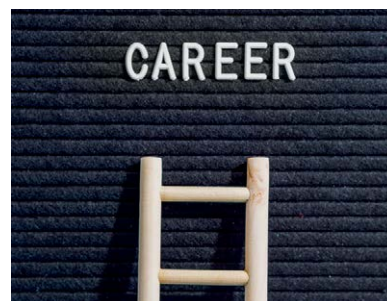
procedures that balance control with business agility

- **Risk Culture:** Promoting risk awareness and responsible decision-making across organizations
- **Business Partnering:** Working with business units to embed risk considerations in strategic planning

Conclusion

The evolution of risk management in banking represents both a challenge and an opportunity for the profession. While the complexity has increased dramatically, the fundamental need for analytical rigor, professional judgment, and ethical decision-making remains unchanged.

For CAs, this evolution requires continuous learning and adaptation. The technical skills, regulatory knowledge, and business acumen that define our profession provide an excellent foundation, but success requires embracing new technologies, frameworks, and ways of thinking about risk.



The future belongs to risk professionals who can combine analytical rigor with intuitive understanding of what could go wrong. As the banking industry continues to evolve, CAs who invest in developing these capabilities will find themselves well-positioned to contribute meaningfully to this critical function.

The transformation of risk management is not complete: we are still in the early stages of this evolution. The frameworks, technologies, and approaches being developed today will help banks navigate uncertainties we cannot yet imagine. For CAs willing to embrace this challenge, the opportunities are immense.

The key emerging challenges such as model risk and explainability, data quality and governance, cybersecurity and third-party threats, regulatory compliance burden, cultural and organizational issues, cost-return trade-offs, and the growing prominence of non-financial risks, each represent areas where skilled professionals can make substantial contributions.

Risk management in banking has evolved from a compliance function to a strategic capability. Those who understand this transformation and develop the skills to contribute effectively will find themselves at the forefront of one of the most important and dynamic areas in modern banking. The journey requires commitment to continuous learning, willingness to step outside traditional comfort zones, and courage to embrace the uncertainty that defines modern risk management itself.

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Q Whether the word “Chartered Accountants” and name of city after the name of the members of the Institute can be mentioned in the articles contributed by such members and published in the Institute’s Journal?

Yes, under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, there is no restriction in the Code of Ethics for mentioning the word “Chartered Accountant” and also the name of city in an article contributed by a member in the Institute’s Journal as well as in newspapers and other periodicals.

Q Can a member in practice indicate in a book or an article, published by him, or a presentation made by him, association with any firm of Chartered Accountants?

As per Paragraph 2.14.1.6(iv)D under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, as appearing in Volume II of the Code of Ethics, a member is not permitted to mention in a book or an article, published by him, or a presentation made by him, any professional attainment(s), whether of the member or the firm of Chartered Accountants, with which he is associated.

However, he may indicate in a book, article, or presentation the designation “Chartered Accountant” as well as the name of the firm.

Q Can an auditor write the books of accounts of the auditee?

No, Council directions under Paragraph 2.15.1.4(xi) under Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, appearing in Volume II of Code of Ethics prescribe that an auditor is not permitted to write the books of accounts of his auditee clients.

Further Section 144 of the Companies Act, 2013 bars the auditor of a company to directly or indirectly

render accounting and book keeping services to the said company, or its holding company or subsidiary company.

Q Whether a member of the Institute in practice is required to maintain books of accounts?

Yes, in the exercise of the powers conferred by Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, the Council of the Institute has issued Council General Guidelines, 2008, Chapter V of which specifies that a member of the Institute in practice or the firm of Chartered Accountants of which he is a partner shall maintain and keep in respect of his/its professional practice, proper books of account including the following:-

- (i) a Cash Book;
- (ii) a Ledger

Q Whether the designation “Chartered Accountant” along with the name of Chartered Accountants Firm can be used on the greeting cards or invitations?

Yes, as per Paragraph 2.14.1.6(iv)E under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, as appearing in Volume II of the Code of Ethics, the Council is of the view that the designation “Chartered Accountant” as well as the name of the firm may be used in greeting cards, invitations for marriages and religious ceremonies and any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are sent only to clients, relatives and friends of the members concerned.

Q Whether a Chartered Accountant in practice can use expression like Income Tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant?

No, Council direction under Paragraph 2.14.1.7(ii) of Clause (7) of Part- I of the First Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of the Code of Ethics prescribes that it is improper for a Chartered Accountant to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant.

Q Whether a member can appear on television, films, internet and broadcast in the radio or give lectures at forums?

Yes, Council direction under Paragraph 2.14.1.7(x) under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949, as appearing in Volume II of Code of Ethics prescribes that a member may appear on television, films and internet and agree to broadcast in the radio or give lectures at forums and may give his name and describe himself as Chartered Accountant. Special qualifications or specialized knowledge directly relevant to the subject matter of the programme may also be given. Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible. What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

Q Can a Chartered Accountant in practice/ Firm of Chartered Accountants post the particulars of himself/itself on a website?

Yes, the Council has approved the detailed guidelines for posting the particulars on Website by Chartered Accountants in practice and Firm(s) of Chartered Accountants in practice.

Q Whether a Firm of Chartered Accountants can use catchwords/ catchphrases on its website, Letter heads and visiting cards?

The mention of catchwords/catchphrases (for e.g., excellence in a particular area, Firm having professionals of integrity etc.) on Firm's website, Letter heads and visiting cards is not permissible in view of the provisions of Clauses (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949. It may be noted that the above catchwords are only indicative and not exhaustive.

Q Whether a Firm of Chartered Accountants can provide facility to the client to access its documents through logging in on the Firm's website?

Paragraph 3.3.9 of the Council Guidelines for Advertisement, 2008, appearing in Volume II of Code of Ethics permit chat rooms amongst members of the ICAI and between Firms and its clients, provided the confidentiality protocol is observed. Accordingly, it is permissible for the Firm of Chartered Accountants to provide document management facility to the client to get access copies of their documents on the Firm's website vide distinct log in and password.

Q Can a member/Firm of Chartered Accountants print his/its vision and values behind the visiting cards?

No, since such printing of vision and values behind the visiting cards may result in solicitation and violation of the provisions of Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949.

Q Whether a Chartered Accountant in practice can give public interviews and also whether he can furnish details about himself or his firm in such interviews?

As per Paragraph 2.14.1.6(iv)O under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, appearing in Volume II of Code of Ethics, a Chartered Accountant in practice can give public interviews. While doing so, due care should be taken to ensure that such interviews or details about the members or their firms are not given in a manner highlighting their professional attainments, any detail which is given must, in addition to meeting above requirements, be given only as a response to specific question, and of factual nature only.

Q Whether a member in practice can upload educational videos on internet?

Yes, as per Paragraph 2.14.1.6(iv)Q under Clause (6) of Part I of First schedule to the Chartered Accountants Act, 1949, appearing in Volume II of Code of Ethics, the videos of educational nature may be uploaded on the internet by members in practice. No reference should be made to the Chartered Accountants Firm wherein the member is a partner/proprietor. Further, it should not contain any contact details or website address.

Q Can a Chartered Accountant in practice/ firm give advertisement in press?

No, however, the members in practice may advertise the services setting out the services provided by him or his firm, and particulars of his firm, through a 'Write-Up', subject to Advertisement Guidelines issued by the Council.

Q Whether the office of a Chartered Accountant is permitted to go in for ISO certification or other similar certifications?

Yes, there is no bar for a member to go in for ISO certification or other similar certifications. However, the member cannot use the expression like "ISO Certified" on his professional documents, visiting cards, letter heads or sign boards etc.



Timing of capitalisation of partly completed gas pipeline (Phase I) under Ind AS framework.

A. Facts of the Case

1. In March 2015, the Ministry of Petroleum & Natural Gas (MoP&NG), Government of India (GoI), had constituted a committee to prepare a vision document, namely, Hydrocarbon Vision 2030 for North-East India.

2. The objectives of the vision document were to leverage the region's hydrocarbon potential, enhance access to clean fuels, improve the availability of petroleum products, facilitate economic development and link common people to the economic activities in this sector. The states covered in the vision document include Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.

The phase-wise implementation of the gas pipelines envisaged in the vision document for Northeast was reviewed by the sub-committee during its meetings from April to July 2016, and the development plan of the North-East Gas pipeline Grid (NEGG) was finalised.

In December 2017, MoP&NG convened a meeting of oil and gas public sector undertakings (PSUs) to discuss the modalities for developing the natural gas pipeline grid in the Northeast.

As per the plan, gas pipeline grid to be developed in the Northeast connecting Guwahati to state capital/major cities in the Northeast viz. Itanagar, Numaligarh, Dimapur, Imphal, Aizawl, Agartala, Shillong, Silchar, Gangtok, etc. (excluding Barauni-Guwahati pipeline section). Further, it was decided to also connect to Kohima, the state capital of Nagaland and which is about 80 Kms away from Dimapur.

3. NITI Aayog's approval for the formation of Joint Venture Company (JVC) has been granted on 19.6.18. Accordingly, the Joint Venture Agreement for formation of a JVC (hereinafter referred to as 'the Company') has been signed by the five companies on 20.7.2018 to develop and operate natural gas pipeline grid in North-East and the Company has been registered on 10.8.2018.

4. The Company has requested MoP&NG to issue the necessary policy directive to Petroleum & Natural Gas Regulatory Board (PNGRB) for grant of authorisation to the Company for laying of the pipeline grid. MoP&NG has accordingly issued policy directive to PNGRB for grant of authorisation. The same was granted by PNGRB on 17.11.2020.

Implementation strategy

5. Due to its rich flora & fauna, laying of this pipeline grid attracts various statutory permissions like wildlife clearance (EC) and forest clearance apart from other crossing permissions like railways, irrigation, road etc. in different mainline sections. In view of the complexities involved in this pipeline grid for availability of right of way and associated clearances/permissions, there was a need to identify the sections/stretches and grade them as per the ease of laying pipeline. As per the difficulty level associated with various sections, an implementation strategy was prepared to implement the project in phase-wise manner.

Upon review of the route details, it was assessed that the entire North-East Gas Grid may be planned to be implemented in 3 phases based on requirement of statutory clearance, route terrain, linkage with highway corridor widening works, difficulty in work execution etc. Phasing of various sections of North-East Gas Grid was proposed as under:

Phase I: Sections with plain agricultural terrain and no requirement of EC

- a. Guwahati- Numaligarh with branch line to Itanagar & Spur line to Numaligarh (estimated length-421 Km)
- b. Numaligarh/Dergaon (Jorhat) - Dimapur section and 5 feeder lines from one of the investor in the Company, O Ltd.'s fields (estimated length-147 Km)

Phase II: Sections in hilly terrain and having requirement of EC

- a. Guwahati- Shillong- Silchar – Panisagar and Banaskandi feeder line (estimated length -386 Km)
- b. Panisagar-Agartala and feeder lines (2 No.) and spur line to N Ltd., a power generation company in the North-Eastern Region (estimated length 231 Km)

- c. Panisagar-Aizawl branch line (estimated length 111 Km)

Phase III: Sections in hilly terrain, requirement of EC and feasibility of laying of pipeline linked to highway width widening

- a. Dimapur-Kohima Section (estimated length -94 Km)
- b. Kohima- Imphal Section (estimated length-105 Km)
- c. Siliguri-Gangtok Section (estimated length – 195 Km)

Gas Injection points

6. Following gas injection points have been considered in the Detailed Feasibility Report (DFR):

Injection from Guwahati with upcoming Barauni-Guwahati pipeline (BGPL)

The gas received through the upcoming Barauni-Guwahati Natural Gas (NG) Pipeline (BGPL) of G Ltd. (one of the investor in the Company) would be injected into the North-East Gas Grid (NEGG). Barauni-Guwahati pipeline would have the flexibility/connectivity to receive gas either from Dahej/Hazira/Dabhol through G Ltd.'s existing gas

pipeline network along with Jagdishpur-Barauni section of Jagadishpur-Haldia-Bokaro-Dhamra Pipeline (JHBDPL) or from Dhamra R-LNG terminal through JHBDPL.

From Guwahati, R-LNG (Re gasified liquid natural gas) will be made available to the remaining north-eastern states through the proposed pipeline network.

Guwahati-Numaligarh section would originate from a tap-off point at a suitable location on G Ltd.'s BGPL at north bank of Brahmaputra. *Guwahati-Shillong-Silchar* section would originate from G Ltd.'s BGPL terminal at the south bank. Thus, there would be 2 dispatch terminals at Guwahati.

Injection from marginal gas fields

The natural gas pipeline grid would have the facility for injection of indigenously produced gases also. Connectivity from local marginal fields as well as source line/spur lines into North-East Gas Grid has been considered in this DFR. The upstream source/pipeline operator would make necessary arrangements for availability of requisite pressure at source for gas injection into the Grid, as per the hydraulics.

The domestic gas sources (9 nos.) of O Ltd. have been considered in the DFR for connectivity to the Grid including laying of connectivity pipeline.

7. The original phase-wise estimated cost approved as per DFR by MOP&NG through Cabinet Committee of Economic Affairs (CCEA) are given in table below:

Heads of Expenses	Phase-I	Phase-II	Phase-III	Total
RoU (Right of Use)	250	837	265	1352
Civil work	38			38
Land Purchase	25	16	18	59
Land	10			10
Line Pipes	1049	877	428	2355
Laying cost	1186	763	512	2460
Compressor station	400			400
Station (IP, Sectional Valves & Terminal station)	252	340	224	816
SCADA	13	6	2	22
Telecom equipments	30	23	33	86
Permanent Cathodic Protection for Line Piep coating	11	14	8	33
Contingency	12	3	14	29
Project Management cost	61	62	7	130
Owner Management Expenses	139	112	76	328
Head office expenses	148			148
Interest During construction	501	335	164	1000
Grand Total	4124	3388	1752	9265

Sources of Fund

The Company's Board in its 15th meeting held on 6th June 2020 had approved the NEGG Project with the estimated capital expenditure (CAPEX) of Rs. 9265.20 crores with 60% viability gap fund (VGF) from GoI to the tune of Rs. 5559 crores. The balance 40% of the project cost was to be arranged with debt and equity in the ratio of 70:30. The equity contribution was considered for Rs. 1111.80 crore and debt in the form of OI DB loan for Rs. 2594 crores.

Completion Schedule

8. Phase-wise milestones along with completion schedule as initially approved by MoP&NG has been separately supplied by the querist for the perusal of the Committee. On 17.10.2023, PNGRB has issued the extension letter for completion of all the three phases by 31.03.2025. Further, the completion schedule for all the three phases along with revised timeline has been provisionally granted by MoP&NG vide letter dated 07.03.2025.

Description of Guwahati Numaligarh Pipeline Section – (Phase-I)

9. This pipeline is to be constructed from Dispatch Terminal (DT) at Baihata (Guwahati) at 0.00 Km chainage and will stretch up to Receipt Terminal (RT) at Numaligarh refinery. The total distance between DT Baihata to RT at Numaligarh is around 392 Km. As per the prevalent practice being followed by established pipeline operators (i.e. G Ltd.), along with the pipeline network, various infrastructure facilities are also required to be set up for monitoring the pipeline. These infrastructure facilities include setting up of sectional valves, Dispatch Terminal station (DT), Intermittent Pumping station (IP), Receipt Terminal station (RT). Basically, intermittent station is constructed at an interval of 80 Km to 100 Km i.e. the distance between two intermittent station shall be 80 Km to 100 Km. Similarly sectional valves are constructed at an interval of 16 Km to 24 Km i.e. between two sectional valves the distance shall be 16 to 24 Km (depending upon the availability of land or density of population inhabited in the area). Apart from these, there shall be Dispatch Terminal (DT) Station at the starting point and Receipt Terminal (RT) station at the exit point.

IP stations are like control room which are equipped with infrastructure facilities like supervisory control & data acquisition (SCADA) for controlling and monitoring of natural gas movement on real time data basis by directly interfacing with gas flow. Apart from this, there will be electrical equipment, UPS, solar panels for power supply, telecom systems etc. These stations are operated with manpower.

Sectional valves station also includes electrical equipment, UPS, solar panels, but this station is smaller in size compared to IP station. This station can be operated automatically without manpower deployment. Sectional

valves are constructed at an interval of 16 Km to 24 Km to monitor and control the gas flow and help in cleaning and disconnecting/isolating the particular pipeline section in case of any hazards on account of fire.

Guwahati-Numaligarh Pipeline section, which is 392 Km long (revised from 386 Km) constitutes a compressor station, 3 IP stations, 23 Sectional valves, 1 Dispatch Terminal Station at starting point (Baihata) and 1 Receipt Terminal station at ending point (Numaligarh).

The total cost of the Guwahati-Numaligarh pipeline section considered at the initial DFR stage was Rs. 4124 crore.

Accounting treatment

10. Accounting policy of the Company:

Expenses exclusively attributable to NEGG Project and incurred during construction or development period are considered as Capital Work-in-Progress (CWIP) which includes:

- i) Construction Stores including material in transit/equipment/services received at site for use in the projects, including advance payment for land not yet capitalised etc.
- ii) Crop compensation is accounted under Capital Work-in-Progress on the basis of actual payments/estimated liability where right of use (RoU) is acquired.
- iii) All expenses incurred during construction period until the asset is ready for intended use, which are exclusively attributable to acquisition/construction of the asset.
- iv) Borrowing costs incurred during construction and development period on loans borrowed and utilised for project upto date of capitalisation of the relevant portion are considered as CWIP.

Property, Plant and Equipment (PPE) (Ind AS 16)

- a) The Costs of an item of PPE is recognised as an asset if, and only if:
 - i) it is probable that the future economic benefits will flow to the entity; and
 - ii) the cost of an item can be measured reliably.
- b) Property, plant and equipment are stated at their original cost net of eligible tax credit availed. The cost of PPE comprises its purchase price, freight and directly attributable costs and any incidental expenses relating to acquisition, installation, construction, and decommissioning costs as the case may be. *These costs are capitalised until the asset is brought into the location and condition necessary for it to be capable of operating in the manner intended by management.* Assets during construction are initially kept under assets under

construction and capitalised when the assets are available for use in the manner as intended by the management.

Incidental expenses are incurred in connection with the construction or development of item of property, plant and equipment and are necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. This incidental expenditure may occur before or during the construction or development activities for example, expenditure of Head Office which are incurred before or in the course of construction or development of property, plant and equipment are recognised based on their carrying value standing at the time of apportionment to PPE.

11. *Current status of the Guwahati-Numaligarh pipeline section (392 Km revised from 386 Km)*

Phase-I: The estimated pipeline length of phase-I is 553 Km which comprises of following sections:

Sections include Guwahati-Numaligarh (392 Km in Assam), Gohpur-Itanagar (13 Km Assam, 14 Km Arunachal Pradesh), Dergaon-Dimapur (97 Km Assam, 26 Km Nagaland), and O Ltd. feeder line (11 Km Assam).

The Company has awarded to M/s M Ltd., contract of project management consultancy (PMC) services for NEGG

project. The following pipelines along with terminals are to be executed initially under NEGG project:

- A. Section 1 Guwahati- Numaligarh (NRL) 24" NB x 392 Km (approx.) mainline.
- B. Section 2 Gohpur- Itanagar-8" x 27 Km (approx.) spurline in states of Assam and Arunachal Pradesh.

The brief scope of work includes supply of materials (other than free issue), pipe laying work including but not limited to construction management, HSE & quality management, survey, RoU management, clearing of RoU, grading, stringing, bending, welding (manual/semi-automatic/automatic), trenching, joint coating, lowering, crossings, crossings by HDD (wherever specified), tie-ins, NDT and destructive testing, backfilling, laying of pipeline along-with OFC & HDPE ducts, TCP works, site restoration, hydro-testing, dewatering, swabbing, drying, nitrogen purging (as applicable), pre-commissioning, commissioning and gas-in of 24"/8" dia pipeline including construction/installation of related facilities like scraper launching/receiving facilities and piping works at dispatch/receiving terminals, IP stations and piping works at sectionalising valve stations, tap-off station & injection points etc. including associated mechanical, cathodic protection, corrosion monitoring works, electrical works, telecom works, firefighting works, instrumentation, civil works (including boundary wall and building works), architectural and structural works at all stations and pipeline information management system.

12. For ease of execution, keeping in view the initial scheduled timeline prescribed by the MoP&NG, the scope of work for Guwahati-Numaligarh pipeline section has been divided into 4 (four) Parts:

<i>Part A: 24" x 97.5 Km (Assam State)</i>	Laying and terminal works from <i>DT at Ch. 0.00</i> (including pipeline from top on BGPL line to DT) to <i>IP-1 at Ch. 97.5 Km</i> including associated works at four (04) SV stations, one (01) IP station & one (01) Dispatch Terminal.
<i>Part B: 24" x 93.6 Km (Assam State)</i>	Laying and terminal works from <i>IP-1 at Ch. 97.5 Km</i> to <i>IP-2 at Ch 191.1 Km</i> including associated works at four (04) SV stations & two (02) IP stations excluding terminal works at IP-1.
<i>PART C: 24" x 105.539 Km and 8" x 27 km. Approx. (Assam and Arunachal Pradesh State)</i>	<i>For 24" (Mainline)</i> Laying and terminal works from <i>IP-2 at Ch. 191.1 Km</i> to <i>IP-3 at Ch. 296.639 Km</i> including associated works at five (05) SV stations & two (02) IP stations excluding terminal works at IP-2. <i>For 8" (Itanagar Spurline)</i> Laying and terminal works from <i>SV-10 cum DT at Barphalong Gaon at Ch.0.00 Km</i> to <i>RT- Itanagar at Ch. 26.994 Km</i> including associated works at one (01) SV Station, one (01) DT and one (01) RT at Itanagar.
<i>Part D: 24" x 89.629 Km (Assam State)</i>	Laying and terminal works from <i>IP-3 at Ch. 296.639 Km</i> to <i>RT Numaligarh at Ch. 386.264 Km</i> including associated works at three (03) SV stations, one (01) IP Station and one (01) RT at Numaligarh excluding terminal works at IP-3.

As on 31.03.2025, total costs incurred for Phase-1 are given in the table below:

Section	Cost Incurred (amount in crores)
Guwahati-Numaligarh section (392 Km)	2514.00
Gohpur-Itanagar (27 Km)	57.00
Dergaon-Dimapur (123 Km)	370.00
O Ltd. feeder lines (11 Km)	19.00
Total cost incurred till date	2960.00

Detailed break-up of the cost incurred till date for Phase-I is given in table below:

										(In Cr.)
Particulars	Line Pipes Material (Including Line Pack)	Mainline Construction & HDD	RoU & Survey**	Owners management exp.**	PMC	Land	Interest during Construction	Pump, Station & Terminals	Compressor Station package	Grand Total
Guwahati - Numaligarh Pipeline	825	910	142	195	28	44	35	166	168	2514
Gohpur - Itanagar Pipeline	20	12	10	1	1	9	0	5	-	57
Dergaon - Dimapur Pipeline	112	63	156	7	3	7	3	19	-	370
Feeder Lines	16	3	-	0	-	0	0	1	-	19
	973	988	307	203	32	60	38	191	168	2960

It is to be noted that Guwahati-Numaligarh pipeline section (392 Km, revised from 386 Km) has been planned for connecting the Numaligarh Refinery which is the anchor customer for this NEGG project as per DFR. Numaligarh Refinery is presently undergoing expansion from 3MMTPA capacity of crude to 9MMTPA of crude for which, it requires natural gas of 2.4 MMSCMD for its captive power plant consumption. As per original DFR, NEGG pipeline will be used for transportation of natural gas from integrated G Ltd.'s pipeline at Baihata to Numaligarh refinery which is situated at a distance of 392 Km (revised from 386 Km). The Company will construct Receiving Terminal (RT) at Numaligarh Refinery from where the natural gas will be received and further transported to Numaligarh Refinery through hook up facility within its premises.

On 10.03.2025, 50% of the laying of pipeline i.e. 195.898 Km was mechanically completed and certificate of completion issued along with infrastructure facilities like sectional valves, control building, SCADA, UPS and electrical equipment. However, the balance 50% is in construction stage and projected to be completed by July 2025. One of the important criteria for commissioning of the pipeline is inspection by Petroleum and Explosives Safety Organisation (PESO). This inspection was completed for 195.898 Km in March 2025 and for balance portion i.e. 195.898 Km, inspection by PESO is expected to be completed by June 2025. Moreover, the completion

of Phase-I as mandated by MoP&NG is July 2025 so that commercial operation will start from July 2025.

As on date, although laying of pipeline of 195.898 Km has been mechanically completed and completion certificate issued but the completion of Guwahati-Numaligarh section which is of 392 Km (revised from 386 Km) is not fully completed and commissioned. Ideally, completion and commissioning of half portion of the Guwahati-Numaligarh section will not meet the objective of transporting natural gas from Baihata (G Ltd.'s Dispatch Terminal) to Numaligarh Refinery until and unless entire 392 Km of pipeline is mechanically completed and commissioned. The pipeline section of Guwahati-Numaligarh is the main section of Phase-I as evident from the DFR where Numaligarh will be the anchor customer for taking the natural gas. Moreover, the commercial operation of the Guwahati-Numaligarh pipeline section will start once complete 392 Km (revised from 386 Km) pipeline is commissioned. This pipeline asset is intended to be used for meeting the natural gas requirement of Numaligarh Refinery only which is the anchor customer as envisaged in the DFR.

13. As per the Company's audited accounts for financial year (F.Y.) 2024-25, Rs. 2514.00 crore (table above) has been incurred towards Guwahati-Numaligarh pipeline section. These costs are kept under CWIP. Out of this Rs. 2514 crore, the cost incurred for 195.898 Km which is mechanically completed and completion certificate issued

is Rs. 1056 crore excluding cost of freehold land and RoU cost which are perpetual in nature. The cost of Rs. 1056 crore includes line pipe cost, laying cost, 8 SV station cost, 2 IP station cost, 1 Dispatch terminal cost (Baihata).

As per the querist, it is to be noted that commercial operation of the Guwahati-Numaligarh pipeline will commence only when the entire pipeline of 392 Km (revised from 386 Km) is completed and commissioned as envisaged in original DFR since Numaligarh Refinery will be the anchor customer for taking the gas through the Company's pipeline network.

B. Query

14. In view of the above, the opinion of the Expert Advisory Committee is sought as to whether the Company should capitalise the total cost (including interest on OADB loan) incurred till date for 195.898 Km (part of the Guwahati-Numaligarh section) even though (a) part completed pipeline along with infrastructure facilities of 195.898 Km is not brought into the location and condition necessary for it to be capable of operating in the manner intended by management as per original DFR mandate from the Ministry on completion of project phases and section and (b) line is not commercially operated as envisaged.

C. Points considered by the Committee

15. The Committee notes that the basic issue raised in the query relates to the timing of capitalisation of partly completed gas pipeline section (constructed during Phase I of NEGG project) as a completed item of PPE when the construction of the other part or section of the pipeline is not completed and accordingly, the commercial operation of the completed section of pipeline, as envisaged has not yet started. The Committee has, therefore, considered only this issue, and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for individual items of expenditure incurred during the construction (for example, cost of land, cost of various clearances/permissions, construction stores, crop compensation, tax credit availed, incidental expenses, RoU cost, head office expenditure, owner management expenses etc.) as to whether these are directly attributable or can be included or recognised as an item of PPE or pipeline project cost or not, accounting for expenditure incurred during Phase II and III of the pipeline project, accounting for inflow from various sources of funds, including viability gap funding from government, debt, equity etc., accounting for transactions between the Company and the PMC, accounting in the financial statements of investor entities, etc. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time. Further, the opinion expressed

hereinafter is purely from accounting perspective and not from any other perspective, such as Income-tax Act, Goods and Services Tax Act, interpretation of vision document of MoP&NG, policy directives issued by MoP&NG to PNGRB for grant authorisation, detailed feasibility report (DFR), extension letter issued by PNGRB, etc.

16. The Committee notes that the Company is constructing Guwahati-Numaligarh pipeline section (392 Km) for connecting the Numaligarh Refinery, which is the anchor customer during Phase I of NEGG project as per DFR. Numaligarh Refinery is undergoing expansion and requires natural gas for its captive power plant consumption. As per original DFR, NEGG pipeline will be used for transportation of natural gas from integrated pipeline of G Ltd. (who is one of the investor entity in the Company) at Baihata to Numaligarh refinery (who is also investor entity in the Company) which is situated at a distance of 392 Km. The Company will construct Receiving Terminal (RT) at Numaligarh Refinery from where the natural gas will be received and further transported to Numaligarh Refinery through hook up facility within its premises.

On 10.03.2025, 50% of the laying of pipeline, i.e. 195.898 Km was mechanically completed along with infrastructure facilities like sectional valves, control building, SCADA, UPS and electrical equipment in place and certificate of completion issued. However, the balance 50% is in construction stage and projected to be completed by July 2025. Further, since the completion of Guwahati-Numaligarh section which is of 392 Km is not fully completed and commissioned, the querist has stated that ideally, completion and commissioning of half portion of the Guwahati-Numaligarh section *will not meet the objective* of transporting natural gas from Guwahati to Numaligarh Refinery until and unless entire 392 Km of pipeline is mechanically completed and commissioned. Moreover, as per the querist, the *commercial operation* of the Guwahati-Numaligarh pipeline section will start once complete 392 Km (revised from 386 Km) pipeline is commissioned and that this pipeline asset is intended to be used for meeting the natural gas requirement of Numaligarh Refinery *only*, which is the anchor customer.

17. With regard to the issue raised, the Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 16, 'Property, Plant and Equipment':

"Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**
- (b) are expected to be used during more than one period."**

"7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) **it is probable that future economic benefits associated with the item will flow to the entity; and**

(b) **the cost of the item can be measured reliably."**

"16 The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period."

"20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- (a) *costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;*
- (b) initial operating losses, such as those incurred while demand for the item's output builds up; and
- (c) costs of relocating or reorganising part or all of an entity's operations."

"22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see Ind AS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. Ind AS 23, *Borrowing Costs*, establishes criteria for the recognition of interest

as a component of the carrying amount of a self-constructed item of property, plant and equipment."

(Emphasis supplied by the Committee.)

The Committee notes from the above that recognition of costs in the carrying amount of an item of property, plant and equipment (PPE) (including self-constructed asset) should cease at the time when the item is *in the location and condition necessary for it to be capable of operating* in the manner intended by management. Thus, from such point in time, the item under construction should be transferred from capital work in progress to the gross block of PPE. The Committee is of the view that the point in time when an asset is *in the location and condition necessary for it to be capable of operating* in the manner intended by management is a question of fact which should be determined in the specific facts and circumstances on the basis of various factors, such as, technical evaluation of the readiness of the asset, completion of test runs to ensure that the asset is functioning properly etc. Further, as per paragraph 20 of Ind AS 16, costs incurred while an item *capable of operating in the manner intended by management has yet to be brought into use* or is operated at less than full capacity are not included in the carrying amount of an item of PPE. Thus, when an item of PPE is in the location and condition necessary for it to be *capable of operating in the manner intended by management, but has yet to be brought into use, the costs incurred subsequently are not included in the cost or carrying amount of PPE*. Accordingly, the Committee notes that what is important is when the PPE/asset is in the location and condition necessary for it to be *capable of operating in the manner intended by management* and not the actual operation/use or the intended capacity or standard of performance to be achieved.

In this context, the Committee also notes the following requirements of Ind AS 23, 'Borrowing Costs', which although addresses the issue from the point of view of borrowing costs, however, the Committee is of the view that the principle enunciated in those paragraphs can be applied to other expenditures also:

"24 When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

25 A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill."

From the above, the Committee is of the view that in case of an integrated PPE/project having several units/parts, those units/parts of the PPE/project which are capable of being used individually (while the construction continues for the other units/parts), and can be operated independently of the remaining units/parts, should be considered to be in the location and condition necessary for them to be capable of operating in the manner intended by management and further capitalisation of costs should be ceased (viz., the completed units/parts should be transferred from CWIP to gross block of PPE).

In this regard, the Committee notes from the facts supplied in the extant case that 195.898 Km of the Guwahati-Numaligarh pipeline section has been mechanically completed and associated infrastructure facilities (like sectional valves, control building, SCADA, UPS and electrical equipment) are in place. Further, the relevant inspection by PESCO (which as per the querist, is one of the important relevant criteria for commissioning) in respect of this section of pipeline has already been completed and completion certification has also been issued by the relevant authorities. However, as per the querist, completion and commissioning of half portion of the Guwahati-Numaligarh section will not meet the objective of transporting natural gas from Guwahati to Numaligarh Refinery until and unless entire 392 km of pipeline is mechanically completed and commissioned. Moreover, as per the querist, the pipeline asset is intended to be used for the requirements of Numaligarh Refinery *only* whereat the Company will construct one receiving terminal (RT) for the entire 392 km pipeline. Thus, it appears from the facts supplied by the querist that the completed pipeline stretch of 195.898 Km could be put to its ultimate use only when the entire pipeline stretch of 392 kms is completed and ready for use and this section (195.898 km) is not independently capable of being operated in the manner intended by management. In other words, the partially completed line cannot be considered as ready for its intended use till the complete stretch of 392 Km is ready. In view of the aforesaid assertions made by the querist, the Committee presumes that the Company has carefully evaluated on the basis of technical evaluation based on its own facts and circumstances that the completed section of pipeline is not yet ready for commercial operation and is not capable of being used individually, independent to other parts. Accordingly, the Committee is of the view that in the extant case, the partially completed section (195.898 Km), despite physical completion, does not appear to be in the location and condition necessary for it to be capable of operating in the intended manner as per the requirements of Ind AS 16 and thus, capitalisation of further costs on this section should not be ceased and it should remain as capital work in progress (CWIP).

18. Now, the Committee examines the issue with regard to capitalisation of interest cost on OADB loan in respect of partly completed pipeline. In this regard, the Committee notes the following paragraphs of Ind AS 23, 'Borrowing Costs':

"8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them."

"A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale."

"22 An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete."

From the above, the Committee notes that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are to be capitalised, and other borrowing costs are to be expensed. Further, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Since the pipeline project in the extant case takes substantial period of time for its construction, it is a qualifying asset and therefore, the borrowing costs that are directly attributable to the acquisition or construction of the same, as per the principles of Ind AS 23 should be capitalised. Further, as per paragraph 22 of Ind AS 23, the borrowing costs should cease to be capitalised when substantially all the activities necessary to prepare the qualifying asset for its *intended use* are complete. The Committee also notes from paragraphs 24 and 25 of Ind AS 23 (as reproduced and discussed in paragraph 17 above) that capitalisation of borrowing costs to the completed section of the pipeline should cease when that completed section is capable of being used individually, independent of the other section of pipeline. Since, as discussed above, after careful technical evaluation of the facts and circumstances, it has been concluded by the Company that the partially completed pipeline/section is not capable of being used individually, independent to other parts and therefore, cannot be considered to be in the location and condition necessary for it to be capable of operating in the intended manner till the complete stretch of 392 Km of pipeline is completed and ready for use, the Committee is of the view that the capitalisation of borrowing cost to the partially completed pipeline will continue till such time.

D. Opinion

19. On the basis of the above, the Committee is of the opinion that it appears from the facts supplied by the querist that the completed pipeline stretch of 195.898 Km could be put to its ultimate use only when the entire pipeline stretch of 392 kms is completed and ready for use and this section (195.898 km) is not independently capable of being operated in the manner intended by

management. In other words, the partially completed line cannot be considered as ready for its intended use till the complete stretch of 392 Km is ready. In view of the aforesaid assertions made by the querist, the Committee presumes that the Company has carefully evaluated on the basis of technical evaluation based on its own facts and circumstances that the completed section of pipeline is not yet ready for commercial operation and is not capable of being used individually, independent to other parts. Accordingly, the partially completed section (195.898 Km), despite physical completion, does not appear to be in the location and condition necessary for it to be capable of operating in the intended manner as per the requirements of Ind AS 16 and thus, capitalisation of further costs on this section should not be ceased and it should remain as capital work in progress (CWIP).

Furthermore, as discussed in paragraph 18 above, since after careful technical evaluation of the facts and circumstances, it has been concluded by the Company that the partially completed pipeline/section is not capable of being used individually, independent to other parts and therefore, cannot be considered to be in the location and condition necessary for it to be capable of operating in the intended manner till the complete stretch of 392 Km of pipeline is completed and ready for use, the Committee is of the view that the capitalisation of borrowing costs to the partially completed pipeline will continue till such time.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on 10 th July, 2025. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty-four volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/ .
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Accountant's Browser



PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during February – March 2026 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Accounting Treatment of Expenditure incurred on Development of a Pilot / Model Factory Under Ind AS 16 by Dolphy D'Souza and Geetanshu Bansal. *BCAJ, February 2026, PP. 93-95*

Depreciation Policy Changes by Large Technology Companies: Analysis Under Indian Accounting Standards by Manish Shah. *BCAJ, February 2026, PP. 27-32*

The Earnings Call: Beyond the Balance Sheets by Neeraj Vasudevan. *Chartered Secretary, February 2026, PP. 75-79*

2. Economics

Artificial Intelligence, Demand Switching and Sectoral Wage Gap by Shreya Roy and Bibek Ray Chaudhuri. *Economic & Political Weekly, February 28, 2026, PP. 32-36*

Causal Analysis of Fiscal-Trade-Policies Uncertainty and Economic Growth in Nigeria: Recalling Economic Policy Corrective Actions by Yusuf Bala Zaria, Jasman Tuyon and Hylmee Matahir. *Decision Indian Institute of Management Calcutta, V. 52, No. 4, PP. 561-579*

Dividend Governance in India by Mayur Mazumdar. *Chartered Secretary, February 2026, PP. 70-74*

3. Education

Transforming Higher Education Through Technology: Government Initiatives and the Road Ahead in India by K

Praveena and K Jayaprakash. *University News, February 23 - March 01, 2026, PP. 19-22*

4. Management

Corporate Governance Standards for Municipal Corporations: A Compliance Framework by Kunal Mandwale. *Chartered Secretary, February 2026, P. 65-69*

Digital Maturity in Primary Care Facilities: Assessing its Influence on Organisational Commitment and Job Satisfaction by Lillana Hawrysz, Magdalena Kludacz-Alessandri and Malgorzata Fialkoswska-Filipek. *Decision Indian Institute of Management Calcutta, V. 52, No. 4, PP. 461-478*

Will Your Investors Support Your Strategic Pivot? Here's How to Figure That Out by Mark DesJardine and Wei Shi. *Harvard Business Review, March-April 2026, PP. 65-73*

5. Taxation and Finance

Decoding GST: Burden of Proof by Sunil Gabhawalla, Rishabh Singhvi and Parth Shah. *BCAJ, February 2026, PP. 76-82*

Budget 2026-27: Forging Viksit Bharat's Path through Global Headwinds by Asish Mohan. *Chartered Secretary, February 2026, PP. 60-64*

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

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- 6171 A 38-year-old Lucknow-based CA firm invites proposals for partnership from new/senior/retired members. Interested may contact: 9415101759, 9120130708, shivnarainabha@yahoo.co.in.
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1 Which globally recognized internal control model is widely used for evaluation of Internal Financial Controls (IFC) and enterprise risk management?

2 What international tax concept refers to profit shifting strategies that reduce taxable income in high-tax jurisdictions?

3 Under GST compliance, which system-generated statement restricts ITC availability based on supplier-filed returns?

4 What bilateral treaty mechanism prevents double taxation of the same income across two countries?

5 Which taxation scheme allows eligible small taxpayers to declare income at prescribed rates without maintaining detailed books of account?

RACK the Brain

Answer February 2026

1. Reverse Charge Mechanism
2. Variance Analysis
3. Fiduciary Duty
4. Whistle-Blower Mechanism
5. Transfer Pricing



LEGAL Decisions



INCOME TAX

LD/74/93 ITAT Delhi: (M.A. 382/Del/2025) ITA Nos. 7968 & 7969/Del/2018 Tigre SAS liquors India Pvt. Ltd. Vs. The Dy. Commissioner of Income Tax 18th February 2026

ITAT allowed assessee's MA observing that non-consideration of binding judicial precedents constitutes as a mistake apparent on record rectifiable u/s 254(2); Therefore, ITAT recalled its original order for fresh adjudication in light of the judicial precedents; Reliance placed on Supreme Court ruling in Saurashtra Kutch Stock Exchange Ltd., wherein the SC categorically held that non-consideration of a binding decision of a jurisdictional HC or SC by the ITAT constitutes a "mistake apparent on record" and such error is rectifiable u/s 254(2).

LD/74/94 ITAT Delhi: ITA Nos. 6048/Del/2024 The Income Tax Officer Vs. The Silk Factory 18th February 2026

ITAT upheld CIT(A) order restricting the addition made by the AO on account of unexplained expenditure under Section 69C to 5%; Assessee declared sales against the purchases made from 3 entities, which were claimed by the Revenue as non-existing entities; When the sales declared in the P & L account of the Assessee were accepted by the AO, thus said purchases cannot be in toto held to be bogus; Reliance placed on assessee's own case noting that if sales are accepted by Revenue then goods purchased qua sales made are also bound to be accepted and Section 69C cannot be invoked for deeming income.

LD/74/95 Delhi High Court: W P No. 959/2024 Real Time Data Services Private Limited Vs. The Prin. Commissioner of Income Tax 13th February 2026

HC held that delay in filing Form No. 67 u/r 128 cannot defeat substantive claim of Foreign Tax Credit (FTC); HC held that it would amount to withholding of a substantial amount of an assessee without there being any authority of law which would amount to unjust enrichment in turn; As per HC, in the instant case, it was the default of the Assessee and the same could have been, rather should have been condoned by the PCIT under Section 264; HC directed AO to allow the FTC claim once the Assessee furnished Form No. 67 and pass a speaking order within two months.

LD/74/96 ITAT Delhi: ITA No. 2793/Del/2025 M/s Fairdeal Information Technology Private Limited Vs. The Income Tax Officer 13th February 2026

ITAT deleted addition u/s 68 since assessee was able to establish the genuineness of transaction and creditworthiness of the buyers; ITAT accepted assessee's contention that the amount was received on sale of shares of an entity owned by the Assessee company; Assessee had duly disclosed the transaction of sale of shares in its return of income and paid taxes thereon; Section 68 mandates that the nature and the source of credits should be explained to the satisfaction of AO however, in the instant case the credits alleged as unexplained were not the liability but was an income already offered to tax.

LD/74/97 ITAT Kolkata: ITA No. 2796/Kol/2025 Jalpaiguri Zilla Regulated Market Committee Vs. The Income Tax Officer 10th February 2026

ITAT remanded the matter to the CIT(A) giving an opportunity to the Assessee to present its case regarding the reasonable cause that prevented it from getting an audit as per the statutory provision; Despite the income being exempt, the audit report u/s 44AB on Form-3CD was required to be filed as the turnover had exceeded the specified the amount; Emphasizing Assessee's submissions that it had reasonable cause for not getting the audit carried out, Tribunal remarked that no such reasonable cause was mentioned before it except for the fact that its income was exempt.

LD/74/98 ITAT Mumbai: ITA No. 6526/Mum/2025 Dhiraj Solanki Vs. The Dy. Commissioner of Income Tax 10th February 2026

ITAT allowed holding that protective addition u/s 69 cannot survive where substantive addition on identical facts has been deleted on merit; ITAT observed that except for the excel sheet (incriminating material) found in a third party's premises, no independent corroborative evidence was brought on record to establish that the Assessee had actually paid cash for purchase of property; Mere reliance on third-party statements, without independent corroboration, was insufficient when the Assessee categorically denied payment; Substantive addition made in Assessee's brother case had already been deleted on merits by the CIT(A), therefore, protective addition cannot be made in Assessee's hands.

LD/74/99 Gujarat High Court: Special Civil Application No. 4453 of 2020 Zydus Infrastructure Private Limited Vs. The Dy. Commissioner of Income Tax 02nd February 2026

HC quashed demand notice u/s 156 of Rs. 5.02 Crores since the said notice was issued after four years after the assessment order was passed determining NIL tax liability; As per HC, if the Revenue had to issue any demand notice then there had to be a recourse of reopening of assessment or change of the original assessment order which may have been available as per the provisions of the Act; When there were no arrears as per the assessment order, the question of notice of demand u/s 156 did not arise; HC thus held that the contents of demand notice were in total contravention of the provisions of the Act.

LD/74/100 ITAT Bangalore: ITA No. 1083/Bang/2025 Karnataka Telecom Department Employees Cooperative Society Ltd. Vs. The Dy. Commissioner of Income Tax 30th January 2026

ITAT observed that deduction u/s 80P is to be allowed from the Gross Total Income and the same cannot be restricted to income computed under the head 'Profits & Gains of Business or Profession'; AO had held that

interest from banks and interest on income tax refund cannot be considered as business income and they had to be made taxable as income from other sources without 80P deduction; As per ITAT, section 80P does not mandate head-wise limitation and once eligible profits are computed, the deduction must be set off against the Gross Total Income, subject to statutory ceiling under Section 80A(2).

LD/74/101 ITAT Kolkata: ITA No. 2129/Kol/2025 Saroj Goenka Vs. The Income Tax Officer 12th January 2026

ITAT held the assessee to be entitled to exemption u/s 54F on account of investment of capital gains from sale of shares in the construction of new residential property which was being jointly constructed with other family members; If a residential property is jointly owned by two persons, that would not preclude the person from claiming exemption u/s 54F of the Act, as the assessee would not be hit by the proviso to section 54F of the Act, being not the exclusive owner of the residential property; Further, the fact that the assessee began construction of the property much prior to the date of sale of capital asset would not disentitle her from claiming exemption u/s 54F.

LD/74/102 ITAT Delhi: ITA No. 3454/Del/2025 JHS Svendgaard Laboratories Ltd Vs. The Dy. Commissioner of Income Tax 07th January 2026

ITAT set aside the reassessment proceedings by holding the same to be unsustainable being based on borrowed satisfaction as there was no live and rational nexus between information received from investigation wing and the belief of escapement of income formed by the AO; Notice u/s 148A(b) did not clarify whether the alleged transaction was related to sales made by the Assessee or purchases made from the said concern; AO had not verified the underlying facts to ascertain the actual nature of the transaction before recording his satisfaction; Fact that certain suppliers were inactive on the GST portal cannot be a ground for making additions in the hands of the purchaser.

The section on Legal Decisions has been contributed by CA. Sahil Garud, Disciplinary Directorate.

DISCIPLINARY CASE

Failure to exercise due diligence as statutory auditor – Failure to verify compliance with provisions relating to further issue of share capital – Allotment of shares made without shareholder consent – Improper accounting treatment of amount paid by guarantor towards loan settlement recognised as gain instead of liability – Material misstatement in financial statements not reported – Held, Respondent guilty of Professional Misconduct under Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

The Respondent was the Statutory Auditor of the Company for the financial years 2013-14 and 2014-15. The Complainant was one of the shareholders and had also served as its director from 2009 to 2011. The Company had availed a term loan of Rs. 10 Crores from a bank on 31 March 2009 for which the Complainant stood as one of the personal guarantors. The loan later became a Non-Performing Asset and was settled under a One Time Settlement (OTS) whereby the outstanding loan of Rs. 6.51 Crores was settled for Rs. 5.50 Crores. It was alleged that during December 2014 to March 2015 the Complainant transferred Rs. 1.54 Crores to the Company to enable repayment under the OTS arrangement. However, the Company treated the said amount as share subscription money and allotted equity shares to the Complainant without his consent and without complying with the provisions of Section 62 of the Companies Act, 2013. The Committee noted that although the Respondent produced certain documents relating to the rights issue, he failed to produce any evidence such as acceptance or request letter from the Complainant indicating consent for subscription of shares. In absence of such evidence, the Committee viewed that the Respondent failed to exercise due diligence while verifying the issue of share capital. The Committee further noted that the said allotment of shares was later declared null and void by the National Company Law Tribunal and the Company was directed to repay the amount with interest, which was upheld by the Appellate Tribunal. The Committee also examined the charge relating to accounting treatment of Rs. 55 Lakhs paid by one of the guarantors directly to the bank towards settlement of the Company's loan. It was observed that the amount was recognized as gain and transferred to Capital Reserve instead of being shown as liability payable by the Company. The Committee held that the Respondent failed to point out this inappropriate accounting treatment and thereby failed to disclose a material misstatement in the financial statements. Accordingly, the Committee held the Respondent GUILTY of Professional Misconduct falling within the meaning of Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

[PR-323/16-DD/15/2017-DC/818/2018]

Participation in Tender floated exclusively for Chartered Accountants in which no minimum fees prescribed — Violation of ICAI Guideline No. 1-CA (7)/03/2016 – Respondent held Guilty of Professional Misconduct under Item (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

In the instant case, the Respondent Firm participated in a tender issued for engagement of a Chartered Accountant firm for maintenance and audit of accounts for the financial year 2017-18. Pursuant to the tender, the Respondent Firm was appointed as Statutory Auditor vide appointment letter dated 30-06-2018 and quoted a professional fee of INR 21,240 for the assignment. The Committee noted that the tender was issued exclusively for Chartered Accountant firms for audit and related services, which are areas reserved for members of the Institute. On perusal of the records, including the RTI reply, it was observed that no minimum scale of fees had been prescribed in the tender document for the said assignment. The Committee further examined Guideline No. 1-CA (7)/03/2016 dated 07-04-2016 issued by the Council of the Institute of Chartered Accountants of India, which provides that a member in practice shall not respond to any tender issued by an organization or user of professional services in areas exclusively reserved for Chartered Accountants unless the tender document prescribes a minimum fee or the assignment is open to other professionals along with Chartered Accountants. In the present case, the tender was restricted to Chartered Accountant firms and did not prescribe any minimum fee. Accordingly, the Respondent Firm ought not to have participated in the said tender. The Committee also considered the submissions of the Respondent that participation in tenders is not prohibited under the Chartered Accountants Act, 1949 and that the Council is not empowered to issue such guidelines. However, the Committee observed that Item (1) of Part II of the Second Schedule to the Act provides that a member shall be deemed to be guilty of professional misconduct if he contravenes any guidelines issued by the Council. In view of the above, the Committee held that by participating in the said tender, which was exclusively meant for Chartered Accountant firms and where no minimum fee was prescribed and thereafter accepting the assignment, the Respondent Firm violated the aforesaid guideline issued by the Council. Accordingly, the Respondent was held Guilty of Professional Misconduct under Item (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

[PR/70/2019/DD/91/2019/DC/1440/2021]

BENEVOLENCE

VOLUNTARY CONTRIBUTION TO THE CHARTERED ACCOUNTANTS' BENEVOLENT FUND (CABF)

**CA. Vijaykumar Narbherambhai Sitapara**

Membership No.: 113966

Amount: ₹25,00,000

Place: Morbi, Gujarat

G K CHOKSI & CO

Firm No.: 101895W

Amount: ₹15,00,000

Place: Ahmedabad

Members	Membership No.	Amount ₹	Place
CA. Vishnu Kumar Agarwal	114630	5,00,000	Mumbai
CA. Sanjib Sanghi	059112	5,00,000	Kolkata
CA. Himanshu Goyal	404669	2,51,000	Jaipur
CA. Venkata Satyanarayana V	22084	2,01,000	Rajamahendravaram
CA. Angara Lakshmi Narasimha Rao	202005	1,85,000	Rajamahendravaram
CA. Mohan Musunuri	206503	1,33,335	Rajamahendravaram
CA. Satya Vishwanth Ch S V	203149	1,05,116	Rajamahendravaram
CA. K Raghurama Reddy	19110	1,01,116	Tirupati
CA. Venkat Narayan Vedantam	211377	1,01,000	Rajamahendravaram
CA. Suryanarayana B Ch	24957	1,00,116	Rajamahendravaram
CA. Kumara Venkateswarlu Kandarpa	21080	1,00,000	Rajamahendravaram
CA. Vedula Seshagiri Varaprasad	23042	1,00,000	Rajamahendravaram
CA. Satyanarayana Murty M V	24926	1,00,000	Rajamahendravaram

RESULT OF CHARTERED ACCOUNTANTS EXAMINATION HELD IN JANUARY 2026

FOUNDATION EXAMINATION

The details of percentage of candidates passed are given below:

GENDER	No. of Candidates Appeared	No. of Candidates Passed	% of Pass	No. of Exam Centres
MALE	57238	11523	20.13	566
FEMALE	52456	9576	18.26	
TOTAL	109694	21099	19.23	

ALL INDIA TOPPERS

PARTICULARS	FIRST RANK	SECOND RANK	THIRD RANK		
NAME	LOGAPRIYA P P	KHUSHI SIKARIA	HIBA P	SUMAN KARKI	RAGHAV NARESH GUPTA
CITY	MADURAI	MIDNAPORE	KANNUR	KATHMANDU	SURAT
ROLL NO.	778161	767618	764885	766645	809390
MARKS	366/400	365/400	361/400	361/400	361/400
%	91.50	91.25	90.25	90.25	90.25

INTERMEDIATE EXAMINATION

The details of percentage of candidates passed are given below:

	Group(s)	No. of Candidates Appeared	No. of Candidates Passed	% of Pass
I	Group – I	105526	14733	13.96
II	Group – II	69477	10798	15.54
III	Both Groups	41798	3924	9.39

ALL INDIA TOPPERS

PARTICULARS	FIRST RANK	SECOND RANK	THIRD RANK
			
NAME	KANHIYA LAL	FATHIMA SHEHZA K	VANYA BANSAL
CITY	ELLENABAD	PERINTHALMANNA	FARIDABAD
ROLL NO.	652015	615232	573157
MARKS	508/600	504/600	498/600
%	84.67	84.00	83.00

FINAL EXAMINATION

The details of percentage of candidates passed are given below:

	Group(s)	No. of Candidates Appeared	No. of Candidates Passed	% of Pass
I	Group – I	53652	11282	21.03
II	Group – II	38169	3726	9.76
III	Both Groups	22293	2446	10.97

Consequent to declaration of result as mentioned above, 7590 candidates qualified as Chartered Accountants.

ALL INDIA TOPPERS

PARTICULARS	FIRST RANK	SECOND RANK	THIRD RANK	
				
NAME	DIKSHA GOYAL	ANIRUDH GARG	RISHABH JAIN	DHRUV DEMBLA
CITY	KARNAL	PAONTA SAHIB	NEW DELHI	SONIPAT
ROLL NO.	444341	412701	423642	471519
MARKS	486/600	452/600	451/600	451/600
%	81.00	75.33	75.17	75.17



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)



CRAFTING CAPTIVATING THOUGHTS

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the **accounting world covering auditing, finance, laws, strategy, taxation, technology, artificial intelligence, sustainability, ethics, financial reporting** and so on. While submitting articles, please keep following aspects in mind:

- ★ The length of articles should be about 2000-2500 words.
- ★ Articles should not have been published or sent for publishing in any other print or electronic media.
- ★ An executive summary of about 100 words should accompany the article.
- ★ Articles should be engaging, original and aligned with Journal guidelines. Every selected article is subjected to Plagiarism check in line with Editorial Board's Plagiarism Policy.

Please send articles sharing your valuable insights and expertise to the ICAI Journal and help enrich the knowledge base of the accountancy profession. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in and eboard@icai.in

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- Undertake Assessments to assess one's subject knowledge
- Earn Structured & Unstructured CPE Credits
- Join Communities and interact with peers
- Take up Surveys, Quizzes, Polls
- Earn Badges

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